



TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2011
(UNAUDITED)

Beginning of the financial year	1 January 2011
End of reporting period	31 December 2011
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 October-December 2011:

“TEO revenue for the fourth quarter of 2011 was LTL 195 million – the best result of the last 8 quarters. Revenue increase in Q4 was mostly due to increased prices for TV services, as well as revenue coming from international traffic, one-time projects and equipment sales.

The Company continued to control its costs. Operating expenses for Q4 amounted to LTL 122 million, which is 0.6 per cent less than during the similar period in 2010.

Fixed telephony revenue continues to decline as expected, but remains under control. Broadband customer base continued to increase. Revenue from Internet services during Q4 was higher by almost 7 per cent than in Q3. TV services revenue in Q4 increased by more than 10 per cent compared to an average quarterly increase of around 5-6 per cent.

TEO capital investments during Q4 stood at LTL 52 million and were mostly directed into the next-generation network build-out.”

Management's comment on financial results for the twelve months of 2011:

“Despite a turbulent situation in the telecommunications market, which fell over 9 per cent in Q3, TEO produced good result for the year 2011. Its revenue was LTL 750 million, which is 3.1 per cent less than a year ago. Rigorous cost control – costs decreased by 3.4 per cent – allowed the Company to reach better profitability than in 2010. TEO EBITDA margin increased to 40.3 per cent compared to 40.1 per cent during the previous year.

During 2011 TEO invested substantially into its next-generation optical network and almost accomplished its network infrastructure upgrade. Total investments for the year stood at LTL 156 million.

Although the fixed telephony market continued to decline in business segment, TEO increased its revenue stream from its other main services. Thus Internet revenue increased by 0.9 per cent, TV services – by 26 per cent. IT services added to the Company's revenue LTL 11.5 million or 31.8 per cent more than in 2010.

TEO continued to develop its IPTV service by offering new functionalities not yet replicated in the market. The Company will continue to improve its flagship TV product with new features which will make it an exclusive entertainment product.

The Company further expanded its customer base, although the economic situation was not favorable. The number of Internet users connected to TEO optical network increased by more than 35 per cent. The number of TV customers increased over 15 per cent.

TEO anticipates that in 2012, although some GDP increase is expected, the economic situation will be difficult due to uncertainties in the Euro zone, also high emigration and jobless population trends. However, the Company, with its developed next-generation network and business processes, feels confident that it will be able to provide customers with top speed and quality services in the coming future.”

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

Key figures of TEO Group

Financial figures	January - December		Change (%)
	2011	2010	
Revenue (LTL thousand)	749,784	773,423	(3.1)
EBITDA (LTL thousand)	302,288	310,477	(2.6)
EBITDA margin (%)	40.3	40.1	
Operating profit (LTL thousand)	169,834	178,775	(5.0)
Operating profit margin (%)	22.7	23.1	
Profit before income tax (LTL thousand)	172,013	180,025	(4.5)
Profit before income tax (%)	23.2	23.3	
Profit for the period (LTL thousand)	154,486	162,935	(5.2)
Profit for the period margin (%)	20.6	21.1	
Earnings per share (LTL)	0.199	0.210	
Number of shares excluding treasury stocks (thousand)	776,818	776,818	

Financial ratios

	31 December 2011	31 December 2010
Return on capital employed (%)	17.2	17.8
Return on average assets (%)	15.3	16.1
Return on shareholders' equity (%)	15.4	16.4
Gearing ratio (%)	(20.6)	(24.8)
Debt to equity ratio (%)	0.4	0.5
Current ratio (%)	459.6	310.7
Rate of turnover of assets (%)	67.3	69.7
Equity to assets ratio (%)	91.5	87.1

Operating figures

	31 December 2011	31 December 2010	Change (%)
Number of fixed telephone lines in service	647,524	689,012	(6.0)
Number of broadband Internet connections (DSL, FTTB, FTTH and other, excluding WiFi)	337,647	316,760	6.6
Number of IP TV customers	79,918	67,909	17.7
Number of DVB-T customers	71,257	63,279	12.6
Number of personnel (head-counts) at the end of period	3,303	3,486	(5.2)
Number of full-time employees at the end of the period	2,928	3,018	(3.0)

