

TEO LT, AB

To: Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius, Lithuania

15-10-2008 No. 02-344

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Jan-Erik Elsėrius, Chief Financial Officer and Deputy General Manager of TEO LT, AB, hereby confirm that, to the best of our knowledge, the attached not audited TEO LT, AB Interim Consolidated Financial Statements for the nine months of 2008, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of TEO LT, AB and the Group of undertakings.

ENCLOSURE: TEO LT, AB Interim Consolidated Financial Statements of for the nine months of 2008 (17 pages)

General Manager

A handwritten signature in blue ink, appearing to be 'Arūnas Šikšta', written in a stylized, cursive script.

Arūnas Šikšta

Chief Financial Officer and
Deputy General Manager

A handwritten signature in blue ink, appearing to be 'Jan-Erik Elsėrius', written in a cursive script.

Jan-Erik Elsėrius

D. Džiaugys, tel. +370 5 236 7878, fax. +370 5 231 3860, e-mail: darius.dziaugys@teo.lt

TEO LT, AB

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS OF 2008

PREPARED IN ACCORDANCE WITH THE RULES ON PREPARATION AND
SUBMISSION OF PERIODIC AND ADDITIONAL INFORMATION OF THE LITHUANIAN
SECURITIES COMMISSION

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TEO LT, AB (hereinafter – TEO or “the Company”) Group is the largest Lithuanian broadband Internet access and voice telephony services operator, providing integrated telecommunication, IT and TV services to residents and business. TEO Group is a part of TeliaSonera Group, the Nordic and Baltic telecommunications leader.

The Communication Regulatory Authority (CRA) of Lithuania has designated TEO together with its related legal entities as an operator with significant market power (SMP) on 14 markets. TEO and UAB Omnitel as members of TeliaSonera Group are regarded as related entities in Lithuania, therefore TEO is considered as SMP on the market of voice call termination at public mobile network of UAB Omnitel.

The consolidated financial statements of TEO Group have been prepared according to International Financial Reporting Standards as adopted by the European Union.

TEO Group financial statements for the nine months of 2008 are not audited. TEO Group financial statements for the year ended 31 December 2007 are audited by the external auditors.

CONSOLIDATED BALANCE SHEET OF TEO GROUP (LTL thousand)

ASSETS	2008-09-30	2007-12-31
Non-current assets		
Property, plant and equipment	630,859	657,962
Intangible assets	40,268	29,643
Trade and other receivables	2,353	3,166
	673,480	690,771
Current assets		
Inventories	4,310	4,943
Trade and other receivables	123,093	121,691
Current income tax receivable	2,046	5,749
Held-to-maturity investments	151,187	116,726
Trading investments	-	34,561
Cash and cash equivalents	152,252	229,350
Assets held for sale	1,743	1,851
	434,631	514,871
TOTAL ASSETS	1,108,111	1,205,642

CONSOLIDATED BALANCE SHEET OF TEO GROUP (LTL thousand) (continued)

EQUITY	2008-09-30	2007-12-31
Shareholders' equity		
Share capital	814,913	814,913
Treasury shares	(120,000)	(120,000)
Legal reserve	81,499	81,499
Retained earnings	229,439	294,167
	1,005,851	1,070,579
Minority interest	-	-
Total equity	1,005,851	1,070,579
LIABILITIES		
Non-current liabilities		
Borrowings	6,184	6,809
Deferred tax liabilities	5,058	9,530
Grants	1,561	2,768
Deferred revenue	1,980	1,900
	14,783	21,007
Current liabilities		
Trade, other payables and accrued liabilities	86,141	112,047
Current income tax liabilities	508	104
Borrowings	828	805
Provisions	-	1,100
	87,477	114,056
Total liabilities	102,260	135,063
TOTAL EQUITY AND LIABILITIES	1,108,111	1,205,642

CONSOLIDATED INCOME STATEMENT OF TEO GROUP (LTL thousand)

