

INTERIM CONSOLIDATED REPORT

Approved by the Board
as at 16 July 2013

Reporting period

January-June 2013

Issuer and its contact details

Name of the Issuer	TEO LT, AB (hereinafter – TEO or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Name of the Register of Legal Entities	State Enterprise Centre of Registers
Company code	121215434
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 of the Group

TEO LT, AB Group is the largest integrated telecommunication, IT and television services provider to residential and business customers in Lithuania. TEO Group is a part of TeliaSonera Group, a telecommunication services provider in the Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain.

The Company’s **vision** is to be the best partner in communicating with the constantly changing world. By employing the most modern technologies the Company enables its customers to reach people, knowledge and entertainment. The Company’s **mission** is to create value for shareholders and customers by providing professional and high-quality telecommunications, TV and IT services.

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with **significant market power** (SMP) in Lithuania on the following markets of:

- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- publicly available local and/or national telephone services provided at a fixed location for residential customers;
- publicly available international telephone services provided at a fixed location for residential customers;
- publicly available local and/or national telephone services provided at a fixed location for non-residential customers;
- publicly available international telephone services provided at a fixed location for non-residential customers;
- minimum set of leased lines;
- calls origination on public telephone network provided at a fixed location;
- calls termination on public telephone network provided at a fixed location;
- national transit in fixed public telephone network;
- international transit in fixed public telephone network;
- wholesale broadband access;
- wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location;
- wholesale terminating segments and trunk segments of leased lines;
- digital terrestrial television (DVB-T) broadcasting transmission services for end-users of content provision services using radio frequencies (channels) assigned to TEO LT, AB.

As TeliaSonera AB (Sweden) owns a 100 per cent stake in one of the largest mobile operator in Lithuania UAB Omnitel, TEO is regarded as an entity related to UAB Omnitel, therefore TEO is considered as SMP on the market of voice call termination on the mobile network of Omnitel.

As on 30 June 2013, **TEO Group** consisted of the parent company, TEO LT, AB, (registered on 6 February 1992, code 121215434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Lvovo str. 25, LT-03501 Vilnius tel.: +370 5 262 1511; fax: +370 5 212 6665; internet address: www.teo.lt), subsidiaries of TEO LT, AB and subsidiaries of UAB Baltic Data Center (UAB Hostex, UAB Hosting and Baltic Data Center SIA).

The following companies are **subsidiaries of TEO LT, AB**:

Name of the company	Date of registration, code, name of the Register of Legal Entities	Contact details	TEO share in the share capital of the company (%)	TEO share of votes (%)
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5278 3322, www.lintel.lt	100.00	100.00
UAB Baltic Data Center	17 December 2001, code 125830791, State Enterprise Center of Registers	Žirmūnų str. 141, LT-09128 Vilnius, Lithuania tel. +370 5 274 8360, fax. +370 5 278 3399, www.bdc.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	5 July 1995, code 134517169, State Enterprise Center of Registers	Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania tel. +370 5 236 7214, fax. +370 5 231 3444	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Jogailos str. 9A / A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613	100.00	100.00
VšĮ Ryšių Istorijos Muziejus	13 July 2010, code 302528309, State Enterprise Center of Registers	Rotušės sq. 19, LT- 44279 Kaunas, Lithuania tel. +370 37 321 131 fax. +370 37 424 344, www.rysiumuziejus.lt	-	100.00

TEO LT, AB, the **parent company of the Group**, offers to residential and business customers in Lithuania voice telephony, Internet access, data communication, digital television, IT and telecommunications networks services.

UAB Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. It handles around 15 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118, and for business customers – telemarketing and remote customer care services.

UAB Baltic Data Center (BDC) is a leading provider of data center and information system management services in the Baltic States. BDC provides professional data centre, computer workstation and business management system support and development services. BDC has a subsidiary, UAB Hostex, that provides web hosting and data center services to residential customers and small companies as well as to Internet portals. In Latvia, BDC owns a dormant subsidiary – Baltic Data Center SIA.

In April 2013, UAB Interdata, a web hosting service provider, was merged into its parent company, **UAB Hostex**, and UAB Hostex took over all the assets and liabilities as well as the rights and obligations of UAB Interdata. UAB Interdata had a dormant subsidiary, UAB Hosting, which became a subsidiary of UAB Hostex.

UAB Kompetencijos Ugdymo Centras is a dormant company which till June 2009 was providing consultancy and training services. **UAB Verslo Investicijos** was acquired in 2008 for the implementation of an investment project.

TEO LT, AB is a sole founder and owner of a not-for-profit organisation, **VšĮ Ryšių Istorijos Muziejus**, which manages the Company's Communications History Museum in Kaunas.

TEO LT, AB has no branches and representative offices.

Agreements with intermediaries of public trading in securities

Since 1 December 2000 the Company and AB SEB Bankas (code 112021238), Gedimino ave. 12, LT-01103 Vilnius,

have an agreement on accounting of the Company's securities and services related to the accounting of securities.

Data about securities traded on regulated market

The following securities of TEO LT, AB are included into the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L):

Type of shares	Number of shares	Nominal value (in LTL)	Total nominal value (in LTL)	Issue Code
Ordinary registered shares	776,817,518	1	776,817,518	LT0000123911

On 3 September 2010, following the decision of the Annual General Meeting of Shareholders held on 26 April 2010, the share capital of the Company was reduced from 814,912,760 litas to 776,817,518 litas and, accordingly, the number of the Company's shares included into Main List of NASDAQ OMX Vilnius stock exchange was reduced from 814,912,760 to 776,817,518. 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.

Securities of the Company's subsidiaries are not traded publicly as subsidiaries are limited companies and are 100 per cent owned by the Company.

Information about results of the Company's activities

TEO maintained its high profitability for the first half of 2013 through control of its expenses. The Company's EBITDA margin increased up to 41.5 per cent with revenue going down by 5.3 per cent and operating expenses – down by 7 per cent compared with the first half of 2012. Although net profit for the period was by 3.4 per cent lower than a year ago, profit margin increased by 0.4 percentage points and reached 21.0 per cent.

TEO investments into its next-generation fiber-optic network in Lithuania stood at LTL 38.8 million – slightly lower than for the first six months of 2012 due to late spring. Nevertheless, the number of TEO Internet customers in the highly competitive Lithuanian market from the beginning of the year increased by 2.1 per cent to 394 thousand. Transition from copper to fiber-optic technology is continuing with over 42 per cent of the Company's Internet customers enjoying high speed next-generation Internet access.

