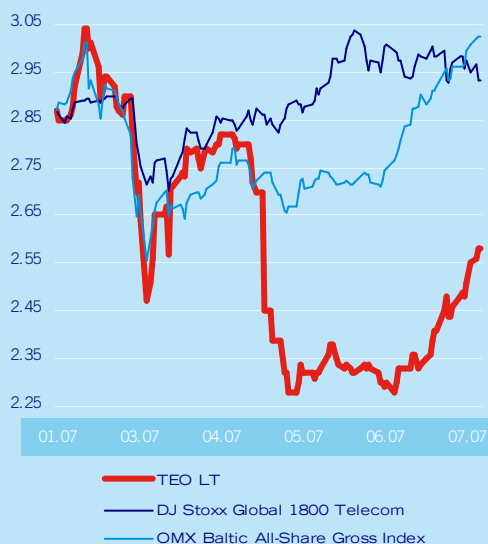


## BUY

Target price

LTL 3.02



### SECOND QUARTER EXPECTATIONS

Sales	2007 Q2E	2007 Q2	Deviation
Fixed Line	127,925	132,634	3.6%
Internet	48,222	51,447	6.3%
Other	10,002	8,900	-12.4%
<b>Total Sales</b>	<b>186,149</b>	<b>192,981</b>	<b>3.5%</b>

Income Statement	2007 Q2E	2007 Q2	Deviation
Sales	186,149	192,981	3.5%
Operating Expenses	-100,804	-110,675	8.9%
<b>EBITDA</b>	<b>84,834</b>	<b>86,017</b>	<b>1.4%</b>
Depreciation	-57,070	-42,037	-35.8%
<b>Operating Profit</b>	<b>27,764</b>	<b>43,980</b>	<b>36.9%</b>
<b>Profit Before Tax</b>	<b>31,291</b>	<b>47,033</b>	<b>33.5%</b>
Income Tax	-4,662	-7,883	40.9%
<b>Net Profit</b>	<b>26,628</b>	<b>39,148</b>	<b>32.0%</b>

### TEO LT SUMMARY STATISTICS

Share Price and Target Price		2007.7.25
Current Price	LTL	2.58
Price Target 6m	LTL	3.02
Recommendation		BUY
Previous Recommendation		BUY

Key Data		
Market Cap	LTLm	2,004.2
Shares Outstanding	mIn	777
P/E	X	13.3
P/Book	X	1.9
Bloomberg	ticker	TEO1L

Share Price Performance		2007.7.25
Absolute 1 / 6 / 12m	%	10.7 -10.1 18.3
DJ Stoxx Global 1800 Telecom	Index	280.2
Relative 1 / 6 / 12m	%	2.5 -18.3 -19.3
High / Low 12m (TEO LT)	LTL	3.1 2.1
180 Day Volatility (TEO LT)	%	23.72
Risk Level		Low Risk

## SECOND QUARTER UPDATE

- TEO LT Q2 results beat our expectations in most categories. With expected **dividend yield** of **11.2%**, the position is still by far the most attractive dividend case in the Baltic market. We reiterate **BUY** recommendation with a target price of **LTL 3.02**.
- With overall **sales** growth **+3.5%** higher than we anticipated, the company has particularly surprised us in voice and broadband related sales, **+3.6%** and **+6.3%** higher than forecasted. As predicted, end of discount period for last year broadband subscribers has had a material impact on the sales growth. **IT, IPTV**, and other sales disappointed, being **-12.4%** lower than expected. Higher sales allowed **EBITDA** to best our estimates by **+1.4%**, despite the margin, at **44.5%**, suffering **-1%** decrease due to **+8.9%** increase in **expenses**, mainly driven by growth in employee number and average compensation.
- Despite further fall in **fixed lines** number, the company has surprised us by managing to slowly grow its revenue from its main cash generating business. Although we still forecast the revenues to start decreasing in the mid-term, we expect this to happen at a slower rate than previously thought, with a strong positive effect on the company's cash accumulation abilities in the next five years.
- Although the revenues of TEO's **broadband** business were higher than expected, slower growth in subscribers is a warning sign for the company. It is as of now unclear whether the slowdown is of technical nature and can be rectified once the network backbone is finally upgraded (due in autumn), or indicates negative trends in population's broadband adoption rates, which would have a significant impact on the company's mid term prospects.
- The same applies for **IPTV**, with potential growth being very sensitive to network capacity issues. We will have to wait for Q3 or even Q4 results before being able to evaluate whether the company is capable to deliver its new content services with the existing infrastructure, or it will not be before 2008 and full transition to optic fibre that we can expect the growth to pick up.
- We upgrade our **full-year 2007** sales target by **+2.2%** to **LTL 768.5M**, with **fixed line** sales up **+1.9%**, **internet** by **+6.9%**, and **other** sales down by **-15.3%**. **Expenses** are expected to be **+0.7%** higher, resulting in **+0.8%** improvement to **EBITDA margin**, at **44.8%**. This would help the bottom line reach **EPS** of **LTL 0.19**, and a dividend of **LTL 0.29** per share, for an **11.2%** dividend yield (**LTL 0.19** per share and **7.33%** respectively if the company brakes our assumption of continued pay out all excess cash in the form of increased dividend).