	July – September 2008	July – September 2007	January – September 2008	January – September 2007
Revenue	203,090	203,544	613,200	582,330
Other income	1,643	658	5,137	2,498
Employee related expenses	(44,957)	(37,799)	(129,258)	(114,100)
Network interconnection expenses	(29,914)	(31,325)	(90,682)	(88,244)
Other operating expenses	(44,125)	(44,276)	(129,352)	(122,882)
Depreciation, amortisation and impairment charge	(41,840)	(41,001)	(127,859)	(125,477)
Other gain (loss), net	254	2,378	1,757	5,780
Operating profit	44,151	52,179	142,943	139,905
Finance income	2,639	2,750	8,713	8,601
Finance costs	300	(320)	(249)	(614)
Finance income (costs), net	2,939	2,430	8,464	7,987
Profit before income tax	47,090	54,609	151,407	147,892
Income tax	(6,935)	(9,110)	(21,931)	(25,365)
Profit for the period from continuing operations	40,155	45,499	129,476	122,527
Discontinued operations:				
Profit (loss) for the period from discontinued operations	-	-	-	-
Profit for the period	40,155	45,499	129,476	122,527
Attributable to:				
Equity holders of the Company	40,155	45,499	129,476	122,527
Minority interest	-	-	-	-
	40,155	45,499	129,476	122,527
Earnings per share for profit attributable to the equity holders of the Company (in litas)	0.05	0.06	0.17	0.16

CONSOLIDATED CASH FLOW STATEMENT OF TEO GROUP (LTL thousand)

	January – September 2008	January – September 2007
Operating activities		
Profit for the period from continuing operations	129,476	122,527
Income tax	21,931	25,365
Depreciation, amortisation and impairment charge	127,859	125,477
Other gain and losses	(1,757)	(5,780)
Interest income	(10,914)	(10,129)
Interest expenses	218	282
Other non-cash transactions	37	1,818
Changes in working capital:		
Inventories	714	(4,090)
Trade and other receivables	(5,363)	(26,916)
Trade, other payables and accrued liabilities	1,318	11,794
Cash generated from operations	263,519	240,348
Interest paid	(218)	(306)
Interest received	5,779	8,972
Income tax paid	(22,299)	(40,079)
Net cash from operating activities	246,781	208,935

CONSOLIDATED CASH FLOW STATEMENT OF TEO GROUP (LTL thousand) (continued)

Investing activities	January – September 2008	January – September 2007
Purchase of property, plant and equipment (PPE) and intangible assets	(122,785)	(129,129)
Proceeds from disposal of PPE, intangible assets and assets held for sale	1,539	8,270
Acquisition/disposal of held-to-maturity investments, net	(29,336)	(48,234)
Disposal of trading investments	35,411	-
Acquisition of subsidiaries	(16,078)	-
Disposal of subsidiaries	2,175	1,714
Loans granted	-	(1,079)
Loans repaid	-	150,000
Net cash used in investing activities	(129,074)	(18,458)
Financing activities		
Repayment of borrowings	(601)	(614)
Dividends paid to the shareholders of the Company	(194,204)	(201,973)
Net cash used in financing activities	(194,805)	(202,587)
Increase (decrease) in cash and cash equivalents	(77,098)	(12,110)
Movement in cash and cash equivalents		
At beginning of the period	229,350	232,581
Increase (decrease) during the period	(77,098)	(12,110)
At end of the period	152,252	220,471

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF TEO GROUP (LTL thousand)

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share Capital	Treasury Shares	Legal reserves	Translation differences	Retained earnings		
Balance at 1 January 2007	814,913	(120,000)	81,499	(1)	333,301	-	1,109,712
Dividends paid for the year 2006	-	-	-	-	(201,973)	-	(201,973)
Net profit	-	-	-	-	122,527	-	122,527
Currency translation differences	-	-	-	9	-	-	9
Balance at 30 September 2007	814,913	(120,000)	81,499	8	253,855	-	1,030,275
Balance at 1 January 2008	814,913	(120,000)	81,499	-	294,167	-	1,070,579
Dividends paid for the year 2007	-	-	-	-	(194,204)	-	(194,204)
Net profit	-	-	-	-	129,476	-	129,476
Balance at 30 September 2008	814,913	(120,000)	81,499	-	229,439	-	1,005,851

EXPLANATORY LETTER

TEO Group is the largest Lithuanian broadband Internet access and voice telephony services operator, providing integrated telecommunication, IT and TV services to residents and business.

The authorized share capital of TEO LT, AB is 814,912,760 litas. It consists of 814,912,760 ordinary registered shares with a nominal value of one litas each.

