TEO LT, AB

FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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Independent auditor's report

PRICEWATERHOUSECOOPERS

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

STATEMENT OF COMPREHENSIVE INCOME

Approved by the Annual General Meeting
of Shareholders as at ___ April 2010

	Note	GROUP 2009	GROUP 2008	COMPANY 2009	COMPANY 2008
		Year ended 31 December			
Revenue	5	**815,551**	**826,267**	**786,813**	**804,026**
Other income	6	8,085	7,980	12,768	32,262
Employee related expenses		(178,029)	(183,382)	(140,083)	(146,360)
Interconnection expenses		(114,663)	(119,997)	(114,663)	(119,997)
Other operating expenses	7	(194,009)	(183,697)	(220,177)	(212,170)
Depreciation, amortisation and impairment of fixed assets	13	(142,040)	(166,833)	(133,651)	(157,817)
Other gain/ (loss) - net	8	1,152	1,900	13,219	1,831
Impairment of investments in subsidiaries	16	-	-	(16,868)	(1,488)
Operating profit		**196,047**	**182,238**	**187,358**	**200,287**
Finance income		2,909	7,557	2,885	7,454
Finance costs		(1,026)	(295)	(1,006)	(266)
Finance income/ costs - net	9	1,883	7,262	1,879	7,188
Profit before income tax		**197,930**	**189,500**	**189,237**	**207,475**
Income tax	10	(28,858)	(29,592)	(27,870)	(27,193)
Profit for the year		**169,072**	**159,908**	**161,367**	**180,282**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**169,072**	**159,908**	**161,367**	**180,282**
Profit and comprehensive income attributable to:					
Owners of the Parent		**169,072**	**159,908**	**161,367**	**180,282**
Minority interests		-	-	-	-
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)	11	0.22	0.21	0.21	0.23

The notes on pages 10 to 54 form an integral part of these financial statements.

The financial statements on pages 5 to 54 have been approved for issue by the Board of Directors as at 25 March 2010 and signed on their behalf by the General Manager and the Chief Financial Officer:

Arūnas Šikšta
General Manager

Giedrius Vegys
Chief Financial Officer

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

BALANCE SHEET

Approved by the Annual General Meeting of Shareholders as at ___ April 2010

		As at 31 December			
		GROUP		COMPANY	
	Note	2009	2008	2009	2008
ASSETS					
Non-current assets					
Property, plant and equipment	13	651,712	669,413	613,423	627,465
Intangible assets	14	37,076	41,792	27,043	32,895
Investment property	15	10,794	-	-	-
Investments in subsidiaries	16	-	-	41,259	30,251
Trade and other receivables	18	7,343	5,563	7,343	5,563
		706,925	**716,768**	**689,068**	**696,174**
Current assets					
Inventories		5,528	8,888	5,460	8,787
Trade and other receivables	18	111,230	118,682	117,898	124,794
Current income tax receivable		19,792	3,159	19,253	1,759
Held-to-maturity investments	19	100,561	111,866	100,561	111,866
Loans to banks	20	24,738	60,429	20,862	60,429
Cash and cash equivalents	21	181,943	149,898	165,968	141,451
Assets held for sale	22	-	12,933	-	12,933
		443,792	**465,855**	**430,002**	**462,019**
Total assets		**1,150,717**	**1,182,623**	**1,119,070**	**1,158,193**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	23	814,913	814,913	814,913	814,913
Treasury shares	23	(120,000)	(120,000)	(58,514)	(58,514)
Legal reserve	24	81,499	81,499	81,499	81,499
Retained earnings		250,222	259,818	166,075	183,376
Total equity		**1,026,634**	**1,036,230**	**1,003,973**	**1,021,274**
LIABILITIES					
Non-current liabilities					
Borrowings	26	5,121	5,972	5,103	5,972
Deferred tax liabilities	27	6,551	5,757	3.190	1,069
Grants	28	560	1,361	560	1,361
Deferred revenue and accrued liabilities	25	3,828	1,605	3,359	1,043
		16,060	**14,695**	**12,212**	**9,445**
Current liabilities					
Trade, other payables and accrued liabilities	25	100,854	129,268	96,166	125,138
Current income tax liabilities		277	-	-	-
Borrowings	26	1,042	836	869	836
Provisions	29	5,850	1,594	5,850	1,500
		108,023	**131,698**	**102,885**	**127,474**
Total liabilities		**124,083**	**146,393**	**115,097**	**136,919**
Total equity and liabilities		**1,150,717**	**1,182,623**	**1,119,070**	**1,158,193**

The notes on pages 10 to 54 form an integral part of these financial statements.

Arūnas Šikšta
General Manager

Giedrius Vegys
Chief Financial Officer

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

STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at ___ April 2010

GROUP	Note	Share capital	Treasury shares	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2008		**814,913**	**(120,000)**	**81,499**	**294,167**	**1,070,579**
Other movements		-	-	-	(53)	(53)
Net profit		-	-	-	159,908	159,908
Total comprehensive income for the 2008		**-**	**-**	**-**	**159,855**	**159,855**
Dividends paid for 2007	12	-	-	-	(194,204)	(194,204)
Balance at 31 December 2008		**814,913**	**(120,000)**	**81,499**	**259,818**	**1,036,230**
Balance at 1 January 2009		**814,913**	**(120,000)**	**81,499**	**259,818**	**1,036,230**
Net profit		-	-	-	169,072	169,072
Total comprehensive income for the 2009		**-**	**-**	**-**	**169,072**	**169,072**
Dividends paid for 2008	12	-	-	-	(178,668)	(178,668)
Balance at 31 December 2009		**814,913**	**(120,000)**	**81,499**	**250,222**	**1,026,634**

COMPANY	Note	Share capital	Treasury shares	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2008		**814,913**	**(58,514)**	**81,499**	**197,298**	**1,035,196**
Net profit		-	-	-	180,282	180,282
Total comprehensive income for the 2008		**-**	**-**	**-**	**180,282**	**180,282**
Dividends paid for 2007	12	-	-	-	(194,204)	(194,204)
Balance at 31 December 2008		**814,913**	**(58,514)**	**81,499**	**183,376**	**1,021,274**
Balance at 1 January 2009		**814,913**	**(58,514)**	**81,499**	**183,376**	**1,021,274**
Net profit		-	-	-	161,367	161,367
Total comprehensive income for the 2009		**-**	**-**	**-**	**161,367**	**161,367**
Dividends paid for 2008	12	-	-	-	(178,668)	(178,668)
Balance at 31 December 2009		**814,913**	**(58,514)**	**81,499**	**166,075**	**1,003,973**

The notes on pages 10 to 54 form an integral part of these financial statements.

Arūnas Šikšta
General Manager

Giedrius Vegys
Chief Financial Officer

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

STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at ___ April 2010

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	**2009**	**2008**	**2009**	**2008**
Operating activities					
Profit for the year		169,072	159,908	161,367	180,282
Income tax	10	28,858	29,592	27,870	27,193
Depreciation, amortisation and impairment charge	13	142,040	166,833	133,651	157,817
Dividends received from subsidiaries	6	-	-	(4,000)	(24,000)
Other gains and losses	8	(1,152)	(1,900)	(13,219)	(1,831)
Write off of property, plant and equipment and intangible assets		1,278	108	1,259	121
Impairment of investments in subsidiaries	16	-	-	16,868	1,488
Interest income		(10,994)	(15,495)	(11,653)	(15,824)
Interest expenses		301	289	287	288
Other non-cash transactions		652	-	67	-
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		3,361	(3,865)	3,327	(3,827)
Trade and other receivables		6,448	(8,505)	9, 513	(9,739)
Trade, other payables and accrued liabilities		(4,402)	12,655	(4,871)	11,368
Cash generated from operations		335,462	339,620	320,466	323,336
Interest paid		(301)	(289)	(287)	(288)
Interest received		2,909	7,515	2,918	8,120
Tax paid		(44,397)	(30,882)	(43,243)	(31,947)
Net cash from operating activities		**293,673**	**315,964**	**279,854**	**299,221**