Breakdown of TEO Group revenue

	October - December		Change (%)	January - December		Change (%)
	2011	2010		2011	2010	
Voice telephony services	94,868	99,308	(4.5)	374,435	415,561	(9.9)
Internet and data communication services	65,779	63,344	3.8	252,955	256,844	(1.5)
TV services	13,156	10,474	25.6	47,503	37,738	25.9
IT services	14,419	11,467	25.7	47,535	36,067	31.8
Other services	7,255	7,948	(8.7)	27,356	27,213	0.5
Total	195,477	192,541	1.5	749,784	773,423	(3.1)

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

Revenue

The total revenue for the fourth quarter of 2011 was LTL 195 million, an increase of 6 per cent over the total revenue of LTL 184 million for the third quarter of 2011 and an increase of 1.5 per cent over the same quarter a year ago. The total consolidated TEO Group's revenue for the twelve months of 2011 was LTL 750 million, a decline of 3.1 per cent over the total revenue of LTL 773 million for the twelve months of 2010.

Revenue from Internet, TV, IT and other services continued to grow and partially offset the decline in revenue from voice telephony and data communications services.

Revenue share from voice telephony services in total revenue continued to shrink and amounted to 49.9 per cent of total revenue for January-December of 2011. Share of revenue from Internet and data communications services was 33.7 per cent, television services – 6.3 per cent, IT services – 6.3 per cent and other services – 3.6 per cent.

Lower usage and decreased number of telephone lines in service had a negative effect on revenue from voice telephony services.

During October-December 2011 the total number of main telephone lines in service decreased by 13.2 thousand, while over 2011 – 41.5 thousand. Lower number of voice telephony service users resulted in a decrease of revenue from subscription fees in 2011 by 6.7 per cent compared with a year ago.

Favourable conditions of flat-fee payment plans and reduced national networks' interconnection fees resulted in increased volumes of both business and residential customers' calls to mobile operator networks by 4.4 and 23 per cent, respectively, during 2011 compared with a year ago.

However, total traffic volume generated by residential and business customers decreased by 7.6 and 11.6 per cent, respectively. As a result, over the year revenue from traffic charges went down by 18.3 per cent.

During 2011 revenue from networks' interconnection services decreased by 7.8 per cent due to lower transit prices in international market.

According to the Report of the Communications Regulatory Authority (CRA) for the third quarter of 2011, TEO market share of the fixed-line telephony market in terms of customers amounted to 90.6 per cent and in terms of revenue – to 92.9 per cent. In terms of revenue TEO had 24.4 per cent of the network interconnection market.

During October-December 2011 the total number of broadband Internet access (excluding WiFi) users increased by 4.5 thousand, while over the twelve months of 2011 – by 20.9 thousand.

Number of Internet connections over the next generation fiber optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies continued to grow and by the end of December 2011, 41.5 per cent of the total number of TEO broadband Internet access (excluding WiFi) users had fiber optic access.

Over the year the number of FTTH and FTTB connections increased by 35.1 per cent, while the number of copper DSL connections went down by 7.3 per cent.

At the end of December 2011 out of total 372 thousand broadband connections, 197 thousand were copper DSL connections, 140 thousand – fiber optic and 35 thousand wireless connections via WiFi network.

Compared with 2010, revenue from Internet services for 2011 were up by 0.9 per cent, while revenue from data communication and network services decreased by 5.5 per cent.

According to the CRA Report, the Company's market share of the total Internet providers market in terms of revenue during the third quarter of 2011 amounted to 39.6 per cent while its share of the market of broadband Internet using fixed connection was 52.3 per cent. On 30 September 2011 Internet penetration per 100 residents of Lithuania was 29.8 per cent, while the penetration of broadband Internet using fixed connection

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was 22.4 per cent. In terms of revenue TEO had 63.9 per cent of the leased lines market and 62.3 per cent of the data communication market.

