



TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010
(UNAUDITED)

| | |
|------------------------------------|---|
| Beginning of the financial year | 1 January 2010 |
| End of reporting period | 30 September 2010 |
| 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 | Savanoriu ave. 28, 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 nine months of 2010:

"TEO revenue for the 9 months of 2010 was LTL 581 million – a 5.9 per cent drop compared y-o-y. Operating expenses decreased 1.2 per cent. Despite the country's decreasing GDP and a more than 11 per cent drop of the Lithuanian telecommunications market, the Company maintained its high profitability (EBITDA margin – 41.3 per cent). TEO continues to successfully gain new customers who replace churning voice service customers. Our special focus areas are next-generation network-based services as well as IT services. To strengthen its position, TEO Group acquired Hostex – one of the leading providers of hosting and data center services – which, together with Interdata, acquired in 2009, will ensure a better platform for providing integrated IT services for recovering businesses."

Key figures of TEO Group

| Financial figures | January - September | | Change (%) |
|---|---------------------|---------|------------|
| | 2010 | 2009 | |
| Revenue (LTL thousand) | 580,882 | 617,630 | (5.9) |
| EBITDA (LTL thousand) | 239,616 | 279,329 | (14.2) |
| EBITDA margin (%) | 41.3 | 45.2 | |
| Operating profit (LTL thousand) | 141,237 | 171,876 | (17.8) |
| Operating profit margin (%) | 24.3 | 27.8 | |
| Profit before income tax (LTL thousand) | 142,010 | 171,859 | (17.4) |
| Profit before income tax margin (%) | 24.4 | 27.8 | |
| Profit for the period (LTL thousand) | 125,154 | 134,242 | (6.8) |
| Profit for the period margin (%) | 21.5 | 21.7 | |
| Earnings per share (LTL) | 0.161 | 0.173 | (6.8) |
| Number of shares excluding treasury stocks (thousand) | 776,818 | 776,818 | |

Financial ratios

| | 30 September 2010 | 30 September 2009 |
|------------------------------------|-------------------|-------------------|
| Return on capital employed (%) | 16.5 | 20.8 |
| Return on average assets (%) | 14.9 | 18.6 |
| Return on shareholders' equity (%) | 16.1 | 16.4 |
| Gearing ratio (%) | (24.5) | (26.1) |
| Debt to equity ratio (%) | 0.6 | 0.6 |
| Current ratio (%) | 377.0 | 532.4 |
| Rate of turnover of assets (%) | 70.3 | 74.1 |
| Equity to assets ratio (%) | 90.5 | 91.4 |

Operating figures

| | 30 September 2010 | 30 September 2009 | Change (%) |
|--|-------------------|-------------------|------------|
| Number of fixed telephone lines in service | 696,444 | 731,208 | (4.8) |
| Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other) | 334,794 | 307,521 | 8.9 |
| Number of IP TV customers | 63,236 | 51,239 | 23.4 |
| Number of DVB-T customers | 58,404 | 40,478 | 44.3 |
| Number of personnel (head-counts) at the end of period | 3,545 | 3,069 | 15.5 |
| Number of full-time employees at the end of the period | 3,045 | 2,733 | 11.4 |

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

Breakdown of TEO Group revenue

| | July - September | | | January - September | | |
|--|------------------|----------------|--------------|---------------------|----------------|--------------|
| | 2010 | 2009 | Change (%) | 2010 | 2009 | Change (%) |
| Voice telephony services | 104,113 | 119,522 | (12.9) | 316,253 | 352,050 | (10.2) |
| Internet and data communication services | 64,127 | 68,596 | (6.5) | 193,500 | 208,822 | (7.3) |
| TV services | 9,489 | 6,946 | 36.6 | 27,264 | 19,661 | 38.7 |
| IT services | 8,825 | 6,726 | 31.2 | 24,600 | 17,245 | 42.6 |
| Other services | 7,331 | 6,976 | 5.1 | 19,265 | 19,852 | (3.0) |
| Total | 193,885 | 208,766 | (7.1) | 580,882 | 617,630 | (5.9) |

Revenue

The total consolidated TEO Group's revenue for the nine months of 2010 was LTL 581 million, a decrease by 5.9 per cent over the total revenue of LTL 618 million for the nine months of 2009. The total revenue for the third quarter of 2010 was almost on the same level as for the second quarter of 2010 and amounted to LTL 194 million.

Revenue from TV and IT services continued to grow and partially offset the decline in revenue from voice telephony, and Internet and data communication services.

Share of revenue from voice telephony services from total amount of revenue amounted to 54.4 per cent, Internet and data communications services – 33.3 per cent, television services – 4.7 per cent, IT services – 4.2 per cent and other services – 3.3 per cent of total revenue for the nine months of 2010.

Lower usage and decreased number of telephone lines in service had a negative effect on revenue from voice telephony services. Taking into consideration the current economic situation in the country, the Company, in order to retain its existing voice services customers and attract new ones, has to offer various discounts and subsequently to reduce its average revenue per user (ARPU).

