



**TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND
CONSOLIDATED INTERIM REPORT
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014
(UNAUDITED)**

Beginning of the financial year	1 January 2014
End of reporting period	30 June 2014
Name of the company	TEO LT, AB (hereinafter – TEO or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Code of enterprise	121215434
Name of Register of Legal Entities	State Enterprise Centre of Registers
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	www.teo.lt
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

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

MANAGEMENT REPORT

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

"In the second quarter of 2014 we finalized our reorganization. From June 1, TEO Group has a new organization in place, with two main units in B2C and B2B, supported by Technology & IT and staff units. This will improve our possibilities to respond faster to the customers' needs and to create solutions and services that are easier to use.

During the first half of the year we also consolidated the Company's brand into one TEO brand, and the next step is now to transfer business and employees from subsidiary UAB Baltic Data Center (BDC) into TEO LT AB, in the new B2B unit.

Our EBITDA margin (excl. non-recurring items) improved compared to last year, and the EBITDA margin for the first six months of 2014 reached 42.8 per cent. Operating free cash flow (operating cash flow excluding capital investments) in January-June 2014 was by 4.7 per cent less than a year ago.

In second quarter of 2014 the demand for our IPTV service continued, and the quarter is showing the best IPTV net increase during the last two years. Compared y-o-y, IPTV customer base increased by 16.6 per cent. We also offered Internet TV service "Interneto.tv" for Omnitel mobile customers.

Over the year broadband fiber business grew by 10.9 per cent (active connected households), and the number of TEO Wi-Fi connections more than doubled (y-o-y) and amounted to 103 thousand at the end of second quarter of 2014. Internet connection over the fiber-optic access network amounted to 40 per cent of all TEO broadband Internet connections (including Wi-Fi connections).

Share of revenue from non-voice services (IP & IT services) continued to grow and for the first six months of 2014 the share of non-voice revenue reached 59.6 per cent.

In terms of revenue, the decline was by 4.8 per cent during the first six months, and for the second quarter of 2014 – 2.3 per cent, where residential customers' segment landed by 3.6 per cent, business customers' segment declined by 4.2 per cent and Business to Operators increased by 6.9 per cent, due to higher interconnect volumes.

Major negative impact on revenue in the second quarter of 2014 was still the decrease in fixed voice. Disconnection of telephone lines continues. During the last twelve months voice subscription base decreased by 7.2 per cent, outgoing voice traffic declined by 15.3 per cent, and revenue in the second quarter of 2014 declined by 6.9 per cent, though far better than in previous quarter due to the fact of increased international transit during the period.

Our efficiency improvement program and the setup of our new organization, gave that total operating expenses for the first half of 2014 were by 0.5 per cent lower than total operating expenses a year ago, in spite of non-recurring redundancy charge in January-June 2014. If excluding non-recurring redundancy, the operating expenses were by 5 per cent down."

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

KEY FIGURES OF TEO GROUP

Financial figures	January - June		Change (%)
	2014	2013	
Revenue (LTL thousand)	343,261	360,500	(4.8)
EBITDA (LTL thousand)	133,797	149,550	(10.5)
EBITDA margin (%)	39.0	41.5	
EBITDA excluding non-recurring items (LTL thousand)	146,967	153,433	(4.2)
EBITDA margin excluding non-recurring items (%)	42.8	42.6	
Operating profit (LTL thousand)	71,718	83,919	(14.5)
Operating profit margin (%)	20.9	23.3	
Profit before income tax (LTL thousand)	71,843	84,190	(14.7)
Profit before income tax (%)	20.9	23.4	
Profit for the period (LTL thousand)	63,678	75,609	(15.8)
Profit for the period margin (%)	18.6	21.0	
Earnings per share (LTL)	0.082	0.097	
Number of shares (thousand)	776,818	776,818	
Cash flow from operations (LTL thousand)	122,749	133,110	(7.8)
Operating free cash flow (LTL thousand)	69,729	73,181	(4.7)

Financial ratios	30 June 2014	30 June 2013
Return on capital employed (%)	15.2	17.0
Return on average assets (%)	13.6	15.3
Return on shareholders' equity (%)	13.6	15.5
Operating cash flow to sales (%)	35.8	36.9
Gearing ratio (%)	(15.2)	(15.6)
Debt to equity ratio (%)	0.2	0.3
Current ratio (%)	341.5	405.2
Rate of turnover of assets (%)	62.8	65.9
Equity to assets ratio (%)	90.4	91.4