The Company continued improving its IPTV product: additional High Definition channels were offered as well as TEO was the first among all TV service providers in Lithuania to offer a 3D channel. The Company introduced "My package" service allowing customers to create their own TV package out of a variety of channels available.

TEO is proud to be the main service provider during the events of Lithuania's Presidency of the Council of the European Union.

More information about the Company's activities and financial results for the first six months of 2013 is provided in TEO LT, AB Consolidated Interim Financial Statements for the period of six months ended 30 June 2013.

Information about related party transactions

Information about related party transactions is provided in Note 9 of TEO LT, AB Consolidated Interim Financial Statements for the six months period ended 30 June 2013.

Following the International Financial Reporting Standards as adopted by the EU, the parties related to the Company are the Company's subsidiaries, companies that belong to TeliaSonera Group and top management of the Company. Companies that belong to TeliaSonera Group and top management of the Company are regarded as related parties to TEO Group. Transactions with related parties are carried out based on the arm's length principle.

The Company and its subsidiaries are providing to each other telecommunications, Call Center, IT and other services. The Company has extended loans to its subsidiaries UAB Baltic Data Center and UAB Hostex. The Company's subsidiaries have no interest in the share capital of TEO LT, AB.

TEO and TEO Group through its largest shareholder, TeliaSonera AB, are related to TeliaSonera Group that provides telecommunication services in Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain. The main buyers and providers of telecommunications services to TEO Group are UAB Omnitel (Lithuania), TeliaSonera International Carrier (Sweden), Elion Ettevotted AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland).

Risk management

The main risk factors associated with the activities of the Company are as follows:

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- Acceptance of new products of the Company by the market.
- Currency exchange rates fluctuations.
- General economic situation in the Republic of Lithuania.
- Changes in the Lithuanian legislation.
- Changes in the regulation of accounting and taxation systems.

As of 30 June 2013 the total amount of borrowings of TEO Group amounted to LTL 2.8 million.

The Group's and the Company's activities expose it to the following financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk, liquidity risk. The Group's Policy for Treasury Management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

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

Information about the Company's financial risk management is provided in Note 3 of TEO LT, AB Financial Statements for the year ended 31 December 2012.

Plans and forecasts

The investment over the last few years reaching nearly one billion litas, successfully developed technologies and new services have created good prospects for our business. The year 2013 will be the year of new experiences for TEO customers. We will work and invest in further improvement of the quality of our services and customer care.

Research and development activities

There were no major research and development projects undertaken during 2013, except the on-going development and improvement of the Company's services.

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. 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.

Information about treasury stocks

Since September 2010 the Company has had no treasury stocks. The Company has never acquired any shares from the management of the Company.

Shareholders

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.

During 2012 TeliaSonera AB by concluding direct deals, acquiring shares on an open market and implementing a take-over bid, increased its holding from 68.29 to 88.15 per cent.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 June 2013:

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	-

As of 30 June 2013, the Republic of Lithuania, represented by State Property Fund, held 362,865 shares or 0.05 per cent of the Company's share capital and votes.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. Treasury stocks, which were cancelled in September 2010, had no rights to exercise any property and non-property rights provided by the Lithuanian Law on Companies. Therefore, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders before and after treasury stocks' cancellation was and is the same, and amounts to 776,817,518. One ordinary registered share of TEO LT, AB gives one vote in the General Meeting of Shareholders.

The Company is not aware of any agreements between the shareholders that could limit transfer of securities and/or their ability to exercise their voting rights.

Dividends

On 23 May 2013, the Company paid out to the shareholders LTL 155,364 thousand of dividends or 0.20 litas per share for the year 2012. Following the Law, dividends were paid to the shareholders who on the dividend record day, 10 May 2013, i.e. the tenth business day after the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. Dividends to all shareholders were paid in cash.

Important events during the reporting period

On 29 January 2013, the Board of the Company 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.

On 29 January 2013, the Board of the Company decided to appoint Edis Kasperavičius, who used to work as Director of Human Resources Unit of the Company, to the position of Chief Sales Officer from 14 February 2013. Darius Gudačiauskas left the position of Chief Sales Officer from 1 February 2013.

As of 22 February 2013 Arūnas Šikšta, General Manager of the Company, resigned. The Board accepted his resignation and appointed Giedrius Vegys, Chief Financial Officer of the Company, as acting General Manager. Antanas Poška, Director of Accounting Department, was temporarily appointed to the position of Chief Financial Officer.

The Board appointed Bertil Abrahamsson as acting Director of Human Resources Unit of the Company from 8 March 2013. Bertil Abrahamsson will occupy this position until a new Director of Human Resources Unit is appointed.

In April 2013, UAB Interdata was merged into its parent company, UAB Hostex, and UAB Hostex took over all the assets and liabilities as well as the rights and obligations of UAB Interdata. UAB Interdata had a subsidiary, UAB Hosting, which became a subsidiary of UAB Hostex.

The Annual General Meeting of shareholders, held on 25 April 2013, decided to approve the audited annual consolidated financial statements of the Company for the year 2012 and to allocate the Company's profit for the year 2012 as follows: from the Company's distributable profit of LTL 161,163 thousand to allocate LTL 155,364 thousand for the dividend payment for the year 2011 or LTL 0.20 dividend per share. For annual payments (tantiemes) to six members of the Board for the year 2011 to allocate LTL 324 thousand, i.e. LTL 54 thousand per one member of the Board. Shareholders upon termination of the two-year term of the Board elected Malin Frenning, Tiia Tuovinen, Inga Skisaker, Jens Lööw, Mats Lillienberg and Rolandas Viršilas (all proposed by TeliaSonera AB) to the Board of the Company for new two-year term of the Board.

Following the Order of Director of Communications Regulatory Authority, TEO was recognized as undertaking having significant market power on wholesale broadband access market and on 1 June 2013 had to publish Public Offer to provide wholesale broadband access.

On 13 June 2013, during the first meeting of the newly elected Company's Board, the Board re-elected Malin Frenning as Chairwoman of the Board and elected members of the Audit and Remuneration Committees.