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

STATEMENT OF CASH FLOW (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2009	2008	2009	2008
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(134,791)	(175,964)	(133,585)	(167,497)
Proceeds from disposal of PPE and intangible assets		1,319	1,633	1,170	3,706
Acquisition of held-to-maturity investments, amounts loaned to banks		(474,356)	(575,001)	(460,716)	(575,001)
Disposal of held-to-maturity investments, repayment of amounts loaned to banks		529,028	527,417	519,168	511,906
Disposal of trading investments		-	35,411	-	35,411
Acquisition of subsidiaries	32	(3,262)	(16,078)	-	(16,078)
Disposal of assets held for sale and shares		-	2,175	-	2,175
Loans granted		-	-	(8,870)	(2,500)
Loans repaid		-	-	3,000	1,000
Dividends received	6	-	-	4,000	24,000
Net cash used in investing activities		**(82,062)**	**(200,407)**	**(75,833)**	**(182,878)**
Financing activities					
Repayment of borrowings		(898)	(805)	(836)	(805)
Dividends paid shareholders of the Company	12	(178,668)	(194,204)	(178,668)	(194,204)
Net cash used in financing activities		**(179,566)**	**(195,009)**	**(179,504)**	**(195,009)**
Increase (decrease) in cash and cash equivalents		**32,045**	**(79,452)**	**24,517**	**(78,666)**
Movement in cash and cash equivalents					
At the beginning of the year		149,898	229,350	141,451	220,117
Increase (decrease) in cash and cash equivalents		32,045	(79,452)	24,517	(78,666)
At the end of the year	21	**181,943**	**149,898**	**165,968**	**141,451**

The notes on pages 10 to 54 form an integral part of these financial statements.

Arūnas Šikšta
General Manager

Giedrius Vegys
Chief Financial Officer

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

TEO LT, AB (hereinafter 'the Company') is a joint stock company incorporated as at 16 June 1997. On 5 May 2006 former company name AB Lietuvos Telekomas was changed to TEO LT, AB. The Company is domiciled in Vilnius, the capital of Lithuania. The address of its registered office is as follows: 28 Savanorių Ave., LT-03501 Vilnius, Lithuania.

The Company's shares are traded on NASDAQ OMX Vilnius stock exchange as from 16 June 2000, and Global Depository Receipts (GDR), representing Company's shares, are quoted on the London Stock Exchange.

The shareholders' structure of the Company as at 31 December 2009 was as follows:

	Number of shares	%
Amber Teleholding A/S (subsidiary of TeliaSonera AB (publ))	488,947,656	60.00
TeliaSonera AB (publ)	39,895,616	4.90
East Capital Asset Management AB	39,810,116	4.89
TEO LT, AB (treasury shares, Note 23)	38,095,242	4.67
Republic of Lithuania represented by State Property Fund	3,799,753	0.47
Republic of Lithuania represented by State Tax Inspectorate	362,630	0.04
Other shareholders (including GDR holders)	204,001,747	25.03
	814,912,760	**100.00**

Pursuant to the Law of the Republic of Lithuania on the Restoration of the Rights of Ownership of Citizens of the Republic of Lithuania to Existing Real Estate and the Lithuanian Government's Resolution dated 12 July 2002 On Compensation to Citizens for the existing Real Estate bought out by the State by way of securities owned by the State, shares owned by the State Property Fund are used to compensate citizens for expropriated real estate.

TeliaSonera AB (publ), an ultimate parent of the Company, in August–October 2009 announced and implemented the voluntary tender offer for acquisition of remaining ordinary registered shares of the Company (excluding Treasury stocks) paying LTL 1.83 per share. 23,479,470 shares of the Company (2.88 per cent of shares) were submitted into response to the tender offer and purchased by TeliaSonera AB (publ). Also, TeliaSonera AB (publ) acquired 16,416,146 shares of the Company in the open market at the price of the offer. As the result, TeliaSonera AB (publ) increased its direct holding in the Company up to 4.90 per cent of the total number of shares.

The Company's principal activity is the provision of fixed voice, internet access, data communication, digital television and IT services to both business and residential customers in the Republic of Lithuania.

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

The number of full time staff employed by the Group at the end of 2009 amounted to 2,713 (2008: 2,981). The number of full time staff employed by the Company at the end of 2009 amounted to 1,956 (2008: 2,101).

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

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

Subsidiary/ associate	Country of incorporation	Ownership interest in % 31 December 2009	31 December 2008	Profile
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%	-	In November 2009 a company, providing webhosting services was acquired by UAB Baltic Data Center.
UAB Hosting	Lithuania	100%	-	Webhosting services providing subsidiary of UAB Interdata.
Baltic Data Center SIA	Latvia.	100%	100%	Dormant subsidiary of UAB Baltic Data Center.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	Till June 2009 subsidiary provided training and consultancy services.
VšĮ TEO Sportas	Lithuania	100%	100%	Non profit organisation supports a women's basketball team.
UAB Verslo Investicijos	Lithuania	100%	100%	A newly established company was acquired in December 2008 for the implementation of investment project.
AB Nacionalinė Skaitmeninė Televizija	Lithuania	-	-	In January 2008 acquired subsidiary had two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks and on 31 December 2008 was merged into the Company.

The shareholders of the Company have a statutory right to approve these financial statements or not to approve it and to require preparation of another set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(a) New and emended standards and interpretations adopted by the Group

The Group has adopted the following new and amended IFRSs and IFRIC interpretations as of 1 January 2009:

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group and the Company has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's and Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in identification of one Group's reportable segment.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 was early adopted by the Group in 2007. This interpretation does not have a significant impact on the Group's financial statements.

Improvements to International Financial Reporting Standards, issued in May 2008. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary (effective for annual periods beginning on or after 1 July 2009); possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Group, except:

- ***IAS 40, Investment Property (and consequential amendments to IAS 16).*** Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. As a result of this amendment, the Group has reclassified one item of property under construction to investment property, and opted to measure it at cost.

(b) Standards, amendments and interpretations to existing standards effective in 2009 but not relevant to the Company and the Group:

IAS 23, Borrowing Costs, revised in March 2007. This new standard did not have any impact on the Company's and Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. This amendment did not have any impact on the Company's and Group's financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2. This amendment did not have any impact on the Company's and Group's financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment. This amendment did not have any impact on the Company's and Group's financial statements.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions. The interpretation contains guidelines on the following issues: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments. Adoption of the interpretation did not have any significant impact on the Group's financial statements.

IFRIC 12, Service Concession Arrangements. The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. [Application of IFRIC 12 will not have any impact on the Group's financial statements because it is not subject to any service concession arrangements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19, *Employee Benefits*. The interpretation did not have any effect on the Group's financial statements.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted). This interpretation will not have any impact on the Company's and Group's financial statements.

Embedded Derivatives – Amendments to IFRIC 19 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, early adoption permitted). This amendment will not have any impact on the Company's and Group's financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, early adoption permitted). This interpretation will not have any impact on the Company's and Group's financial statements.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted). This interpretation will not have any impact on the Company's and Group's financial statements.

IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted). This interpretation will not have any impact on the Company's and Group's financial statements.

Classification of Rights Issues – Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning on or after 1 February 2010). This amendment will not have any impact on the Company's and Group's financial statements.

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008 (effective for annual periods beginning on or after 1 July 2009). This new standard will not have any impact on the Company's and Group's financial statements.

IFRS 3, Business Combinations, revised in January 2008 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). This new standard will not have any impact on the Company's and Group's financial statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The Group and the Company is currently assessing the impact of the amendment on its financial statements.

Eligible Hedged Items – Amendment to IAS 39 (effective with retrospective application for annual periods beginning on or after 1 July 2009). This amendment will not have any impact on the Company's and Group's financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008 (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted). This new standard will not have any impact on the Company's and Group's financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). This amendment will not have any impact on the Company's and Group's financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1 (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU). The Group and the Company does not expect the amendment will have any material effect on its financial statements.

Improvements to International Financial Reporting Standards, issued in April 2009 (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The Group and the Company does not expect these amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures, ***issued in November 2009*** (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group and the Company is currently assessing the impact of the amended standard on disclosures in its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group and the Company does not expect this standard to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). This interpretation will not have any impact on the Company's and Group's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). This amendment will not have any impact on the Company's and Group's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). This amendment will not have any impact on the Company's and Group's financial statements.

