



TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014
(UNAUDITED)

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

TABLE OF CONTENT

MANAGEMENT REPORT	4
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	15
CONSOLIDATED BALANCE SHEET	16
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	17
CONSOLIDATED STATEMENT OF CASH FLOW	18
NOTES TO THE FINANCIAL STATEMENTS	19
Accounting policies	19
Segment information	19
Property, plant and equipment and intangible assets	20
Investments in subsidiaries and associates	20
Share capital	21
Income tax	21
Earnings per share	21
Dividends per share	21
Related party transactions	22
MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS	23

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

MANAGEMENT REPORT

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

"From 1 June 2014 TEO Group has a new organization in place, with two main units in B2C and B2B, supported by Technology & IT and staff units. This will improve our possibilities to respond faster to the customers' needs and to create solutions and services that are easy to use. The third quarter of 2014 was the first whole quarter with this new organization in place, and we can already see effects of new ways of working, with historic high sales of IPTV and broadband Internet customers, and improved markets shares.

Our EBITDA margin was almost in line with last year, and for the first nine months of 2014 EBITDA margin (excluding non-recurring items) reached 42.6 per cent (42.9 a year ago). Operating free cash flow (operating cash flow excluding capital investments) in January-September 2014 was by 6 per cent less than a year ago.

In third quarter of 2014, the growth of sales in IPTV service accelerated and the third quarter showed the best IPTV net increase during the last two years, with an increase of 7.5 thousands new IPTV customers. Compared y-o-y our IPTV customer base increased by 20.7 per cent. We also offered Internet TV service "Interneto.tv" for Omnitel mobile customers and in July introduced for our IPTV customers a possibility to view their photos, video and audio recordings directly on a TV screen.

Over the year broadband fiber business grow by 11.5 per cent (the number of active connected households), and the number of TEO Wi-Fi connections increased by 91 per cent and reached 126 thousand at the end of the third quarter. Internet connection over the fiber-optic access network increased by 20 thousand customers and amounted to 39.5 per cent of all TEO broadband Internet connections (including Wi-Fi connections) or 53.1 per cent if excluding Wi-Fi connections.

In the third quarter revenue from Internet and TV services continued to grow by 3.1 and 3.0 per cent, respectively, as well as recorded high growth in equipment sales during July-September. Share of revenue from non-voice services (IP & IT services) is increasing, and for the nine months of 2014 the share of non-voice revenue reached 60.2 per cent.

In terms of total revenue, the decline was 5.1 per cent during the nine months of 2014, and for the third quarter of 2014 the decline was 5.8 per cent, where residential customers' segment declined by 2.2 per cent, business customers' segment by 10.7 per cent and Business to Operators by 3.5 per cent.

Negative impact on revenue during the third quarter of 2014 was still the decrease in revenue from fixed voice as disconnection of telephone lines continues. During the last twelve months voice subscription base decreased by 7.4 per cent, outgoing voice traffic declined by 14.8 per cent, and revenue from voice telephony services in the third quarter declined by 11.3 per cent. Positive though was that the third quarter in terms of number of decreased voice subscriptions was the quarter with lowest drop of subscriptions so far this year.

Our efficiency improvement program and the setup of our new organization resulted that total operating expenses for the nine months of 2014 were by 1.4 per cent lower than total operating expenses a year ago, in spite of non-recurring redundancy charge in January-September 2014. If excluding non-recurring items, the total operating expenses were by 4.6 per cent down."

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

Key figures of TEO Group

Financial figures	January - September		Change (%)
	2014	2013	
Revenue (LTL thousand)	513,945	541,785	(5.1)
EBITDA (LTL thousand)	204,396	227,607	(10.2)
EBITDA margin (%)	39.8	42.0	
<i>EBITDA excluding non-recurring items (LTL thousand)</i>	<i>219,108</i>	<i>232,332</i>	<i>(5.7)</i>
<i>EBITDA margin excluding non-recurring items (%)</i>	<i>42.6</i>	<i>42.9</i>	
Operating profit (LTL thousand)	110,948	130,889	(15.2)
Operating profit margin (%)	21.6	24.2	
Profit before income tax (LTL thousand)	111,160	131,204	(15.3)
Profit before income tax (%)	21.6	24.2	
Profit for the period (LTL thousand)	99,373	118,230	(15.9)
Profit for the period margin (%)	19.3	21.8	
Earnings per share (LTL)	0.128	0.152	
Number of shares (thousand)	776,818	776,818	
Cash flow from operations (LTL thousand)	184,959	209,403	(11.7)
Operating free cash flow (LTL thousand)	107,368	114,194	(6.0)