During January-September 2010, the total number of main telephone lines in service decreased by 25.5 thousand. Lower number of voice telephony service users resulted in a decrease of revenue from subscription fees in January-September 2010 by 9.8 per cent compared with the same period a year ago.

In February 2010, TEO offered lower prices for calls to mobile and other fixed networks of Lithuania for residential and business customers of the Company using flat-fee payment plans, and from June calls to mobile network of Omnitel for flat-fee payment plan subscribers are free of charge.

Favourable conditions of different flat-fee payment plans resulted in increased (by 9.4 per cent) volumes of international traffic in both business and residential segments over the last twelve months, and in an increase (by 2.7 per cent) in traffic volumes of residential customers' domestic long-distance calls.

However, total traffic volume generated by residential and business customers decreased by 0.4 and 15.5 per cent, respectively. As a result, over the year revenue from traffic charges went down by 23.9 per cent.

Over the year revenue from networks' interconnection services increased by 5.3 per cent due to increased traffic volumes of international transit.

According to the Report of the Communications Regulatory Authority (CRA) for the second quarter of 2010,

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

TEO market share of the fixed-line telephony market in terms of customers amounted to 91.6 per cent and in terms of revenue – to 93.9 per cent. In terms of revenue TEO had 23.7 per cent of the network interconnection market.

During January-September 2010, the total number of broadband Internet access users increased by 21.3 thousand, while over the last twelve months – by 27.3 thousand.

Internet connections over the next generation fiber optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies continued to substitute connections over copper lines (DSL technology). By the end of September 2010, almost 28 per cent of the total number of TEO broadband Internet access users had fiber optic access.

Over the year the number of FTTH and FTTB connections increased by 1.8 times to 93 thousand, while the number of copper DSL connections used by retail customers went down by 7.4 per cent.

At the end of September 2010 out of total 335 thousand broadband connections, 214 thousand were copper DSL connections sold to retail customers, 93 thousand – fiber optic connections, 26 thousand – wireless connections via WiFi network and 1 thousand DSL connections were the ones sold to wholesale customers.

In spring, the Company increased the Internet speed for residential customers. From October 2010 the Internet speed for business customers was increased by up to 4 times, too. From now on, TEO will offer business customers 4 Internet plans as well as the opportunity to try out additional services for free.

Compared with the nine months of 2009, revenue from Internet services for the nine months of 2010 went down by 6.6 per cent and revenue from data communication services decreased by 8.5 per cent.

According to the CRA Report, the Company's market share of the total Internet providers market in terms of revenue during the second quarter of 2010 amounted to 39.6 per cent while its share of the market of broadband Internet using fixed connection was 50.4 per cent. On 30 June 2010 Internet penetration per 100 residents of Lithuania was 25.1 per cent, while the penetration of broadband Internet using fixed connection was 19.8 per cent. In terms of revenue TEO had 64.2 per cent of the leased lines market and 64.4 per cent of the data communication market.

During January-September 2010 the total number of TV service customers increased by 19.3 thousand: number of digital terrestrial television (DVB-T) service *Digital GALA* users increased by 12 thousand and number of IPTV service *Interactive GALA* increased by 7.3 thousand.

According to the CRA Report, at the end of June 2010 TEO market share of the digital television service market in terms of customers amounted to 46.4 per cent and in terms of revenue – 40.6 per cent. TEO market share of the total pay-TV services market in terms of customers was 18.6 per cent. On 30 June 2010 digital pay-TV penetration per 100 households of Lithuania was 17.6 per cent

Consolidated TEO Group revenue from IT services was mainly generated by the Company's subsidiary UAB Baltic Data Center that provides data center and information system management services to local and multinational enterprises.

In September 2010, Baltic Data Center acquired UAB Hostex, one of the leading providers of web hosting and data center services to residential and small companies as well as Internet portals provider in Lithuania.

TEO Group revenue from other services consists of the following non-telecommunication services: lease of premises, fines for termination of agreements, Contact Center services of UAB Lintel and other.

Over the year revenue from Contact Center services increased by 16.4 per cent while revenue from other non-core business services decreased by 20 per cent.

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

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

Operating expenses

In 2010, the Company's operating expenses are affected by increasing number of Internet and TV customers, and developing IT business, while other costs are under control. As a result, total operating expenses of the Group for the nine months of 2010 were just by 1.2 per cent higher than total operating expenses a year ago.

Employee-related expenses decreased by 8 per cent. During January-September 2010 the total number of employees (headcount) in TEO Group increased by 485 (mainly in Lintel due to expanding Contact Center activities) from 3,060 to 3,545. In terms of full-time employees, the total number of employees in TEO Group during January-September 2010 increased by 332.

Interconnection expenses increased by 2.6 per cent due to higher international transit traffic volumes, while national interconnection fees went down.