2.2 Group accounting

Subsidiaries

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

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

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

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the functional currency of the Company and the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash equivalents are presented in the statement of comprehensive income within ‘finance income or cost’. All other foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gain/ (loss) – net’.

2.4 Property, plant and equipment

Property, plant and equipment is carried at its historical cost less any accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful life, as follows:

Buildings	10 – 50 years
Plant and machinery	3 – 10 years
Switches, lines and related telecommunication equipment	3 – 30 years
Computers and computer network	3 – 20 years
Motor vehicles	2 – 10 years
Other tangible fixed assets	5 – 10 years

The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included within 'Other gain/ (loss) - net' in the statement of comprehensive income.

2.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in ‘intangible assets’. Goodwill on acquisitions of associates is included in ‘investments in associates’. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets

Intangible assets expected to provide economic benefit to the Group and the Company in future periods have finite useful life and are valued at acquisition cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line method to allocate the cost of intangible asset over estimated benefit period as follows:

Licences	3 - 10 years
Computer software	3 – 5 years
Other intangible fixed assets	5 years

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- There is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable cost that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.6 Investment property

Properties that are held for undetermined use, and that are not occupied by the entities in the consolidated Group, are classified as investment properties. Investment properties comprise construction in progress.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost can be measured reliably. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Investment properties of the Group are stated at cost less accumulated depreciation and any accumulated impairment losses. Transaction costs are included on initial measurement. The fair values of investment properties are disclosed in the Note 15. These are assessed using method of residual value.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and intangible assets not yet available for use are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, available-for-sale, held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the current period the Group and the Company did not hold any investments in available-for-sale and at fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's and the Company's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'loans to banks' in the balance sheet.

Held to maturity investments

Held to maturity classification includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Company has both the intention and ability to hold to maturity.

Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group or the Company fails to keep these investments to maturity other than for certain specific circumstances – for example, selling more than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group or the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

The Group and the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

2.9 Investments in subsidiaries and associates in the separate financial statements of the Company

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted at cost less impairment provision.

When subsidiary is legally merged into the Company, subsidiary's results are shown as if both entities (subsidiary and Company) had always been combined. Consequently, the Company's stand alone financial statements reflect both entities' full year's results, even though the legal merger may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. Net realisable value is the estimate of the selling price in the ordinary course of business, less the applicable selling expenses. All inventories held by the Group attribute to the materials category.

2.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'other operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the statement of comprehensive income.

Interconnection receivables and payables to the same counterparty are stated net.

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Where the Company or its subsidiaries purchase the Company’s equity share capital (treasury shares), in the Company’s and the Group’s financial statements the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company’s equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction cost and the related income tax effects, is included in equity attributable to the company’s equity holders.

2.14 Trade payables

Trade payable are obligations to pay for goods or services that have been acquired in ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

2.16 Accounting for leases – where the Group or the Company is the lessee

Finance lease

Where the Group or the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group or the Company is classified as finance lease. The assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group or the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

If sale and leaseback transaction results in a finance lease, any excess or shortfall of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction was established at fair value, any profit or loss is recognised immediately, except that if loss is compensated for by future lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.17 Accounting for leases – where the Group or the Company is the lessor

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

2.18 Income tax

The tax expenses for the period comprise current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to item recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Profit for 2009 is taxable at a rate of 20% (2008: 15%) in accordance with Lithuanian regulatory legislation on taxation.

Lithuanian Parliament at 28 December of 2009 appointed new profit tax rates from 1 January 2010 at 15%. Following this, the Company and the Group calculated its deferred tax liability as of 31 December 2009 using 15% rate.

Income tax expense is calculated and accrued for in the financial statements on the basis of information available at the moment of the preparation of the financial statements, and estimates of income tax performed by the management in accordance with Lithuanian regulatory legislation on taxation.

Deferred income tax assets are recognised only to the extent that is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised.

According to Lithuanian legislation, tax losses accumulated as of 31 December 2009 are carried forward indefinitely.

Deferred tax assets and liabilities are offset only where International Accounting Standard No. 12 allows this treatment.

2.19 Grants relating to expenses and purchase of property, plant and equipment

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group or the Company will comply with all attached conditions.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Grants relating to the expenses are included in non-current liabilities and are credited to the statement of comprehensive income on basis to match the appropriate expenses.

2.20 Provisions

Provisions are recognised when the Group or the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where the Group and the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Restructuring provisions are recognised in the period in which the Group or the Company becomes legally or constructively committed to payment. Restructuring provisions comprise employee termination payments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Sales of services and goods

Revenue is recognised as earned. Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly related to the sales. Other revenues are recognised when products are delivered or services are rendered to customers. At the end of each accounting period a revenue accrual is performed to record amounts not yet billed.

Revenue from interconnection is accrued at the end of each accounting period based on the actual traffic of incoming calls from different carriers. Accrued revenue is adjusted to actual after reconciliation with the carrier is performed.

Service activation fees are recognised as income and related costs are expensed at the moment of activating the service.

Under the Company's customer loyalty programmes, customers are entitled to certain discounts relating to the Company's services and goods supplied by third parties. The volume of the customer's accumulated discount for the period depends on invoice amount paid by the customer. Accumulated customer's discounts are valid for the two years period. At the end of each reporting period the Company estimates the fair value of the services and goods that can be granted in exchange of accumulated discounts, considering also the proportion of discounts that are not expected to be used by customers, based on the historical statistical usage of discounts. This amount is recognised as deferred income. In the statement of comprehensive income these deferred income are treated as a deduction from revenues.

Multiple element arrangements

The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered goods or services free of charge or at a price significantly below market price of these goods or services. When such multiple element agreements exits, the amount recognised as revenue upon the sale of the goods is the fair value of the offered goods in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement, is recognised over service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately. When there is no objective and reliable evidence of the fair value(s) of the delivered item(s), the Company uses the residual value method. Under this method, the Company determines the fair value of the delivered element by deducting the fair value of the undelivered element from the contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such manner as to reflect fair value of the elements.

Arrangements of discounts

The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered discount for the services for a certain period. When such discount exits, such discount is allocated over defined period of servicing.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Interest income on held-to-maturity investments and loans granted are classified into 'other income', while interest income on cash and cash equivalents are classified into 'finance income'

2.23 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24 Employee benefits

Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions amounting to LTL 41.2 million for the Group and LTL 32.2 million for the Company (2008: LTL 43.3 million for the Group and LTL 34.4 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date per mutual agreement or employers will. The Group and the Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Bonus plans

The Group and the Company recognises a liability and an expense for bonuses and profit-sharing based on predefined targets. The Group and the Company recognises related liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Supplementary health insurance

The Company pays supplementary health insurance contributions to the insurance company on behalf of its employees. Supplementary health insurance for employees is the possibility to get health care and health improvement services in a selected health care institution. The supplementary health insurance contributions are recognized as expenses when incurred.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the company's shareholders.

Withholding tax on dividends paid to legal entities amounts to 20%. According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

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

2.26 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.27 Segment information

The Company's management considers the business from Group 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 subsidiaries are combined and disclosed in the 'other segment' column. The profile of each subsidiary is described in Note 1.

	Broadband segment		Other segment		Eliminations		Total Group	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Segment revenue	786,813	804,026	84,998	85,790	(56,260)	(63,549)	815,551	826,267
Inter-segment revenue	(10,861)	(10,528)	(45,399)	(53,021)	56,260	63,549	-	-
Revenue from external customers	**775,952**	**793,498**	**39,599**	**32,769**	**-**	**-**	**815,551**	**826,267**
Depreciation and amortisation	(133,651)	(157,817)	(8,303)	(9.070)	(86)	54	(142,040)	(166,833)
Impairment of investments in subsidiaries	(16,868)	(1,488)	-	-	16,868	1,488	-	-
Income tax	(27,870)	(27,193)	(988)	(2,399)	-	-	(28,858)	(29,592)
Profit for the year	161,367	180,282	(6,503)	3,308	14,208	(23,682)	169,072	159,908
Total Assets	1,119,070	1,158,193	89,492	71,116	(57,846)	(46,686)	1,150,717	1,182,623
Total assets includes Assets held for sale	-	12,933	-	-	-	-	-	12,933

The Group is domiciled in Lithuania. The result of its revenue from external customers in the Lithuania is LTL 672.2 million (2008: LTL 703.0 million), and the total of revenue from external customers from other countries is LTL 143.4 million (2008: LTL 123.3 million).