Operating figures	30 June 2014	30 June 2013	Change (%)
Number of fixed telephone lines in service	542,488	584,766	(7.2)
Number of broadband Internet connections (FTTB, FTTH, DSL and other excluding Wi-Fi)	360,151	348,910	3.2
Number of TV services customers	176,438	170,219	3.7
Number of personnel (head-counts)	2,647	3,074	(13.9)
Number of full-time employees	2,363	2,737	(13.7)

Breakdown of TEO Group revenue by customers	April - June		Change (%)	January - June		Change (%)
	2014	2013		2014	2013	
Business to Consumer	79,425	82,391	(3.6)	159,283	163,747	(2.7)
Business to Business	65,906	68,808	(4.2)	131,843	139,572	(5.5)
Business to Operators	28,478	26,635	6.9	52,135	57,181	(8.8)
Total	173,809	177,834	(2.3)	343,261	360,500	(4.8)

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

Breakdown of TEO Group revenue by services	April - June		Change (%)	January - June		Change (%)
	2014	2013		2014	2013	
Voice telephony services	70,976	76,243	(6.9)	138,710	158,187	(12.3)
Internet services	46,001	44,552	3.3	92,356	88,639	4.2
Data communication and network capacity services	20,041	20,594	(2.7)	39,769	41,390	(3.9)
TV services	15,561	15,120	2.9	30,719	30,532	0.6
IT services	15,023	16,038	(6.3)	29,280	30,290	(3.3)
Other services	6,207	5,287	17.4	12,427	11,462	8.4
Total	173,809	177,834	(2.3)	343,261	360,500	(4.8)

REVENUE

During the second quarter of 2014 revenue from Internet, data communication, TV and other services grew while revenue from voice telephone, network capacity and IT services went down.

The total consolidated TEO Group's revenue for the second quarter of 2014 was LTL 174 million, which is by 2.6 per cent higher than the total revenue of LTL 169 million for the first quarter of 2014, but by 2.3 per cent lower than revenue of LTL 178 million for the second quarter of 2013.

The **total revenue** for the first six months of 2014 decreased by 4.8 per cent to LTL 343 million while the total revenue for the first six months of 2013 amounted to LTL 361 million, but excluding revenue from continuously declining voice telephony revenue grew by 1.1 per cent.

Share of revenue from Internet and TV services from the total amount of revenue continued to grow and reached 26.9 and 8.9 per cent of total revenue for the first half of 2014, respectively. Share of revenue from data communication and network capacity services also increased and amounted to 11.6 per cent, from IT services to 8.5 per cent and other service to 3.6 per cent, while share of revenue from voice telephony services shrank to 40.4 per cent of the total revenue.

In spite of higher revenue from networks' interconnection services during the April-June 2014 compared to revenue during January-March 2014, revenue from networks' interconnection services for the first half of 2014 were lower than a year ago, and combined with continuous trend of declining number of telephone lines in service and consequently lower traffic volume resulted in decrease of revenue from **voice telephony services**.

Over the year revenue from networks' interconnection services went down by 8.7 per cent, while revenue from voice telephony services excluding networks' interconnection services went down by 14 per cent.

During January-June 2014, the total number of main telephone lines in service decreased by 22.8 thousand, while over the last twelve months – by 42.3 thousand lines.

Total voice telephony traffic volume generated by residential and business customers during the first half of 2014, compared with the first half of 2013, decreased by 15.7 and 13.3 per cent, respectively, while total volume of calls to mobile operators' networks increased by 23.9 per cent due to attractive payment plans for calls to mobile networks.

During January-June 2014 the total number of **broadband Internet access** (excluding Wi-Fi) users increased by 3.5 thousand, while over the last twelve months – by 11.2 thousand.

Over the year the number of Internet connections over the next-generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 10.9 per cent and reached 187 thousand at the end of June 2014, while the number of copper DSL connections eased by 4 per cent to 173

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thousand. During the last twelve months the number of TEO Wi-Fi connections more than doubled and amounted to 103 thousand as of 30 June 2014.