During October-December 2011 the total number of TV service customers increased by 4.1 thousand, while over the twelve months – 20 thousand, and reached 151 thousand by the end of December. Over the year number of digital terrestrial television (DVB-T) service *Digital GALA* users increased by 8 thousand and number of IPTV service *Interactive GALA* increased by 12 thousand.

Since November users of the Company's IPTV service are able to watch millions of videos available on the YouTube website right on their TV screens.

By the end of December Sony Entertainment Television channel became available to DVB-T service customers. IPTV users are already watching this channel since April 2011.

According to the CRA Report, at the end of September 2011 TEO market share of the digital television service market in terms of customers amounted to 46.3 per cent and in terms of revenue – 43.9 per cent. TEO market share of the total pay-TV services market in terms of customers was 22.6 per cent and in terms of revenue – 27.1 per cent. On 30 September 2011 digital pay-TV penetration per 100 households of Lithuania was 23.8 per cent.

Consolidated TEO Group revenue from IT services was mainly generated by the Company's subsidiary UAB Baltic Data Center that provides data center and information system management services to local and multinational enterprises.

In May 2011, UAB Hostex, a subsidiary of Baltic Data Center that was acquired in September 2010, took over from Baltic Data Center a 100 per cent stake in UAB Interdata. UAB Hostex, UAB Interdata and its subsidiary UAB Hosting provide web hosting and data center services to residential and small companies as well as Internet portals.

Baltic Data Center started to provide IT infrastructure lease, server hosting and system maintenance services to Sergel, one of the largest credit management and debt collection companies in Lithuania.

In December, Baltic Data Center and the retail chain Rimi Latvia have signed an agreement for provision of data center, IT infrastructure and data communication services. The business management software, which will run in the data centers located in Vilnius, will be used by Rimi in the three Baltic States.

In December, TEO and its partners were providing communication, network installation, and computer and office equipment rental and maintenance services for the organizers of the Ministerial Council session of the Organisation of Security and Cooperation in Europe (OSCE) in Vilnius. The total revenue from provision of services and equipment rental amounted to LTL 1.4 million.

TEO Group revenue from other services consists of the following non-telecommunication services: Contact Center services of UAB Lintel, lease of premises, advertising, fines for termination of agreements and other.

Over the year revenue from Contact Center services decreased by 4.6 per cent while revenue from other non-core business services increased by 7 per cent.

TEO Group's other income consists of interest income from investments held to maturity. 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).

Operating expenses

In 2011 the Company continued to keep its costs under control. Total operating expenses of the Group in 2011 were by 3.4 per cent lower than total operating expenses a year ago.

Employee-related expenses over the year decreased by 0.5 per cent. The total number of employees

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(headcount) in TEO Group decreased by 183 (mainly in Lintel) from 3,486 to 3,303. During the fourth quarter of 2011 the total number of employees decreased by 76 (43 in Lintel, 28 in TEO and 5 in other subsidiaries). In terms of full-time employees, the total number of employees in TEO Group during 2011 went down by 90.

Interconnection expenses decreased by 8 per cent due to lower international transit traffic volumes and reduced fees for national interconnection. Other expenses decreased by 2.9 per cent.

Earnings

EBITDA in 2011 went down by 2.6 per cent to LTL 302 million over LTL 310 million in 2010. Nevertheless, EBITDA margin slightly increased and amounted to 40.3 per cent (40.1 per cent in 2010).

Depreciation and amortisation charges remained almost on the same level (increased by 0.6 per cent) and in 2011 amounted to 17.7 per cent of total revenue (17 a year ago). Operating profit was by 5 per cent lower than a year ago, while operating profit margin was 22.7 per cent (23.1 per cent a year ago).

Net financial income in 2011 was by 74.3 per cent higher than a year ago.

As a result, profit before income tax in 2011 was down by 4.5 per cent and amounted to LTL 172 million (LTL 180 million a year ago).

