
2013:
TEO annual report

CEO's word

Dear all,

This year we talk a lot about changes – about the need to re-evaluate the impact of technologies, which contribute to climate change, change communication habits and even business models.

About the need to listen to customers' expectations and offer what they have not yet imagined, but will instantly desire. About the new strategic direction of TEO – ease and simplicity – for customers and ourselves.

We consistently work to justify our customers' trust in us. There is no doubt that the reputation TEO as a reliable operator, employer and business partner is crucial for the Company's success, and is determined by the team of employees. I am proud that we continuously are among the most desirable employers in Lithuania.

Each of our employees is committed to working in compliance with the principles of responsible business and to ensuring that our chosen partners, suppliers and contractors also comply with them. We are sure that everything starts with everyone's awareness of the impact of their personal responsibility and personal contribution.

Our approach to the environment, market behaviour, relations with employees, business partners and the community – all these factors are the factors that build the Company's value and trust in it. Being aware of that, we seek to operate sustainably in every area of our activities.

Taking the path of sustainable and responsible business is harder than just a profit-seeking one, but we have chosen the former path and committed to uphold the highest standards of ethical conduct in business.

In creating value, we constantly invest in technological development. For our major investments over recent years, in 2013 we were noticed and recognized by the magazine "Veidas" as the most valuable company in the country.

These investments to a large extent contributed to the fact that for the fifth year in a row Lithuania was No. 1 in Europe in terms of FTTH Internet penetration.

Looking back at the last year's results of TEO Group, we can be truly satisfied with the successful technological development – already 2/3 of Lithuanian households have access to the FTTH network of TEO. 7 out of 10 of the country's business companies became TEO customers.

TEO solutions were used during the top-level international events, such as Lithuania's Presidency of the Council of the European Union.

Our services offer many opportunities and contribute to the progress of society and economy. We are happy that by using them, our customers save their time, money, resources and thus, although indirectly, contribute to the preservation of the environment.

Looking at the year 2014 and ahead, it is obvious that our main focus will be on improving our customers' experience, expressed through the simplicity and clarity of services, and on carrying our activities in a sustainable and responsible manner.
The principles, standards and rules we adhere to as the Company's employees are defined in the Anti-Corruption Policy approved in 2013 and in the updated Code of Ethics and Conduct, current applicable in all companies of TeliaSonera Group, including TEO.

We paid a particular attention to the implementation of the principles of the Code: a special sustainable and responsible conduct e-learning training programme was conducted for that purpose. It involved even 98.7 percent of TEO Group employees.

The standards, defined in the Code of Ethics and Conduct, are important not only to our Company or external partners. They ensure that each employee in our Group is treated in accordance with the provisions of the Code.

This year we are going to update TEO Environmental Policy and will further focus on the quality of environmental protection data. We will establish requirements for suppliers, not only with regard to the quality of the products they supply, but also with respect to compliance with occupational health and safety requirements in contractor companies, as well as the materials used in products and their origin.

TEO as well as TeliaSonera are members of the United Nations Global Compact, which defines the fundamental obligations of responsible business. In providing our services, we adhere to the Environmental Charter of the European Telecommunications Network Operators' Association (ETNO) which sets high environmental protection standards.

In this report, we present the progress we have made in implementing responsible business principles.

Today it is not enough to be a leader in business, i. e. to operate profitably or hold the largest market shares. It is equally important to have a good reputation and to be a leader in ethical business. We will continue consistently following this direction in the future.

Respectfully,
Kęstutis Šliužas
General Manager of TEO LT, AB

What is TEO?

TEO LT, AB Group is the largest integrated telecommunication, IT and TV services provider in Lithuania.

TEO is:

No.1

telecom operator in terms of revenue in Lithuania

in broadband Internet

in pay-TV

in fixed voice telephony

in data communication and leased lines

TEO subsidiary, Lintel, is a leader in the directory inquiry and Contact Centres business in Lithuania and another subsidiary, Baltic Data Center, is a leader in the management of data centers and information systems in the Baltic States.

TEO Group is a part of TeliaSonera Group, which provides telecommunications services in the Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain.

Shares of TEO LT, AB are listed on NASDAQ OMX Vilnius stock exchange (ticker – TEO1L).

The Communication Regulatory Authority (CRA) of Lithuania has designated TEO together with its related legal entities as an operator with significant market power (SMP) on 15 markets (as of 31 December 2013). TEO and UAB Omnitel, as members of TeliaSonera Group are regarded as related entities in Lithuania, therefore TEO is considered as having SMP on the market of voice call termination in the public mobile network of UAB Omnitel.

TEO head office is located at Lvovo str. 25 in Vilnius. The Company's services are available all over Lithuania.

TEO business philosophy

VISION

Your best partner in communicating with the constantly changing world.

By constantly introducing the most advanced technologies we aim at enabling our customers to reach people, knowledge and entertainment simply and easily.

MISSION

To create value for customers and shareholders by providing professional, high-quality and easy to use telecommunications, TV and IT services.

VALUES

Create value

We create and provide services that bring benefits to customers, the company and its shareholders. We are dedicating our services to people who want to use cutting-edge technology simply and easily.