For the Group's and the Company's revenue specification by products see Note 5.

2.28 Sale and repurchase agreements

Securities purchased from banks under agreements to resell ('repos') are recorded as loans to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3 Financial risk management

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

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

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro (EUR), US Dollar (USD) and Special Drawing Rights (XDR). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Substantially all the Group's trade payables and trade receivables are short-term and in addition revenues and expenses in foreign currencies are insignificant as compared to those in Lithuanian Litas. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 18, 19, 20, 21 and 25.

From February 2002 the exchange rate of Lithuanian Litas has been pegged to the EURO at a rate of Lithuanian Litas 3.4528 = EURO 1.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Held-to-maturity investments and loans to banks carry fixed interest rates, therefore they are not subject to cash flow or fair value interest rate risk.

The most significant interest bearing asset is bonds issued by the Lithuanian banks amounting to EUR 29,124 thousand (LTL 100,561 thousand) for the Group and the same amount for the Company (2008: LTL 111,866 thousand for the Group and the same amount for the Company). For further information on held-to-maturity investments see Note 19. Other significant interest bearing asset is loans to banks amounting to EUR 7,165 thousand (LTL 24,738 thousand) for the Group and EUR 6,042 thousand (LTL 20,862 thousand) for the Company (2008: LTL 60,429 thousand for the Group and the same amount for the Company), see further information in Note 20.

Credit risk

The financial assets exposed to credit risk represent cash deposits with banks and trade receivables. The Group has no significant concentrations of credit risk. Credit risks or the risks of counter-parties defaulting, are controlled by the application of credit terms and monitoring procedures.

All the new customers (corporate and private) are investigated for creditworthiness before contract signing. Customer bill payment control consists of a number of various reminders regarding bill payment term expiration, and consequently services are limited after 10-15 days since the last reminder for all indebted customers, and after further 30-35 days provision of services is fully terminated. After sending additional reminding letters bad debts are handed over to external bad debt collection agencies for debt recovery.

Impairment provision for trade receivables is calculated on a monthly basis according to the Group's internal policy for trade receivable impairment. Estimation of impairment provision is based on classification of trade receivables into categories according to the payment overdue period and application of certain impairment rates to each category. The impairment rates and the Group's internal policy for trade receivable impairment estimation are updated on half yearly basis.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group generates positive cash flows and its short-term assets significantly exceed short term liabilities and therefore liquidity risk is considered to be very low. Accordingly the Group's management did not implement formal procedures for liquidity risk management.

The analysis of the undiscounted cash flows of the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 26.

Capital risk management

The group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares. Capital is calculated as 'Equity' as shown in the balance sheet.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company and private limited liability company must be not less than LTL 100,000 and LTL 10,000, respectively, and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2009 all Group companies, except UAB Kompetencijos Ugdymo Centras, UAB Verslo Investicijos and UAB Hosting (2008: UAB Kompetencijos Ugdymo Centras), complied with these requirements.

The Group's operations are financed only by the shareholders' capital. The Company did not have any borrowings, except finance lease liabilities during 2009 and 2008.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading investments) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market for the disclosure purpose is estimated by discounting the cash flows from the financial instrument.

The carrying value less impairment losses of trade receivables and carrying value of payables are assumed to approximate their fair value.

Recent volatility in global and Lithuania financial markets

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

4 Critical Accounting Estimates

Property, plant and equipment

Estimates concerning useful lives of property, plant and equipment due to constant technology advances – useful lives are disclosed above and depreciation charge for the year is disclosed in Note 13. Increasing an asset's expected useful life or its residual value would result in a reduced depreciation charge. The useful lives of property, plant and equipment are determined by management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Furthermore, network infrastructure cannot be depreciated over a period that extends beyond the expiry of the associated licence under which services are provided.

Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

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

5 Revenue

	GROUP		COMPANY	
	2009	2008	2009	2008
Fixed voice services	461,180	508,510	459,180	506,268
Internet and data services	275,339	256,662	277,038	258,501
IT services	24,866	21,282	7,707	10,234
TV services	27,598	16,457	27,598	16,457
Other revenues	26,568	23,356	15,290	12,566
Total revenue	**815,551**	**826,267**	**786,813**	**804,026**

6 Other income

	GROUP		COMPANY	
	2009	2008	2009	2008
Interests income on held –to – maturity investments and loans	8,085	7,980	8,768	8,262
Income from dividends	-	-	4,000	24,000
	8,085	**7,980**	**12,768**	**32,262**

7 Other operating expenses

	GROUP		COMPANY	
	2009	2008	2009	2008
Materials, maintenance and services costs	106,888	98,081	135,121	131,944
Energy, premises and transport costs	42,086	40,084	43,469	39,746
Marketing expenses	15,017	16,102	14,100	15,123
Impairment of accounts receivable	9,883	3,245	9,878	3,090
Other expenses	20,135	26,185	17,609	22,267
	194,009	**183,697**	**220,177**	**212,170**

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

8 Other gain/loss - net

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Gain on sales of property, plant and equipment	1,154	1,044	13,167	949
Gain (loss) on sale of investments	-	151	-	144
Fair value gain (loss) on trading investments	-	850	-	850
Loss on sales of property, plant and equipment	(101)	(127)	(51)	(97)
Other gain (loss)	99	(18)	103	(15)
	1,152	**1,900**	**13,219**	**1,831**

9 Finance income and costs

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Interest income on cash and cash equivalents	2,371	7,082	2,347	6,979
Other finance income	538	475	538	475
Finance income	**2,909**	**7,557**	**2,885**	**7,454**
Interest expenses	(251)	(282)	(250)	(281)
Foreign exchange gain (loss) on financing activities	(543)	190	(534)	215
Other finance costs	(232)	(203)	(222)	(200)
Finance costs	**(1,026)**	**(295)**	**(1,006)**	**(266)**
Finance income/costs– net	**1,883**	**7,262**	**1,879**	**7,188**

10 Income tax

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Current tax	28,065	33,365	25,750	32,188
Deferred tax	2,976	(5,404)	3,184	(5,262)
Impact of change in tax rate, net	(2,183)	1,631	(1,064)	267
Total deferred tax (Note 27)	793	(3,773)	2,120	(4,995)
Income tax expense	**28,858**	**29,592**	**27,870**	**27,193**

As of 1 January 2009 amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result the Company's calculated profit tax relief amounts to LTL 13 million.

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. The Group's and the Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

10 Income tax (continued)

The tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Profit before tax and share of result of associates	**197,930**	**189,500**	**189,237**	**207,475**
Tax calculated at a tax rate of 20% (2008: 15%)	39,586	28,425	37,847	31,121
Deferred tax asset not recognised on tax losses	403	333	-	-
Non taxable dividends received	-	-	(800)	(3,600)
Income not subject to tax and expenses not deductible for tax purposes	4,332	435	5,203	606
Tax relief	(13,000)	-	(13,000)	-
Income tax on dividends	(1)	(1,114)	(1)	(1,114)
Impact of change in tax rate for temporary differences	(2,183)	1,901	(1,064)	537
Impact of change in tax rate for tax loss of the merged subsidiary	-	(270)	-	(270)
Other	(279)	(118)	(315)	(87)
Tax charge	**28,858**	**29,592**	**27,870**	**27,193**

Temporary differences recognised as at 31 December 2009 which will be realised in 2010 and subsequent years according to enacted legislation will be subject to income tax at a rate of 15% (31 December 2008: 20%).

11 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.

Weighted average number of shares in issue (thousands) for year ended 31 December 2009 is calculated as follows: 814,913 (ordinary shares) less 38,095 (treasury shares) results in 776,818. Weighted average number of shares for the year ended 31 December 2008 was the same – 776,818.