Since 1 January 2010 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 in 2011 amounted to LTL 10.3 million (LTL 10.6 million in 2010).

Profit for the period amounted to LTL 154 million, while a year ago it was LTL 163 million, a decrease by 5.2 per cent. The profit margin was 20.6 per cent (21.2 per cent a year ago).

Balance sheet and cash flow

During January-December 2011 total assets of TEO Group decreased by 3.5 per cent.

Total non-current assets increased by 3.5 per cent and amounted to 69.9 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 28 April 2011, dividend of the total amount of LTL 140 million or LTL 0.18 per share for the year 2010 were paid to the shareholders of the Company. Therefore, total current assets decreased by 16.5 per cent and amounted to 30.1 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 19.2 per cent of total assets.

During the year shareholders' equity increased by 1.4 per cent and amounted to 91.5 per cent of the total assets.

On 28 April 2011 the Annual General Meeting of Shareholders decided to decrease the Company's obligatory reserve by 3,817,000 litas and to reallocate this amount to the Company's retained earnings.

As of 31 December 2011 consolidated retained earnings of TEO Group amounted to LTL 187 million, while retained earnings of the Parent company amounted to LTL 161 million or LTL 0.207 per share. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company.

At the end of December 2011 total amount of borrowings included mainly financial liabilities related to financial leasing of premises and amounted to LTL 4.2 million. Cash, cash equivalents and held to maturity investments amounted to LTL 219 million.

Net cash flow from operating activities in 2011 was by 3.7 per cent higher than a year ago.

Part of cash (LTL 55 million) spent during 2011 for capital investments were payments for investments made in 2010. As of 31 December 2010 this amount was recorded in the balance sheet as current liabilities.

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During the twelve months of 2011 capital investments amounted to LTL 156 million (LTL 191 million a year ago). The majority of capital investments (88.1 per cent or LTL 138 million) went to expansion of the core network and development of the next-generation fiber optic access network. The remaining part was invested into IT systems (LTL 13 million), transportation (LTL 3 million) and renovation of premises (LTL 2 million).

As a result by the end of 2011, TEO had 705 thousand households passed (556 thousand at the end of 2010), or 59 per cent of the country's households, by the FTTH network.

Due to capital investments and dividend payment, cash and cash equivalents during January-December 2011 decreased by LTL 31 million.

Share capital and shareholders

The share capital of the Company amounts to 776,817,518 litas and consists of 776,817,518 ordinary registered shares with a nominal value of 1 litas each. It was reduced from 814,912,760 litas to 776,817,518 litas and registered at the Register of Legal Entities on 3 September 2010 following the decision of the Annual General Meeting of Shareholders, held on 26 April 2010, to cancel 38,095,242 treasury stocks and to reduce the Company's authorised share capital by 38,095,242 litas. Treasury stocks were cancelled on 9 September 2010.

Treasury stocks that amounted to 4.67 per cent of the total number of the Company shares were acquired during the Initial Public Offering (IPO) in year 2000 and they had no rights to exercise any property and non-property rights provided by the Law of the Republic of Lithuania on Companies. Therefore, the number of TEO shares that provide voting rights during the General Meeting remains unchanged and is 776,817,518.

On 1 July 2010 the Company terminated its Global Depository Receipts (GDR) programme. The Company delisted TEO GDRs from the Official List of the UK Listing Authorities and discontinued trading in TEO GDRs on the London Stock Exchange as of 30 June 2010. TEO GDR programme was run since June 2000. According to the programme, one GDR represented 10 ordinary registered shares of the Company.

The number of shareholders on the shareholders registration day for the Annual General Meeting of Shareholders, which was held on 28 April 2011, was 14,530.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2011:

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	530,504,838	68.29	68.29	-
East Capital Asset Management AB, Kungsgatan 33, Stockholm, SE-111 93, Sweden, code 556564-5370	56,260,126	7.24	7.24	-
Other shareholders	190,052,554	24.47	24.47	-
TOTAL:	776,817,518	100.00	100.00	-

In June 2011 TeliaSonera AB took over from its subsidiary Amber Teleholding A/S the controlling interest in TEO (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. During the third quarter of 2011 TeliaSonera AB additionally acquired 1,661,566 shares (0.21 per cent of the total number of share) and increased its holding up to 68.29 per cent.