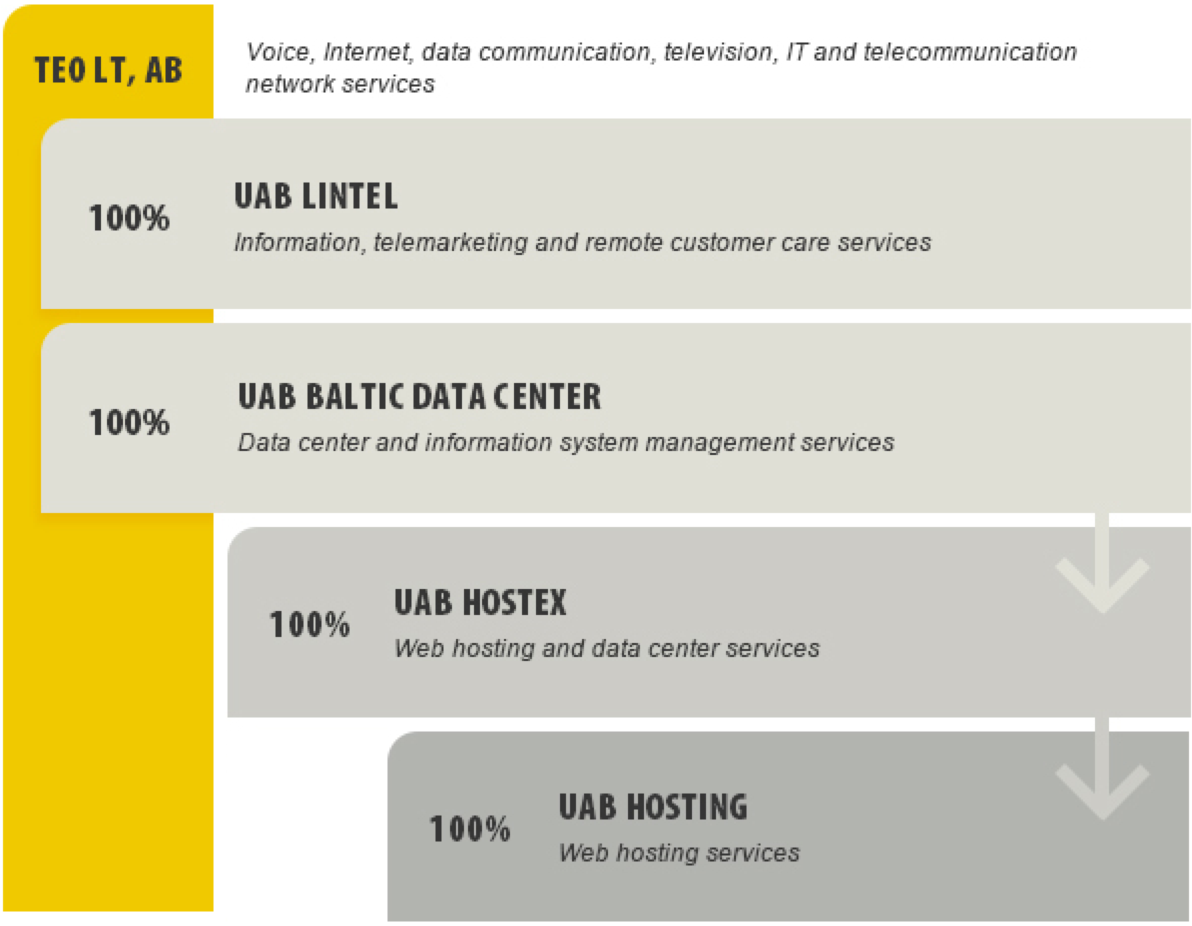
Respect

We are consistently adhere to the principle of equality, to treat others as we would like to be treated ourselves: with respect and honesty. By engaging with customers and partners we are constantly looking for a mutually beneficial solution, the safety of personal data entrusted to us.

Goal orientation, business minded

We plan objectives and actions, and act quickly and purposefully. We take personal responsibility for the decisions, promises made to customers and partners, as well as the result.

TEO Group



TEO also has a 100 per cent stakes in **UAB Kompetencijos Ugdymo Centras** (till June 2009 it provided training and consultancy services) and **UAB Verslo Investicijos** (investment project).

In July 2010, a not-for-profit organisation **VšĮ Ryšių Istorijos Muziejus** for management of the Company's Communications History Museum in Kaunas was founded by TEO.

Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA, which is a dormant company.

Membership in organisations

At the end of 2013, members of TEO Group were members of the following Lithuanian and international organisations:

Organizations of the Republic of Lithuania:

- Association INFOBALT (TEO, Baltic Data Center)
- Association Investor's Forum (TEO)
- Lithuanian Responsible Business Association (TEO)
- Lithuanian Advertising Association Advertising Bureau (TEO)
- Association of Human Resource Professionals (TEO and Lintel)
- Lithuanian Business Confederation (TEO)
- Vilnius Chamber of Commerce, Industry and Crafts (TEO)
- Kaunas Chamber of Commerce, Industry and Crafts (TEO)
- Šiauliai Chamber of Commerce, Industry and Crafts (TEO)
- Panevėžys Chamber of Commerce, Industry and Crafts (TEO)
- Klaipėda Association of Industrialists (TEO)
- Šiauliai Association of Industrialists (TEO)
- Mažeikiai Association of Enterpreneurs (TEO)
- Tauragė Region Association of Enterpreneurs (TEO)
- Swedish Chamber of Commerce in Lithuania (TEO)

International organizations:

- European Telecommunications Network Operators' Association (ETNO) (TEO)
- UNPD Global Compact (TEO)

TEO is a supporter of Lithuanian Free Market Institure and one of initiators of establishing project "Baltoji Banga" ("Clear Wave")

Key indicators

Key indicators

	2013	2012	Change (%)
Revenue (LTL million)	721	760	▼ 5.2
Profit for the year (LTL million)	149	159	▼ 4.7
Capital investments (LTL million)	154	151	▲ 2.0
Market capitalisation (LTL million)	2,057	2,060	▼ 0.1
Number of fixed telephone lines in service	565,327	605,424	▼ 6.6
Number of broadband Internet connections	430,911	385,863	▲ 11.7
Number of TV service customers	172,306	169,285	▲ 1.8
Number of employees at the end of period	3,034	3,257	▼ 6.8

More information about TEO Group financial results for the year 2013 is available in Financial Statements for the year 2013.

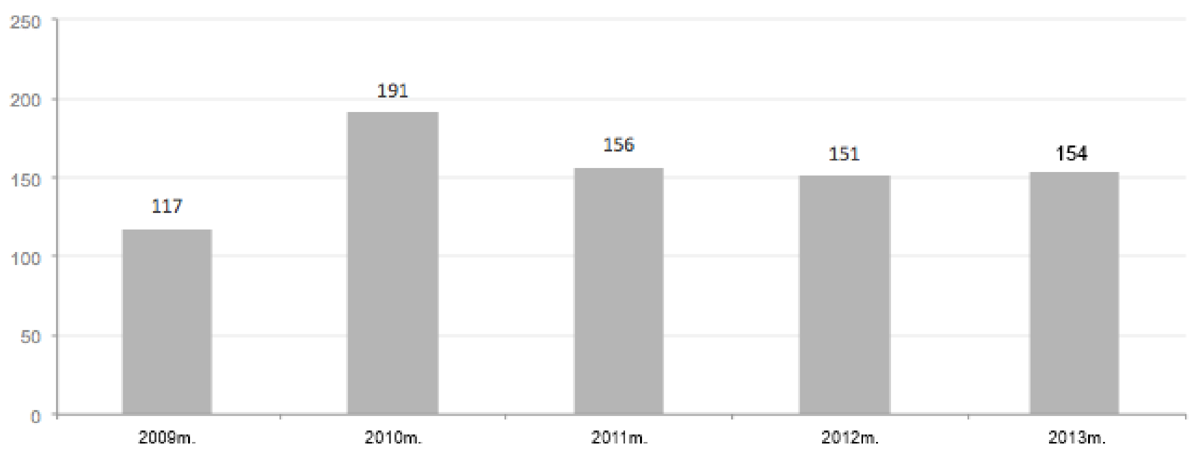
Revenue

Breakdown of revenue (LTL million)

	2013	2012	Change (%)
Fixed voice telephony services	304	355	▼ 14.4
Internet services	178	172	▲ 3.7
Data communication and network capacity services	84	87	▼ 3.9
TV services	62	57	▲ 8.1
IT services	70	64	▲ 8.8
Other services	23	25	▼ 7.8
Total	**721**	**760**	▼ **5.2**

Investments

Capital investments (LTL million)



Important events

January

- During the Baltic Market Awards, arranged by NASDAQ OMX stock exchanges in Vilnius, Riga and Tallinn, TEO was awarded for the sixth time for the Best Investor Relations in the Baltic Countries.
- The Board of TEO approved that the Company's administration upon receipt of invitation from Kaunas Municipality shall enter into negotiations regarding sale of premises of the Communications History Museum.

February

- Edis Kasperavičius, until then Director of Human Resources Unit, took the position of Chief Sales Officer of TEO.
- Upon resignation of Arūnas Šikšta, General Manager of TEO, Giedrius Vegys, Chief Financial Officer, was appointed as acting General Manager. Antanas Poška, Director of Accounting Department, was appointed to the position of acting Chief Financial Officer.
- Main business management systems of Rimi Baltic Group were transferred to the data centers of UAB Baltic Data Center.
- The process of the change of digital terrestrial TV broadcasting frequencies was commenced.

March

- The Board appointed Bertil Abrahamsson as acting Director of Human Resources Unit of the Company.
- TEO offered its private customers the opportunity to purchase modern tablet computers and laptops by paying a monthly fee.
- Lietuvos Draudimas entrusted its computer network maintenance and support to Baltic Data Center experts.