Financial ratios	30-09-2014	30-09-2013
Return on capital employed (%)	16.4	16.7
Return on average assets (%)	14.7	15.0
Return on shareholders' equity (%)	14.7	15.2
Gearing ratio (%)	(21.4)	(19.1)
Debt to equity ratio (%)	0.2	0.3
Current ratio (%)	348.3	454.1
Rate of turnover of assets (%)	64.1	65.2
Equity to assets ratio (%)	89.5	91.6

Operating figures	30-09-2014	30-09-2013	Change (%)
Number of fixed telephone lines in service	533,393	575,778	(7.4)
Number of broadband Internet connections (FTTH, FTTB, DSL and other excluding Wi-Fi)	364,897	352,292	3.6
Number of TV services customers	181,283	171,041	6.0
Number of personnel (head-counts) at the end of period	2,651	3,053	(13.2)
Number of full-time employees at the end of the period	2,378	2,705	(12.1)

Breakdown of TEO Group revenue by customers	July - September		Change (%)	January - September		Change (%)
	2014	2013		2014	2013	
Business to Consumer	78,958	80,732	(2.2)	238,241	244,479	(2.6)
Business to Business	66,028	73,916	(10.7)	197,871	213,488	(7.3)
Business to Operators	25,698	26,637	(3.5)	77,833	83,818	(7.1)
Total	170,684	181,285	(5.8)	513,945	541,785	(5.1)

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

Breakdown of TEO Group revenue by services	July - September		Change (%)	January - September		Change (%)
	2014	2013		2014	2013	
Voice telephony services	66,031	74,429	(11.3)	204,741	232,616	(12.0)
Internet services	45,942	44,554	3.1	138,298	133,193	3.8
Data communication and network capacity services	19,245	21,021	(8.5)	59,014	62,411	(5.4)
TV services	15,698	15,246	3.0	46,417	45,778	1.4
IT services	20,198	20,856	(3.2)	49,478	51,146	(3.3)
Other services	3,570	5,179	(31.1)	15,997	16,641	(3.9)
Total	170,684	181,285	(5.8)	513,945	541,785	(5.1)

REVENUE

During the third quarter of 2014 revenue from Internet, TV services and sales of equipment continued to grow while revenue from voice telephone, data communication, network capacity, IT and other services went down.

The total consolidated TEO Group's revenue for the third quarter of 2014 was LTL 171 million, a decrease by 5.8 per cent over the total revenue of LTL 181 million for the third quarter of 2013. The **total revenue** for the nine months of 2014 was LTL 513 million, a decrease by 5.1 per cent over the total revenue of LTL 541 million for the nine months of 2013.

Share of revenue from Internet, IT and TV services from the total amount of revenue continued to grow and reached 26.9, 9.6 and 9 per cent of total revenue for the nine months of 2014, respectively. Share of revenue from voice telephony services contracted to 39.8 per cent while share of revenue from data communication and network capacity as well as from other services remained the same as a year ago and amounted to 11.5 and 3.1 per cent, respectively.

Lower level of revenue from networks' interconnection services and continuation of decline in number of telephone lines in service and consequently lower traffic volume resulted in decrease of revenue from **voice telephony services**.

Over the year revenue from networks' interconnection services went down by 7 per cent, while revenue from voice telephony services excluding networks' interconnection services went down by 14.3 per cent.

During January-September 2014, the total number of main telephone lines in service decreased by 31.9 thousand, while over the last twelve months – by 42.4 thousand lines.

Total voice telephony traffic volume generated by residential and business customers during the nine months of 2014, compared with the nine months of 2013, decreased by 15.5 and 12.1 per cent, respectively, while total volume of calls to mobile operators' networks increased by 28.9 per cent due to attractive payment plans for calls to mobile networks.

During January-September 2014 total number of **broadband Internet access** (excluding Wi-Fi) users increased by 8.2 thousand, while over the last twelve months – by 12.6 thousand.

Over the year the number of Internet connections over the next-generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 11.5 per cent and reached 194 thousand at the end of September 2014, while the number of copper DSL connections eased by 4.2 per cent to 171 thousand. During the last twelve months the number of TEO Wi-Fi connections almost doubled and amounted to 126 thousand as of 30 September 2014.