### TEO LT SUMMARY FINANCIALS

Income Statement (LTL000)	LTLm	06	07E	08E	09E
Revenues		735.0	768.5	779.2	799.3
Operating Costs		-391.5	-423.9	-435.0	-447.6
EBIT		151.9	171.8	182.5	196.9
EBITDA		343.5	344.7	344.2	351.6
Pre-Tax Profit		159.9	184.2	189.8	201.1
Net Profit		128.3	151.0	161.3	171.0

Year End December		06	07E	08E	09E
EPS	LTL	0.17	0.19	0.21	0.22
P/E	X	16.72	13.27	12.42	11.72
DPS	LTL	0.26	0.29	0.31	0.32
Dividend Yield	%	9.42	11.24	12.02	12.40
P/Book	X	1.94	1.90	2.02	2.17
EV/Sales	X	2.31	2.15	2.26	2.29
EV/EBITDA	X	4.93	4.79	5.12	5.20
ROE	%	11.58	14.30	16.25	18.53

## ANNUAL ESTIMATES

Income Statement (LTL000)	2005	2006	2007E	2008E	2009E	2010E	2011E
<b>Revenues</b>	<b>732,802</b>	<b>735,006</b>	<b>768,547</b>	<b>779,174</b>	<b>799,285</b>	<b>818,358</b>	<b>842,595</b>
Fixed Line Service Revenue	531,790	524,571	523,177	520,252	517,407	514,622	511,878
Broadband Revenue	148,787	179,218	207,523	208,873	216,963	221,316	223,613
TV, Data and IT Service Revenue	52,225	31,217	37,847	50,049	64,915	82,420	107,104
Expenses	-387,431	-391,488	-423,856	-435,008	-447,638	-459,012	-472,401
<b>EBITDA</b>	<b>345,371</b>	<b>343,518</b>	<b>344,691</b>	<b>344,166</b>	<b>351,647</b>	<b>359,346</b>	<b>370,194</b>
Depreciation and Amortisation Charge	-250,515	-195,849	-172,914	-161,700	-154,792	-148,260	-142,952
<b>Operating Profit</b>	<b>105,691</b>	<b>151,940</b>	<b>171,777</b>	<b>182,466</b>	<b>196,855</b>	<b>211,086</b>	<b>227,243</b>
Finance Costs	-163	7,957	12,420	7,321	4,277	2,295	425
<b>Profit Before Tax</b>	<b>105,623</b>	<b>159,938</b>	<b>184,197</b>	<b>189,787</b>	<b>201,132</b>	<b>213,381</b>	<b>227,668</b>
Income Tax	-24,964	-30,291	-33,155	-28,468	-30,170	-32,007	-34,150
<b>Profit Attributable to Equity Holders of the Company</b>	<b>80,097</b>	<b>128,267</b>	<b>151,041</b>	<b>161,319</b>	<b>170,962</b>	<b>181,374</b>	<b>193,518</b>
Balance Sheet (LTL000)	2005	2006	2007E	2008E	2009E	2010E	2011E
Cash and Cash Equivalents	304,521	457,870	362,153	247,934	181,209	137,878	97,659
Other Current Assets	188,282	108,528	123,468	125,176	128,407	131,471	135,364
Non-Current Assets	765,902	682,569	674,914	719,619	711,783	683,491	655,754
<b>Total Assets</b>	<b>1,258,705</b>	<b>1,248,967</b>	<b>1,160,536</b>	<b>1,092,729</b>	<b>1,021,398</b>	<b>952,840</b>	<b>888,778</b>
Equity and Minority Interest	1,105,891	1,107,363	1,056,432	992,474	922,622	855,414	792,582
Interest Bearing Debt	16,069	8,582	7,712	6,864	6,013	5,201	4,454
Non-Interest Bearing Debt	136,745	130,757	107,036	104,035	103,407	102,868	102,385
<b>Total Liabilities and Equity</b>	<b>1,258,705</b>	<b>1,246,702</b>	<b>1,171,179</b>	<b>1,103,372</b>	<b>1,032,041</b>	<b>963,483</b>	<b>899,421</b>
Cash Flow Statement (LTL000)	2005	2006	2007E	2008E	2009E	2010E	2011E
Cash generated from operations	378,488	333,318	306,859	341,807	347,821	355,743	365,817
Net cash from operating activities	345,646	291,925	273,703	313,339	317,652	323,736	331,667
Net cash from investing activities	-170,232	-71,070	-163,900	-198,798	-142,436	-117,467	-114,617
<b>Net cash before financing activities</b>	<b>175,414</b>	<b>220,855</b>	<b>109,804</b>	<b>114,541</b>	<b>175,216</b>	<b>206,269</b>	<b>217,051</b>
Net cash from financing activities	-113,376	-135,526	-205,521	-228,759	-241,942	-249,599	-257,270
<b>Increase in cash and cash equivalents</b>	<b>62,038</b>	<b>85,329</b>	<b>-95,717</b>	<b>-114,219</b>	<b>-66,726</b>	<b>-43,330</b>	<b>-40,219</b>
Cash at beginning of year	242,483	304,521	457,870	362,153	247,934	181,209	137,878
<b>Cash at end of year</b>	<b>304,521</b>	<b>457,870</b>	<b>362,153</b>	<b>247,934</b>	<b>181,209</b>	<b>137,878</b>	<b>97,659</b>