April

- TEO offered the users of Interactive GALA TV to watch a 3D TV channel as well as to follow NBA games in HD format on NBA HD channel.
- UAB Baltic Data Center (BDC) changed the brand of the company.
- TEO organized the conference on IT security issues "Global Challenges for State Institutions and Organizations of National Importance".
- The shareholders of the Company decided to pay out LTL 0.20 dividend per share for the year 2012 and elected a new Board.
- UAB Interdata was merged into UAB Hostex.
- BDC created the first self-service system in the country for management of virtual data centres.

May

- TEO together with its partners signed an agreement for provision of communication, network installation, computer and office equipment rent and maintenance services during the events of Lithuania's Presidency of the Council of the EU.
- The broadcasts of the Eurovision Song Contest from Sweden were available in HD format to the users of Interactive GALA.
- The Company became the first in Lithuania to offer its Interactive GALA customers to create their own package of preferred additional TV channels.

June

- Basketball fans were able to watch live broadcasts of the NBA finals commented in Lithuanian on GALA TV.
- Martynas Špokas was appointed to the position of Director of Hostex, a data centre company, which will be more closely integrated into the activities its parent company, BDC.
- Interactive GALA users were able to watch FIFA Confederations Cup tournament in Brasil in HD format.
- Release of the film Viramundo took place on the same day in cinema theatres in Lithuania and on the Interactive GALA TV Video-On-Demand.

July

- During the events of Lithuania's Presidency of the Council of the European Union TEO will provide Internet access at 2 Gbps speed and BDC – data storage of 6 TB capacity.
- TEO offered new payment plans – "24 Hours", "Hours" and "Minutes" – to customers of home phone service.
- Wi-Fi Internet service in public places, ZEBRA Wireless, was renamed into TEO Wi-Fi and service prices reduced by half.

August

- TEO and BDC nominated for European Business Awards for environmental activities and international growth strategies, respectively.
- The Kaunas City Municipality Administration signed a contract with TEO on the procurementof a video transmission system and the provision of its maintenance services.

September

- TEO increased the speed of the broadband DSL Internet.
- The Company installed Wi-Fi Internet in more than 240 schools in Lithuania.
- TEO offered "Internet Security" service, developed in cooperation with Kaspersky Lab.
- For business customers the Company developed the first standardized Internet "Security Solutions" service in Lithuania.
- During Baltic Corporate Excellence Awards 2013 for the fifth year in a row TEO was recognized as the best listed company of the Baltic States.

October

- TEO offered the High Definition (HD) voice service to new business customers of IP telephony service.
- The Company created new generation Internet television service for smart devices - "Interneto.tv".
- TEO installed CCTV cameras in more than fifty public spaces in Kaunas.

November

- Kęstutis Šliužas took the office of General Manager (CEO) of TEO LT, AB.
- CCTV cameras launched in ten public spaces of Elektrėnai and in four public spaces of Vievis.
- BDC become the first certified SAP partner in the Baltic States.

December

- TEO Group joined "Kam to reikia?!" ("Who needs it?!"), the largest professional volunteering project in Lithuania.
- The number of the Company's fiber-optic Internet users surpassed that of broadband DSL.
- TEO offered a CCTV service to business and organizations.

Awards

NASDAQ OMX Vilnius, Riga and Tallinn stock exchanges Awards

During Baltic Market Awards 2013 organized by NASDAQ OMX Vilnius, Riga and Tallinn stock exchanges TEO was awarded for the Best Annual and Corporate Governance Report as well as the Best Investor Relations According to the Analysts.

Baltic Corporate Excellence Awards

For the fifth year in a row, TEO is recognized as the best listed company of the Baltic States during the Baltic Corporate Excellence Awards 2013 for its corporate quality.

„European Business Awards“ nominee

Seven Lithuanian companies were selected for the so-called European business "Oscars" and they further participated in the 2013/14 final. Lithuanian finalists were nominated by the panel of judges of the European Business Awards according to the three main criteria – innovation, sustainability, business quality and ethical standards.

The companies selected in the category for the Award for Environmental & Corporate Responsibility were the ones valuing their customers, employees, and encouraging society to behave in ways that are environmentally friendly.

The panel of judges of the European business "Oscars" recognized BDC, a company belonging to TEO Group, not only for its sustainable business, meeting the highest business quality and ethical standards, but also for its innovative and dynamic export development strategy: last year, BDC’s revenue from the export of services grew by 82 per cent, which accounted for 15 per cent of the total Lithuanian exports of IT services.

The winners of the European Business Awards will be revealed only in May 2014.

The Lithuanian electronic communications market

- During 2013, the revenue of the Lithuanian electronic communications sector, compared to 2012, decreased by 5.6 per cent.
- The total revenue of the market amounted to LTL 2.1 billion (in 2012 – LTL 2.3 billion).
- In 2013, in terms of revenue, the growth was recorded only in the markets of pay-TV (9.8 per cent) and Internet access (0.7 per cent).
- The market of mobile telephony services decreased by 8.3 per cent, fixed-line telephony services – 10.5 per cent, networks' interconnection – 8.6 per cent, radio and television programs transmission – 42.7 per cent, dark fiber – 0.2 per cent, leased lines – 17.1 per cent and data communication – 0.9 per cent.

Internet services market

- During 2013, the number of Internet users in Lithuania increased by 7.6 per cent or by 80.3 thousand – up to 1,134.6 thousand.
- At the end of 2013, the number of broadband Internet access users per 100 inhabitants of Lithuania was 38.5.
- The most rapid growth was in the number of users, connected to the Internet via wireless connections (23.8 per cent), fiber-optic communication lines (8.7 per cent) and via mobile telecommunications networks (5.1 per cent).
- Almost 438 thousand or 38.6 per cent of the total number of Internet users connect to the Internet via fiber-optic lines. This is one of the best indicators in Europe.
- Internet access services are provided by 104 operators. The largest Internet service providers by the number of subscribers: TEO LT, AB (37.8 per cent), UAB Omnitel (15.1 per cent), UAB Bitė Lietuva (8.7 per cent), AB Lietuvos radijo ir televizijos centras (Lithuanian Radio and Television Centre) (6.8 per cent), UAB Cgates (5.4 per cent).

Voice services market

Fixed telephony services

- During 2013, the total number of fixed telephone lines in Lithuania decreased by 7.5 per cent or 50.6 thousand – down to 624.8 thousand.
- At the end of 2013, the number of fixed telephone lines per 100 inhabitants in Lithuania was 20.9.
- 90.3 per cent of fixed-line telephony subscribers were TEO customers, while 9.7 per cent – customers of alternative operators.
- At the end of 2013, there were 45 undertakings engaged in the provision of fixed telephony services in Lithuania: 34 – national and international calls, 4 – only international calls, 7 – only wholesale (transit) services.
- 31 operator use the IP protocol, 16 of which – cable TV and data communication networks.