38,095,242 shares are treasury stocks that have no rights to exercise any property and non-property rights provided by the Law of the Republic of Lithuania on Companies. Therefore, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders is 776,817,518.

Shares of TEO LT, AB are listed on the Baltic Main List of the Vilnius Stock Exchange (VSE) (trading code: TEO1L).

TEO LT, AB runs a Global Depository Receipt (GDR) programme. According to the programme, one GDR represents 10 ordinary registered shares of the Company. Shares are held by the depository bank, Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A.

As on 30 September 2008, 31,641,670 ordinary shares of the Company (3.88% of the total share capital) were represented by 3,164,167 GDRs.

The Company's GDRs are traded on the London Stock Exchange (LSE) (trading code: TEOL).

The number of shareholders on the day of the last General Meeting of Shareholders, which was held on 15 July 2008, was 14,964. As on 30 September 2008, total number of the Company's shareholders was 15,104.

Shareholders of TEO LT, AB as on 30 September 2008:

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 (%)
Amber Teleholding A/S (a), c/o „TeliaSonera Danmark A/S“, Holmbladsgade 139, DK-2300 Copenhagen S, Denmark, code 20758694	488,947,656	60.00	62.94	-
TEO LT, AB, Savanorių pr. 28, LT-03501 Vilnius, Lithuania, code 121215434 (Treasury stocks)	38,095,242 (b)	4.67	-	-
State of Lithuania (d)	10,369,460 (c)	1,27	1,33	-
Other shareholders	277,500,402	34,06	35,73	-
Total:	814,912,760	100,00	100,00	-

NOTE: (a) Amber Teleholding A/S is a fully owned subsidiary of Swedish TeliaSonera AB.
 (b) 12,698,412 ordinary registered shares and 2,539,683 Global Depository Receipts.
 (c) The State Property Fund (10,006,830 shares) and the State Tax Authorities (362,630 shares).

TEO together with its related legal entities is designated 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 unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services;
- wholesale terminating segments and trunk segments of leased lines.

As TeliaSonera AB through Amber Mobile Teleholding AB owns a 100 per cent stake in 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 September 2008, TEO Group consisted of the parent company, TEO LT, AB, (Savanorių ave. 28, LT-03501 Vilnius, www.teo.lt) and its daughter companies:

Name of the company	Activities of the company	Legal address	TEO part in the share capital of the company (%)	Part of TEO votes (%)
UAB Lintel	Information, telemarketing and remote customer care services	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, www.lintel.lt	100.00	100.00
UAB Baltic Data Center	Data center and information system management services	Žirmūnų str. 141, LT-09128 Vilnius, www.bdc.lt	100.00	100.00
AB Nacionalinė Skaitmeninė Televizija	Re-broadcasting of TV channels through DVB-T networks	Savanorių pr. 125, LT-44146 Kaunas	100.00	100.00
UAB Kompetencijos Ugdymo Centras	Training and consultancy	Palangos str. 4, LT-01117 Vilnius, www.kuc.lt	100.00	100.00
UAB Voicecom	NMT-450 network	Savanorių ave. 28, LT-03501 Vilnius	100.00	100.00
VšĮ TEO Sportas	Women's basketball team	Savanorių ave. 28, LT-03116 Vilnius, www.teobasket.lt	--(a)	100.00

NOTE: (a) TEO is the sole founder and owner of a non-profit organisation VšĮ TEO Sportas.

TEO LT, AB, the parent company of the Group, offers to residential and business customers in Lithuania voice telephony, Internet, digital television, IT, data communication and telecommunications networks interconnection services. TEO also operates an Internet portal www.zebra.lt.

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 16 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118 and consultations to computer users by phone 1518 as well as telemarketing and remote customer care services to business customers.

UAB Baltic Data Center is a leading provider of data center and information system management services in the Baltic States. Baltic Data Center provides professional data centre, computer workstation and business management system support and development services. UAB Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA, which is a dormant company.

On 25 August 2008, UAB Nacionalinė Skaitmeninė Televizija, which was acquired by TEO on 3 January 2008, changed its legal status from closed joint-stock company to joint-stock company and now is called AB Nacionalinė Skaitmeninė Televizija. On 15 July 2008, Extraordinary General Meeting of TEO LT, AB approved preparation of the draft reorganisation conditions with the view of merging by acquisition Nacionalinė Skaitmeninė Televizija into TEO LT, AB. Nacionalinė Skaitmeninė Televizija has two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks. In March 2008, TEO Group started provision of digital terrestrial television services *Skaitmeninė GALA (Digital GALA)*.