## QUARTERLY EARNINGS ESTIMATES

	2006					2007				
LTL000	Q1	Q2	Q3	Q4	2006	Q1	Q2	Q3E	Q4E	2007E
Revenues	180,409	181,750	184,440	188,212	734,811	185,805	192,981	194,189	195,572	768,547
Operating Expenses	-88,932	-92,206	-99,345	-110,303	-390,786	-101,151	-110,675	-105,424	-106,606	-423,856
Net Other Income / Expense	2,253	1,910	1,425	617	6,205	1,531	3,711	-2,621	-2,621	0
<b>EBITDA</b>	<b>93,730</b>	<b>91,454</b>	<b>86,520</b>	<b>78,526</b>	<b>350,230</b>	<b>86,185</b>	<b>86,017</b>	<b>86,144</b>	<b>86,345</b>	<b>344,691</b>
Depreciation and Amortisation	-54,575	-51,643	-45,811	-43,350	-195,379	-42,439	-42,037	-44,879	-43,559	-172,914
<b>Operating Profit</b>	<b>39,155</b>	<b>39,811</b>	<b>40,709</b>	<b>35,176</b>	<b>154,851</b>	<b>43,746</b>	<b>43,980</b>	<b>41,265</b>	<b>42,787</b>	<b>171,777</b>
Net Financial Income / Expense	454	833	1,601	2,433	5,321	2,504	3,053	3,368	3,494	12,420
<b>Profit Before Income Tax</b>	<b>39,649</b>	<b>40,645</b>	<b>42,311</b>	<b>37,610</b>	<b>160,215</b>	<b>46,250</b>	<b>47,033</b>	<b>44,633</b>	<b>46,281</b>	<b>184,197</b>
Income Tax Expenses	-8,445	-7,377	-8,088	-6,381	-30,291	-8,372	-7,883	-8,331	-8,569	-33,155
<b>Net Profit for the Period</b>	<b>31,687</b>	<b>33,268</b>	<b>34,223</b>	<b>31,245</b>	<b>130,423</b>	<b>37,880</b>	<b>39,148</b>	<b>36,302</b>	<b>37,712</b>	<b>151,041</b>