Mobile telephony services

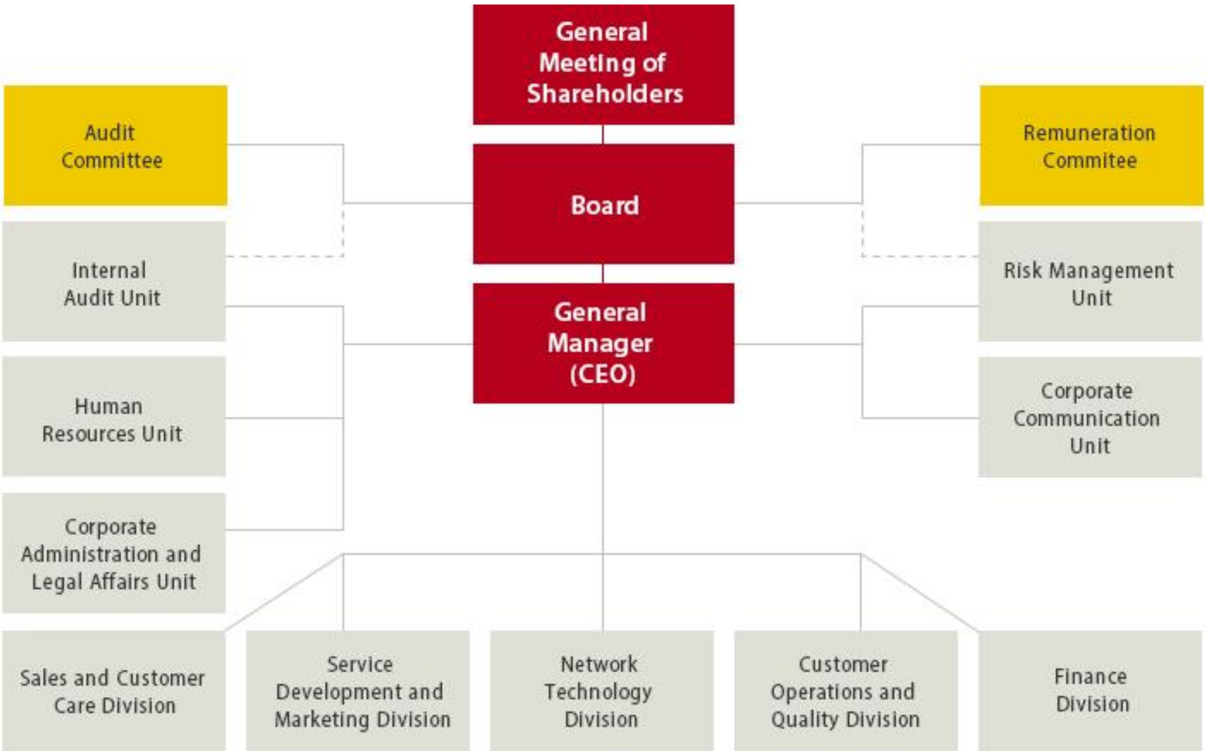
- Over the year, the number of active mobile telephone subscribers decreased by 8.6 per cent or 431 thousand – down to 4,566 thousand.
- The number of active mobile telephone subscribers per 100 inhabitants in Lithuania was 155.1.
- Mobile telephony services in Lithuania are provided by 3 operators (UAB Omnitel, UAB Bitė Lietuva, and UAB Tele2) and 4 service providers. Other 7 undertakings act as resellers of the services provided by other operators to their subscribers.
- At the end of 2013, 41 per cent of active mobile telephone subscribers were customers of Tele2, 34.7 per cent – Omnitel, 22.4 per cent – Bitė Lietuva and 1.9 per cent – other service providers.

TV services market

- At the end of 2013, the total number of pay-TV subscribers was 729.9 thousand, i.e. 0.9 per cent more than at the end of 2012 when the number of TV subscribers was 723.6 thousand.
- Over the year, the number of digital television service users increased by 4 per cent – up to 415 thousand, and by the end of 2013 amounted to 56.9 per cent of the total number of pay-TV service subscribers.
- The number of Internet Protocol-based television (IPTV) and digital cable service users continued to grow, while the number of satellite, digital terrestrial television (DVB-T), cable analogue and microwave multi-channel television subscribers decreased.
- The number of digital pay-TV subscribers per 100 households in Lithuania was 31.7.
- At the end of 2013, cable television services were provided by 37 undertakings, microwave multi-channel television (MDTV) services – by 2 undertakings.
- 16 operators provided digital television services through cable, 2 – microwave multi-channel and 2 – digital terrestrial television networks; 15 operators provided IPTV and 1 – satellite digital television services.
- At the end of 2013, the number of TEO digital television (IPTV and DVB-T) users (172.3 thousand) constituted 23.6 per cent of the total number of pay-TV subscribers in Lithuania.

Structure of governance

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.



Corporate governance structure valid as of 31 December 2013.

The decisions of the **General Meeting** made regarding the matters of competence of the General Meeting, are binding upon the Shareholders, the Board, General Manager and other officials of the Company.

The Shareholders of the Company that at the end of the date of record of the General Meeting are shareholders of the Company have the right to participate in the General Meeting. The date of record of the General Meeting of the Shareholders of the Company is the fifth business day prior to the General Meeting or the repeated General Meeting. The person, participating in the General Meeting and having the right to vote, shall deliver his/her identification proving document. In case the person is not a shareholder he/she is to present a document, proving his/her right to vote at the General Meeting.

The members of the **Board** serving on the Board of the Company are acting jointly as a governing body of the Company. The Board consists of six members. The Annual General Meeting of the Shareholders, held on 28 April 2011, decided to reduce the number of the Board members from seven to six. The members of the Board are elected for a term of two years. The Chairman/Chairwoman of the Board is elected by the Board from its members for two years.

The members of the Board are elected by the General Meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The Board elects and recalls the General Manager, sets his/her remuneration and other conditions of the employment agreement, approves his/her office regulations, induces and applies penalties to him/her.

The **General Manager** is the Head of the Company. The Head of the Company is a one-man management body of the Company and, within his scope of authority, organizes the day-to-day operation of the Company. The work regulations of the Administration approved by the General Manager define the duties and authority of the General Manager and his/her Deputies as well as other officers of the Company in more details.

More information about the Board activities in 2013 and disclosure of the Company's compliance with the principles and recommendation set by The Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange is provided in TEO LT, AB Consolidated Annual Report for the year 2013 and its appendix, which is an integral part of the Company's Financial Statements.

Board

Malin Frenning (born in 1967)

Chairwoman of the Board of TEO LT, AB,
member of the Board from 26 April 2010 (nominated by TeliaSonera AB),
Chairwoman of the Remuneration Committee of the Board

Education

Luleå University of Technology (Sweden), *Master of Science in Mechanical Engineering*

Employment

TeliaSonera AB (Sweden), *President of Business Area Broadband Services*

Current Board Assignments

TeliaSonera Network Sales AB (Sweden), *Chairwoman of the Board*
TeliaSonera International Carrier AB (Sweden), *Chairwoman of the Board*
TeliaSonera Skanova Access AB (Sweden), *Chairwoman of the Board*
Elion Ettevõtted AS (Estonia), *Chairwoman of the Supervisory Council*
S-Group Holding AB (Sweden), *member of the Board*
Cygate Group AB (Sweden), *member of the Board*

TeliaSonera AB (Sweden) that nominated Malin Frenning to the Board of TEO LT, AB, as of 31 December 2013 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes.

Malin Frenning has no direct interest in the share capital of TEO LT, AB.

She is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Tiia Tuovinen (born in 1964)

Member of the Board of TEO LT, AB from 28 April 2009 (nominated by TeliaSonera AB), member of the Audit Committee of the Board

Education

University College London (United Kingdom), *Master of Laws*
University of Helsinki (Finland), *Master of Laws*

Employment

TeliaSonera Finland Oyj (Finland), *General Counsel for Broadband Services and Vice President for Real Estates and Property Planning in Finland*

Current Board Assignments

Lattelecom SIA (Latvia), *member of the Supervisory Council*
TeliaSonera Finland Oyj (Finland), *member of the Board*
TeliaSonera International Carrier AB (Sweden), *member of the Board*
Tilts Communications A/S (Denmark), *member of the Board and Managing Director*
Kekkilä Oy (Finland), *member of the Board*
Member of the Board of several real estate companies in Helsinki, Finland

TeliaSonera AB (Sweden) that nominated Tiia Tuovinen to the Board of TEO LT, AB, as of 31 December 2013 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes.