UAB Voicecom has the permission to use the national network of mobile analogue cellular radio communication of the NMT-450 standard. Permission is valid till 31 October 2008.

UAB Kompetencijos Ugdymo Centras provides training and consultancy services, organises certified trainings. Kompetencijos Ugdymo Centras is one of the largest employees' development institutions in Lithuania.

VšĮ TEO Sportas supports TEO women basketball team, a multiple champion of Lithuania and the Baltic States. In 2007, TEO Sportas handed over operations of fitness center ZEBRA SPORT at P. Lukšio str. 34 in Vilnius to UAB Griunvaldas.

On 15 February 2007, TEO LT, AB sold its 100 per cent stake in OOO Comliet-Kaliningrad (ul. Pugachiova 14a, RUS-236000 Kaliningrad, Kaliningrad Region, Russian Federation). The company was acquired from the then subsidiary UAB Comliet (held 95 per cent stake in OOO Comliet-Kaliningrad) and UAB Comliet Sprendimai (5 per cent stake) on 31 January 2006.

TEO Group accounting

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Key figures of TEO Group

Financial figures	January – September 2008	January – September 2007	Change (%)
Revenue (LTL thousand)	613,200	582,330	5.3
EBITDA (LTL thousand)	270,802	265,382	2.0
EBITDA margin (%)	44,2	45,6	
Operating profit (LTL thousand)	142,943	139,905	2.2
Operating profit margin (%)	23,3	24,0	
Profit before income tax (LTL thousand)	151,407	147,892	2.4
Profit for the period (LTL thousand)	129,476	122,527	5.7
Profit for the period margin (%)	21,1	21,0	
Earnings per share (LTL)	0,17	0.16	5.7
Number of shares excluding treasury stocks (thousand)	776,818	776,818	-
Financial ratios	2008-09-30	2007-09-30	
Return on capital employed (a) (%)	19.1	17.2	
Return on average assets (a) (%)	16.4	15.0	
Return on shareholders' equity (a) (%)	16.5	14.3	
Gearing ratio (%)	-29.5	-32.4	
Debt to equity ratio (%)	0.7	1.1	
Current ratio (%)	496.8	500.0	
Rate of turnover of assets (a) (%)	71.8	64.5	
Equity to assets ratio (%)	90.8	89.2	

NOTE: calculated for 12 months period on roll-up bases.

Revenue

The total consolidated TEO Group's revenue for the nine months of 2008 was LTL 613 million, an increase by 5.3 per cent over the total revenue of LTL 582 million for the nine months of 2007. The total revenue for July – September of 2008 was LTL 203.1 million, a decline by 0.2 per cent over the total revenue of LTL 203.5 million for July – September of 2007. In 2007, the Company implemented some special telecommunications projects that increased revenue from other services for July – September of 2007 by LTL 7.7 million.

During nine months of 2008 share of revenue from traditional voice telephony services from total amount of revenue continued to shrink and amounted to 62.6 per cent of total revenue, while share of Internet and

data communications revenue continued to grow and amounted to 30.6 per cent. Revenue from IT services amounted to 2.6 per cent, television services – 1.8 per cent and other services – 2.4 per cent of total revenue for January – September of 2008.

Breakdown of TEO Group revenue (LTL thousand)

	July - September 2008	July - September 2007	Change (%)	January-September 2008	January-September 2007	Change (%)
Voice telephony services	124,307	132,185	(6.0)	383,637	394,434	(2.7)
Internet and data communication services	65,208	54,626	19.4	187,624	154,670	21.3
TV services	4,194	1,715	144.5	11,104	4,189	165.1
IT services	4,524	3,944	14.7	15,911	8,888	79.0
Other revenues	4,857	11,074	(56.1)	14,924	20,149	(25.9)
Total	203,090	203,544	(0.2)	613,200	582,330	5.3

Revenue from voice telephony services for the nine months of 2008 decreased due to decrease of revenue from traffic charges by 9.7 per cent and decline of revenue from networks' interconnection services by 2.8 per cent. Although revenue from subscription fees increased by 3.5 per cent. Decline in revenue from traffic charges was caused by lower traffic from business customers. Lower traffic from national operators abroad and reduced interconnection tariffs had an impact on revenue from networks' interconnection.