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As of 31 December 2011, Republic of Lithuania, represented by State Enterprise State Property Fund, had no shares in the Company (as of 31 December 2010 it held 3,075,315 shares). Since 2003 State Property Fund had disposed all of its holding in the Company as compensation to Lithuanian citizens for realty redeemable by the State of Lithuania. As of 31 December 2011, Republic of Lithuania, represented by State Tax Inspectorate, held 362,865 shares or 0.05 per cent of the Company's share capital and votes.

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.

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

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in January-December of 2011:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.472	2.472	1.837	2.072	2.209	40,643,808	89,669,245
EUR	0.716	0.716	0.532	0.600	0.639	40,643,808	25,970,009

TEO market capitalisation as on 31 December 2011 was LTL 1,610 million (EUR 466 million).

Other material information

The Annual General Meeting of shareholders, held on 28 April 2011, decided to approve the audited annual financial statements of the Company for the year 2010; from the Company's distributable profit of LTL 144,333 thousand to allocate LTL 139,827 thousand for the dividend payment for the year 2010 or LTL 0.18 dividend per share; for annual payments (tantiemes) to seven members of the Board for the year 2010 to allocate LTL 378 thousand, i.e. LTL 54 thousand per one member of the Board; not to approve reduction of the authorised capital of the Company by LTL 120,000,000 from LTL 776,817,518 to LTL 656,817,518 by cancelling 120,000,000 ordinary registered shares of one litas nominal value each for payment of Company's funds to the shareholders of the Company, proposed by the shareholders of the Company, that jointly held 10.48 per cent of the Company's shares and votes; to reduce number of the Board members from seven to six; to decrease the Company's obligatory reserve by 3,817,000 litas and to reallocate this amount to the Company's retained earnings; to elect to the Board of the Company Malin Frenning, Lars Klasson, Joakim Sundström, Tiia Tuovinen, Inga Skisaker (all proposed by Amber Teleholding A/S) and Jonas Pilkauskas (proposed by East Capital) for a new two years term of the Board.

On 2 May 2011 UAB Baltic Data Center, a subsidiary of TEO LT, AB, transferred a 100 per cent stake in UAB Interdata to another subsidiary UAB Hostex.

On 26 May 2011 the Register of Legal Persons registered a new wording of the By-Laws of the Company which provides that the Board of TEO shall consist of six members of the Board.

On 9 June 2011 the Board elected Malin Frenning as Chairwoman of the Board and appointed Joakim Sundström, Tiia Tuovinen and Inga Skisaker (independent member of the Board) as the members of Audit Committee for the term of two years. Malin Frenning, Lars Klasson and Jonas Pilkauskas (independent member of the Board) were appointed as the members of Remuneration Committee for the term of one year (until 9 June 2012).

On 9 June 2011 the Board approved establishment of a Division of Customer Operations and Quality since 1 July 2011 and appointed Eglutė Bivainienė as Chief Operational Officer (Head of the Division of Customer Operations and Quality). Starting from July 2011, TEO has five divisions – Sales and Customer Care Division, Service Development and Marketing Division, Network Technology Division, Business Process and Quality Division, Finance Division, and 5 main support units of the Company.

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On 19 October 2011, Arūnas Šikšta, General Manager of TEO LT, AB, was elected as member of the Board of AB Žemaitijos Pienas for the current term of the Board till 30 April 2015. AB Žemaitijos Pienas is the one of the largest and most modern milk-processing companies in Lithuania, currently employing more than 2000 employees. Shares of AB Žemaitijos Pienas are listed on the Secondary List of NASDAQ OMX Vilnius stock exchange.

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. The Annual General Meeting of Shareholders, held on 28 April 2011, decided to reduce number of member of the Board from seven to six.