Tiia Tuovinen has no direct interest in the share capital of TEO LT, AB.

She is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Inga Skisaker (born in 1971)

Member of the Board of TEO LT, AB from 28 April 2011 (nominated as independent candidate by TeliaSonera AB), member of the Audit Committee of the Board

Education

Vilnius University (Lithuania), *Master of International Business Administration*

Employment

Nordea Bank Finland Plc Lithuania Branch, *General Manager*
Nordea Bank Finland Plc, *Head of Banking Baltic Countries*

Current Board Assignments

Baltic Management Institute (Lithuania), *member of the Board*
Investors Forum (Lithuania), *member of the Board*

TeliaSonera AB (Sweden) that nominated Inga Skisaker as independent candidate to the Board of TEO LT, AB, as of 31 December 2013 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes.

Inga Skisaker has no direct interest in the share capital of TEO LT, AB.

She is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Jens Lööw (born in 1965)

Member of the Board of TEO LT, AB from 25 April 2013 (nominated by TeliaSonera AB),
Chairman of the Audit Committee of the Board

Education

Business School at University of Umeå (Sweden), *Bachelor of Business Administration*

Employment

TeliaSonera AB (Sweden) Business Area Broadband Services, *Chief Financial Officer*

Current Board Assignments

TeliaSonera Network Sales AB (Sweden), *member of the Board*
TeliaSonera Skanova Access AB (Sweden), *member of the Board*
Eesti Telekom AS (Estonia), *member of the Supervisory Council*
Elion Ettevõtted AS (Estonia), *member of the Supervisory Council*

TeliaSonera AB (Sweden) that nominated Jens Lööw to the Board of TEO LT, AB, as of 31 December 2013 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes.

Jens Lööw has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Mats Lillienberg (born in 1960)

Member of the Board of TEO LT, AB from 25 April 2013 (nominated by TeliaSonera AB), member of the Remuneration Committee of the Board

Education

Studied sofware design and economics

Employment

TeliaSonera AB (Sweden), *Head of Broadband Technology Solutions*

TeliaSonera AB (Sweden) that nominated Mats Lillienberg to the Board of TEO LT, AB, as of 31 December 2013 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes.

Mats Lillienberg has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Rolandas Viršilas (born in 1963)

Member of the Board of TEO LT, AB from 25 April 2013 (nominated as independent candidate by TeliaSonera AB), member of the Remuneration Committee of the Board

Education

Vilnius University (Lithuania), *Faculty of Mathematics, Master's degree*

Employment

UAB Švyturys - Utenos Alus (Lithuania), *Chief Executive Officer*

Current Board Assignments

Lithuanian Brewers' Guild (Lithuania), *Chairman of the Council*

TeliaSonera AB (Sweden) that nominated Rolandas Viršilas as independent candidate to the Board of TEO LT, AB, as of 31 December 2013 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes.

Rolandas Viršilas has 100,000 shares of TEO LT, AB that amounts to 0.0129 per cent of the total number of the Company's shares and votes.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Top Management

Kęstutis Šliužas (born in 1972)

General Manager of TEO LT, AB

Education

Vilnius University (Lithuania), *Bachelor's degree (1994) and Master's degree (1996)*

Kęstutis Šliužas has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies

Edis Kasperavičius (born in 1961)

Chief Sales Officer of TEO LT, AB

Education

Vilnius University, *Master of Psychology (1985)* and *Scholarship in Pedagogics (equivalent of doctorate) (1992)*
Baltic Management Institute, *Master of International Business Administration (2012)*

Current Board Assignments

UAB Lintel, a subsidiary of TEO LT, *member of the Board*
UAB Kompetencijos Ugdymo Centras (Competence Development Center), a subsidiary of TEO LT, AB, *Chairman of the Board and Director*
Baltic Management Institute (Lithuania), *member of the Board*

Edis Kasperavičius has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Nerijus Ivanauskas (born in 1970)

Chief Marketing Officer and Deputy General Manager of TEO LT, AB

Education
Vilnius University, *Bachelor of Econometrics (1993)*
International Management School, Budapest, Hungary, *Candidate Master of Business Administration (1995)*
Emory University, Atlanta, U.S.A., *Master of Business Administration (1996)*

Current Board Assignments
UAB Lietuvos Monetų Kalykla, *member of the Board*

Nerijus Ivanauskas has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Darius Didžgalvis (born in 1969)

Chief Technology Officer and Deputy General Manager of TEO LT, AB

Education
Kaunas University of Technology, *Engineer in radio electronics (1993), MSc in Telecommunication Engineering (2001), International Executive MBA (2003)*

Current Board Assignments
UAB Baltic Data Center, a subsidiary of TEO LT, AB, *Chairman of the Board*

Darius Didžgalvis has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Eglutė Bivainienė (born in 1967)

Chief Operational Officer of TEO LT, AB

Education

Vilnius University, *Diploma in Economics and Mathematics (1990)*
ISM University of Management and Economics, *Master of Business Administration studies*

Current Board Assignments

UAB Lintel, a subsidiary of TEO LT, AB, *Chairwoman of the Board*

She is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Giedrius Vegys (born in 1959)

Chief Financial Officer of TEO LT, AB

Education

Vilnius University, *Faculty of Economic Cybernetics and Finance (1982)*
Helsinki School of Economics, *Executive MBA (2001)*

Current Board Assignments

UAB Baltic Data Center, a subsidiary of TEO LT, AB, *member of the Board*
UAB Lintel, a subsidiary of TEO LT, AB, *member of the Board*

Giedrius Vegys has no direct interest in the share capital of TEO LT, AB.

He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Main units

Kastytis Kmitas
Director of Internal Audit Unit

Vytautas Bučinskas
Director of Risk Management Unit

Bertil Abrahamsson
Acting Director of Human Resources Unit

Eglė Gudelytė-Harvey
Director of Corporate Administration and Legal Affairs Unit

Antanas Bubnelis
Director of Corporate Communication Unit

Sales and Customer Care Division

Larijus Lapinskas
Director of Business Solutions Department

Adomas Ginevičius
Director of Sales Development Department

Arnoldas Žukauskas
Director of Carrier Business Department

Stasys Paplauskas

Director of Business Projects Management Unit

Gintaras Bilevičius

Director of Vilnius Regional Center

Loreta Ivašauskienė

Director of Kaunas Regional Center

Loreta Suodaitienė

Director of Klaipėda Regional Center

Arvydas Murza
Director of Šiauliai Regional Center

Rimantas Misevičius
Director of Panevėžys Regional Center

Service Development and Marketing Division

Nerilė Mažeikienė
Director of Business Customers Marketing Department

Daiva Tonkūnienė
Director of Residential Customers Marketing Department

Network Technology Division

Gintaras Monkevičius

Director of Network Development and Management Department

Haroldas Šulčinskas

Director of Network Maintenance Department

Edvardas Linkevičius

Director of Information Technology Department

Customer Operations and Quality Division

Povilas Kaminskas
Director of Services and Process Management Department

Gintarė Žilinskienė
Director of Service Quality Assurance Department

Renaldas Radvila
Director of Customer Care Channels Development Department

Finance Division

Dalius Redeckas
Director of Economics Department

Antanas Poška
Director of Accounting Department

General Manager Advisor

Rasa Norkienė
Advisor for Corporate Image Formation

Subsidiaries

Laurynas Šeškevičius

Director of UAB Lintel

Aleksandr Samuchov

Director of UAB Baltic Data Center

Share capital

The share capital of the Company amounts to 776,817,518 litas and consists of 776,817,518 ordinary registered shares with a nominal value of 1 litas each.