By the end of first half of 2014 the number Internet connection over the fiber-optic access network amounted to 40 per cent of all 463 thousand TEO broadband Internet connections (including Wi-Fi).

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

Compared with the first half of 2013, revenue from **data communication** services alone declined by 1.3 per cent, while revenue from **network capacity** services alone eased by 7.1 per cent.

During January-June 2014, the number of IPTV services users increased by 10.2 thousand, while over the year by 16.6 thousand and by the end of June 2014 amounted to 116 thousand. During the last twelve months number of digital terrestrial television (DVB-T) users eased by 10.3 thousand and amounted to 60 thousand. Over the year the total number of **television** service customers went up by 6.2 thousand.

In March 2014, TEO introduced a new more easily managed interface of IPTV service and a High Definition TV channel of Lithuanian Radio and Television – LRT HD. From April customers of TEO IPTV service may watch the first Lithuanian sport TV channel in High Definition – "Sport 1 HD".

"Inteneto.tv", a multi-screen TV solution launched by TEO in 2013, from June 2014 is available to customers of Omnitel, who are subscribers to higher Internet payment plans and where 3G and 4G network of Omnitel is available. Updated "Inteneto.tv" service featuring 24 TV channels and their records for smart phones, PC and laptops. Initially, service was provided just to TEO IPTV service customers anywhere in the country where Internet is available.

Consolidated TEO Group revenue from **IT services** was mainly generated by the Company's subsidiary UAB Baltic Data Center (BDC) that provides data center and information system management services to local and multinational enterprises. Revenue was also generated from the web-hosting services provided by UAB Hostex and the IT services of TEO LT, AB.

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

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

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

Over the year revenue from Contact Center services increased by 5.6 per cent, while from other non-core business services by 11.2 per cent.

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

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

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

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the first quarter of 2014 decreased by 6.2 and 3.6 per cent compared with the first and the fourth quarter of 2013, respectively, and amounted to LTL 509 million.

	TEO market share in terms of customers (%)		TEO market share in terms of revenue (%)	
	Q1 2014	Q1 2013	Q1 2014	Q1 2013
Fixed voice telephony services	89.4	89.4	93.8	94.6
Fixed Internet access services	51.3	49.6	55.9	55.2
Internet access services (total)	38.1	36.3	45.8	44.7
Digital pay-TV services	41.5	42.0	42.1	45.4
Pay-TV services (total)	23.9	23.1	29.1	30.2
Network interconnection services	n/a	n/a	25.3	31.0
Data communication services	n/a	n/a	56.0	58.3
Leased line services	n/a	n/a	59.1	62.0

On 31 March 2014 Internet penetration per 100 residents of Lithuania was 39.3 per cent (36 per cent a year ago), while the penetration of broadband Internet using fixed connection was 29.2 per cent (26.3 per cent a year ago). Digital pay-TV penetration per 100 households was 32.1 per cent (32.1 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 20.7 per cent (21.8 per cent a year ago).

OPERATING EXPENSES

Total operating expenses for the second quarter of 2014 were by 3.1 per cent higher than total operating expenses for the second quarter of 2013, but total operating expenses for the first half of 2014 were by 0.5 per cent lower than total operating expenses a year ago in spite of non-recurring redundancy charge in January-June 2014.

During the second quarter of 2014 **cost of goods and services** increased by 8.7 per cent, compared with the second quarter of 2013, due to higher volumes of transit traffic, but for the six months of 2014 cost of goods and services were by 1.4 per cent lower than a year ago.

Employee-related expenses excluding one-time redundancy pay-outs for the second quarter and the first half of 2014 were lower by 9.5 and 9.2 per cent, respectively, than a year ago. During the first quarter of 2014 the Company implemented efficiency improvement program under which up to 130 employees of TEO Group terminated their employment contracts on the base of mutual agreement. During the second quarter of 2014 a new organisational structure of the Company was introduced and majority of employees of Baltic Data Center was moved into TEO. The total cost of redundancy pay-outs during the first half of 2014 amounted to LTL 13.2 million. Employee-related expenses including non-recurring items for the second quarter and the first half of 2014 were up by 1.4 and 1.8 per cent, respectively.