Other expenses increased by 2.6 per cent due to development of television and IT services. With the growing number of television service users the Company is spending more for acquisition of TV content and customer end equipment, while the expansion of the DVB-T network caused higher expenses for TV program broadcasting over the DVB-T network.

Earnings

EBITDA for the nine months of 2010 went down by 14.2 per cent to LTL 240 million over LTL 279 million in the nine months of 2009. Nevertheless, EBITDA margin stood above 40 per cent and amounted to 41.3 per cent (45.2 per cent in 2009).

Depreciation and amortisation charges decreased by 8.4 per cent and in January-September of 2010 amounted to 16.9 per cent of total revenue (17.4 a year ago). Operating profit was by 17.8 per cent lower than a year ago, while the operating profit margin reached 24.3 per cent (27.8 per cent a year ago).

As a result, profit before income tax in the nine months of 2010 was down by 17.4 per cent and amounted to LTL 142 million (LTL 172 million a year ago).

From 1 January 2009 the profit tax rate in Lithuania was increased from 15 to 20 per cent and from 1 January 2010 it was reduced back to 15 per cent.

Profit for the period amounted to LTL 125 million, while a year ago it was LTL 134 million, a decrease by 6.8 per cent. The profit margin was 21.5 per cent (21.7 per cent a year ago).

Balance sheet and cash flow

During January-September 2010 total assets of TEO Group decreased by 5 per cent mainly due to payment of dividends for the year 2009.

The total non-current assets decreased by 0.5 per cent and amounted to 64.3 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 26 April 2010, dividend of the total amount of LTL 163 million or LTL 0.21 per share for the year 2009 were paid to the shareholders of the Company. Therefore, total current assets decreased by 12.2 per cent and amounted to 35.7 per cent of the total assets, whereof cash, held-to-maturity investments and loans to banks alone still represented 22.7 per cent of the total assets.

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

Due to dividend payment, shareholders' equity decreased by 3.7 per cent, but still amounted to 90.5 per cent of the total assets.

In September 2010, following the decision of the Annual General Meeting of shareholders, the Company's treasury stocks (38,095,242 shares of 1 litas nominal value each with total consolidated balance sheet value of LTL 120 million) were cancelled. Consequently, the Company's share capital was reduced by LTL 38.1 million and an amount of LTL 81.9 million (the difference between the consolidated balance sheet and nominal values of treasury stocks) was deducted from consolidated retained earnings. The treasury stock cancellation and the consequent reduction of the share capital had no effect on total amount of consolidated shareholders' equity.

Treasury stocks at Parent company, TEO LT, AB, were recorded at the balance sheet value of LTL 58.5 million. After the treasury stock cancellation, the Parent company's share capital was reduced by LTL 38.1 million and retained earnings – by LTL 20.4 million.

As of 30 September 2010 after the cancelation of treasury stocks, consolidated retained earnings of TEO Group amounted to LTL 130 million and retained earnings of the Parent company amounted to LTL 108 million. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company.

At the end of September 2010 the total amount of borrowings included mainly financial liabilities related to financial leasing of premises and amounted to LTL 5.8 million. Net debt was negative and amounted to LTL 242 million. The net debt to equity ratio was negative and amounted to 24.5 per cent.

Net cash flow from operating activities in the nine months of 2010 was by 5.4 per cent lower than a year ago.

During the nine months of 2010 capital investments amounted to LTL 91 million. The majority of capital investments (89 per cent or LTL 81 million) went to expansion of the core network and development of the next generation fiber-optic access network. The remaining part was invested into IT systems (LTL 6 million), renovation of premises (LTL 1 million), transportation (LTL 1 million) and other. In September 2010, TEO subsidiary, Baltic Data Center, acquire a 100 per cent stake in UAB Hostex.

In 2010, total investments of TEO into the development of the network, information systems and other activity will amount to LTL 178 million. By the end of December, the FTTH network will be available for use to about half of the country's households – 570 thousand.

Cash and cash equivalents during January-September 2010 decreased by LTL 26 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 one litas each. It was reduced from 814,912,760 litas to 776,817,518 litas and registered at the Register of Legal Entities on 3 September 2010 following the decision of the Annual General Meeting of Shareholders, held on 26 April 2010.

The Annual General Meeting of Shareholders decided to cancel 38,095,242 treasury stocks and to reduce the Company's authorised share capital by 38,095,242 litas from 814,912,760 litas to 776,817,518 litas, and accordingly amend the By-laws of the Company. The purpose of reduction of the Company's authorised capital was cancellation of the Company's treasury stocks. The Company's authorised capital was reduced by way of annulment of the Company's treasury stocks. Treasury stocks were cancelled on 9 September 2010.

Treasury stocks that amounted to 4.67 per cent of the total number of the Company shares were acquired during the Initial Public Offering (IPO) in year 2000 and they 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

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

TEO shares that provide voting rights during the General Meeting of Shareholders remains unchanged and is 776,817,518.