By implementing the pricing model established by the Communications Regulatory Authority of the Republic of Lithuania TEO reduced by 40 per cent the network interconnection fees for Lithuanian operators whose customers make calls to TEO network. From now on, the following rates per minute will be applied: 6 cents (excluding VAT) during peak hours and 3.6 cents (excluding VAT) during off-peak hours.

From the 1st of August, the Company also reduced prices for calls to the networks of other Lithuanian fixed-line operators. For TEO customers, calls to other fixed-line networks in Lithuania will, from now on, be charged at the rate starting from 10 cents (including VAT) per minute. At present, TEO customers have the possibility to make calls to 10 fixed-line operators' networks of Lithuania.

During January–September 2008, the total number of main telephone lines in service decreased by 16.7 thousand lines: 36.5 thousand new telephone lines were installed, while 53.2 thousand lines were disconnected. From February 2008 the Company terminated provision of temporary disconnected telephone line with incoming calls service. As a result from February number of active lines used by residential customers increased by 37 thousand.

Total calls traffic for the nine months of 2008, compared to the same period of 2007, declined by 1.3 per cent. Traffic generated by residential customers increased by 3.2 per cent while traffic generated by business customers decreased by 11.2 per cent due to competition with other operators.

According to the Report of the Communications Regulatory Authority (CRA), TEO market share of the fixed-line telephony market in terms of main lines during the second quarter of 2008 amounted to 98.1 per cent and in terms of revenue – to 95.5 per cent. TEO networks' interconnection market share in terms of revenue amounted to 17.3 per cent.

	2008-09-30	2007-09-30	Change (%)
Number of fixed telephone lines in service	772,199	787,435	(1.9)
Digitalisation rate (%)	94.0	94.0	-
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi)	286,353	232,243	23.3
Number of wireless Internet (WiFi) hot-spots	3,934	2,760	42.5
Number of IP TV customers	32,777	13,785	137.8
Number of DVB-T customers	14,692	-	
Number of IT customers	831	427	94.6
Number of personnel (head-counts) at the end of period	3,385	3,385	-
Number of full time employees at the end of the period	2,990	3,095	(3.4)

During January – September 2008, the number of broadband Internet access users increased by 27.8 thousand. Out of total 286.4 thousand broadband connections, 245.7 thousand are copper DSL connections sold to retail customers, 21 thousand are wireless connections via the WiFi network, 17.4 thousand are fiber optic connections (8.3 thousand Fiber to the building (FTTB) and 9.1 thousand Fiber to the home (FTTH)) and 2.3 thousand DSL connections are the connections sold to wholesales customers.

Compared with the nine months of 2007, revenue from Internet broadband access services for the nine months of 2008 went up by 21.6 per cent while revenue from dial-up Internet service decreased by 46.3 per cent as over the year number of dial-up Internet service users went down from 6 to 3.2 thousand. Revenue from data communication and network capacity sale services increased by 23.3 and 29.3 per cent, respectively.

According to the Report of the CRA, the Company's market share of the total Internet providers' market in terms of revenue during the second quarter of 2008 amounted to 41.5 per cent, while its share of the broadband Internet access market was 48.1 per cent. On 30 June 2008 broadband Internet penetration per 100 residents of Lithuania was 16.3 per cent. In terms of revenue TEO had 48.8 per cent of the leased lines market and 52.9 per cent of the data communications market.

During July-September 2008 number of digital terrestrial television (DVB-T) service users increased by 2.3 times from 6,554 at the end of June to 14,692 at the end of September. Digital terrestrial television service *Skaitmeninė GALA (Digital GALA)* was launched by TEO Group in March 2008 and now is available to 95 per cent of the country's population.

During January-September 2008, the number of IPTV service *Interaktyvioji GALA (Interactive GALA)*, previously called just GALA, increased by 15.3 thousand and at the end of September amounted to 32.8 thousand. According to the Company's estimations, TEO Group's market share of the total paid TV services market in terms of customers during the second quarter of 2008 amounted to more than 7 per cent.