During the first half of 2014, the total number of employees (headcount) in TEO Group went down by 387, whereof 241 in Lintel due to termination of some projects. Over the year the total number of employees in TEO Group decreased by 427 (mainly in Lintel) from 3,074 to 2,647. In terms of full-time employees, the total number

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of employees in TEO Group during January-June of 2014 went down by 364 (whereof 222 in Lintel), while over the last twelve months – by 375 from 2,737 to 2,363.

Other expenses for the second quarter and the six months of 2014 decreased by 5 and 3.9 per cent, respectively.

EARNINGS

EBITDA for the second quarter of 2014 went down by 9.4 per cent to LTL 68 million over LTL 75 million in the second quarter of 2013, but was up by 3.6 per cent over EBITDA of LTL 66 million for the first quarter of 2014. EBITDA margin for the second quarter of 2014 amounted to 39.2 per cent (42.2 per cent in 2013).

EBITDA for the first half of 2014 decreased by 10.5 per cent to LTL 134 million over LTL 150 million for the same period year ago. EBITDA margin declined and amounted to 39 per cent (41.5 per cent in 2013). Over the year EBITDA excluding non-recurring items went down by 4.2 per cent while EBITDA margin excluding non-recurring items stood at 42.8 per cent.

Depreciation and amortisation charges were by 5.2 and 5.4 per cent lower during the second quarter and the first half of 2014, respectively, compared with the depreciation and amortisation charges during the respective periods a year ago. In January-June of 2014 depreciation and amortisation charges amounted to 18.1 per cent of total revenue (18.2 a year ago).

Operating profit (EBIT) in the second quarter of 2014, compared with the same period a year ago, was down by 12.6 per cent and in the first half of 2014 – by 14.5 per cent. Operating profit margin for the second quarter of 2014 was 21.2 per cent (23.7 per cent a year ago) and for the first half of 2014 – 20.9 per cent (23.3 per cent in 2013). Operating profit excluding non-recurring items in January-June 2014 was by 3.3 per cent lower than for the same period in 2013, and operating profit margin excluding non-recurring items was 24.7 per cent.

Net financial income in January-June of 2014 was by 54 per cent lower than year ago.

Profit before income tax in the second quarter of 2014, compared with the second quarter of 2013, went down by 12.8 per cent and amounted to LTL 37 million (LTL 42 million a year ago). Profit before income tax in the first half of 2014 was down by 14.7 per cent and amounted to LTL 72 million (LTL 84 million a year ago). Profit before income tax excluding non-recurring items was by 3.4 per cent lower than during the first half of 2013.

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the first half of 2014 amounted to LTL 4.2 million (LTL 5.4 million in 2013). **Income tax expenses** for the first six months of 2014 were by 4.8 per cent lower than a year ago.

Profit for the period in April-June 2014 amounted to LTL 32 million, while a year ago it was LTL 37 million, a decrease by 14.4 per cent, and it was almost the same as in January-March 2014. The profit margin for the second quarter of 2014 was 18.4 per cent (21 per cent a year ago). Profit for the period in January-June 2014 amounted to LTL 64 million, a decrease by 15.8 per cent over the profit of LTL 76 million for the same period year ago. The profit margin was 18.6 per cent (21.0 per cent a year ago). Profit for the period excluding non-recurring items was by 3.3 per cent lower than in January-June 2013 and profit margin excluding non-recurring items was 22.4 per cent.

BALANCE SHEET AND CASH FLOW

During January-June 2014 **total assets** of TEO Group decreased by 9 per cent mainly due to payment of dividends for the year 2013.

Total **non-current** assets declined by 3.1 per cent and amounted to 76.9 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 29 April 2014, dividend of the total amount of LTL 147.6 million or LTL 0.19 per share for the year 2013 were paid to the shareholders of the

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Company. Therefore, total **current assets** decreased by 24.4 per cent and amounted to 23.1 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 13.9 per cent of total assets.

Due to dividend payment, **shareholders' equity** decreased by 8 per cent, but still amounted to 90.4 per cent of the total assets.

The Annual General Meeting of Shareholders, held on 29 April 2014, decided to reduced authorised share capital of the Company by LTL 194.2 million (i.e. by 25 per cent) by cancelling 194.2 million shares and paying out to the shareholders LTL 194.2 million pro rata to shareholders' holding (i.e. LTL 0.25 per share). As of 30 June 2014, the authorized capital was not reduced yet.