Following the Board's decision of 25 March 2010 the Company terminated its Global Depository Receipts (GDR) programme, based on the Deposit Agreement dated 15 June 2000 between the then AB Lietuvos Telekomas (now – TEO LT, AB) and the then Bankers Trust Company (now – Deutsche Bank Trust Company Americas), as of 1 July 2010, and delisted TEO Regulation S GDRs (ISIN US88074Q2075) and Rule 144A GDRs (ISIN US88074Q1085) from the Official List of the UK Listing Authorities and discontinued trading in TEO GDRs type Reg S (ISIN US88074Q2075) on the London Stock Exchange as of 30 June 2010.

The Company's Global Depository Receipts (GDR) programme was run since June 2000. According to the programme, one GDR represented 10 ordinary registered shares of the Company. Shares were held by the depository bank, Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A. Till 30 June 2010 GDRs were traded on the London Stock Exchange (LSE) (code: TEOL).

Following the Global Depository Receipts programme's conditions, upon closure of the GDR programme all outstanding GDRs were sold by the depository bank and the proceeds distributed to GDR holders. As on 30 September 2010, there were no ordinary shares of the Company represented by GDRs.

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

The number of shareholders on the shareholders registration day for the Annual General Meeting of Shareholders, which was held on 26 April 2010, was 13,874.

Shareholders of TEO LT, AB as on 30 September 2010:

| 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 | 62.94 | 62.94 | 68.08 |
| TeliaSonera AB (publ) (a), Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249 | 39,895,616 | 5.14 | 5.14 | 68.08 |
| East Capital Asset Management AB, Kungsgatan 33, Stockholm, SE- 111 93, Sweden, code 556564-5370 | 46,143,047 | 5.94 | 5.94 | - |
| Republic of Lithuania, represented by State Enterprise State Property Fund, Vilniaus g. 16, LT-01507, Vilnius, Lithuania, code 110073154 | 3,075,315 | 0.39 | 0.39 | - |
| Republic of Lithuania, represented by State Tax Inspectorate, Vasario 16-osios g. 15, LT-01514 Vilnius, Lithuania, code 188659752 | 362,630 | 0.05 | 0.05 | - |

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

| | | | | |
|--------------------|--------------------|---------------|---------------|----------|
| Other shareholders | 198,393,254 | 25.54 | 25.54 | - |
| TOTAL: | 776,817,518 | 100.00 | 100.00 | - |

NOTES: (a) Amber Teleholding A/S is a fully owned subsidiary of TeliaSonera AB (publ).

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in January-September 2010:

| Opening price (LTL) | Lowest price (LTL) | Highest price (LTL) | Last price (LTL) | Average price (LTL) | Turnover (units) | Turnover (LTL) |
|------------------------|-----------------------|------------------------|---------------------|------------------------|---------------------|-------------------|
| 1.86 | 1.84 | 2.47 | 2.26 | 2.20 | 49,606,014 | 109,060,724 |

Information about trading in TEO GDRs on the London Stock Exchange from 1 January 2010 to 30 June 2010 (the last day of trading on LSE):

| Opening price (USD) | Lowest price (USD) | Highest price (USD) | Last price (USD) | Average price (USD) | Turnover (units) | Turnover (USD) |
|------------------------|-----------------------|------------------------|---------------------|------------------------|---------------------|-------------------|
| 7.78 | 6.75 | 9.91 | 7.24 | 8.33 | 0 | 0 |

TEO market capitalisation as on 30 September 2010 was LTL 1,756 million.

Other material information

On 24 February 2010, the Lithuanian Communications Regulatory Authority (CRA) recognised TEO having significant market power on the market of digital terrestrial television (DVB-T) broadcasting transmission services for end-users of content provision services using radio frequencies (channels) assigned to TEO. The Company operates two national digital terrestrial television transmission networks. There are four national networks of DVB-T transmitters. One network transmits 10 television programs.

In March 2010, Håkan Dahlström, the Chairman of the Board of TEO LT, AB, was elected as a member of the Board of UAB Omnitel (Lithuania). UAB Omnitel is 100 per cent owned by TeliaSonera AB (publ).

In April 2010, TEO signed an agreement with UAB Nekilnojamojo Turto Gama regarding the lease of premises in Vilnius, at Lvovo str. 25, and is planning to move the Company's head-office from Savanoriu ave. 28 to Lvovo str. 25 by the end of October 2010.

On 26 April 2010 the Annual General Meeting of Shareholders decided to approve the audited annual financial statements of the Company for the year 2009; to allocate from the Company's distributable profit LTL 163,132 thousand for the dividend payment for the year 2009 (LTL 0.21 dividend per share); to allocate LTL 378 thousand for annual payments (tantiemes) to seven members of the Board for the year 2009; to elect UAB PricewaterhouseCoopers as the Company's audit enterprise; to cancel 38,095,242 treasury shares and reduce the Company's authorised share capital from 814,912,760 litas to 776,817,518 litas as well as amend the By-laws of the Company accordingly; to elect Malin Frenning to the Board of the Company for the current term of the Board instead of Anders Gylder who resigned from the Board as of 26 April 2010.