On 17 June 2013 Martynas Špokas, Head of Sales Unit of UAB Baltic Data Center, took the position of Director of UAB Hostex. Pranas Slušnys, former Director of UAB Hostex, has decided to withdraw from TEO Group.

All material events related to the activity of the Company have been submitted to the Financial Services and Market Supervision Department of the Bank of Lithuania, NASDAQ OMX Vilnius Stock Exchange, Lietuvos Rytas daily, BNS and ELTA news agencies and posted on the Company's Internet page www.teo.lt.

Personnel

Number of TEO Group employees:

	30 June 2013	30 June 2012	Change (%)
Number of personnel (head-counts)	3,074	3,193	(3.7)
Number of full time employees	2,737	2,783	(1.7)

While counting full-time employees, the number of part-time employees is recalculated into full-time employees, and this number does not include employees on maternity/paternity leave.

The breakdown of the number of TEO Group employees (head-counts) by the companies:

Name of the company	30 June 2013	30 June 2012	Change
TEO LT, AB	1,896	1,979	(83)
UAB Lintel	888	974	(86)
UAB Baltic Data Center	237	193	44
UAB Hostex	47	37	10
UAB Interdata	-	2	(2)
UAB Hosting	-	1	(1)
UAB Kompetencijos Ugdymo Centras	1	2	(1)
VšĮ Ryšių Istorijos Muziejus	5	5	-
	3,074	3,193	(119)

The currently valid Collective Bargaining Agreement between TEO LT, AB, as the employer, and employees of TEO LT, AB, represented by joint representation of Trade Unions, came into force from 25 April 2007.

This Collective Bargaining Agreement applies only to employees of TEO LT, AB. If provisions of the Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of the Agreement shall apply. If provisions of the Agreement are more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement shall apply. The Collective Bargaining Agreement of the Company grants a number of additional social guarantees to employees of TEO. More detailed information about the Collective Bargaining Agreement is provided in TEO LT, AB Consolidated Annual Report for the year ended 31 December 2012.

Managing Bodies

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

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 consist of six members. 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 that are 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.

On 25 April 2013, upon termination of the two years term of the Board, the Annual General Meeting of Shareholders elected Malin Frenning, Tiia Tuovinen, Inga Skisaker, Jens Lööw, Mats Lillienberg and Rolandas Viršilas (all proposed by TeliaSonera AB) for a new two years term of the Board.

On 13 June 2013, the Board re-elected Malin Frenning as Chairwoman of the Board and appointed Jens Lööw, Tiia Tuovinen and Inga Skisaker (independent member of the Board) as the members of Audit Committee for the term of two years. Malin Frenning, Mats Lillienberg and Rolandas Viršilas (independent member of the Board) were appointed as the members of Remuneration Committee for the term of one year.

The Board's activities

During January–June 2013 four ordinary and two extraordinary meetings of the Board were held. Four ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, and two extraordinary meetings were related to resignation of Arūnas Šikšta from position of General Manager of TEO LT, AB in February 2013. During all Board meetings in 2013 there was quorum prescribed by legal acts. The Board approved financial statements for the 12 months of 2012 and 3 months of 2013, financial statements and the consolidated annual report for the year ended 31 December 2012, convoked the Annual General Meetings of Shareholders, proposed to the Annual General Meeting a profit allocation for the year 2012, appointed new Chief Sales Officer, accepted resignation of Arūnas Šikšta from position of General Manager of the Company and appointed acting General Manager, also appointed acting Chief Financial Officer and acting Director of Human Resources Unit, elected Chairwoman of the Board and members of Audit and Remuneration Committees, followed up implementation of the business and investment plan for the year 2013.

During the first half of 2013 one meeting of the Remuneration Committee was held to approve the salary adjustment applicable for the major part of the employees of the Company. The Remuneration Committee meeting was attended by all members of the Committee and Chairwoman of the Board was elected to chair the meeting.

During January-June 2013, five meetings of the Audit Committee were held, during which the following issues were considered: consideration and approval of the draft of consolidated financial statements for the year 2012, draft of consolidated annual report for the year 2012, draft of profit allocation for the year 2012, internal audit plan for the year 2013, risk management issues as well as the discussions about the review of the existing TEO key policies were carried out. The Audit Committee meeting was attended by all members of the Committee and meeting was chaired by the Chairman of the Audit Committee.

On 25 April 2013, the Annual General Meeting of TEO LT, AB shareholders resolved to assign LTL 324 thousand for the payment of annual payments (tantiemes) for the year 2012 to six members of the Board, i.e. LTL 54 thousand per one member of the Board. As of 31 June 2013 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid to one member of the Board who had not provided written requests to the Company, and the amount of LTL 324 thousand of tantiemes assigned for the year 2012 was not paid yet.

Members of the Board as of 30 June 2013

Malin Frenning (born in 1967) – Chairwoman of the Board, member of the Board since 26 April 2010, re-elected for the two-year term on 25 April 2013 (nominated by TeliaSonera AB), member of the Remuneration Committee. Education: Luleå University of Technology (Sweden), Master of Science in Mechanical Engineering. She has Honorary degree in Technology from Luleå University of Technology (Sweden). 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 Ettevõtte AS (Estonia), Chairwoman of the Supervisory Council; S-Group Holding (Sweden), member of the Board and Cygate Group (Sweden), member of the Board. TeliaSonera AB (Sweden) that nominated Malin Frenning to the Board of TEO LT, AB, as of 30 June 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 since 28 April 2009, re-elected for the two-year term on 25 April 2013 (nominated by TeliaSonera AB), member of the Audit Committee. Education: University College London (United Kingdom), Master of Laws, and 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 and 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 30 June 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 since 28 April 2011, re-elected for the two-year term on 25 April 2013 (nominated as independent candidate by TeliaSonera AB), member of the Audit Committee. Education: Vilnius University (Lithuania), Master of International Business Administration. Employment: Nordea Bank Finland Plc Lithuania Branch, General Manager, and Nordea Bank Finland Plc, Head of Banking Baltic Countries. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board, and 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 30 June 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 does not have interest in the share capital of Lithuanian companies.