At the end of June 2014 the total amount of **borrowings** (financial liabilities related to financial leasing of premises) amounted to LTL 1.8 million while cash and held-to-maturity investments amounted to LTL 147 million.

Net **cash flow from operating activities** in the first half of 2014 was by 7.8 per cent lower than that for same period of 2013. **Operating free cash flow** (operating cash flow excluding capital investments) in January-June 2014 was by 4.7 per cent less than a year ago.

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

During the first six months of 2014 **capital investments** amounted to LTL 36 million (LTL 45 million a year ago). The majority of capital investments (72 per cent or LTL 32 million) went to development of the next generation fiber-optic access network and expansion of the core network. An amount of roughly LTL 3 million was invested into IT systems.

As a result by the end of June of 2014, TEO had 814 thousand households passed (778 thousand a year ago), or 68 per cent of the country's households, by the FTTH network.

Cash and cash equivalents during January-June 2014 decreased by LTL 58 million.

SHARE CAPITAL AND SHAREHOLDERS

The **share capital** of the Company amounts to 776,817,518 litas and consists of 776,817,518 ordinary registered shares with a nominal value of 1 litas each. It was reduced from 814,912,760 litas to 776,817,518 litas in September 2010 by cancelling 38,095,242 treasury stocks. The number of TEO shares that provide voting rights during the General Meeting is 776,817,518.

The Annual General Meeting of Shareholders, held on 29 April 2014, decided to reduce the Company's authorised capital by 194,204,380 litas from 776,817,518 litas to LTL 582,613,138 litas. The purpose of reduction of the Company's authorised capital – payment of the Company's funds to all shareholders in proportion to the nominal value of shares owned by the property right by the shareholder. The Company's authorised capital shall be reduced by way of cancelling of the Company's shares with the nominal value equal to the reduction amount, i.e. 194,204,380 litas. As of 30 June 2014, the authorized capital was not reduced yet.

776,817,518 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L). NASDAQ OMX Vilnius stock exchange is a home market for TEO shares.

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

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

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Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 June 2014:

Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder	Share of the share capital (%)	Share of votes given by the shares owned by the right of ownership (%)	Share of votes held together with persons acting in concert (%)
TeliaSonera AB, Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	684,791,575	88.15	88.15	-
Other shareholders	92,025,943	11.85	11.85	-
TOTAL:	776,817,518	100.00	100.00	-

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

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.666	2.900	2.417	2.693	2.739	6,660,377	18,245,540
EUR	0.772	0.840	0.700	0.780	0.793	6,660,377	5,284,274

TEO market capitalisation as on 30 June 2014 was LTL 2,092 million (EUR 606 million) while a year ago it amounted to LTL 2,119 million (EUR 614 million).

OTHER MATERIAL INFORMATION

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

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

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

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

The Annual General Meeting of shareholders, held on 29 April 2014, decided to approve the audited annual consolidated financial statements of the Company for the year 2013 and to allocate the Company's profit for the year 2013 as follows: from the Company's distributable profit of LTL 150,145 thousand to allocate LTL

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

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

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

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

MEMBERS OF THE MANAGING BODIES

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

Members of the Board as of 30 June 2014:

Name, surname	Position in the Board	Employment	Ownership of TEO shares
Robert Andersson	Chairman of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Executive Vice President and Head of Region Europe	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera AB (Sweden), Group Legal Affairs, Senior Legal Counsel for Competition and Corporate Governance	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries	-
Stefan Block	Member of the Board, Chairman of the Audit Committee	TeliaSonera AB (Sweden), Chief Financial Officer of Region Europe	-
Claes Nycander	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Chief Technology Officer of Region Europe	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB Švyturys – Utenos Alus (Lithuania), CEO	100,000 shares or 0.0129% of the total number of TEO shares and votes

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

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

Management Team as of 30 June 2014:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Kęstutis Šliužas	General Manager	-	-
Aleksandras Samuchovas	Head of Business to Business	UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board and General Manager; UAB Hostex, a subsidiary of UAB Baltic Data Center, member of the Board	-
Nerijus Ivanauskas	Head of Business to Consumer	UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board; UAB Lietuvos Monetų Kalykla (Lithuanian Mint), member of the Board	-
Vytautas Bučinskis	Acting Head of Technology and IT; Head of Risk Management	-	-
Lars Bolin	Head of Finance and Strategic Planning	-	-
Ramūnas Bagdonas	Head of Human Recourses	-	-
Eglė Gudelytė-Harvey	Head of Legal Affairs	UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; Vilnius International School, Chairwoman of the Council	-
Antanas Bubnelis	Head of Corporate Affairs	-	-
Giedrė Tarbūnienė	Head of Process	BMI Alumni Association (Lithuania), member of the Council	-
Kastytis Kmitas	Head of Internal Audit	-	5,603 shares or 0.0007% of the total number of TEO shares and votes