In June 2010, the Board decided to elect to the Remuneration Committee of the Company for the one-year term the following members of the Board: Hakan Dahlstrom, Malin Frenning and Lars Ohnemus.

On 13 July 2010, following the Board's decision to establish a non-profit organisation for management of the Company's Communications History Museum in Kaunas, a non-profit organisation VŠĮ Ryšių Istorijos Muziejus (The Communications History Museum), which is solely founded and owned by TEO LT, AB, was registered at the Register of Legal Entities.

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

In July, following the Board's decision the Company transferred owners' rights of VŠĮ TEO Sportas, a non-profit organisation that supported women basketball team TEO and which was established and solely owned by the Company, to a non-profit organisation VŠĮ Vici Sport. The Company's decision to no longer support the women's basketball team from the next season starting Autumn 2010 was communicated in February 2010.

On 6 September 2010, UAB Baltic Data Center, a subsidiary of TEO LT, AB, acquired a 100 per cent stake in UAB Hostex from AS Martinson Trigon (Estonia). UAB Hostex provides web hosting and data center services to residential and small companies as well as Internet portals. The acquired company was established in 1995 and has 20 employees.

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 September 2010:

| Name, surname | Position in the Board | Employment | Ownership of TEO shares |
|----------------------|---|--|--|
| Håkan Dahlström | Chairman of the Board, member of the Remuneration Committee | TeliaSonera AB (Sweden), President of Business Area Mobility Services | - |
| Malin Frenning | Member of the Board, member of the Remuneration Committee | TeliaSonera AB (Sweden), Deputy Head of Business Area Broadband Services | - |
| Ove Alm | Member of the Board | TeliaSonera AB (Sweden), Business Area Broadband Services, Head of Networks | - |
| Joakim Sundström | Member of the Board, Chairman of the Audit Committee | TeliaSonera AB (Sweden), Business Area Broadband Services, Vice President of Business Control | - |
| 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 | - |
| Lars Ohnemus | Member of the Board, member of the Remuneration Committee | Baltic Property Trust Partner Services A/S (Denmark), Chief Executive Officer; Baltic Management Institute (Lithuania) and Copenhagen Business School (Denmark), Visiting Assoc. Professor | - |
| Martynas Česnavičius | Member of the Board, member of the Audit Committee | Investment funds Amber Trust I and Amber Trust II (Luxemburg), Advisors | UAB Profinance, a 50 per cent owned company, holds 45,000 shares of TEO LT, AB |

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 Lars Ohnemus and Martynas Česnavičius 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.

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

Members of Administration:

| Name, surname | Position in the Company | Current Board Assignments | Ownership of TEO shares |
|----------------------|---|--|--------------------------------|
| Arūnas Šikšta | General Manager (CEO) | International Business School at Vilnius University, member of the Council and lector; Big Brothers Big Sisters International, Philadelphia, U.S.A., member of the Board | - |
| Darius Gudačiauskas | Chief Sales Officer and Deputy General Manager | UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board | - |
| 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; UAB Interdata, a subsidiary of UAB Baltic Data Center, Chairman of the Board; UAB Hostex, a subsidiary of UAB Baltic Data Center, Chairman of the Board | - |
| Giedrius Vegys | Chief Financial Officer | UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board | - |

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | July - September | | January - September | |
|--|------|------------------|----------------|---------------------|----------------|
| | | 2010 | 2009 | 2010 | 2009 |
| Revenue | | 193,885 | 208,766 | 580,882 | 617,630 |
| Other income | | 320 | 1,389 | 983 | 7,482 |
| Employee related expenses | | (37,549) | (38,617) | (114,956) | (124,895) |
| Interconnection expenses | | (31,050) | (35,783) | (89,607) | (87,305) |
| Other operating expenses | | (45,955) | (46,524) | (138,042) | (134,544) |
| Depreciation, amortisation and impairment of fixed assets | 3 | (32,981) | (34,615) | (98,379) | (107,453) |
| Other gain/ (loss) - net | | 381 | 145 | 356 | 961 |
| Operating profit | | 47,051 | 54,761 | 141,237 | 171,876 |
| Finance income | | 350 | 639 | 1,167 | 2,272 |
| Finance costs | | (301) | (1,922) | (394) | (2,289) |
| Finance income/ costs - net | | 49 | (1,283) | 773 | (17) |
| Profit before income tax | | 47,100 | 53,478 | 142,010 | 171,859 |
| Income tax | 8 | (5,499) | (11,125) | (16,856) | (37,617) |
| Profit for the period | | 41,601 | 42,353 | 125,154 | 134,242 |
| Other comprehensive income: | | | | | |
| Other comprehensive income for the period | | - | - | - | - |
| Total comprehensive income for the period | | 41,601 | 42,353 | 125,154 | 134,242 |
| Profit and comprehensive income attributable to: | | | | | |
| Owners of the Parent | | 41,601 | 42,353 | 125,154 | 134,242 |
| Minority interests | | - | - | - | - |
| Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share) | 9 | 0.054 | 0.055 | 0.161 | 0.173 |