One ordinary registered share of TEO LT, AB gives one vote at the General Meeting of Shareholders. The number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders is 776,817,518.

The share capital of the Company was reduced from 814,912,760 litas to 776,817,518 litas by cancellation of 38,095,242 treasury stocks. 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 the 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.

From June 2000 till 1 July 2010 the Company ran the Global Depository Receipts (GDR) programme. According to the programme, one GDR represented 10 ordinary registered shares of the Company. TEO GDRs were listed on the Official List of the UK Listing Authorities and were traded on the London Stock Exchange.

Size and structure of TEO LT, AB capital (%)

	Size of the capital (LTL)	Ordinary Registered Shares	Global Depository Receipts
31-12-2013	776,817,518	100.00	
31-12-2012	776,817,518	100.00	-
31-12-2011	776,817,518	100.00	-
31-12-2010	776,817,518	100.00	-
31-12-2009	814,912,760	96.26	3.74

Shareholders

The main shareholder of TEO – TeliaSonera AB, a telecommunications operator that directly controls 88.15 per cent of the Company's shares.

TeliaSonera provides telecommunication services in the Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain.

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 0.21 per cent of share and increased its holding up to 68.29 per cent.

On 10 May 2012, TeliaSonera AB acquired from the funds managed by East Capital Asset Management AB and East Capital AB, and Coneglen Limited in total 7.87 per cent of the Company's shares and crossed the threshold of 75 per cent of votes at the General Meeting of Shareholders of TEO.

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

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

During the takeover bid (from 5 till 29 June 2012) sell orders for 1.63 per cent of shares of the Company were placed. In addition, during the period from 8 May to 29 June 2012, TeliaSonera acquired 10.35 per cent of the Company's shares in the open market.

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

Shareholders by countries

Breakdown of TEO LT, AB shareholders by the country of residence as of 31 December 2013

Country	Number of shareholders	Number of shares	Share of TEO share capital (%)
Sweden	9	684,854,910	88.16
Lithuania	8,500	73,361,897	9.44
Estonia	403	12,268,962	1.58
Luxemburg	4	2,161,061	0.28
Canada	2	1,581,875	0.20
U.S.A.	43	1,344,110	0.17

United Kingdom	13	653,634	0.08
New Zealand	1	322,079	0.04
Belgium	2	90,940	0.01
Latvia	5	33,083	0.00
Germany	8	31,661	0.00
Cayman Islands	1	25,470	0.00
The Netherlands	3	24,967	0.00
Ireland	4	9,964	0.00
Russia	4	8,999	0.00
Austria	1	7,000	0.00
Australia	2	5,681	0.00
Belarus	2	5,623	0.00
China	1	5,250	0.00
France	2	5,101	0.00
South Korea	1	5,100	0.00
Finland	4	4,957	0.00
Moldova	1	2,423	0.00
Italy	1	1,400	0.00
Poland	1	364	0.00
Argentina	1	287	0.00
Spain	1	275	0.00
Norway	1	232	0.00
Singapore	1	113	0.00
Denmark	1	100	0.00
	9,023	**776,817,518**	**100.00**

Shareholders’ structure

Breakdown of TEO LT, AB shareholders registered in Lithuania as of 31 December 2013

	Number of shareholders	Number of shares	Share of TEO share capital (%)
Private individuals	8,474	71,137,910	9.16
Financial institutions	5	1,771,501	0.23
Legal entities	21	452,486	0.05
	8,500	**73,361,897**	**9.44**

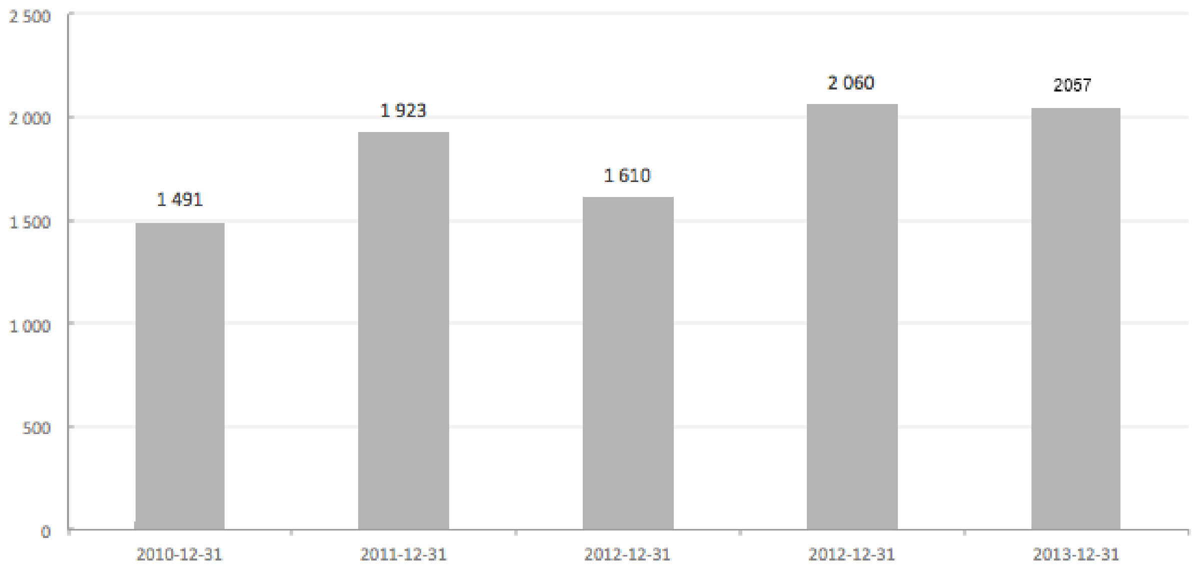
Trading in shares

Ordinary registered shares of TEO (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L).

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

During 2013 TEO share price on NASDAQ OMX Vilnius stock exchange decreased by 0.2 per cent, while the shares’ turnover, compared to the year 2012, decreased by 86.6 per cent.

Market capitalisation (LTL million)

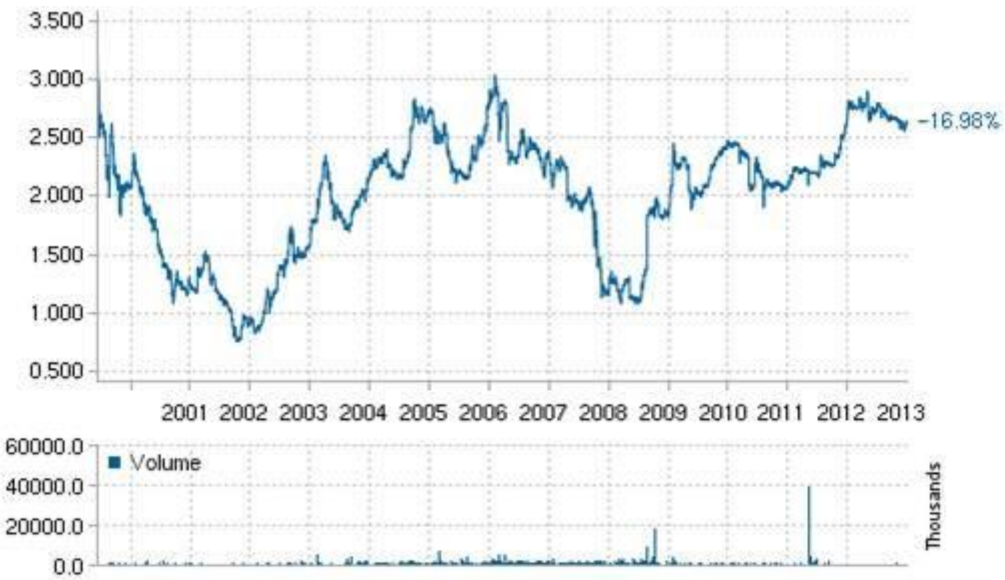


NASDAQ OMX Vilnius (LTL)