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	April - June		January - June	
		2014	2013	2014	2013
Revenue		173,809	177,834	343,261	360,500
Cost of goods sold		(44,759)	(41,170)	(82,921)	(84,069)
Employee-related expenses		(42,210)	(41,625)	(89,225)	(87,638)
Other expenses		(19,276)	(20,290)	(38,258)	(39,803)
Other income		97	86	201	183
Other gain/ (loss) - net		420	279	739	377
Depreciation, amortisation and impairment of fixed assets	3	(31,192)	(32,909)	(62,079)	(65,631)
Operating profit		36,889	42,205	71,718	83,919
Finance income		213	206	418	452
Finance costs		(234)	(128)	(293)	(181)
Finance income/ costs - net		(21)	78	125	271
Profit before income tax		36,868	42,283	71,843	84,190
Income tax	6	(4,883)	(4,925)	(8,165)	(8,581)
Profit for the period		31,985	37,358	63,678	75,609
Other comprehensive income:					
Other comprehensive income for the period				-	-
Total comprehensive income for the period		31,985	37,358	63,678	75,609
Profit and comprehensive income attributable to:					
Owners of the Parent		31,985	37,358	63,678	75,609
Minority interests					
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	7	0.041	0.048	0.082	0.097

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

CONSOLIDATED BALANCE SHEET

	Note	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	3	749,232	771,895
Intangible assets	3	46,443	50,259
Investment property		10,794	10,794
Trade and other receivables		5,073	3,987
Deferred tax assets		61	236
		811,603	837,171
Current assets			
Inventories		3,032	2,203
Trade and other receivables		92,351	96,174
Current income tax receivable		1,764	166
Held-to-maturity investments		60,056	79,698
Cash and cash equivalents		86,965	144,891
		244,168	323,132
Total assets		1,055,771	1,160,303
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	5	776,818	776,818
Legal reserve		77,682	77,682
Retained earnings		100,170	184,087
Total equity		954,670	1,038,587
LIABILITIES			
Non-current liabilities			
Borrowings		743	1,266
Deferred tax liabilities		24,233	22,183
Deferred revenue and accrued liabilities		4,635	5,479
		29,611	28,928
Current liabilities			
Trade, other payables and accrued liabilities		70,454	91,700
Current income tax liabilities		0	72
Borrowings		1,036	1,016
		71,490	92,788
Total liabilities		101,101	121,716
Total equity and liabilities		1,055,771	1,160,303

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2013	776,818	77,682	190,300	1,044,800
Net profit	-	-	75,609	75,609
Total comprehensive income for the period	-	-	75,609	75,609
Dividends paid for 2012	-	-	(155,364)	(155,364)
Balance at 30 June 2013	776,818	77,682	110,545	965,045
Balance at 1 January 2014	776,818	77,682	184,087	1,038,587
Net profit	-	-	63,678	63,678
Total comprehensive income for the period	-	-	63,678	63,678
Dividends paid for 2013	-	-	(147,595)	(147,595)
Balance at 30 June 2014	776,818	77,682	100,170	954,670