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

CONSOLIDATED BALANCE SHEET

| | Note | 30 September 2010 | 31 December 2009 |
|---|------|-------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 647,418 | 651,712 |
| Intangible assets | 3 | 42,324 | 37,076 |
| Investment property | 4 | 10,794 | 10,794 |
| Trade and other receivables | | 1,838 | 7,343 |
| Deferred tax assets | | 727 | - |
| | | 703,101 | 706,925 |
| Current assets | | | |
| Inventories | | 6,731 | 5,528 |
| Trade and other receivables | | 123,035 | 111,230 |
| Current income tax receivable | | 12,071 | 19,792 |
| Held-to-maturity investments | | 41,582 | 100,561 |
| Loans to banks | | 50,318 | 24,738 |
| Cash and cash equivalents | | 155,911 | 181,943 |
| | | 389,648 | 443,792 |
| Total assets | | 1,092,749 | 1,150,717 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 6 | 776,818 | 814,913 |
| Treasury shares | | - | (120,000) |
| Legal reserve | | 81,499 | 81,499 |
| Retained earnings | | 130,339 | 250,222 |
| Total equity | | 988,656 | 1,026,634 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | | 4,533 | 5,121 |
| Deferred tax liabilities | | 8,686 | 6,551 |
| Grants | | - | 560 |
| Deferred revenue and accrued liabilities | | 5,414 | 3,828 |
| | | 18,633 | 16,060 |
| Current liabilities | | | |
| Trade, other payables and accrued liabilities | | 79,564 | 100,854 |
| Current income tax liabilities | | 78 | 277 |
| Borrowings | | 1,303 | 1,042 |
| Provisions | 7 | 4,515 | 5,850 |
| | | 85,460 | 108,023 |
| Total liabilities | | 104,093 | 124,083 |
| Total equity and liabilities | | 1,092,749 | 1,150,717 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| GROUP | Share capital | Treasury shares | Legal reserve | Retained earnings | Total equity |
|--|----------------|------------------|---------------|-------------------|------------------|
| Balance at 1 January 2009 | 814,913 | (120,000) | 81,499 | 259,818 | 1,036,230 |
| Net profit | - | - | - | 134,242 | 134,242 |
| Total recognised income and expenses | - | - | - | 134,242 | 134,242 |
| Dividends paid for 2008 | - | - | - | (178,668) | (178,668) |
| Balance at 30 September 2009 | 814,913 | (120,000) | 81,499 | 215,392 | 991,804 |
| Balance at 1 January 2010 | 814,913 | (120,000) | 81,499 | 250,222 | 1,026,634 |
| Net profit | - | - | - | 125,154 | 125,154 |
| Total comprehensive income for the period | - | - | - | 125,154 | 125,154 |
| Dividends paid for 2009 | - | - | - | (163,132) | (163,132) |
| Cancellation of treasury shares and reduction of share capital | (38,095) | 120,000 | - | (81,905) | - |
| Balance at 30 September 2010 | 776,818 | - | 81,499 | 130,339 | 988,656 |

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

CONSOLIDATED STATEMENT OF CASH FLOW

| | January - September | |
|---|---------------------|------------------|
| | 2010 | 2009 |
| Operating activities | | |
| Profit for the period | 125,154 | 134,242 |
| Income tax | 16,856 | 37,617 |
| Depreciation, amortisation and impairment of fixed assets | 98,379 | 107,453 |
| Other gains and losses | (356) | (961) |
| Write-off of property, plant and equipment and intangible assets | 254 | 369 |
| Interest income | (2,150) | (9,754) |
| Interest expenses | 175 | 233 |
| Other non-cash transactions | 176 | - |
| Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries): | | |
| Inventories | (1,199) | 4,166 |
| Trade and other receivables | (5,898) | 1,488 |
| Trade, other payables and accrued liabilities | (9,774) | (16,427) |
| Cash generated from operations | 221,617 | 258,426 |
| Interest paid | (175) | (233) |
| Interest received | 2,397 | 2,272 |
| Tax paid | (8,847) | (33,315) |
| Net cash from operating activities | 214,992 | 227,150 |
| Investing activities | | |
| Purchase of property, plant and equipment (PPE) and intangible assets | (101,428) | (113,531) |
| Proceeds from disposal of PPE and intangible assets | 481 | 1,098 |
| Acquisition of held-to-maturity investments, amounts loaned to banks | (219,049) | (400,450) |
| Disposal of held-to-maturity investments, repayment of amounts loaned to banks | 252,149 | 449,200 |
| Acquisition of subsidiaries | (9,217) | - |
| Net cash used in investing activities | (77,064) | (63,683) |
| Financing activities | | |
| Repayment of borrowings | (828) | (624) |
| Dividends paid to shareholders of the Company | (163,132) | (178,668) |
| Net cash used in financing activities | (163,960) | (179,292) |
| Increase (decrease) in cash and cash equivalents | (26,032) | (15,825) |
| Movement in cash and cash equivalents | | |
| At the beginning of the year | 181,943 | 149,898 |
| Increase (decrease) in cash and cash equivalents | (26,032) | (15,825) |
| At the end of the period | 155,911 | 134,073 |