Jens Lööw (born in 1965) – member of the Board, elected for the two-year term on 25 April 2013 (nominated by TeliaSonera AB), Chairman of the Audit Committee. 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, and Elion Ettevõtte AS (Estonia), member of the Supervisory Council. TeliaSonera AB (Sweden) that nominated Jens Lööw to the Board of TEO LT, AB, as of 30 June 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, elected for the two-year term on 25 April 2013 (nominated by TeliaSonera AB), member of the Remuneration Committee. He studied software 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 30 March 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, elected for the two-year term on 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. TeliaSonera AB (Sweden) that nominated Rolandas Viršilas as independent candidate to the Board of TEO LT, AB, as of 30 June 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 accounts to 0.0129 per cent of the total number of the Company's shares and votes. He has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies.

Members of the Company's Administration as of 30 June 2013

Giedrius Vegys (born in 1959) from 23 February 2013 is acting General Manager of TEO LT, AB. From 1 April 2009 till 22 February 2013 he took the office of Chief Financial Officer of the Company. Education: Vilnius University (Lithuania), Faculty of Economic Cybernetics and Finance, and Helsinki School of Economics (Finland), Executive MBA. Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Baltic Data Center, 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.

Edis Kasperavičius (born in 1961) from 14 February 2013 took the office of Chief Sales Officer of TEO LT, AB. From March 2004 till February 2013 he was Director of Human Resources Unit of the Company. Education: Vilnius University (Lithuania), Master of Psychology and Scholarship in Pedagogics (equivalent of doctorate), and Baltic Management Institute (Lithuania), Master of International Business Administration. Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Kompetencijos Ugdymo Centras, a subsidiary of TEO LT, AB, Chairman and Director, and 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) from 1 March 2006 took the office of Chief Marketing Officer and Deputy General Manager of TEO LT, AB. Education: Vilnius University (Lithuania), Bachelor of Econometrics; International Management School (Budapest, Hungary) and Candidate Master of Business Administration, and Emory University (Atlanta, U.S.A.), Master of Business Administration. 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) from 9 February 2005 took the office of Chief Technology Officer and Deputy General Manager of TEO LT, AB. Education: Kaunas University of Technology (Lithuania), Engineer in radio electronics, MSc in Telecommunication Engineering and International Executive MBA. 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) from 1 July 2011 took the office of Chief Operational Officer of TEO LT, AB. Education: Vilnius University (Lithuania), Diploma in Economics and Mathematics, and ISM University of Management and Economics (Lithuania), Master of Business Administration studies. Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, Chairwoman of the Board. Eglutė Bivainienė 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 in other Lithuanian companies.

Antanas Poška (born in 1967) from 23 February 2013 acting Chief Financial Officer of TEO LT, AB. From December 2012 he was Director of Accounting Department of the Company. Education: Vilnius University (Lithuania), Diploma in Accounting and analyses. Antanas Poška 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.

During January–June 2013, there were no loans, guarantees or sponsorship granted to the members of the Board or Management by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or Management of the Company for being members of their managing bodies.

Information about compliance with the Governance Code

TEO LT, AB essentially follows a recommendatory Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and valid from 1 January 2010. According to the By-Laws of TEO LT, AB the governing bodies of the Company are the General Shareholder's Meeting, the Board and the General Manager. The Law of the Republic of Lithuania on Companies provides that Lithuanian companies at their discretion could have either two (Supervisory Council and Board) or only one collegial governing body. There is no Supervisory Council in TEO LT, AB. The Board of the Company consists of six members who are elected for the term of two years. The Board represents the shareholders, and performs supervision and control functions. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

Following the Governance Code, all members of the Board are considered non-executive directors, whereby two out of six members are independent members of the Board. The members of the Audit Committee for the two years' term were elected in June 2013 and members of the Remuneration Committee for the one year term were also elected in June 2013 by the Board. Two members of the Audit Committee have financial background and one member of this Committee is an independent member of the Board.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Giedrius Vegys, acting General Manager of TEO LT, AB, and Antanas Poška, acting Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Consolidated Interim Report for the six months period ended 30 June 2013 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer



**TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND
CONSOLIDATED INTERIM REPORT
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2013
(UNAUDITED)**

Beginning of the financial year	1 January 2013
End of reporting period	30 June 2013
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 2013:

"TEO maintained its high profitability for the first half of 2013 through control of its expenses. The Company's EBITDA margin increased up to 41.5 per cent with revenue going down by 5.3 per cent and operating expenses – down by 7 per cent compared with the first half of 2012. Although net profit for the period was by 3.4 per cent lower than a year ago, profit margin increased by 0.4 percentage points and reached 21.0 per cent.

TEO investments into its next-generation fiber-optic network in Lithuania stood at LTL 38.8 million – slightly lower than for the first six months of 2012 due to late spring. Nevertheless, the number of TEO Internet customers in the highly competitive Lithuanian market from the beginning of the year increased by 2.1 per cent to 394 thousand. Transition from copper to fiber-optic technology is continuing with over 42 per cent of the Company's Internet customers enjoying high speed next-generation Internet access.

The Company continued improving its IPTV product: additional High Definition channels were offered as well as TEO was the first among all TV service providers in Lithuania to offer a 3D channel. The Company introduced "My package" service allowing customers to create their own TV package out of a variety of channels available.

TEO is proud to be the main service provider during the events of Lithuania's Presidency of the Council of the European Union."

KEY FIGURES OF TEO GROUP

Financial figures	January - June		Change (%)
	2013	2012	
Revenue (LTL thousand)	360,500	380,722	(5.3)
EBITDA (LTL thousand)	149,550	154,284	(3.1)
EBITDA margin (%)	41.5	40.5	
Operating profit (LTL thousand)	83,919	88,926	(5.6)
Operating profit margin (%)	23.3	23.4	
Profit before income tax (LTL thousand)	84,190	89,502	(5.9)
Profit before income tax (%)	23.4	23.5	
Profit for the period (LTL thousand)	75,609	78,281	(3.4)
Profit for the period margin (%)	21.0	20.6	
Earnings per share (LTL)	0.097	0.101	
Number of shares (thousand)	776,818	776,818	
Financial ratios	30 June 2013	30 June 2012	
Return on capital employed (%)	17.0	17.5	
Return on average assets (%)	15.3	15.6	
Return on shareholders' equity (%)	15.5	15.5	
Gearing ratio (%)	(15.6)	(16.2)	
Debt to equity ratio (%)	0.3	0.4	
Current ratio (%)	405.2	374.4	
Rate of turnover of assets (%)	65.9	68.3	
Equity to assets ratio (%)	91.4	90.9	