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - June	
	2014	2013
Operating activities		
Profit for the period	63,678	75,609
Income tax	8,165	8,581
Depreciation, amortisation and impairment of fixed assets	62,079	65,631
Other gains and losses	(739)	(377)
Interest income	(416)	(449)
Interest expenses	216	65
Other non-cash transactions	165	267
Changes in working capital:		
Inventories	(829)	(4,246)
Trade and other receivables	2,738	4,022
Trade, other payables and accrued liabilities	(5,118)	(9,902)
Cash generated from operations	129,939	139,201
Interest paid	(216)	(65)
Interest received	636	620
Tax paid	(7,610)	(6,646)
Net cash from operating activities	122,749	133,110
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(53,020)	(59,929)
Proceeds from disposal of PPE and intangible assets	820	428
Acquisition of held-to-maturity investments	(60,000)	(65,179)
Disposal of held-to-maturity investments	79,623	65,999
Net cash used in investing activities	(32,577)	(58,681)
Financing activities		
Repayment of borrowings	(503)	(484)
Dividends paid to shareholders of the Company	(147,595)	(155,364)
Net cash used in financing activities	(148,098)	(155,848)
Increase (decrease) in cash and cash equivalents	(57,926)	(81,419)
Movement in cash and cash equivalents		
At the beginning of the year	144,891	175,598
Increase (decrease) in cash and cash equivalents	(57,926)	(81,419)
At the end of the period	86,965	94,179

(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 six months period ending 30 June 2014 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2013.

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

Financial statements for the period ended 30 June 2014 are not audited. Financial statements for the year ended 31 December 2013 are audited by the external auditor UAB PricewaterhouseCoopers.

2 Segment information

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

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

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

	Broadband segment		Other segment		Eliminations		Total Group	
	January-June		January-June		January-June		January-June	
	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	322,070	335,269	41,145	47,344	(19,954)	(22,113)	343,261	360,500
Inter-segment revenue	(6,256)	(5,546)	(13,698)	(16,567)	19,954	22,113	-	-
Revenue from external customers	315,814	329,723	27,447	30,777	-	-	343,261	360,500
Profit for the period	71,293	75,746	3,324	2,956	(10,939)	(3,093)	63,678	75,609

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

3 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2013		
Opening net book amount as at 31 December 2012	755,137	41,797
Additions	42,892	1,734
Disposals and retirements	(291)	(4)
Reclassification	(768)	566
Depreciation and amortisation charge	(61,250)	(4,381)
Closing net book amount as at 30 June 2013	735,720	39,712
Six months ended 30 June 2014		
Opening net book amount as at 31 December 2013	771,895	50,259
Additions	34,886	1,160
Disposals and retirements	(255)	-
Reclassification	(186)	(5)
Depreciation and amortisation charge	(57,108)	(4,971)
Closing net book amount as at 30 June 2014	749,232	46,443

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

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

VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A non-profit organisation established by the Company for management of the Company's Communications History Museum.
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5 Share capital and treasury shares

The authorised share capital comprises 776,817,518 ordinary shares of LTL 1 par value each. All shares are fully paid up.

6 Income tax

Tax expenses for the period comprise current and deferred tax.

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

According to amendments to the Law on Corporate Profit Tax which provides tax relief for investments in new technologies the Company's calculated profit tax relief in 2014 amounted to LTL 4.2 million (2013: LTL 5.4 million).

7 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period by the weighted average number of ordinary shares in issue during the period. The Group has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share. The weighted average number of shares for the both reporting periods amounted to 776,818.

	<u>January - June</u>	
	<u>2014</u>	<u>2013</u>
Net profit	63,678	75,609
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Earnings per share (LTL)	0.082	0.097

8 Dividends per share

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

9 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which as of 30 June 2014 owned 88.15 per cent (88.15 per cent a year ago) of the Company's shares.

The Group carried out the following transactions with related parties:

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

Sales and purchases from TeliaSonera AB and its subsidiaries:

	January - June	
	2014	2013
Sales of telecommunication and other services	16,355	17,062
Total sales of telecommunication and other services	16,355	17,062
Purchases of services	6,214	8,606
Total purchases of services	6,214	8,606

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

	As at 30 June	
	2014	2013
Receivables from related parties	3,635	3,900
Accrued revenue from related parties	2,565	1,716
Total receivables and accrued revenue from related parties	6,200	5,616
Payables to related parties	59	-
Accrued expenses to related parties	68	29
Total payables and accrued expenses to related parties	127	29

The total amount of annual payments (tantiemes) assigned to the six members of the Board of the Company for the year 2013 during January-June 2014 amounted to LTL 324 thousand (2013: LTL 324 thousand). As of 30 June 2014 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid yet.

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, General Manager of TEO LT, AB, and Lars Bolin, Head of Finance and Strategic Planning Division of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Interim Consolidated Financial Statements for the six months period ended 30 June 2014, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flow of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance and Strategic Planning
Division

Vilnius, 16 July 2014