From July 2008 TEO offered to the users of *Interactive GALA* service a new additional TV channels' package for children that contains three TV channels for children created by Disney Corporation and from October both – *Interactive GALA* and *Digital GALA* – customers were the first in the Baltic countries to watch NBA TV.

From September 2008 users of *Interactive GALA* service have the possibility to use a new service – *My TV Recordings (Mano TV įrašai)*, which allows watching desired TV programs at convenient times without using any extra equipment. At present, customers can watch records of the programs broadcasted by MTV, a popular music channel, and Lietuvos Rytas Televizija (earlier called 5 Kanalas). Later on, it is planned to increase the number of channels available for watching.

In August, TEO completed the implementation of *TV Mozaika (TV Mosaic)*, a project which was implemented together with its partners and co-financed from the European Union funds. During the project, the implementation of which lasted for more than 2 years, was created the system's prototype for the provision and management of interactive TV services that will enable TV viewers to watch on their TV screens the production created by different content providers. In 2009, it is planned to implement the prototype created by the *TV Mosaic* project and thus expand the possibilities of the *Interactive GALA* TV service.

In July 2008, the Company presented a new look of its leisure, entertainment and communication portal ZEBRA.LT. One of the most popular portals in the country by number of visitors underwent substantial renovations – a highly-modern design and navigating system have been developed, the quantity and diversity of articles available for readers have doubled. The portal ZEBRA.LT was one of the first to offer to Lithuanian users a possibility to place their own made videos.

UAB Baltic Data Center, a subsidiary of TEO LT, AB, has set up and equipped the first underground data center facility in Lithuania, which complies with the strictest security requirements. A part of the new data center facility will be used for the DnB NORD Banking Group's IT infrastructure, which is currently being implemented by Baltic Data Center, and will enable seamless service to the bank's operations in Denmark, Estonia, Finland, Latvia, Lithuania, and Poland.

During the first three months of 2008 the Company implemented a few special telecommunications projects by order of governmental institutions and increased its revenue from other services by LTL 1.3 million. Revenue from special projects during the nine months of 2007 amounted to LTL 9.8 million.

Revenue from other services consists also of the following non-telecommunication services: lease of premises, Contact Center services of UAB Lintel, consultancy and training services of UAB Kompetencijos Ugdyimo Centras, fitness center services operated by TEO Sportas till June 2007.

Revenue from other services, excluding revenue from special projects, for the nine months of 2008 compared with the same revenue a year ago increased by 32.1 per cent.

Other income, that consist of interest income from bonds acquired, for January-September 2008 increased by more than 2 times over the other income a year ago. Other gain (loss) from sale of property, investments and etc. decreased by 3.3 times.

Operating expenses

Total operating expenses of the Group during January–September 2008 were by 7.4 per cent higher than total operating expenses a year ago. All major groups of expenses increased: employee related expenses increased by 13.3 per cent, networks' interconnection expenses – by 2.8 per cent, other operating expenses – by 5.3 per cent. In the group of other operating expenses, the biggest increase was in expenses related to IT and network expenses as well as energy, premises and transportation expenses.

During January–September 2008 the total number of employees (headcount) in TEO Group went up from 3,177 (31 December 2007) to 3,385 (30 September 2008) and number of full-time employees went up from 2,907 to 2,990. While counting full-time employees number part-time employees are recalculated into full-time employees and the number does not include employees on maternity/paternity leave.

Earnings

EBITDA for the nine months of 2008 went up by 2 per cent to LTL 271 million over LTL 265 million for the nine months of 2007. EBITDA margin stood at 44.2 per cent (45.6 per cent in 2007).

Due to higher investments in 2007-2008, depreciation and amortisation charges over the year increased by 1.9 per cent and during January-September of 2008 amounted to 20.9 per cent of total revenue (21.5 a year ago). Operating profit was by 2.2 per cent higher than a year ago and operating profit margin was 23.3 per cent (24 per cent a year ago).

Profit before income tax for the nine months of 2008 was up by 2.4 per cent and amounted to LTL 151 million (LTL 148 million a year ago). Profit for the period amounted to LTL 129 million, an increase by 5.7 per cent over LTL 123 million a year ago. Over the year, the profit margin slightly increased and amounted to 21.1 per cent (21 per cent in 2007).