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Net profit	**169,072**	**159,908**	**161,367**	**180,282**
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
Basic earnings per share (LTL)	0.22	0.21	0.21	0.23

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

12 Dividends per share

The dividends per share, excluding treasury shares, declared in respect of 2008 and 2007 and paid in 2009 and 2008 were LTL 0.23 and LTL 0.25 respectively. As at the date of approval of these financial statements dividends amounting to LTL 163,132 thousand are proposed in respect of 2009.

13 Property, plant and equipment

The depreciation and amortisation charge in the statement of comprehensive income consists of the following items:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Depreciation of property, plant and equipment	131,668	154,863	125,715	148,388
Amortisation of intangible assets (Note 14)	11,173	12,987	8,737	10,446
Amortisation of grants received (Note 27)	(801)	(1,017)	(801)	(1,017)
	142,040	**166,833**	**133,651**	**157,817**

According to the Amendment to the Law on Electronic Communications of Republic of Lithuania, which is was approved on 15 July 2008 and effects from 1 January 2009, the ducts are defined as movable assets, therefore no formal registration of the ducts is required.

In 2009 the Company revised the useful lives of its property, plant and equipment. After the above revision the depreciation charge for 2009 decreased by LTL 10.3 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was revised in 2009, the amortisation charge for intangible assets decreased by LTL 0.1 million.

GROUP	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2007					
Cost	106,330	2,338,063	71,406	30,325	2,546,124
Accumulated depreciation	(37,256)	(1,796,447)	(54,459)	-	(1,888,162)
Net book amount	**69,074**	**541,616**	**16,947**	**30,325**	**657,962**
Year ended 31 December 2008					
Opening net book amount	69,074	541,616	16,947	30,325	657,962
Additions	914	5,648	431	166,098	173,091
Acquisition of subsidiaries (Note 32)	-	1,138	-	-	1,138
Reclassifications [1]	(1,196)	(119)	337	(6,204)	(7,182)
Disposals and retirements	(372)	(296)	(65)	-	(733)
Transfers from construction in progress	8,302	138,343	15,769	(162,414)	-
Depreciation charge	(4,703)	(144,114)	(6,046)	-	(154,863)
Closing net book amount	**72,019**	**542,216**	**27,373**	**27,805**	**669,413**

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

13 Property, plant and equipment (continued)

At 31 December 2008					
Cost	112,360	2,436,298	80,518	27,805	2,656,981
Accumulated depreciation	(40,341)	(1,894,082)	(53,145)	-	(1,987,568)
Net book amount	**72,019**	**542,216**	**27,373**	**27,805**	**669,413**
Year ended 31 December 2009					
Opening net book amount	**72,019**	**542,216**	**27,373**	**27,805**	**669,413**
Additions	-	242	64	113,290	113,596
Acquisition of subsidiaries (Note 32)	-	564	92	-	656
Reclassifications [1]	1,948	(685)	(33)	-	1,230
Disposals and retirements	(9)	(1,382)	(124)	-	(1,515)
Transfers from construction in progress	8,725	112,378	3,757	(124,860)	-
Depreciation charge	(4,752)	(118,740)	(8,176)	-	(131,668)
Closing net book amount	**77,931**	**534,593**	**22,953**	**16,235**	**651,712**
At 31 December 2009					
Cost	121,765	2,510,613	79,539	16,235	2,728,152
Accumulated depreciation	(43,834)	(1,976,020)	(56,586)	-	(2,076,440)
Net book amount	**77,931**	**534,593**	**22,953**	**16,235**	**651,712**

COMPANY	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2007					
Cost	74,658	2,306,181	63,591	30,325	2,474,755
Accumulated depreciation	(31,829)	(1,777,631)	(48,123)	-	(1,857,583)
Net book amount	**42,829**	**528,550**	**15,468**	**30,325**	**617,172**
Year ended 31 December 2008					
Opening net book amount	42,829	528,550	15,468	30,325	617,172
Additions	-	1,000	-	167,012	168,012
Legal merge of subsidiary (Note 32)	-	1,138	-	-	1,138
Disposals and write-offs	(371)	(275)	(19)	(914)	(1,579)
Reclassifications [1]	(2,758)	(264)	336	(6,204)	(8,890)
Transfers from construction in progress	8,302	138,343	15,769	(162,414)	-
Depreciation charge	(3,853)	(138,966)	(5,569)	-	(148,388)
Closing net book amount	**44,149**	**529,526**	**25,985**	**27,805**	**627,465**
At 31 December 2008					
Cost	77,853	2,406,398	72,462	27,805	2,584,518
Accumulated depreciation	(33,704)	(1,876,872)	(46,477)	-	(1,957,053)
Net book amount	**44,149**	**529,526**	**25,985**	**27,805**	**627,465**

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

13 Property, plant and equipment (continued)

	Land and buildings	Ducts and telecommu-nication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2009					
Opening net book amount	**44,149**	**529,526**	**25,985**	**27,805**	**627,465**
Additions	-	-	80	113,339	113,419
Disposals and write-offs	(9)	(1,328)	(24)	-	(1,361)
Reclassifications [1]	(383)	3	(5)	-	(385)
Transfers from construction in progress	8,725	112,378	3,757	(124,860)	-
Depreciation charge	(3,797)	(114,216)	(7,702)	-	(125,715)
Closing net book amount	**48,685**	**526,363**	**22,091**	**16,284**	**613,423**
At 31 December 2009					
Cost	84,926	2,482,615	71,714	16,284	2,655,539
Accumulated depreciation	(36,241)	(1,956,252)	(49,623)	-	(2,042,116)
Net book amount	**48,685**	**526,363**	**22,091**	**16,284**	**613,423**

[1] Reclassifications in 2008 was done because of assets moved to the assets held for sale, and reclassifications in 2009 was done because of one building from assets held for sale was moved back to property, plant and equipment.

The category 'Ducts and telecommunication equipment' includes terminal equipment leased by the group to third parties under operating leases with the following carrying amounts:

	As at 31 December			
	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Cost	21,705	14,883	21,705	14,883
Accumulated depreciation at 1 January	(1,932)	(432)	(1,932)	(432)
Depreciation charge for the year	(3,468)	(1,508)	(3,468)	(1,508)
Net book amount	**16,305**	**12,943**	**16,305**	**12,943**

14 Intangible assets

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
At 31 December 2007						
Cost	2,575	267,093	2,658	11,317	505	284,148
Accumulated amortisation	(2,575)	(241,641)	-	(10,289)	-	(254,505)
Net book amount	**-**	**25,452**	**2,658**	**1,028**	**505**	**29,643**

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

14 Intangible assets (continued)

	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
Year ended 31 December 2008						
Opening net book amount	-	25,452	2,658	1,028	505	29,643
Additions	-	3,044	-	349	3,929	7,322
Acquisition subsidiaries (Note 32)	17,843	-	-	-	-	17,843
Disposals and write-offs	-	(10)	-	-	-	(10)
Reclassification	-	381	-	-	(400)	(19)
Reclassification from other accounts	-	2,832	-		(2,832)	-
Amortisation charge	(1,784)	(10,709)	-	(494)	-	(12,987)
Closing net book amount	**16,059**	**20,990**	**2,658**	**883**	**1,202**	**41,792**
At 31 December 2008						
Cost	17,843	202,960	2,658	11,666	1,202	236,329
Accumulated amortisation	(1,784)	(181,970)	-	(10,783)	-	(194,537)
Net book amount	**16,059**	**20,990**	**2,658**	**883**	**1,202**	**41,792**
Year ended 31 December 2009						
Opening net book amount	**16,059**	**20,990**	**2,658**	**883**	**1,202**	**41,792**
Additions	-	892	-	5	2,935	3,832
Acquisition subsidiaries (Note 32)	-	-	2,538	-	-	2,538
Disposals and write-offs	-	(3)	-	-	-	(3)
Reclassification	-	82	-	8	-	90
Reclassification from other accounts	-	3,213	-	-	(3,213)	-
Amortisation charge	(1,771)	(8,967)	-	(435)	-	(11,173)
Closing net book amount	**14,288**	**16,207**	**5,196**	**461**	**924**	**37,076**
At 31 December 2009						
Cost	17,843	176,151	5,196	10,925	924	211,039
Accumulated amortisation	(3,555)	(159,944)	-	(10,464)	-	(173,963)
Net book amount	**14,288**	**16,207**	**5,196**	**461**	**924**	**37,076**