Members of the Board as of 31 December 2011:

Name, surname	Position in the Board	Employment	Ownership of TEO shares
Malin Frenning	Chairwoman of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), President of Business Area Broadband Services	-
Lars Klasson	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Business Area Broadband Services, Chief Technology Officer	-
Joakim Sundström	Member of the Board, member of the Audit Committee	TeliaSonera AB (Sweden), Business Area Broadband Services, Vice President of Business Control	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera Finland Oyj (Finland), General Counsel for Broadband Services and Vice President for Real Estates and Property Planning in Finland	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank Finland Plc Lithuania Branch, General Manager	-
Jonas Pilkauskas	Member of the Board, member of the Remuneration Committee	A partner in law firm TARK GRUNTE SUTKIENĖ	-

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 Jonas Pilkauskas are regarded as independent members of the Board. Information about other Board assignments of the members of the Company's Board is provided at the Company's webpage www.teo.lt.

Members of Administration as of 31 December 2011:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Arūnas Šikšta	General Manager (CEO)	AB Žemaitijos Pienas (Lithuania), member of the Board; Big Brothers Big Sisters International, (U.S.A.), member of the Board	-
Darius Gudačiauskas	Chief Sales Officer and Deputy General Manager	UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board	-
Nerijus Ivanauskas	Chief Marketing Officer and Deputy General Manager	-	-

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Darius Didžgalvis	Chief Technology Officer and Deputy General Manager	UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board; UAB Hostex, a subsidiary of UAB Baltic Data Center, Chairman of the Board; UAB Interdata, a subsidiary of UAB Hostex, Chairman of the Board	-
Eglutė Bivainienė	Chief Operational Officer	-	-
Giedrius Vegys	Chief Financial Officer	UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board	-

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	October - December		January - December	
		2011	2010	2011	2010
Revenue		195,477	192,541	749,784	773,423
Other income		290	320	881	1,303
Employee related expenses		(41,382)	(42,691)	(156,809)	(157,647)
Interconnection expenses		(29,667)	(28,466)	(108,620)	(118,073)
Other operating expenses		(50,599)	(51,206)	(183,799)	(189,248)
Depreciation, amortisation and impairment of fixed assets	3	(34,184)	(33,324)	(132,453)	(131,702)
Other gain/ (loss) - net		408	363	850	719
Operating profit		40,343	37,538	169,834	178,775
Finance income		656	450	2,218	1,617
Finance costs		97	27	(39)	(367)
Finance income/ costs - net		753	477	2,179	1,250
Profit before income tax		41,096	38,014	172,013	180,025
Income tax	7	(3,901)	(233)	(17,527)	(17,090)
Profit for the period		37,195	37,781	154,486	162,935
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		37,195	37,781	154,486	162,935
Profit and comprehensive income attributable to:					
Owners of the Parent		37,195	37,781	154,486	162,935
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	8	0.048	0.049	0.199	0.210

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

CONSOLIDATED BALANCE SHEET

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	3	734,926	706,430
Intangible assets	3	42,922	49,341
Investment property		10,794	10,794
Trade and other receivables		6,407	1,820
Deferred tax assets		583	711
		795,632	769,096
Current assets			
Inventories		3,353	6,091
Trade and other receivables		111,834	124,724
Current income tax receivable		8,096	18,946
Held-to-maturity investments		30,186	40,184
Cash and cash equivalents		188,589	219,526
		342,058	409,471
Total assets		1,137,690	1,178,567
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	5	776,818	776,818
Legal reserve	6	77,682	81,499
Retained earnings		186,597	168,121
Total equity		1,041,097	1,026,438
LIABILITIES			
Non-current liabilities			
Borrowings		3,259	4,233
Deferred tax liabilities		13,993	10,290
Deferred revenue and accrued liabilities		3,628	5,814
		20,880	20,337
Current liabilities			
Trade, other payables and accrued liabilities		74,739	130,564
Current income tax liabilities		-	39
Borrowings		974	1,189
		75,713	131,792
Total liabilities		96,593	152,129
Total equity and liabilities		1,137,690	1,178,567