By the end of the nine months of 2014 the number Internet connection over the fiber-optic access network amounted to 39.5 per cent of all 491 thousand TEO broadband Internet connections (including Wi-Fi).

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

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

Starting from July 2014 thousands of viewers and participants of events at the Vilnius Siemens Arena will be able to use, free of charge, the wireless Internet "TEO Wi-Fi". This unique wireless Internet solution is the first project of such a scale in an indoor entertainment arena in Lithuania that provides an opportunity for all event viewers to use Wi-Fi simultaneously.

Compared with the nine months of 2013, revenue from **data communication** services alone eased by 1.6 per cent, while revenue from **network capacity** services alone declined by 9.9 per cent.

During January-September 2014, the number of IPTV services users increased by 17.7 thousand, while over the year by 21.2 thousand or 20.7 per cent, and by the end of September 2014 amounted to 124 thousand. During the last twelve months number of digital terrestrial television (DVB-T) users contracted by 11 thousand and amounted to 57 thousand. Over the year the total number of **television** service customers went up by 10.2 thousand.

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

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

Starting from July 2014 customers of TEO IPTV are able to view their photos, video and audio recordings on a TV screen. Before the launch of this service TEO customers could access their personal files kept in the "Storage" only on the Internet but now the files are accessible through TV menu as well.

Consolidated TEO Group revenue from **IT services** was generated from data center, information system management and web-hosting services provided to local and multinational enterprises by subsidiaries UAB Baltic Data Center (BDC) and UAB Hostex, and equipment sales and IT services provided by the Company.

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

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

Over the year TEO Group revenue from electronic equipment sales more than doubled.

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

Over the year revenue from other non-core business services grew by 8.1 per cent, while revenue from Contact Center services went down by 14.6 per cent.

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

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

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

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

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the second quarter of 2014 increased by 4.1 compared with the first quarter of 2014 but went down by 1.5 per cent compared with the second quarter of 2013, and amounted to LTL 529 million. During the first half of 2014 the total revenue of the market amounted to LTL 1,038 million, a decrease by 3.8 per cent over the first half of 2013.

	TEO market share (%)			
	in terms of customers		in terms of revenue	
	Q2 2014	Q2 2013	Q2 2014	Q2 2013
Fixed voice telephony services	90.8	89.8	94.0	94.2
Fixed Internet access services	52.4	49.8	55.8	55.5
Internet access services (total)	39.1	36.2	44.0	42.6
Digital pay-TV services	42.1	41.7	42.5	43.0
Pay-TV services (total)	24.6	23.3	29.6	29.0
Network interconnection services	n/a	n/a	26.3	30.9
Data communication services	n/a	n/a	56.7	57.2
Leased line services	n/a	n/a	58.6	61.0

On 30 June 2014 broadband Internet penetration per 100 residents of Lithuania reached 40.3 per cent (36.7 per cent a year ago), while the penetration of broadband Internet using fixed connection was 30.1 per cent (26.7 per cent a year ago). Digital pay-TV penetration per 100 households was 32.2 per cent (33.1 per cent a year ago) and the penetration of fixed voice telephony lines per 100 residents – 20 per cent (21.6 per cent a year ago).

OPERATING EXPENSES

Total operating expenses of the Group for the third quarter of 2014 were by 3.1 per cent lower than total operating expenses for the third quarter of 2013. Total operating expenses for the nine months of 2014 were by 1.4 per cent lower than total operating expenses for the same period year ago in spite of non-recurring redundancy charge in January-September 2014.

During the third quarter of 2013 **cost of goods sold** increased by 2.1 per cent, compared with the third quarter of 2013, due to higher volumes of transit traffic, but for the nine months of 2014 they decreased by 0.1 per cent, compared with the same period in 2013.

Employee-related expenses excluding one-time redundancy pay-outs for the third quarter and the nine months of 2014 were lower by 7.2 and 8.6 per cent, respectively, than a year ago. During the first quarter of 2014 the Company implemented efficiency improvement program under which up to 130 employees of TEO Group terminated their employment contracts on the base of mutual agreement. During the second quarter of 2014 a new organisational structure of the Company was introduced and majority of employees of Baltic Data Center was moved into TEO. The total cost of redundancy pay-outs during the nine months of 2014

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

amounted to LTL 14.7 million. In spite of that employee-related expenses including non-recurring items for the third quarter and the nine months of 2014 were down by 5.2 and 0.3 per cent, respectively.