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

Operating figures	30 June 2013	30 June 2012	Change (%)
Number of fixed telephone lines in service	584,766	625,671	(6.5)
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other)	394,123	377,045	4.5
Number of TV services customers	170,219	156,364	8.9
Number of personnel (head-counts)	3,074	3,193	(3.7)
Number of full-time employees	2,737	2,783	(1.7)

Breakdown of TEO Group revenue

	April - June		Change (%)	January - June		Change (%)
	2013	2012		2013	2012	
Voice telephony services	76,243	92,593	(17.7)	158,187	179,255	(11.8)
Internet services	44,552	43,061	3.5	88,639	84,337	5.1
Data communication and network capacity services	20,594	21,608	(4.7)	41,390	43,873	(5.7)
TV services	15,120	13,848	9.2	30,532	27,581	10.7
IT services	16,038	12,817	25.1	30,290	32,383	(6.5)
Other services	5,287	6,303	(16.1)	11,462	13,293	(13.8)
Total	177,834	190,230	(6.5)	360,500	380,722	(5.3)

REVENUE

During the second quarter of 2013 revenue from Internet, data communication, TV and IT services continued to grow while revenue from voice telephone, network capacity and other services went down.

The total consolidated TEO Group's revenue for the second quarter of 2013 was LTL 178 million, which is by 6.5 per cent lower than the total revenue of LTL 190 million for the second quarter of 2012. The **total revenue** for the first six months of 2013 eased by 5.3 per cent to LTL 361 million as the total revenue for the first six months of 2012 amounted to LTL 381 million. The underlying revenue, excluding one-off sale of IT equipment during 2012, for the first half of 2013 declined by 2.7 per cent.

Share of revenue from Internet and TV services from the total amount of revenue continued to grow and reached 24.6 and 8.5 per cent of total revenue for the first half of 2013, respectively. Share of revenue from voice telephony services shrank to 43.9 per cent while share of revenue from data communication and network capacity services remained at the same level of 11.5 per cent, and share of revenue from IT and other services amounted to 8.4 and 3.2 per cent, respectively.

Lower revenue from networks' interconnection services during the April-June 2013 and continuous trend of declining number of telephone lines in service and consequently lower traffic volume resulted in decrease of revenue from **voice telephony services**.

During January-June 2013, the total number of main telephone lines in service decreased by 20.7 thousand, while over the last twelve months – by 40.9 thousand lines.

Total voice telephony traffic volume generated by residential and business customers during the first half of 2013, compared with the first half of 2012, decreased by 8.1 and 14.3 per cent, respectively, while total volume of calls to mobile operators' networks increased by 78.2 per cent due to continuously reduced national networks' interconnection fees and attractive payment plans for calls to mobile networks.

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

Revenue from voice telephony services excluding networks' interconnection services for the second quarter of 2013 compared with the first quarter of 2013 and the second quarter of 2012 eased by 3.2 and 9.4 per cent, respectively. Revenue from voice telephony services excluding networks' interconnection services for January-June 2013 decreased by 8.7 per cent over the same revenue a year ago.

During the second quarter of 2013 revenue from networks' interconnection services compare with the same period a year ago decreased by 32.2 per cent due to lower volumes of voice transit traffic, and resulted that revenue from networks' interconnection services for the six months of 2013 went down by 17.8 per cent.

From July 2013 TEO has substantially reorganized the basic payment plans offered to residential customers. The price level of the offered payment plans remains very similar to the former one, but customers, depending on the terms of chosen plan, will be able to make certain number of calls for 0 cents per minute to all networks of Lithuania – not only fixed-line networks, but mobile ones, too.

During January-June 2013 the total number of **broadband Internet access** users increased by 8.3 thousand, while over the last twelve months – by 17.1 thousand.

Number of Internet connections over the next generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies continued to grow and by the end of June 2013, 42.9 per cent of the total number of TEO broadband Internet access users had fiber-optic access.

Switchover from copper to fiber-optic Internet access continues: over the year the number of FTTH and FTTB connections increased by 12 per cent, while the number of copper DSL connections went down by 5.2 per cent.

At the end of June 2013 out of total 394 thousand broadband connections, 169 thousand were fiber-optic connections, 180 thousand – copper DSL connections and 45 thousand – wireless connections via WiFi network.

Starting from July 2013, TEO Internet Wi-Fi service in public places is called "TEO Wi-Fi" (previously known as "ZEBRA Wireless" ("ZEBRA belaidis"). Along with the new name, new pricing of services took effect: the WiFi service is half cheaper. Currently, there are almost 3 thousand "TEO Wi-Fi" hot-spots operating in Lithuania.

Compared with the first half of 2012, revenue from **data communication** services alone increased by 3.6 per cent, while revenue from **network capacity** services alone decreased by 14.8 per cent.

Over the year the total number of **television services** users increased by 13.9 thousand. Number of IPTV service users went up by 14.8 thousand and by the end of June 2013 reached 99.8 thousand, while number of digital terrestrial television (DVB-T) users over the last twelve months eased by 963 and amounted to 70.4 thousand.

From April 2013, IPTV service users could watch 3flow, a 3D TV channel for wildlife and extreme sports enthusiasts, as well as NBA TV HD channel that broadcasts NBA matches in High Definition format.

In May, users of the Company's IPTV service were offered a possibility to create their own package of 6 out of the 27 additional movie, entertainment, sports, popular scientific and information programmes or children's channels. The service My package ("Mano rinkinys") costs 6 litas per month.

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. Excluding one-off sales of IT equipment by BDC in 2012, underlying revenue from IT services for the first half of 2013 grew by 36 per cent.

In March 2013, TEO expanded the range of appliances offered to its residential customers: now they are able to buy not only a TV set but also modern tablet computers and laptops by paying a monthly fee.

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

In April, BDC presented a self-service web-tool, which will make it possible to test, order and manage virtual data centres via internet. It is the first self-service system in Lithuania that includes a full range of cloud computing services – virtual servers and data centers, private and public cloud computing and content recovery services in critical situations.

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 went down by 15 per cent and from other non-core business services – by 12.6 per cent.

During the second half of 2013 TEO together with the partners will provide communication, network installation, computer and office equipment rent and maintenance services during the events of Lithuania's Presidency of the Council of the EU. Reliable connection will be ensured via high-speed 2 Gbps next-generation fiber-optic lines.