Balance sheet

During January–September 2008 the total assets of TEO Group decreased by 8.1 per cent due to assets' depreciation and payment of dividend for the year 2007.

Due to depreciation non-current tangible assets decreased by 4.1 per cent, while non-current intangible assets increased by 35.8 per cent due to acquisition of TV channels re-broadcasting licences (acquisition of Nacionalinė Skaitmeninė Televizija). During January-September 2008 the total non-current assets decreased by 2.5 per cent and amounted to 60.8 per cent of the total assets.

In May, following the resolution of the Annual General Meeting of Shareholders of 29 April 2008, dividend of total LTL 194 million or LTL 0.25 per share were paid to the shareholders of TEO. Therefore, current assets decreased by 15.6 per cent and amounted to 39.2 per cent of the total assets, whereof cash and trading investments alone represented 27.4 per cent of the total assets.

Due to dividend payment, shareholders' equity decreased by 6 per cent but still amounted to 90.8 per cent of the total assets.

At the end of September 2008, the total amount of borrowings included only financial liabilities related to financial leasing of premises and amounted to LTL 7 million. Net debt was negative and amounted to LTL 296 million. The net debt to equity ratio was negative and amounted to 29.5 per cent.

Cash flow

Net cash flow from operating activities during the nine months of 2008 was by 18.1 per cent higher than net cash from operating activities a year ago.

During January-September 2008 an amount of LTL 94.1 million was allocated for capital investments. Majority of cash was invested into the network – LTL 74.1 million (or 78.7 per cent of all investments), LTL 12.6 million (13.4 per cent) into upgrading of buildings and customer care centers, LTL 6.3 million (6.7 per cent) into IT and LTL 1.1 million (1.2 per cent) went to other investments. The remaining portion of cash spent during the nine months of 2008 for capital investments was payments for investments made in 2007.

In October 2008, the Company's once again revised its capital investments program. Capital investments for the year 2008 should amount to LTL 173 million.

Due to capital investments, acquisition of Nacionalinė Skaitmeninė Televizija (LTL 16 million) and payment of dividends for the year 2007 (LTL 194 million), cash and cash equivalents during the nine months of 2008 decreased by LTL 77 million.

Other material information

Instead of Gert Tiivas, a member of the Board, who resigned from the Board as of 28 April 2008, a new member – Justas Pipinis – was elected for the current term of the Board during an Extraordinary General Meeting of Shareholders on 15 July 2008.

Extraordinary General Meeting of Shareholders also approved the preparation of the draft reorganisation conditions for the merger of Nacionalinė Skaitmeninė Televizija, as subsidiary of TEO LT, AB, into TEO LT, AB. On 25 August 2008 UAB Nacionalinė Skaitmeninė Televizija changed its legal status from closed joint-stock company (UAB) to joint-stock company (AB) and now is called AB Nacionalinė Skaitmeninė Televizija.

In 2007, due to unforeseen legal problems, i.e. due to temporary suspension by the court of the detailed plan approved by the Municipality of Vilnius City of a land plot at Lvovo str. 21A, the construction of TEO building was not started in planned time and due to such delay, the damage likely to be incurred by TEO (i.e. due to an increase in construction prices, additional costs for lease of the current premises, and etc.). In order to claim compensation for this damage, TEO started a civil action against the person, who initiated the suspension of the detailed plan, and the court applied temporary measures to ensure an injunction - arrested the property of the above mentioned person.

On 8 August 2008, the case was won at Supreme Administrative Court of Lithuania and TEO have planned to renew the construction, but on 27 August 2008 Prosecutor of Vilnius District appealed to Administrative Court of Vilnius District with a request to cancel detailed plan of a land plot at Lvovo str. 21A and apply interim measure to ensure a claim – temporary to suspend the validity of the detailed plan. As the court applied above mentioned measure, TEO could not renew the construction of the building.

Following the order of the Communications Regulatory Authority of the Republic of Lithuania of 31 January 2008 on prices for calls initiation, calls termination, national and international transit services on the public telephone network of TEO LT, AB at a fixed location the Company from August 2008 reduced by 40 per cent the network interconnection fees for Lithuanian operators whose customers make calls to TEO network and also reduced prices for calls from TEO network to the networks of other Lithuanian fixed-line operators.