Trading in TEO shares on NASDAQ OMX Vilnius stock exchange in LTL

	2009	2010	2011	2012	2013
Opening price (LTL)	1.160	1.860	2.472	2.075	2.655
Highest price (LTL)	2.030	2,483	2.472	2.659	2.904
Lowest price (LTL)	1.070	1.840	1.837	2.061	2.555
Average price (LTL)	1.510	2.231	2.206	2.209	2.690
Closing price (LTL)	1.830	2.476	2.072	2.652	2.648
Volume (units)	18,713,919	62,892,242	40,643,808	98,430,559	13,187,454
Turnover (LTL million)	274.70	140.32	89.67	217.44	35.48
Capitalisation (LTL million)	1,491.29	1,923.13	1,609.32	2,060.12	2,057.01

Trading in TEO shares on NASDAQ OMX Vilnius stock exchange from 12-06-2000 till 31-12-2013 in LTL

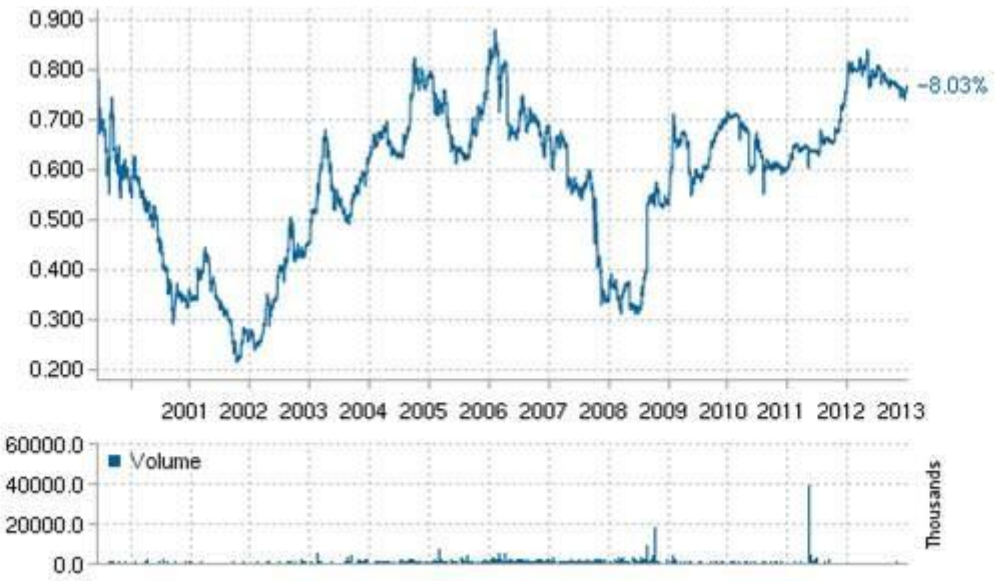


NASDAQ OMX Vilnius (EUR)

Trading in TEO shares on NASDAQ OMX Vilnius stock exchange in EUR

	2009	2010	2011	2012	2013
Opening price (EUR)	0.336	0.539	0.716	0.601	0.769
Highest price (EUR)	0.588	0.719	0.716	0.770	0.841
Lowest price (EUR)	0.310	0.533	0.532	0.597	0.740
Average price (EUR)	0.437	0.646	0.639	0.640	0.779
Closing price (EUR)	0.530	0.717	0.600	0.768	0.767
Volume (units)	181,713,919	62,892,242	40,643,808	98,430,559	13,187,454
Turnover (EUR million)	79.56	40.64	25.97	62.97	10.28
Capitalisation (EUR million)	431.91	556.98	466.09	596.60	595.82

Trading in TEO shares on NASDAQ OMX Vilnius stock exchange from 12-06-2000 till 31-12-2013 in EUR



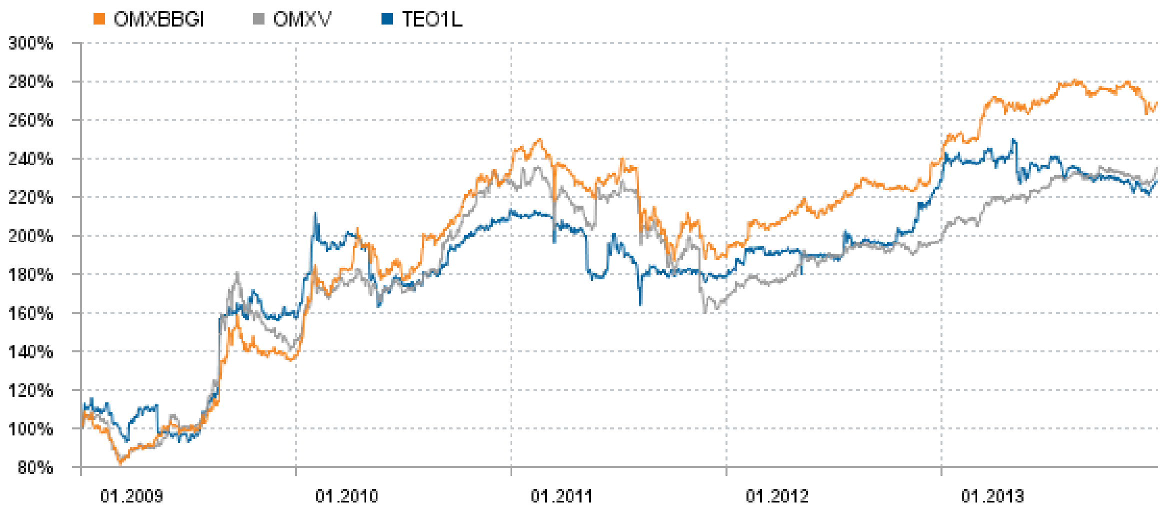
Indexes

TEO LT, AB shares as one of the most liquid stocks on NASDAQ OMX Vilnius stock exchange are included into calculation of the following indexes of NASDAQ OMX Baltic stock exchanges:

- **Benchmark index (OMX Baltic Benchmark)** is available on the Baltic level. The index consists of a portfolio of the largest and most traded shares, representing all sectors available on the NASDAQ OMX Baltic Market.
- **Tradable index (OMX Baltic 10)** is available on the Baltic level and consists of the 10 most actively traded stocks on the NASDAQ OMX Baltic Market.
- **All Share indexes (OMX Baltic, OMX Tallinn, OMX Riga, OMX Vilnius)** are available on both local and Baltic level and include the shares listed on the Main and Secondary lists of the Baltic exchanges.
- **OMX Baltic Telecommunication Sector** index is based on the Industry Classification Benchmark (ICB) developed by FTSE Group.

TEO LT, AB share price and NASDAQ OMX Vilnius stock exchange indexes development during 2009-2013

	01-01-2009	31-12-2013	Pokytis (%)
OMX Vilnius Index	228.12	613.50	▲ 168.94
OMX Vilnius Index	179.25	421.60	▲ 135.20
TEO LT, AB share price (EUR)	0.34	0.77	▲ 128.30



Dividends

Each year the Company pays dividends although there is no officially approved dividend policy.