On 1 July 2013, BDC handed over 6 TB capacity data storages for use to the Ministry of Foreign Affairs of the Republic of Lithuania. BDC is the official Information Technology partner of Lithuania's Presidency of the Council of the EU. During the whole Presidency period, BDC will provide the data storage and backup copying services free of charge.

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 2013 decreased by 2.7 and 3.9 per cent compared with the first and the fourth quarter of 2012, respectively, and amounted to LTL 540 million.

	TEO market share in terms of customers (%)		TEO market share in terms of revenue (%)	
	Q1 2013	Q1 2012	Q1 2013	Q1 2012
Fixed voice telephony services	89.4	89.9	94.6	93.0
Fixed Internet access services	49.6	50.4	55.2	53.6
Internet access services (total)	36.3	37.4	44.7	41.4
Digital pay-TV services	42.0	44.2	45.4	44.9
Pay-TV services (total)	23.1	23.2	30.2	29.6
Network interconnection services	n/a	n/a	31.0	33.9
Data communication services	n/a	n/a	58.3	59.7
Leased line services	n/a	n/a	62.0	59.3

On 31 March 2013 Internet penetration per 100 residents of Lithuania was 36 per cent (31.3 per cent a year ago), while the penetration of broadband Internet using fixed connection was 26.3 per cent (23.2 per cent a year ago). Digital pay-TV penetration per 100 households was 32.6 per cent (26.3 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 21.8 per cent (21.5 per cent a year ago).

OPERATING EXPENSES

Total operating expenses for the second quarter of 2013 were by 4.9 and 7 per cent lower than total operating expenses for the first quarter of 2013 and the second quarter of 2012, respectively. Total operating expenses for the first half of 2013 were by 7 per cent lower than total operating expenses a year ago.

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

During the second quarter of 2013 **cost of goods sold** decreased by 18.1 per cent, compared with the second quarter of 2012, and for the six months of 2013 they decreased by 16.6 per cent, compared with the same period in 2012. This was mainly because of in 2012 incurred one-off costs related to sales of IT equipment by BDC and lower volume of transit traffic during the second quarter of 2013.

Employee-related expenses for the second quarter and the first half of 2013 were by 2.6 and 1.1 per cent, respectively, higher than for the same periods a year ago due to implemented salary adjustment applicable for the major part of the Company's employees at the beginning of the second quarter of 2013.

During the first half of 2013, the total number of employees (headcount) in TEO Group went down by 183, while over the year – by 119 from 3,193 to 3,074. In terms of full-time employees, the total number of employees in TEO Group during January-June of 2013 went down by 138, while over the last twelve months – by 46 from 2,783 to 2,737. Number of employees went down in TEO and Lintel, but increased in BDC.

Other expenses for the second quarter of 2013 increased by 1.7 per cent but for the first half of 2013 decreased by 0.6 per cent, due to continuous costs saving policy.

EARNINGS

EBITDA for the second quarter of 2013 went down by 6 per cent to LTL 75 million over LTL 80 million in the second quarter of 2012. EBITDA margin amounted to 42.2 per cent (42 per cent in 2012). EBITDA for the first half of 2013 decreased by 3.1 per cent to LTL 150 million over LTL 154 million for the same period year ago. EBITDA margin slightly increased and amounted to 41.5 per cent (40.5 per cent in 2012).

Depreciation and amortisation charges slightly lower by 0.3 during the second quarter of 2013 but were slightly higher by 0.4 per cent during the first half of 2013 compared with the depreciation and amortisation charges during the respective periods a year ago. In January-June of 2013 depreciation and amortisation charges amounted to 18.2 per cent of total revenue (17.2 a year ago).

Operating profit (EBIT) in the second quarter of 2013 was down by 10 per cent and in the first half of 2013 – by 5.6 per cent. Operating profit margin for the second quarter of 2013 was 23.7 per cent (24.6 per cent a year ago) and for the first half of 2013 – 23.3 per cent (23.4 per cent in 2012).

Net financial income in January-June of 2013 was by 52.8 per cent lower than year ago.

Profit before income tax in the second quarter of 2013 went down by 10.2 per cent and amounted to LTL 42 million (LTL 47 million a year ago). Profit before income tax in the first half of 2013 was down by 5.9 per cent and amounted to LTL 84 million (LTL 90 million a year ago).

Since 1 January 2010 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 2013 amounted to LTL 5.4 million (LTL 4.1 million in 2012). Due to that **income tax expenses** for the first six months of 2013 were by 23.5 per cent lower than a year ago.

Profit for the period in April-June 2013 amounted to LTL 37 million, while a year ago it was LTL 41 million, a decrease by 9.2 per cent. The profit margin was 21 per cent (21.6 per cent a year ago). Profit for the period in January-June 2013 amounted to LTL 76 million, a decline by 3.4 per cent over the profit of LTL 78 million for the same period year ago. The profit margin slightly increased up to 21 per cent (20.6 per cent a year ago).

BALANCE SHEET AND CASH FLOW

During January-June 2013 **total assets** of TEO Group decreased by 8.9 per cent mainly due to payment of dividends for the year 2012.

Total **non-current** assets declined by 2.5 per cent and amounted to 74.8 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 25 April 2013, dividend of the total amount of LTL 155 million or LTL 0.20 per share for the year 2012 were paid to the shareholders of the

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

Company. Therefore, total **current assets** decreased by 23.9 per cent and amounted to 25.2 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 14.5 per cent of total assets.

Due to dividend payment, **shareholders' equity** decreased by 7.6 per cent, but still amounted to 91.4 per cent of the total assets.

At the end of June 2013 total amount of **borrowings** included mainly financial liabilities related to financial leasing of premises and amounted to LTL 2.8 million while cash and held-to-maturity investments amounted to LTL 153 million.

Net **cash flow from operating activities** in the first half of 2013 was by 15.2 per cent lower than a year ago.

The part of cash (LTL 15.4 million) spent during January-June of 2013 for capital investments was payments for investments made in 2012. As of 31 December 2012 this amount was recorded in the balance sheet as current liabilities.

During the first six months of 2013 **capital investments** amounted to LTL 45 million (LTL 52 million a year ago). The majority of capital investments (87 per cent or LTL 39 million) went to development of the next generation fiber-optic access network and expansion of the core network. The remaining part was invested into IT systems (LTL 6 million) and other.