During the nine months of 2014, the total number of employees (headcount) in TEO Group went down by 383, whereof 257 in Lintel due to termination of some projects. Over the year the total number of employees in TEO Group decreased by 402 (mainly in Lintel) from 3,053 to 2,651. In terms of full-time employees, the total number of employees in TEO Group during January-September of 2014 went down by 349 (whereof 227 in Lintel), while over the last twelve months – by 327 from 2,705 to 2,378.

Other expenses for the third quarter and the nine months of 2014 decreased by 11 and 6.3 per cent, respectively.

EARNINGS

EBITDA for the third quarter of 2014 went down by 9.6 per cent to LTL 71 million over LTL 78 million in the third quarter of 2013. EBITDA margin amounted to 41.4 per cent (43.1 per cent in 2013).

EBITDA for the nine months of 2014 decreased by 10.2 per cent to LTL 204 million over LTL 228 million for the same period year ago. EBITDA margin declined and amounted 39.8 per cent (42 per cent in 2013). Over the year EBITDA excluding non-recurring items went down by 5.7 per cent while EBITDA margin excluding non-recurring items stood at 42.6 per cent.

Depreciation and amortisation charges during the third quarter of 2014 increased by 0.9 per cent, but for the nine months of 2014 went down by 3.4 per cent, and in January-September of 2014 amounted to 18.2 per cent of total revenue (17.9 a year ago).

Operating profit (EBIT) for the third quarter of 2014 decreased by 16.5 per cent and for the nine months of 2014 – by 15.5 per cent. Operating profit margin for the third quarter of 2014 was 23 per cent (25.9 per cent a year ago) and for the nine months of 2014 – 21.6 per cent (24.2 per cent in 2013). Operating profit excluding non-recurring items in January-September 2014 was by 7.3 per cent lower than for the same period in 2013, and operating profit margin excluding non-recurring items was 24.5 per cent.

Net financial income in January-September of 2014 was by 32.8 per cent lower than year ago.

Profit before income tax for the third quarter of 2014 went down by 16.4 per cent and amounted to LTL 39 million (LTL 47 million a year ago). Profit before income tax for the nine months of 2014 was down by 15.3 per cent and amounted to LTL 111 million (LTL 131 million a year ago). Profit before income tax excluding non-recurring items was by 7.4 per cent lower than during the nine months of 2013.

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the nine months of 2014 amounted to LTL 6.3 million (LTL 8.2 million in 2013). **Income tax expenses** for the nine months of 2014 were by 9.1 per cent lower than a year ago.

Profit for the period in July-September 2014 amounted to LTL 36 million, while a year ago it was LTL 43 million, a decrease by 16.3 per cent. The profit margin was 20.9 per cent (23.5 per cent a year ago). Profit for the period in January-September 2014 amounted to LTL 99 million, a decrease by 15.9 per cent over the profit of LTL 118 million for the same period year ago. The profit margin was 19.3 per cent (21.8 per cent a year ago). Profit for the period excluding non-recurring items was by 7.2 per cent lower than in January-September 2013 and profit margin excluding non-recurring items was 22.2 per cent.

BALANCE SHEET AND CASH FLOW

During January-September 2014 **total assets** of TEO Group decreased by 6 per cent mainly due to payment of dividends for the year 2013.

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

Total **non-current** assets declined by 3.6 per cent and amounted to 74 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 29 April 2014, dividend of the total amount of LTL 147.6 million or LTL 0.19 per share for the year 2013 were paid to the shareholders of the Company. Therefore, total **current assets** decreased by 12.1 per cent and amounted to 26 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 16.9 per cent of total assets.

Due to dividend payment, **shareholders' equity** eased by 4.6 per cent, but still amounted to 90.8 per cent of the total assets.

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

At the end of September 2014 the total amount of **borrowings** (financial liabilities related to financial leasing of premises) amounted to LTL 1.5 million while cash and held-to-maturity investments amounted to LTL 185 million.

Net **cash flow from operating activities** in the nine months of 2014 was by 11.7 per cent lower than that for same period of 2013. **Operating free cash flow** (operating cash flow excluding capital investments) in January-September 2014 was by 6 per cent less than a year ago.

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

During the January-September of 2014 **capital investments** amounted to LTL 62 million (LTL 82 million a year ago). The majority of capital investments (91 per cent or LTL 56 million) went to development of the next generation fiber-optic access network and expansion of the core network. The remaining part was invested into IT systems (LTL 4 million) and other.