Goodwill was tested for impairment at 31 December 2009 and 2008 and based on the results of the test no impairment loss is needed

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

14 Intangible assets (continued)

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
At 31 December 2007					
Cost	1,691	247,384	11,275	105	260,455
Accumulated amortisation	(1,691)	(226,948)	(10,247)	-	(238,886)
Net book amount	**-**	**20,436**	**1,028**	**105**	**21,569**
Year ended 31 December 2008					
Opening net book amount	**-**	**20,436**	**1,028**	**105**	**21,569**
Additions	-	-	-	3,929	3,929
Legal merge of subsidiary (Note 32)	17,843	-	-	-	17,843
Reclassifications	-	2,832	-	(2,832)	-
Amortisation charge	(1,784)	(8,168)	(494)	-	(10,446)
Closing net book amount	**16,059**	**15,100**	**534**	**1,202**	**32,895**
At 31 December 2008					
Cost	17,843	180,739	11,274	1,202	211,058
Accumulated amortisation	(1,784)	(165,639)	(10,740)	-	(178,163)
Net book amount	**16,059**	**15,100**	**534**	**1,202**	**32,895**
Year ended 31 December 2009					
Opening net book amount	**16,059**	**15,100**	**534**	**1,202**	**32,895**
Additions	-	-	-	2,803	2,803
Reclassifications	-	3,295	-	(3,213)	82
Amortisation charge	(1,771)	(6,679)	(287)	-	(8,737)
Closing net book amount	**14,288**	**11,716**	**247**	**792**	**27,043**
At 31 December 2009					
Cost	17,843	163,672	10,529	792	192,836
Accumulated amortisation	(3,555)	(151,956)	(10,282)	-	(165,793)
Net book amount	**14,288**	**11,716**	**247**	**792**	**27,043**

In Lithuania provision of fixed, long distance and international telecommunication services (including data transmission) is not subject to licensing.

The licences acquired in 2008 through the legal merger of subsidiary AB Nacionalinė Skaitmeninė Televizija represent two licences of this subsidiary for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks.

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

15 Investment property

As at 31 December 2009 the Group as investment property accounted construction in progress, which was reclassified from assets held for sale. There was no investment property accounted by the Company as at 31 December 2009.

	GROUP	
	2009	**2008**
At the beginning of year	**-**	**-**
Additions resulting from acquisitions	-	-
Additions resulting from acquisitions through business combinations	-	-
Disposals and retirements	-	-
Reclassification from assets held for sale (Note 22)	10,794	-
Depreciation and amortisation charge	-	-
At end of year	**10,794**	**-**

The investment properties were externally valued as at 29 December 2009 by Re&Solution. The fair values of investment properties are measured using method of residual value, and approximate to their carrying values.

Management applied judgment in determining the classification of the construction in progress as investment property and, based on past experience, considered that, since the future use of the asset is undetermined, it is appropriate to classify it as investment property. Possible outcomes of the future use are selling the asset or completing it and using it by the Group as an office building.

16 Investments in subsidiaries

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
At the beginning of year	-	-	30,251	31,739
Acquisition of subsidiary (Note 32)	-	-	-	16,472
Contribution to cover losses of subsidiary	-	-	2,610	7,350
Contribution to increase share capital of subsidiary			25,248	-
Impairment of investments	-	-	(16,868)	(1,488)
Subsidiary merged (Note 32)	-	-	-	(23,822)
Reclassifications	-	-	18	-
At end of year	**-**	**-**	**41,259**	**30,251**

The Company recorded an impairment provision for the following investments accounted under Investments in subsidiaries:

	Year ended 31 December	
	COMPANY	
	2009	**2008**
UAB Kompetencijos Ugdymo Centras	2,610	1,488
UAB Verslo Investicijos	14,258	-
	16,868	1,488

Recoverable amount of the investments in UAB Kompetencijos Ugdymo Centras was determined as value-in-use and recoverable amount of the investments in UAB Verslo Investicijos was determined as fair value less cost to sell.

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

17 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line item below:

GROUP	Loans and receivables	Held-to-maturity investments	Total
31 December 2009			
Assets as per balance sheet			
Trade and other receivables	112,716	-	112,716
Held-to-maturity investment	-	100,561	100,561
Loans to banks	24,738		24,738
Cash and cash equivalents	181,943	-	181,943
Total	**319,397**	**100,561**	**419,958**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2008			
Assets as per balance sheet			
Trade and other receivables	108,651	-	108,651
Held-to-maturity investment	-	111,866	111,866
Loans to banks	60,429		60,429
Cash and cash equivalents	149,898	-	149,898
Total	**318,978**	**111,866**	**430,844**

COMPANY	Loans and receivables	Held-to-maturity investments	Total
31 December 2009			
Assets as per balance sheet			
Trade and other receivables	121,059	-	121,059
Held-to-maturity investment	-	100,561	100,561
Loans to banks	20,862	-	20,862
Cash and cash equivalents	165,968	-	165,968
Total	**307,889**	**100,561**	**408,450**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2008			
Assets as per balance sheet			
Trade and other receivables	115,563	-	115,563
Held-to-maturity investment	-	111,866	111,866
Loans to banks	60,429	-	60,429
Cash and cash equivalents	141,451	-	141,451
Total	**317,443**	**111,866**	**429,309**

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

17 Financial instruments by category (continued)

All financial liabilities of the Group amounting to LTL 66,000 thousand (2008: LTL 93,113 thousand) and of the Company amounting to LTL 68,486 thousand (2008: LTL 95,613 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

18 Trade and other receivables

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Trade receivables from business customers and residents	115,217	104,966	109,909	100,832
Trade receivables from other operators	15,770	14,322	16,472	14,322
Total trade receivables	**130,987**	**119,288**	**126,381**	**115,154**
Less: provision for impairment of receivables	(24,301)	(17,010)	(24,173)	(16,810)
Trade receivables - net	**106,686**	**102,278**	**102,208**	**98,344**
Receivables from companies collecting payments for telecommunication services	1,092	930	1,092	930
Prepaid expenses and other receivables	5,870	15,592	4,183	14,722
Receivables from related parties (Note 34)	4,925	5,445	4,665	6,792
Loans to related parties (Note 34)	-	-	13,093	9,569
	118,573	**124,245**	**125,241**	**130,357**
Less non-current portion	(7,343)	(5,563)	(7,343)	(5,563)
Current portion	**111,230**	**118,682**	**117,898**	**124,794**

All non-current receivables are due within two years from balance sheet date.

The fair values of trade and other receivables are approximate to their carrying values.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables mentioned above. The group does not hold any collateral as security.

Trade receivables that are not overdue are considered as fully performing.

Trade receivable that are less than three months past due are not considered impaired. As of 31 December 2009, the Group's trade receivables of LTL 9,026 thousand (2008: LTL 11,925 thousand) and the Company's trade receivables of LTL 8,726 thousand (2008: LTL 11,621 thousand) were past due but not impaired.

As of 31 December 2009, the Group's trade receivables of LTL 24,321 thousand (2008: LTL 17,429 thousand) and the Company's trade receivable of LTL 24,256 thousand (2008: LTL 17,389 thousand) were impaired and provided for. The amount of the Group's provision was LTL 24,301 thousand as of 31 December 2009 (2008: LTL 17,010 thousand) and the amount of the Company's provision was LTL 24,173 thousand as of 31 December 2009 (2008: LTL 16,810 thousand).