As a result by the end of June of 2013, TEO had 778 thousand households passed (732 thousand a year ago), or 65 per cent of the country's households, by the FTTH network.

Cash and cash equivalents during January-June 2013 decreased by LTL 81 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.

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.

Information about **trading in TEO shares** on NASDAQ OMX Vilnius stock exchange in January-June of 2013:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.655	2.904	2.631	2.728	2.769	5,203,688	14,411,179
EUR	0.769	0.841	0.762	0.790	0.802	5,203,688	4,173,766

TEO market capitalisation as on 30 June 2013 was LTL 2,119 million (EUR 614 million).

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.

During 2012 TeliaSonera AB by concluding direct deals, acquiring shares on an open market and implementing a take-over bid, increased its holding from 68.29 to 88.15 per cent.

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

Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 June 2013:

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	-

As of 30 June 2013, the Republic of Lithuania, represented by State Property Fund, held 362,865 shares or 0.05 per cent of the Company's share capital and votes.

OTHER MATERIAL INFORMATION

On 29 January 2013, the Board of the Company 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.

On 29 January 2013, the Board of the Company decided to appoint Edis Kasperavičius, who used to work as Director of Human Resources Unit of the Company, to the position of Chief Sales Officer from 14 February 2013. Darius Gudačiauskas left the position of Chief Sales Officer from 1 February 2013.

As of 22 February 2013 Arūnas Šikšta, General Manager of the Company, resigned. The Board accepted his resignation and appointed Giedrius Vegys, Chief Financial Officer of the Company, as acting General Manager. Antanas Poška, Director of Accounting Department, was temporarily appointed to the position of Chief Financial Officer.

The Board appointed Bertil Abrahamsson as acting Director of Human Resources Unit of the Company from 8 March 2013. Bertil Abrahamsson will occupy this position until a new Director of Human Resources Unit is appointed.

In April 2013, UAB Interdata was merged into its parent company, UAB Hostex, and UAB Hostex took over all the assets and liabilities as well as the rights and obligations of UAB Interdata. UAB Interdata had a subsidiary, UAB Hosting, which became a subsidiary of UAB Hostex.

The Annual General Meeting of shareholders, held on 25 April 2013, decided to approve the audited annual consolidated financial statements of the Company for the year 2012 and to allocate the Company's profit for the year 2012 as follows: from the Company's distributable profit of LTL 161,163 thousand to allocate LTL 155,364 thousand for the dividend payment for the year 2011 or LTL 0.20 dividend per share. For annual payments (tantiemes) to six members of the Board for the year 2011 to allocate LTL 324 thousand, i.e. LTL 54 thousand per one member of the Board. Shareholders upon termination of the two-year term of the Board elected Malin Frenning, Tiia Tuovinen, Inga Skisaker, Jens Lööw, Mats Lillienberg and Rolandas Viršilas (all proposed by TeliaSonera AB) to the Board of the Company for new two-year term of the Board.

Following the Order of Director of Communications Regulatory Authority, TEO was recognized as undertaking having significant market power on wholesale broadband access market and on 1 June 2013 had to publish Public Offer to provide wholesale broadband access.

On 13 June 2013, during the first meeting of the newly elected Company's Board, the Board re-elected Malin Frenning as Chairwoman of the Board and elected members of the Audit and Remuneration Committees.

On 17 June 2013 Martynas Špokas, Head of Sales Unit of UAB Baltic Data Center, took the position of

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

Director of UAB Hostex. Pranas Slušnys, former Director of UAB Hostex, has decided to withdraw from TEO Group.

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 2013:

Name, surname	Position in the Board	Employment	Ownership of TEO shares
Malin Frenning	Chairwoman of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), President of Business Area Broadband Services	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera Finland Oyj (Finland), General Counsel for Broadband Services and Vice President for Real Estates and Property Planning in Finland	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank Finland Plc Lithuania Branch, General Manager; Nordea Bank Finland Plc, Head of Banking Baltic Countries	-
Jens Lööw	Member of the Board, Chairman of the Audit Committee	TeliaSonera AB (Sweden), Chief Financial Officer of Business Area Broadband Services	-
Mats Lillienberg	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Head of Broadband Technology Solutions	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB "Švyturys – Utenos Alus" (Lithuania), CEO	100,000 shares or 0.0129 per cent of the total number of TEO shares and votes

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

Members of Administration:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Giedrius Vegys	Acting General Manager (CEO)	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	-
Edis Kasperavičius	Chief Sales Officer	UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Kompetencijos Ugdymo Centras, a subsidiary of TEO LT, AB, Chairman of the Board and Director; Baltic Management Institute (Lithuania), member of the Board	-

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

Nerijus Ivanauskas	Chief Marketing Officer and Deputy General Manager	-	-
Darius Didžgalvis	Chief Technology Officer and Deputy General Manager	UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board	-
Eglutė Bivainienė	Chief Operational Officer	UAB Lintel, a subsidiary of TEO LT, AB, Chairwoman of the Board	-
Antanas Poška	Acting Chief Financial Officer	-	-

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	April - June		January - June	
		2013	2012	2013	2012
Revenue		177,834	190,231	360,500	380,722
Cost of goods sold		(41,170)	(50,294)	(84,069)	(100,856)
Employee-related expenses		(41,625)	(40,578)	(87,638)	(86,648)
Other expenses		(20,290)	(19,948)	(39,803)	(40,033)
Other income		86	321	183	647
Other gain/ (loss) - net		279	157	377	451
Depreciation, amortisation and impairment of fixed assets	3	(32,909)	(33,005)	(65,631)	(65,357)
Operating profit		42,205	46,884	83,919	88,926
Finance income		206	274	452	810
Finance costs		(128)	(73)	(181)	(234)
Finance income/ costs - net		78	201	271	576
Profit before income tax		42,283	47,085	84,190	89,502
Income tax	6	(4,925)	(5,951)	(8,581)	(11,221)
Profit for the period		37,358	41,134	75,609	78,281
Other comprehensive income:					
Other comprehensive income for the period				-	-
Total comprehensive income for the period		37,358	41,134	75,609	78,281
Profit and comprehensive income attributable to:					
Owners of the Parent		37,358	41,134	75,609	78,281
Minority interests			-		-
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	7	0.048	0.053	0.097	0.101