As a result by the end of September, TEO had 821 thousand households passed (790 thousand a year ago), or almost two thirds of the country's households, by the FTTH network.

Cash and cash equivalents during January-September 2014 remained almost on the same level – a decline LTL 274 thousand.

SHARE CAPITAL AND SHAREHOLDERS

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

The Annual General Meeting of Shareholders, held on 29 April 2014, decided to reduce the Company's authorised capital by 194,204,380 litas from 776,817,518 litas to LTL 582,613,138 litas. The purpose of reduction of the Company's authorised capital – payment of the Company's funds to all shareholders in proportion to the nominal value of shares owned by the property right by the shareholder. The Company's authorised capital shall be reduced by way of cancelling of the Company's shares with the nominal value equal to the reduction amount, i.e. 194,204,380 litas. As of 30 September 2014, the authorized capital was not reduced yet. On 15 October 2014 the Company submitted documents regarding the reduction of authorized capital to the Register of Legal Entities. Following the Listing Rules of NASDAQ OMX Vilnius stock exchange trading in TEO LT, AB shares in NASDAQ OMX Vilnius stock exchange is suspended starting from 13 October 2014 until the day of adjustment of the general financial instruments account at the Central Securities Depository of Lithuania.

776,817,518 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List

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

of NASDAQ OMX Vilnius stock exchange (code: TEO1L). NASDAQ OMX Vilnius stock exchange is a home market for TEO shares.

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

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

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

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

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

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.666	2.900	2.417	2.565	2.718	8,019,529	21,793,323
EUR	0.772	0.840	0.700	0.743	0.787	8,019,529	6,311,783

TEO market capitalisation as on 30 September 2014 was LTL 1,993 million (EUR 577 million) while a year ago it amounted to LTL 2,081 million (EUR 603 million).

OTHER MATERIAL INFORMATION

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

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

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

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

appointed Lars Bolin as Head of Finance and Strategic Planning from 23 June 2014 and Andrius Šemeškevičius as Head of Technology and IT from 18 August 2014.

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

The Annual General Meeting of shareholders, held on 29 April 2014, decided to approve the audited annual consolidated financial statements of the Company for the year 2013 and to allocate the Company's profit for the year 2013 as follows: from the Company's distributable profit of LTL 150,145 thousand to allocate LTL 147,595 thousand for the dividend payment for the year 2013 or LTL 0.19 dividend per share. For annual payments (tantiemes) to six members of the Board for the year 2013 to allocate LTL 324 thousand, i.e. LTL 54 thousand per one member of the Board. Shareholders upon resignation of Malin Frenning, Jens Lööw and Mats Lillienberg from the Board of the Company elected Robert Andersson, Stefan Block and Claes Nycander (all proposed by TeliaSonera AB) to the Board of the Company for the current term of the Board. The General Meeting also elected UAB „Deloitte Lietuva” as the Company's audit enterprise to perform the audit of the annual consolidated financial statements of the Company for the year 2014 and to make the assessment of the consolidated annual report of the Company for the year 2014.

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

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

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

Following the Order of Director of Communications Regulatory Authority of the Republic of Lithuania, TEO ceased to be recognized as undertaking having significant market power on the markets of National transit services in fixed public telephone network and International transit services in fixed public telephone network.

In August 2014, Lithuanian Court of Appeal decided to retain in force the decision of Vilnius District Court, confirming that the land lot at 21A Lvovo str. is lawfully used by TEO Group. The appeal to the Court was concerning the agreement on lease of the state owned land, located at 21A Lvovo str. in Vilnius. Until 2007 on this land lot there were buildings owned by TEO Group, most of which were demolished in preparation for construction of the Company's new headquarters building. From 2006 due to the judicial processes the Company could not carry out activities on this land lot leased from the municipality. Currently TEO is considering further possibilities for the use of this site.

In September 2014, four Lithuanian telecommunication companies Bitė Lietuva, Omnitel, Tele2 and TEO have established a joint not for profit organization “Numerio perkėlimas” (“Number portability”). This not for profit organization intends to participate in the public tender of Communications Regulatory Authority (CRA) of the Republic of Lithuania on election of number portability administrator for central database of telephone numbers.