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

18 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Trade receivable total	**130,987**	**119,288**	**126,381**	**115,154**
Of which not overdue	97,640	89,934	93,399	86,144
Overdue up to 3 months	9,026	11,925	8,726	11,621
4 to 6 months	3,494	1,981	3,429	1,941
7 to 12 months	6,139	2,264	6,139	2,264
Over 12 months	14,688	13,184	14,688	13,184

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Currency				
LTL	106,530	100,057	112,016	107,620
EUR	11,960	23,600	13,146	22,153
XDR	64	206	64	206
Other currency	19	382	15	378
	118,573	**124,245**	**125,241**	**130,357**

Movements of impairment losses for trade receivables are as follows:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
At the beginning of year	17,010	15,199	16,810	15,153
Receivables written off during the year as uncollectible	(2,527)	(1,459)	(2,527)	(1,459)
Provision for receivables impairment/ Unused amount reversed (-)	9,818	3,270	9,890	3,116
At the end of year	**24,301**	**17,010**	**24,173**	**16,810**

The creation and release of provision for impaired receivables have been included in ‘Other operating expenses’ in the Statement of comprehensive income (Note 7).

The other classes within trade and other receivable do not contain impaired assets.

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

19 Held-to-maturity investments

Held-to-maturity investments accounted by the Group and the Company consist of short-term bonds issued by the Lithuanian commercial banks with Fitch long-term credit rating A, denominated in EUR (2008: in LTL). The effective interest rate on the bonds was 1.74% (2008: 8.28%). As of 31 December 2009, average maturity of bonds is 51 days (2008: 57 days). Fair value of bonds approximate to their carrying values.

As of the date of approval of these financial statements all held-to-maturity investments have been redeemed.

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as held-to-maturity investments.

20 Loans to banks

Loans to banks accounted by the Group and the Company are repurchase receivables from SEB Bank AB with Fitch long-term credit rating A+, denominated in EUR (2008: in LTL) according to securities' repurchase agreements. Effective interest rate on these loans was 1.63% (2008: 9.0%), and average maturity as of 31 December 2009 was 57 days (2008: 62 days). Fair value of the loans approximate to their carrying values.

As of the date of approval of these financial statements all loans have been repaid to the Company. The Group's certain loan agreements will expire in 2010 after the date of approval of these financial statements.

The maximum exposure to credit risk at the reporting date is the fair value of loans to banks classified as loans and receivables.

21 Cash and cash equivalents

	GROUP		**COMPANY**	
	2009	**2008**	**2009**	**2008**
Cash in hand and at bank	56,470	79,898	41,756	71,451
Short term bank deposits	125,473	70,000	124,212	70,000
	181,943	**149,898**	**165,968**	**141,451**

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	GROUP		**COMPANY**	
	2009	**2008**	**2009**	**2008**
Currency				
LTL	83,878	119,537	69,083	111,439
EUR	96,955	29,678	95,867	29,388
USD	1,047	624	1,018	624
GBP	63	59	-	-
	181,943	**149,898**	**165,968**	**141,451**

The effective interest rate on the Group's and the Company's short-term bank deposits held with Lithuanian banks was 1.4% (2008: 8.66%).

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

21 Cash and cash equivalents (continued)

The credit quality of cash in hand and at bank can be assessed by reference to Fitch long-term credit ratings:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
AA-	51,998	71,157	50,737	71,157
A+	73,969	59,027	59,666	50,701
A	55,752	19,473	55,355	19,390
Other	224	241	210	203
	181,943	**149,898**	**165,968**	**141,451**

As of the date of approval of these financial statements all deposits have matured and repaid to the Company and Group.

The maximum exposure to credit risk at the reporting date is the fair value of cash and cash equivalents classified as cash and cash equivalents.

22 Assets held for sale

As at 31 December 2009 no assets held for sale were accounted by the Group and the Company.

As at 31 December 2008 the Group and the Company accounted as assets held for sale one building with net book value of LTL 2,332 thousand and construction in progress amounted to LTL 10,600 thousand that was expected to be contracted for sale to a third party during the first half of 2009. Assets held for sale also included group of passenger cars with net book value of LTL 1 thousand.

In year 2009 the deal to sell one building and construction in progress item was cancelled, as a result building was moved back to property, plant and equipment into category 'Land and buildings', construction in progress was reclassified into investment property.

23 Share capital and treasury shares

Authorised share capital comprises 814,912,760 ordinary shares of LTL 1 par value each. All shares are fully paid up.

In June 2000, during the Initial Public Offering of the Company's shares by the State of Lithuania, a then subsidiary of UAB Lintel, UAB Lintkom, acquired 4.67% shares of the Company. The shares of the Company owned by UAB Lintkom were considered to be treasury shares and directly deducted from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120.0 million.

In May 2004, the legal merger of UAB Lintkom and UAB Lintel companies was completed. All assets, including treasury shares, and liabilities of UAB Lintkom were transferred to UAB Lintel.

In July 2007, the Board of the Company decided to acquire from UAB Lintel treasury shares. In September 2007, the Company took over the treasury shares from UAB Lintel and directly deducts them from shareholders' equity in the Company's balance sheet at their purchase cost of LTL 58.5 million as at 31 December 2009.

The Group treats the Company's shares held by the Company as treasury shares and directly deducts them from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120.0 million as at 31 December 2009.

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

24 Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve including share premium reaches 10% of the share capital. The legal reserve can be used to cover the accumulated losses.

25 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Trade payables	42,898	70,969	40,540	66,269
Trade payables to operators	4,326	3,059	4,591	3,961
Taxes, salaries and social security payable	38,410	37,177	31,164	30,864
Accruals to operators	5,528	6,736	5,528	6,736
Accrued liabilities	5,680	2,556	5,145	2,517
Other payables and deferred revenue	6,670	7,802	6,043	6,809
Amounts payable to related parties (Note 34)	1,170	2,574	6,514	9,025
	104,682	**130,873**	**99,525**	**126,181**
Less non-current portion	(3,828)	(1,605)	(3,359)	(1,043)
Current portion	**100,854**	**129,268**	**96,166**	**125,138**

The carrying amounts of the trade and other payables are denominated in the following currencies:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Currency				
LTL	91,387	112,282	86,232	107,624
EUR	11,432	17,156	11,432	17,129
XDR	411	1,101	411	1,101
Other currency	1,452	334	1,450	327
	104,682	**130,873**	**99,525**	**126,181**

26 Borrowings

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Current				
Finance lease liabilities	1,042	836	869	836
	1,042	**836**	**869**	**836**
Non-current				
Finance lease liabilities	5,121	5,972	5,103	5,972
	5,121	**5,972**	**5,103**	**5,972**
Total borrowings	**6,163**	**6,808**	**5,972**	**6,808**

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

26 Borrowings (continued)

Fair value of borrowings approximate to their carrying values.

In 2005 the Company concluded an agreement with a third party for sales and leaseback of certain technical and administrative premises. Leaseback of three administrative premises in substance qualified as a finance lease, whereas leaseback of other premises is accounted for as operating lease. All technical premises rented for 10 year period, at end of which all mentioned contracts could be renewed for an additional 10 years at agreed rent fee. If agreements are cancelled before the end of rent as stated in agreements, the forfeit should be paid.
The remaining finance lease agreements concluded relate to the lease of passenger cars.

Group's minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2008	1,086	4,345	2,385	7,816
Less future finance charges	(250)	(655)	(103)	(1,008)
Present value of minimum lease payments at 31 December 2008	836	3,690	2,282	6,808
Minimum lease payments at 31 December 2009	1,264	4,365	1,297	6,926
Less future finance charges	(222)	(510)	(31)	(763)
Present value of minimum lease payments at 31 December 2009	1,042	3,855	1,266	6,163

Company's minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2008	1,086	4,345	2,385	7,816
Less future finance charges	(250)	(655)	(103)	(1,008)
Present value of minimum lease payments at 31 December 2008	836	3,690	2,282	6,808
Minimum lease payments at 31 December 2009	1,086	4,346	1,298	6,730
Less future finance charges	(217)	(510)	(31)	(758)
Present value of minimum lease payments at 31 December 2009	869	3,836	1,267	5,972

Net carrying amount of assets owned by the Group and the Company under the finance leases is as follows:

	As at 31 December			
	GROUP		COMPANY	
	2009	2008	2009	2008
Premises	5,568	6,465	5,568	6,465
Passenger car	465	-	-	-
	6,033	**6,465**	**5,568**	**6,465**

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

27 Deferred income taxes

The gross movement on the deferred income tax liabilities account is as follows:

	GROUP		COMPANY	
	2009	2008	2009	2008
At the beginning of year	5,757	9,530	1,069	6,064
Charged/ (credited) to statement of comprehensive income (Note 10)	794	(3,773)	2,121	(4,995)
At the end of year	**6,551**	**5,757**	**3,190**	**1,069**
Deferred income tax to be recovered after more than 12 months	7,200	5,244	3,812	542
Deferred income tax to be recovered / liability settled (-) within 12 months	(649)	513	(622)	527
	6,551	**5,757**	**3,190**	**1,069**

According to Lithuanian tax legislation, investments of the Company in subsidiaries qualify for participation exemption, therefore deferred income tax liabilities have not been established on the unremitted earnings of subsidiaries.