After Initial Public Offering (IPO) in 2000 the amount allocated for dividend payment amounted to 50-70 per cent of yearly net profit. In 2003, the Company suffered a loss, but dividends were paid out. Starting from 2003 till 2008 each year the amount of dividends paid out per share was higher than consolidated earnings per share for respective year. That is because 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 of the Group, i.e. from retained earnings of TEO LT, AB. Since 2006, the Company has been paying almost the maximum amount of dividends allowed by the laws – 96-98 per cent of retained earnings of the Parent company.

In 2013, the Company paid out to the shareholders LTL 155.4 million of dividends or 0.20 litas per share for the year 2012. Following the Law, the dividends were paid to the shareholders who at the end of the tenth business day following the Annual General Meeting that adopted a decision on dividend payment, i.e. on 10 May 2013 were shareholders of TEO LT, AB. On 23 May 2013 dividends to shareholders were paid in cash.

The Annual General Meeting of TEO LT, AB Shareholders, where a decision regarding the allocation of the profit for the year 2013 should be adopted, will be held on 29 April 2014. The Board proposed to the Annual General Meeting of Shareholders to adopt decision to pay 0.19 litas dividend for the year 2013. After adoption of the decision to pay dividends for the year 2013, dividends would be paid to the shareholders who at the end of the tenth business day after the General Meeting, i.e. on 14 May 2013, will be shareholders of the Company.

	2009	2010	2011	2012	2013
Consolidated earnings per share (LTL)	0.22	0.21	0.20	0.20	0.19
Paid out dividend per share (LTL)	0.21	0.21	0.20	0.20	0.19
Retained earnings of Parent company (LTL thousand)	166,076	144,333	161,163	160,668	150,145
Paid out dividend amount (LTL thousand)	163,132	139,827	155,364	155,364	147,595

Main figures of TEO Group

Financial figures	2009	2010	2011	2012	2013
Revenue (LTL million)	816	773	750	760	721
EBITDA (LTL million)	338	310	302	307	293
EBITDA margin (%)	41.5	40.1	40.3	40.4	40.6
Operating profit (LTL million)	196	179	170	177	165
Operating profit margin (%)	24.0	23.1	22.7	23.2	22.9
Profit before income tax (LTL million)	198	180	172	177	166
Profit before income tax margin (%)	24.3	23.3	23.2	23.3	23.0
Profit for the period (LTL million)	169	163	154	159	149
Profit margin (%)	20.7	21.1	20.6	20.9	20.7
Total assets (LTL million)	1,151	1,179	1,138	1,159	1,160
Shareholders' equity (LTL million)	1,027	1,026	1,041	1,045	1,039
Capital investments (LTL million)	117	191	156	151	154
Number of shares, excluding treasury stocks (thousand)	776,818	776,818	776,818	776,818	776,818
Earnings per share (LTL)	0.22	0.21	0.20	0.20	0.19
Paid out dividend per share (LTL)	0.21	0.18	0.20	0.20	0.19
Share price at the end of period (LTL)	1.830	2.476	2.072	2.652	2.648
Ratios	**31-12-2009**	**31-12-2010**	**31-12-2011**	**31-12-2012**	**31-12-2013**
Return on capital employed (%)	19.5	17.8	17.2	17.6	16.4
Average return on assets (%)	17.6	16.1	15.3	15.8	14.7
Return on shareholders' equity (%)	16.9	16.4	15.4	15.7	14.7
Gearing ratio (%)	(29.3)	(24.8)	(20.6)	(22.2)	(21.4)
Debt to equity ratio (%)	0.6	0.5	0.4	0.3	0.2
Current ratio (%)	410.8	310.7	459.6	386.8	348.3
Rate of turnover of assets (%)	73.4	69.7	67.3	67.9	64.1
Equity to assets ratio (%)	89.2	87.1	91.5	90.1	89.5
Dividend payout ratio (%)	96.5	96.9	96.4	96.7	98.3
Price to earnings ratio	8.3	8.3	10.4	12.9	13.8

Operating figures	31-12-2009	31-12-2010	31-12-2011	31-12-2012	31-12-2013
Number of fixed telephone lines in service	721,953	689,012	647,524	605,424	565,327
Number of broadband Internet connections in total:	313,449	345,865	372,212	385,863	430,911
- DSL connections	228,090	212,948	197,405	183,396	176,505
- connections via the fiber-optic network (FTTB, FTTH)	62,828	103,812	140,242	162,038	180,154
- connections via the WiFi network	22,531	29,105	34,565	40,429	74,252
Number of wireless Internet (WiFi) hot-spots	3,998	3,785	3,385	3,013	3,072
Number of TV service users in total:	102,369	131,188	151,175	169,285	172,308
- IPTV customers	55,915	67,909	79,918	94,665	106,228
- DVB-T customers	46,454	63,279	71,257	74,620	66,080
Number of personnel at the end of period	3,060	3,486	3,303	3,257	3,034

Information to investors

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of TEO LT, AB will be held at the head-office of TEO LT, AB at Lvovo str. 25, Vilnius, Lithuania, at 1 p.m. on Thursday, 29 April 2014.

Shareholders who at the end of the General Meeting of Shareholders' accounting day, i.e. 22 April 2014, will be shareholders of the Company have a right to participate and vote at the General Meeting of Shareholders.

One ordinary registered share of TEO LT, AB gives one vote at the General Meeting of Shareholders. The share capital of the Company consists of 776,817,518 ordinary registered shares of one litas nominal value each. Therefore, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders is 776,817,518.

Dividends for the year 2013

Dividends will be paid to the shareholders who at the end of the tenth business day following the Annual General Meeting that adopts a decision on allocation of the profit for the year 2013 and dividend payment, i.e. on 14 May 2014 (dividend record day), will be shareholders of TEO LT, AB.

According to the rules of NASDAQ OMX Vilnius stock exchange, the ownership right to the shares acquired through Automatically Matched trades is transferred on the third business day after conclusion of the transaction. The ex-dividend day for TEO shares is 12 May 2014.

The Law of the Republic of Lithuania on Companies provides that dividends are to be paid within one month from the day of making a decision on allocation of the profit.

Following the Lithuanian legislation, dividends paid to:
- natural persons–residents of the Republic of Lithuania and natural persons–residents of foreign countries are subject to withholding Personal income tax of 15 per cent;
- legal entities of the Republic of Lithuania and legal entities–residents of foreign countries are subject to withholding Corporate income tax of 15 per cent, unless otherwise provided for by the laws.

Residents of the foreign countries, which have concluded agreements on Avoidance of Double Taxation with the Republic of Lithuania, could take advantage of reduced tariffs provided by such agreements by submitting Claim for Reduction or Exemption from the Anticipatory Tax Withheld at Source, form FR0021 (DAS-1), before dividend payout or Claim for Refund of Tax Withheld at Source, form FR0022 (DAS-2), after dividend payout.

Financial Reports

The Financial Statements, Consolidated Annual and Corporate Social Responsibility Reports of TEO LT, AB for the year 2013 in the English and Lithuanian languages as well as other Company's financial reports and press releases are available online at www.teo.lt.

In 2014, TEO Group financial results will be released on the following dates:
- Interim Consolidated Financial Statements for the period ended 31 March 2014: April 22
- Interim Consolidated Financial Statements for the period ended 30 June 2014: July 16
- Interim Consolidated Financial Statements for the period ended 30 September 2014: October 16

Equity Research

The following banks and securities brokerage houses analyzed the results and the value of the Company's shares in 2013:

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