## ANNUAL KEY RATIOS

Key figures (LTL000)	2005	2006	2007E	2008E	2009E	2010E	2011E
Number of Shares ('000)	776,818	776,818	776,818	776,818	776,818	776,818	776,819
EPS	0.10	0.17	0.19	0.21	0.22	0.23	0.25
P/E	26.3	16.7	13.3	12.4	11.7	11.1	10.4
P/Revenue	2.9	2.9	2.6	2.6	2.5	2.4	2.4
P/Book	1.9	1.9	1.9	2.0	2.2	2.3	2.5
EV/Revenue	2.5	2.3	2.1	2.3	2.3	2.3	2.3
EV/EBITDA	5.3	4.9	4.8	5.1	5.2	5.2	5.2
EV/Operating Profit	17.2	11.2	9.6	9.7	9.3	8.9	8.4
DPS	0.16	0.26	0.29	0.31	0.32	0.33	0.25
Dividend Yield	5.9%	9.4%	11.2%	12.0%	12.4%	12.8%	9.7%
Revenue Growth	1.4%	0.3%	4.6%	1.4%	2.6%	2.4%	3.0%
EBITDA Margin	47.1%	46.7%	44.8%	44.2%	44.0%	43.9%	43.9%
EBITDA Growth	4.9%	-0.5%	0.3%	-0.2%	2.2%	2.2%	3.0%
Operating Profit Margin	14.4%	20.7%	22.4%	23.4%	24.6%	25.8%	27.0%
Operating Profit Growth	138.0%	43.8%	13.1%	6.2%	7.9%	7.2%	7.7%
Net Profit Margin	10.9%	17.5%	19.7%	20.7%	21.4%	22.2%	23.0%
Net Profit Growth	166.0%	60.1%	17.8%	6.8%	6.0%	6.1%	6.7%
CapEx % Revenue	11.1%	14.5%	23.2%	26.5%	18.4%	14.7%	13.7%
Return on Equity	7.3%	11.6%	14.3%	16.3%	18.5%	21.2%	24.4%
Equity : Total Assets	0.88	0.89	0.91	0.91	0.90	0.90	0.89
Financial Debt : Equity	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Net Interest Bearing Debt	-288,452	-449,288	-354,441	-241,070	-175,196	-132,678	-93,205

## IMPORTANT INFORMATION

Company: AB TEO LT  
Analyst: Mantas Pakėnas  
Coverage Date: 2007-07-25

This report is based on information obtained from public sources that DnB Nord Bankas believes to be reliable but which DnB Nord Bankas has not independently verified, and DnB Nord Bankas makes no guarantee, representation or warranty as to its accuracy or completeness. Any opinions expressed herein reflect DnB Nord Bankas' judgment at the time the report was prepared and are subject to change without notice.

## RECOMMENDATION AND TARGET PRICE CHANGES FOR AB TEO LT

Date	Recommendation	Base Price (LTL)	Target Price (LTL)	Price Obtained (LTL)
2007-07-25	BUY	2.58	3.02	
2007-05-28	BUY	2.34	2.77	
2006-10-30	BUY	2.50	2.99	3.08

## RECOMMENDATION STRUCTURE AND RISK CLASSIFICATION

DnB Nord Bankas recommendations are based on a six month horizon, and are based on absolute performance. Risk is based on historic six months of volatility of the security.

Buy: indicates an expected return greater than +7.5%  
Hold: indicates an expected return between +7.5% and -7.5%  
Sell: indicates an expected return of less than -7.5%

High Risk: volatility over 40%  
Medium Risk: volatility from 25% to 40%  
Low Risk: volatility under 25%

Investing in any security is subject to substantial risk. Return on investment may vary greatly. Careful consideration for possible financial distress should be accounted for before investing in any security.

## DISCLAIMER

The relevant research analyst(s), as named on the front page of this report, certify that all views expressed in this report accurately reflects their personal views about the securities and companies named in this report; and no part of the analyst(s)'s compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed in this report.

The opinions and analysis in this report are based upon the opinions of DnB Nord Bankas and the prevailing market conditions as per the date of this report, all of which are subject to change without prior notice. This report does not by any means constitute an offer or a solicitation, nor a recommendation to purchase or sell securities, commodities, currencies or other investments referred to herein. DnB Nord Bankas does not assume any fiduciary responsibility or liability for any consequence, financial or otherwise, arising from any investment or disinvestment decision taken on the basis of this report. The copyright on this report belongs to DnB Nord Bankas. The report may not be reproduced in any form whatsoever without written permission of DnB Nord Bankas. All non-authorized reproduction or use of this report, whether in whole or in part, will be the responsibility of the user and will lead to legal proceedings.

Any forecasts or price targets disclosed for securities and/or companies in this report may not be achieved due to multiple risk factors, including without limitation market volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by DnB Nord Bankas or other sources relied upon in the report were inapposite.