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

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 2014:

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

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

Management Team as of 30 September 2014:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Kęstutis Šliužas	General Manager	-	-
Aleksandras Samuchovas	Head of Business to Business	UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board and General Manager; UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Hostex, a subsidiary of UAB Baltic Data Center, Chairman of the Board	-
Nerijus Ivanauskas	Head of Business to Consumer	UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board; UAB Lietuvos Monetų Kalykla (Lithuanian Mint), member of the Board	-
Andrius Šemeškevičius	Head of Technology and IT	-	11,682 shares or 0.0015% of the total number of TEO shares and votes

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

Lars Bolin	Head of Finance and Strategic Planning	UAB Kompetencijos Ugdymo Centras, a subsidiary of TEO LT, AB, Chairman of the Board and General Manager	-
Ramūnas Bagdonas	Head of Human Recourses	-	-
Eglė Gudelytė-Harvey	Head of Legal Affairs	UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; Vilnius International School, Chairwoman of the Council	-
Antanas Bubnelis	Head of Corporate Affairs	BMI Alumni Association (Lithuania), member of the Council	-
Giedrė Tarbūnienė	Head of Process	BMI Alumni Association (Lithuania), member of the Council	-
Vytautas Bučinskas	Head of Risk Management	-	-
Kastytis Kmitas	Head of Internal Audit	-	5,603 shares or 0.0007% of the total number of TEO shares and votes

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	July - September		January - September	
		2014	2013	2014	2013
Revenue		170,684	181,285	513,945	541,785
Cost of goods sold		(46,382)	(45,415)	(129,303)	(129,484)
Employee-related expenses		(35,876)	(37,859)	(125,101)	(125,497)
Other expenses		(18,235)	(20,482)	(56,493)	(60,286)
Other income		62	79	263	263
Other gain/ (loss) - net		346	450	1,085	826
Depreciation, amortisation and impairment of fixed assets	3	(31,369)	(31,087)	(93,448)	(96,718)
Operating profit		39,230	46,971	110,948	130,889
Finance income		187	179	604	630
Finance costs		(100)	(136)	(392)	(316)
Finance income/ costs - net		87	43	212	314
Profit before income tax		39,317	47,014	111,160	131,203
Income tax	6	(3,622)	(4,393)	(11,787)	(12,973)
Profit for the period		35,695	42,621	99,373	118,230
Other comprehensive income:					
Other comprehensive income for the period				-	-
Total comprehensive income for the period		35,695	42,621	99,373	118,230
Profit and comprehensive income attributable to:					
Owners of the Parent		35,695	42,621	99,373	118,230
Minority interests					
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	7	0.046	0.055	0.128	0.152

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

CONSOLIDATED BALANCE SHEET

	Note	30 September 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	3	744,807	771,895
Intangible assets	3	45,076	50,259
Investment property		10,794	10,794
Investments in associated and subsidiaries		3	-
Trade and other receivables		6,198	3,987
Deferred tax assets		29	236
		806,907	837,171
Current assets			
Inventories		3,913	2,203
Trade and other receivables		93,102	96,174
Current income tax receivable		2,439	166
Held-to-maturity investments		40,064	79,698
Cash and cash equivalents		144,617	144,891
		284,135	323,132
Total assets		1,091,042	1,160,303
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	5	776,818	776,818
Legal reserve		77,682	77,682
Retained earnings		135,865	184,087
Total equity		990,365	1,038,587
LIABILITIES			
Non-current liabilities			
Borrowings		478	1,266
Deferred tax liabilities		25,401	22,183
Deferred revenue and accrued liabilities		4,213	5,479
		30,092	28,928
Current liabilities			
Trade, other payables and accrued liabilities		69,539	91,700
Current income tax liabilities		-	72
Borrowings		1,046	1,016
		70,585	92,788
Total liabilities		100,677	121,716
Total equity and liabilities		1,091,042	1,160,303

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2013	776,818	77,682	190,300	1,044,800
Net profit	-	-	118,230	118,230
Total comprehensive income for the period	-	-	118,230	118,230
Dividends paid for 2012	-	-	(155,364)	(155,364)
Balance at 30 September 2013	776,818	77,682	153,166	1,007,666
Balance at 1 January 2014	776,818	77,682	184,087	1,038,587
Net profit	-	-	99,373	99,373
Total comprehensive income for the period	-	-	99,373	99,373
Dividends paid for 2013	-	-	(147,595)	(147,595)
Balance at 30 September 2014	776,818	77,682	135,865	990,365