(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 nine months period ending 30 September 2010 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 2009.

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 September 2010 are not audited. Financial statements for the year ended 31 December 2009 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 5.

| | Broadband segment | | Other segment | | Eliminations | | Total Group | |
|---------------------------------|--------------------------|----------------|--------------------------|---------------|--------------------------|-------------|--------------------------|----------------|
| | January-September | | January-September | | January-September | | January-September | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Segment revenue | 552,535 | 597,797 | 69,120 | 61,825 | (40,773) | (41,992) | 580,882 | 617,630 |
| Inter-segment revenue | (7,487) | (8,159) | (33,286) | (33,833) | 40,773 | 41,992 | - | - |
| Revenue from external customers | 545,048 | 589,638 | 35,834 | 27,992 | - | - | 580,882 | 617,630 |
| Profit for the period | 125,354 | 146,538 | 7,846 | 3,772 | (8,046) | (16,068) | 125,154 | 134,242 |
| Total Assets | 1,059,783 | 1,074,521 | 94,049 | 97,431 | (61,812) | (86,378) | 1,092,020 | 1,085,573 |

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

3 Property, plant and equipment and intangible assets

| | Property, plant and equipments | Intangible assets |
|--|-----------------------------------|----------------------|
| Nine months ended 30 September 2009 | | |
| Opening net book amount as at 31 December 2008 | 669,413 | 41,792 |
| Additions | 72,914 | 1,341 |
| Disposals and retirements | 513 | - |
| Reclassification | (903) | - |
| Depreciation and amortisation charge | 99,016 | 8,437 |
| Closing net book amount as at 30 September 2009 | 641,895 | 34,696 |
| Nine months ended 30 September 2010 | | |
| Opening net book amount as at 31 December 2009 | 651,712 | 37,076 |
| Additions | 87,638 | 11,161 |
| Acquisition of subsidiaries | 1,717 | 127 |
| Disposals and retirements | 379 | - |
| Reclassification | (2,547) | 1,615 |
| Depreciation and amortisation charge | 90,723 | 7,655 |
| Closing net book amount as at 30 September 2010 | 647,418 | 42,324 |

4 Investment property

As at 30 September 2010 the Group as investment property accounted construction in progress, which was reclassified from assets held for sale in end of 2009.

5 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 September 2010 | 31 December 2009 | |
| UAB Lintel | Lithuania | 100% | 100% | Provider of 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 Interdata | Lithuania | 100% | 100% | The webhosting services providing subsidiary of UAB Baltic Data Center. |
| UAB Hosting | Lithuania | 100% | 100% | The webhosting services providing subsidiary of UAB Interdata. |

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

| | | | | |
|----------------------------------|-----------|------|------|---|
| UAB Hostex | Lithuania | 100% | - | The webhosting and data center services providing subsidiary of UAB Baltic Data Center acquired in September 2010. |
| Baltic Data Center SIA | Latvia | 100% | 100% | The dormant subsidiary of UAB Baltic Data Center. |
| UAB Kompetencijos Ugdymo Centras | Lithuania | 100% | 100% | The dormant subsidiary that used to provide training and consultancy services. |
| UAB Verslo Investicijos | Lithuania | 100% | 100% | The subsidiary for implementation of the investment project. |
| VšĮ TEO Sportas | Lithuania | - | 100% | Through this non-profit organisation the Company used to support a women's basketball team. In July 2010 this entity was sold to the third party. |
| VšĮ Ryšių Istorijos Muziejus | Lithuania | 100% | - | A non-profit organisation established by the Company in July 2010 for management of the Company's Communications History Museum. |

6 Share capital and treasury shares

Following the decision of the Annual General Meeting of Shareholders, the Company's authorised share capital was reduced from LTL 814,912,760 to LTL 776,817,518 by cancelling 38,095,242 treasury shares. From September 2010, the authorised share capital comprises 776,817,518 ordinary shares of LTL 1 par value each. All shares are fully paid up.

The Group treated the Company's shares held by the Company as treasury shares and directly deducted them from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120 million.

7 Provisions

The Group and the Company established a provision as of 31 December 2009 for restructuring costs. The restructuring provision comprises compensations to employees as a result of the planned Company restructuring.