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

CONSOLIDATED BALANCE SHEET

	Note	30 June 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	3	735,720	755,137
Intangible assets	3	39,712	41,797
Investment property		10,794	10,794
Trade and other receivables		3,527	2,322
Deferred tax assets		374	364
		790,127	810,414
Current assets			
Inventories		8,319	4,073
Trade and other receivables		103,933	109,160
Current income tax receivable		20	52
Held-to-maturity investments		59,237	60,045
Cash and cash equivalents		94,179	175,598
		265,688	348,928
Total assets		1,055,815	1,159,342
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		110,545	190,300
Total equity		965,045	1,044,800
LIABILITIES			
Non-current liabilities			
Borrowings		1,782	2,282
Deferred tax liabilities		20,100	18,581
Deferred revenue and accrued liabilities		3,325	3,463
		25,207	24,326
Current liabilities			
Trade, other payables and accrued liabilities		63,581	88,647
Current income tax liabilities		988	592
Borrowings		994	977
		65,563	90,216
Total liabilities		90,770	114,542
Total equity and liabilities		1,055,815	1,159,342

(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 2012	776,818	77,682	186,597	1,041,097
Net profit	-	-	78,281	78,281
Total comprehensive income for the period	-	-	78,281	78,281
Dividends paid for 2011	-	-	(155,364)	(155,364)
Balance at 30 June 2012	776,818	77,682	109,514	964,014
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

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - June	
	2013	2012
Operating activities		
Profit for the period	75,609	78,281
Income tax	8,581	11,221
Depreciation, amortisation and impairment of fixed assets	65,631	65,357
Other gains and losses	(377)	(451)
Interest income	(449)	(810)
Interest expenses	65	130
Other non-cash transactions	267	(249)
Changes in working capital:		
Inventories	(4,246)	(3,680)
Trade and other receivables	4,022	(385)
Trade, other payables and accrued liabilities	(9,902)	6,991
Cash generated from operations	139,201	156,405
Interest paid	(65)	(130)
Interest received	620	1,416
Tax paid	(6,646)	(642)
Net cash from operating activities	133,110	157,049
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(59,929)	(60,294)
Proceeds from disposal of PPE and intangible assets	428	507
Acquisition of held-to-maturity investments	(65,179)	(136,068)
Disposal of held-to-maturity investments	65,999	111,067
Net cash used in investing activities	(58,681)	(84,788)
Financing activities		
Repayment of borrowings	(484)	(500)
Dividends paid to shareholders of the Company	(155,364)	(155,364)
Net cash used in financing activities	(155,848)	(155,864)
Increase (decrease) in cash and cash equivalents	(81,419)	(83,603)
Movement in cash and cash equivalents		
At the beginning of the year	175,598	188,589
Increase (decrease) in cash and cash equivalents	(81,419)	(83,603)
At the end of the period	94,179	104,986

(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 2013 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 2012.

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 2013 are not audited. Financial statements for the year ended 31 December 2012 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	
	2013	2012	2013	2012	2013	2012	2013	2012
Segment revenue	335,269	346,907	47,344	55,596	(22,113)	(21,781)	360,500	380,722
Inter-segment revenue	(5,546)	(5,348)	(16,567)	(16,433)	22,113	21,781	-	-
Revenue from external customers	329,723	341,559	30,777	39,163	-	-	360,500	380,722
Profit for the period	75,746	79,136	2,956	4,181	(3,093)	(5,036)	75,609	78,281

(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 2012		
Opening net book amount as at 31 December 2011	734,926	42,922
Additions	50,827	750
Disposals and retirements	(328)	-
Reclassification	(8)	(14)
Depreciation and amortisation charge	(60,611)	(4,746)
Closing net book amount as at 30 June 2012	724,806	38,912
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

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 2013	31 December 2012	
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Hostex	Lithuania	100%	100%	The web hosting and data center services providing subsidiary of UAB Baltic Data Center.
UAB Interdata	Lithuania	-	100%	The web hosting services providing subsidiary of UAB Hostex in April 2013 was merged into UAB Hostex.
UAB Hosting	Lithuania	100%	100%	In April 2013 became a dormant subsidiary of UAB Hostex. Before that was a dormant subsidiary of UAB Interdata.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.

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

UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of an investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A non-profit organisation established by the Company for management of the Company's Communications History Museum.

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 2013 is taxable at a rate of 15 per cent in accordance with Lithuanian regulatory legislation on taxation (2012: 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 2013 amounted to LTL 5.4 million (2012: LTL 4.1 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.

	January - June	
	2013	2012
Net profit	75,609	78,281
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Earnings per share (LTL)	0.097	0.101

8 Dividends per share

A dividend that relates to the period to 31 December 2012 was approved the Annual General Meeting of Shareholders on 25 April 2013. The total amount of allocated dividend, that was paid off in May 2013 was 155,364 thousand litas or 0.20 litas per ordinary share.

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

9 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which as of 30 June 2013 owned 88.15 per cent (85.72 per cent a year ago) of the Company's shares.

The Group carried out the following transactions with related parties:

Sales and purchases from TeliaSonera AB and its subsidiaries:

	January - June	
	2013	2012
Sales of telecommunication and other services	17,062	23,890
Total sales of telecommunication and other services	17,062	23,890
Purchases of services	8,606	10,582
Total purchases of services	8,606	10,582

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

	As at 30 June	
	2013	2012
Receivables from related parties	3,900	4,488
Prepayment to related parties	-	4,715
Accrued revenue from related parties	1,716	3,473
Total receivables and accrued revenue from related parties	5,616	12,676
Payables to related parties	29	746
Total payables to related parties	29	746

The total amount of annual payments (tantiemes) assigned to the six members of the Board of the Company for the year 2012 during January-June 2013 amounted to LTL 324 thousand (2012: LTL 324 thousand). As of 30 June 2013 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 and the amount of LTL 324 thousand of tantiemes assigned for the year 2012 was not paid yet.

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

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Giedrius Vegys, acting General Manager of TEO LT, AB, and Antanas Poška, acting Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Interim Consolidated Financial Statements for the six months period ended 30 June 2013, 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 and profit of TEO LT, AB and the Group of undertakings.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

Vilnius, 16 July 2013