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Treasury shares	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2010	814,913	(120,000)	81,499	250,222	1,026,634
Net profit	-	-	-	162,935	162,935
Total recognised income and expenses	-	-	-	162,935	162,935
Dividends paid for 2009	-	-	-	(163,131)	(163,131)
Cancellation of treasury shares and reduction of share capital	(38,095)	120,000	-	(81,905)	-
Balance at 30 September 2010	776,818	-	81,499	168,121	1,026,438
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 period	-	-	-	154,486	154,486
Dividends paid for 2010	-	-	-	(139,827)	(139,827)
Reduction of legal reserve	-	-	(3,817)	3,817	-
Balance at 30 September 2011	776,818	-	77,682	186,597	1,041,097

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - December	
	2011	2010
Operating activities		
Profit for the period	154,486	162,935
Income tax	17,527	17,090
Depreciation, amortisation and impairment of fixed assets	132,453	131,702
Other gains and losses	(851)	(719)
Interest income	(3,096)	(2,919)
Interest expenses	195	245
Other non-cash transactions	1,243	1,078
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):		
Inventories	2,738	(559)
Trade and other receivables	13,017	(7,628)
Trade, other payables and accrued liabilities	(19,152)	(2,085)
Cash generated from operations	298,560	299,140
Interest paid	(195)	(245)
Interest received	3,099	3,434
Tax paid	(2,897)	(14,367)
Net cash from operating activities	298,567	287,962
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(199,771)	(162,342)
Proceeds from disposal of PPE and intangible assets	1,288	954
Acquisition of held-to-maturity investments, amounts loaned to banks	(100,000)	(227,549)
Disposal of held-to-maturity investments, repayment of amounts loaned to banks	109,995	312,149
Acquisition of subsidiaries	-	(9,217)
Net cash used in investing activities	(188,488)	(86,005)
Financing activities		
Repayment of borrowings	(1,189)	(1,243)
Dividends paid to shareholders of the Company	(139,827)	(163,131)
Net cash used in financing activities	(141,016)	(164,374)
Increase (decrease) in cash and cash equivalents	(30,937)	(37,583)
Movement in cash and cash equivalents		
At the beginning of the year	219,526	181,943
Increase (decrease) in cash and cash equivalents	(30,937)	37,583
At the end of the period	188,589	219,526

(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 2011 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 2010.

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 2011 are not audited. Financial statements for the year ended 31 December 2010 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	
	2011	2010	2011	2010	2011	2010	2011	2010
Segment revenue	702,710	732,850	96,818	96,626	(49,744)	(56,053)	749,784	773,423
Inter-segment revenue	(10,498)	(10,716)	(39,246)	(45,337)	49,744	56,053	-	-
Revenue from external customers	692,212	722,134	57,572	51,289	-	-	749,784	773,423
Profit for the period	152,839	161,808	8,609	10,280	(6,962)	(9,153)	154,486	162,935
Total Assets	1,101,209	1,167,324	92,290	98,014	(55,809)	(86,771)	1,137,690	1,178,567

(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 2010		
Opening net book amount as at 31 December 2009	651,712	37,076
Additions	177,980	20,991
Acquisition of subsidiaries	1,717	127
Disposals and retirements	972	-
Reclassification	(2,766)	1,607
Depreciation and amortisation charge	121,241	10,460
Closing net book amount as at 31 December 2010	706,430	49,341
Year ended 31 December 2011		
Opening net book amount as at 31 December 2011	706,430	49,341
Additions	153,009	3,188
Disposals and retirements	805	-
Reclassification	(1,038)	176
Depreciation and amortisation charge	122,670	9,783
Closing net book amount as at 31 December 2011	734,926	42,922

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 September 2011	31 December 2010	
UAB Lintel	Lithuania	100%	100%	Provider of 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 acquired in September 2010.
UAB Interdata	Lithuania	100%	100%	The web hosting services providing subsidiary of UAB Hostex (till May 2011 was subsidiary of UAB Baltic Data Center).
UAB Hosting	Lithuania	100%	100%	The web hosting services providing subsidiary of UAB Interdata.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.