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - September	
	2014	2013
Operating activities		
Profit for the period	99,373	118,230
Income tax	11,787	12,973
Depreciation, amortisation and impairment of fixed assets	93,448	96,718
Other gains and losses	(1,085)	(826)
Interest income	(599)	(630)
Interest expenses	233	94
Other non-cash transactions	426	599
Changes in working capital:		
Inventories	(1,710)	(4,949)
Trade and other receivables	862	7,177
Trade, other payables and accrued liabilities	(7,709)	(10,563)
Cash generated from operations	195,026	218,823
Interest paid	(233)	(94)
Interest received	873	856
Tax paid	(10,707)	(10,182)
Net cash from operating activities	184,959	209,403
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(77,591)	(95,209)
Proceeds from disposal of PPE and intangible assets	1,088	773
Acquisition of held-to-maturity investments	(60,000)	(93,507)
Disposal of held-to-maturity investments	99,623	85,178
Net cash used in investing activities	(36,880)	(102,765)
Financing activities		
Repayment of borrowings	(758)	(729)
Dividends paid to shareholders of the Company	(147,595)	(155,364)
Net cash used in financing activities	(148,353)	(156,093)
Increase (decrease) in cash and cash equivalents	(274)	(49,455)
Movement in cash and cash equivalents		
At the beginning of the year	144,891	175,598
Increase (decrease) in cash and cash equivalents	(274)	(49,455)
At the end of the period	144,617	126,143

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

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

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

2 Segment information

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

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

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

	Broadband segment		Other segment		Eliminations		Total Group	
	January-September		January-September		January-September		January-September	
	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	486,584	504,818	57,269	69,202	(29,908)	(32,235)	513,945	541,785
Inter-segment revenue	(10,801)	(8,250)	(19,107)	(23,985)	29,908	32,235	-	-
Revenue from external customers	475,783	496,568	38,162	45,217	-	-	513,945	541,785
Profit for the period	105,197	116,263	5,078	5,059	(10,902)	(3,092)	99,373	118,230

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

3 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Nine months ended 30 September 2013		
Opening net book amount as at 31 December 2012	755,137	41,797
Additions	72,740	9,525
Disposals and retirements	(498)	(5)
Reclassification	(872)	568
Depreciation and amortisation charge	(90,023)	(6,695)
Closing net book amount as at 30 September 2013	736,484	45,190
Nine months ended 30 September 2014		
Opening net book amount as at 31 December 2013	771,895	50,259
Additions	59,570	2,302
Disposals and retirements	(407)	(10)
Reclassification	(278)	-
Depreciation and amortisation charge	(85,973)	(7,475)
Closing net book amount as at 30 September 2014	744,807	45,076

4 Investments in subsidiaries and associates

The subsidiaries included in the Group's consolidated financial statements are indicated below:

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

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

VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A not-for-profit organisation established by the Company for management of the Company's Communications History Museum.
VšĮ Numerio Perkėlimas	Lithuania	25%	-	A not-for-profit organisation established together with three Lithuanian mobile operators to participate in the public tender on election of number portability administrator for central database of telephone numbers.

5 Share capital

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

6 Income tax

Tax expenses for the period comprise current and deferred tax.

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

According to amendments to the Law on Corporate Profit Tax which provides tax relief for investments in new technologies the Company's calculated profit tax relief in 2014 amounted to LTL 6.3 million (2013: LTL 8.2 million).

7 Earnings per share

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

	January - September	
	2014	2013
Net profit	99,373	118,230
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Earnings per share (LTL)	0.128	0.152

8 Dividends per share

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

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

9 Related party transactions

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

The Group carried out the following transactions with related parties:

Sales and purchases from TeliaSonera AB and its subsidiaries:

	January - September	
	2014	2013
Sales of telecommunication and other services	24,352	24,735
Total sales of telecommunication and other services	24,352	24,735
Purchases of services	9,707	11,891
Total purchases of services	9,707	11,891

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

	As at 30 September	
	2014	2013
Receivables from related parties	2,937	3,850
Accrued revenue from related parties	1,743	1,505
Total receivables and accrued revenue from related parties	4,680	5,355
Payables to related parties	333	246
Accrued expenses to related parties	18	-
Total payables and accrued expenses to related parties	351	186

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

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

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, General Manager of TEO LT, AB, and Lars Bolin, Head of Finance and Strategic Planning 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 nine months period ended 30 September 2014, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flows of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance and Strategic
Planning

Vilnius, 16 October 2014