Provisions for restructuring utilization during January – September 2010:

| | |
|---|--------------|
| Opening net book amount at 31 December 2009 | 5,850 |
| Additions | - |
| Used provisions | 1,335 |
| Closing net book amount at 30 September 2010 | 4,515 |

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

8 Income tax

The tax expenses for the period comprise current and deferred tax.

Profit for 2010 is taxable at a rate of 15% in accordance with Lithuanian regulatory legislation on taxation (2009: 20%). A new profit tax rate at 15% was adopted by the Lithuanian Parliament on 28 December of 2009.

9 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.

For calculation of the weighted average number of shares in issue (thousands) treasury shares (38,095) were always deducted from the number of ordinary shares (814,913), therefore the treasury shares cancellation had no effect on the weighted average number of shares and for the both reporting periods amounted to 776,818.

| | January – September | |
|---|----------------------------|----------------|
| | 2010 | 2009 |
| Net profit | 125,154 | 134,242 |
| Weighted average number of ordinary shares in issue (thousands) | 776,818 | 776,818 |
| Earnings per share (LTL) | 0.161 | 0.173 |

10 Dividends per share

A dividend that relates to the period to 31 December 2009 was approved the Annual General Meeting of Shareholders on 26 April 2010. The total amount of allocated dividend, that was paid off in May 2010 was 163,132 thousand litas or 0.21 litas per ordinary share.

11 Business combination

On 6 September 2010, the Group acquired a 100% stake in UAB Hostex, a webhosting and data center service provider. The acquired business contributed revenues of LTL 466 thousand and net profit LTL 42 thousand to the Group for the period from 6 September 2010 to 30 September 2010. If the acquisition had occurred on 1 January 2010, Group revenue would have been increased by LTL 3,763 thousand, and net profit would have been increased by LTL 133 thousand.

Details of net assets acquired and goodwill are as follows:

| | |
|-----------------------------------|-------|
| Purchase consideration | 8,450 |
| Fair value of net assets acquired | 1,733 |
| Goodwill | 6,717 |

The goodwill is attributable to the economies of scale expected from combining the operations of the Group and UAB Hostex.

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

The assets and liabilities arising from the acquisition as at the date of acquisition are as follows:

| | Fair value | Acquiree's carrying amount |
|--|-------------------|-----------------------------------|
| Cash and cash equivalents | 436 | 436 |
| Property, plant and equipment | 1,717 | 1,717 |
| Intangible assets | 127 | 127 |
| Deferred tax assets | 630 | 630 |
| Inventories | 4 | 4 |
| Receivables | 342 | 342 |
| Payables | (1,022) | (1,022) |
| Borrowings | (501) | (501) |
| Net assets acquired | 1,733 | 1,733 |
| Purchase consideration settled in cash | | 8,450 |
| Cash and cash equivalents in subsidiaries acquired | | (436) |
| Cash outflow on acquisition | | 8,014 |

12 Related party transactions

The Group is controlled by TeliaSonera AB (publ) which, after the cancellation of treasury shares, directly owns 5.14% and indirectly, through its subsidiary Amber Teleholding A/S, 62.94% of the Company's shares. In total, the ultimate parent of the Group, TeliaSonera AB (publ), owns 68.08% of the Company's shares. The following transactions were carried out with related parties:

Sales and purchases from TeliaSonera AB (publ) and its subsidiaries:

| | January - September | |
|--|----------------------------|---------------|
| | 2010 | 2009 |
| Sales of telecommunication and other services | 30,667 | 33,920 |
| Total sales of telecommunication and other services | 30,667 | 33,920 |
| Purchases of assets | 1,099 | 10 |
| Purchases of services | 22,202 | 23,804 |
| Total purchases of assets and services | 23,301 | 23,814 |

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

| | As at 30 September | |
|---|---------------------------|--------------|
| | 2010 | 2009 |
| Receivables from related parties | 2,590 | 2,727 |
| Accrued revenue from related parties | 2,896 | 1,979 |
| Total receivables and accrued revenue from related parties | 5,486 | 4,706 |
| Payables to related parties | 2,674 | 819 |
| Accrued expenses to related parties | 88 | 172 |
| Total payables and accrued expenses to related parties | 2,762 | 991 |

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

TEO Group does not have loans granted/received to/from related parties.

The total amount of annual compensation (tantiemes) paid to the seven members of the Board of the Company during January-September 2010 amounted to LTL 378 thousand (2009: LTL 378 thousand).

13 Events after balance sheet day

Following the decision of the Annual General Meeting of shareholders held on 26 April 2010 regarding the Company's registered office, TEO registered office address from 1 November 2010 changes from Savanorių ave. 28, Vilnius, to Lvovo str. 25, Vilnius.

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Giedrius Vegys, 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 period ended 30 September 2010, 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.

General Manager



Arūnas Šikšta

Chief Financial Officer



Giedrius Vegys

Vilnius, 21 October 2010