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

UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary that used to provide training and consultancy services.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of an investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A non-profit organisation established by the Company in July 2010 for management of the Company's Communications History Museum.

5 Share capital and treasury shares

From September 2010 authorised share capital comprises 776,817,518 ordinary shares of LTL 1 par value each. The authorised share capital was reduced from LTL 814,912,760 to LTL 776,817,518 by cancelling 38,095,242 treasury shares. All shares are fully paid up.

The Group treated the Company's shares held by the Company as treasury shares and directly deducted them from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120 million.

6 Legal reserve

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.

7 Income tax

Tax expenses for the period comprise current and deferred tax.

Profit for 2011 is taxable at a rate of 15 per cent in accordance with Lithuanian regulatory legislation on taxation (2010: 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 2011 amounted to LTL 10.3 million (2010: LTL 10.6 million).

8 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.

For calculation of the weighted average number of shares in issue (thousands) treasury shares (38,095) were always deducted from the number of ordinary shares (814,913), therefore the treasury shares cancellation in September 2010 had no effect on the weighted average number of shares and for the both reporting periods amounted to 776,818.

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

	January - December	
	2011	2010
Net profit	154,486	162,935
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Earnings per share (LTL)	0.199	0.210

9 Dividends per share

A dividend that relates to the period to 31 December 2010 was approved the Annual General Meeting of Shareholders on 28 April 2011. The total amount of allocated dividend, that was paid off in May 2011 was LTL 139,827 thousand or 0.18 litas per ordinary share.

10 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which as of 31 December 2011 owned 68.29 per cent of the Company's shares. In June 2011 TeliaSonera AB took over from its subsidiary Amber Teleholding A/S (Denmark) a controlling interest in the Company (62.94 per cent of shares). Before that TeliaSonera AB directly owned 5.14 per cent of the Company's shares. Also TeliaSonera AB additionally acquired 0.21 per cent of the Company's shares. The following transactions were carried out with related parties:

Sales and purchases from TeliaSonera AB and its subsidiaries:

	January - December	
	2011	2010
Sales of telecommunication and other services	44,275	41,109
Total sales of telecommunication and other services	44,275	41,109
Purchases of assets	268	7,319
Purchases of services	23,824	29,366
Total purchases of assets and services	24,092	36,685

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

	As at 31 December	
	2011	2010
Receivables from related parties	4,359	2,804
Prepayment to related parties	4,715	-
Accrued revenue from related parties	3,127	2,378
Total receivables and accrued revenue from related parties	12,201	5,182
Payables to related parties	1,013	5,408
Accrued expenses to related parties	-	-
Total payables and accrued expenses to related parties	1,013	5,408

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

For the period ended 31 December 2011 amount of LTL 306 thousand of interest income was accounted in the Statement of Comprehensive Income as Finance income and amount of LTL 34 thousand was accounted in the Balance Sheet as Trade and other receivables. Base for the calculating interest income was the cash equivalents deposited with TeliaSonera AB during 2011 and the prepayment to related party.

The total amount of annual payments (tantiemes) assigned to the seven members of the Board of the Company for the year 2010 during January-December 2011 amounted to LTL 378 thousand (2010: LTL 378 thousand). As of 31 December 2011 the amount of LTL 162 thousand of tantiemes was paid to three members of the Board.

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 Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Giedrius Vegys, Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Consolidated Interim Financial Statements for the twelve months period ended 31 December 2011, 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 and profit of TEO LT, AB and the Group of undertakings.

General Manager

A handwritten signature in black ink, appearing to be 'Arūnas Šikšta', written over a large, stylized, abstract graphic element.

Arūnas Šikšta

Chief Financial Officer

A handwritten signature in blue ink, appearing to be 'Giedrius Vegys', written in a cursive style.

Giedrius Vegys

Vilnius, 31 January 2012