The movement in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the period is as follows:

GROUP– deferred tax liabilities	Investment relief[1]	Other	Total
At 31 December 2008	**54,468**	**1,004**	**55,472**
Charged/ (credited) to net profit	(20,118)	1,878	(18,240)
At 31 December 2009	**34,350**	**2,882**	**37,232**

GROUP – deferred tax assets	Difference in useful lives [2]	Tax losses	Other	Total
At 31 December 2008	**(46,892)**	**(1,081)**	**(1,742)**	**(49,715)**
Charged/ (credited) to net profit	18,853	1,081	(900)	19,034
At 31 December 2009	**(28,039)**	**-**	**(2,642)**	**(30,681)**

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of losses amounting to LTL 2.0 million (2008: 2.4 million) that can be carried forward without expiry against future taxable income.

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

27 Deferred income taxes (continued)

The movement in deferred tax assets and liabilities of the Company (prior to offsetting of balances) during the period is as follows:

COMPANY – deferred tax liabilities	Investment relief[1]	Other	Total
At 31 December 2008	**49,964**	**669**	**50,633**
Charged/ (credited) to net profit	(18,844)	1,906	(16,938)
At 31 December 2009	**31,120**	**2,575**	**33,695**

COMPANY – deferred tax assets	Difference in useful lives [2]	Tax losses	Other	Total
At 31 December 2008	**(46,892)**	**(1,081)**	**(1,591)**	**(49,564)**
Charged/ (credited) to net profit	18,853	1,081	(875)	19,059
At 31 December 2009	**(28,039)**	**-**	**(2,466)**	**(30,505)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	As at 31 December			
	GROUP		COMPANY	
	2009	2008	2009	2008
Deferred tax assets	(30,681)	(49,715)	(30,505)	(49,564)
Deferred tax liabilities	37,232	55,472	33,695	50,633
	6,551	**5,757**	**3,190**	**1,069**

[1] under investments relief applied till year 2001, value of assets invested was deducted for income tax purpose in the year of investment. Further depreciation expenses of these assets are not tax-deductable therefore deferred tax liability was created. It will be fully utilized during useful lives of these assets.

[2] depreciation is accelerated for accounting purposes, as useful lives set by tax laws are longer than normal wear-and-tear rates

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

28 Grants

Movement of the grants may be summarised as follows:

	GROUP		COMPANY	
	2009	2008	2009	2008
At the beginning of year	1,361	2,768	1,361	2,768
New grants received	-	1,419	-	1,419
Amortization of deferred income to match related depreciation	(801)	(1,017)	(801)	(1,017)
Amortization of deferred income to match related expenses	-	(1,809)	-	(1,809)
At the end of year	**560**	**1,361**	**560**	**1,361**

29 Provisions

The Group and the Company established a provision for restructuring costs. The restructuring provision comprises of compensation to employees as a result of planned Company restructuring. Provisions for restructuring are expected to be fully utilized during the year 2010. Provisions as of 31 December 2008 were fully utilised during 2009.

30 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2009 the aggregate of bank guarantees (tender, agreement performance) provided by SEB Bank AB on behalf of the Company and the Group amounts to LTL 2.87 million (2008: LTL 3.42 million).

Minimum lease payments receivable

The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2009	2008	2009	2008
Not later than 1 year	22,501	9,816	22,501	9,816
Later than 1 year but not later than 5 years	22,845	23,816	22,845	23,816
Later than 5 years	-	-	-	-
	45,346	**33,632**	**45,346**	**33,632**

Contingent-based rents recognised in the statement of comprehensive income were LTL 11,113 thousand (2008: LTL 3,191 thousand).

The Company lease terminal telecommunication equipment under various agreements which terminate in 2012.

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

31 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognized in the financial statements is as follows:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Property, plant and equipment	1,868	65,186	1,868	65,186
	1,868	**65,186**	**1,868**	**65,186**

Operating lease commitments – where the Group is the lessee

The Group and the Company leases passenger cars, IT equipment and premises under operating lease agreements.

As discussed in Note 26, the Company leases technical premises under operating lease agreements for 10 years. In addition, the Company in 2008 prolonged rent of administrative premises in one location for 8 years.

In addition, the Group rents other premises. A new rent contract for customer care centre for 5 years was committed. The Group has prolonged certain rent agreements that expired in 2009 for additional 1 year; also one agreement was prolonged for additional 4 years.

The operating lease expenditure charged to the statement of comprehensive income are as follows:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Minimum lease payments	17,342	9,287	12,925	8,492

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Not later than 1 year	9,466	7,697	9,248	7,290
Later than 1 year but not later than 5 years	12,832	9,144	12,599	8,559
Later than 5 years	5,640	2,752	5,640	2,752
	27,938	**19,593**	**27,487**	**18,601**

32 Business combination

On 30 November 2009, the Group acquired 100% stake in UAB Interdata, a webhosting service provider in order to strengthen Group positions providing web hosting and other IT services. UAB Interdata owns a 100% stake in UAB Hosting. The acquired business contributed revenues of LTL 265 thousand and net loss LTL 82 thousand to the Group for the period from 30 November to 31 December 2009. If the acquisition had occurred on 1 January 2009, Group revenue would have been increased by LTL 2,203 thousand, and loss would have been decreased by LTL 73 thousand.

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

32 Business combination (continued)

Details of net assets acquired and goodwill are as follows:

Purchase consideration	3,269
Fair value of net assets acquired	(731)
Goodwill	2,538

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

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	7	7
Property, plant and equipment	656	656
Intangible assets	-	-
Inventories	1	1
Receivables	400	400
Payables	(80)	(80)
Borrowings	(253)	(253)
Net assets acquired	**731**	**731**

Purchase consideration settled in cash	3,269
Cash and cash equivalents in subsidiaries acquired	(7)
Cash outflow on acquisition	**3,262**

On 3 January 2008, the Company acquired 100% stake in UAB Nacionaline Skaitmenine Televizija.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	16,472
Fair value of net assets acquired	(16,472)
Goodwill	-

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	394	394
Property, plant and equipment	1,138	1,138
Intangible assets	17,843	-
Inventories	81	81
Receivables	219	219
Payables	(606)	(606)
Borrowings	(2,597)	(2,597)
Net assets acquired	**16,472**	**(1,371)**

Purchase consideration settled in cash	16,472
Cash and cash equivalents in subsidiaries acquired	(394)
Cash outflow on acquisition	**16,078**

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

32 Business combination (continued)

On 31 December 2008, the legal merger of AB Nacionaline Skaitmenine Televizija and Company was completed. All assets, right and obligations of AB Nacionaline Skaitmenine Televizija were transferred to the Company. Financial position as of 31 December 2008 and results for the year then ended of this subsidiary are as follows:

Non-current assets	1,864
Current assets	5,338
Total assets	**7,202**
Equity	576
Subsidies	912
Current liabilities	5,714
Total equity and liabilities	**7,202**
Revenue	3,690
Operating expenses	(8,772)
Depreciation	(173)
Finance income/costs, net	(148)
Loss for the period	**(5,403)**

33 Disposals

There were no disposals in the year ended 31 December 2009 (2008: UAB Voicecom)

34 Related party transactions

The Group is controlled by TeliaSonera AB (publ) which directly owns 4.90% and indirectly through its subsidiary Amber Teleholding A/S 60% of the Company’s shares. In total, TeliaSonera AB (publ) owns 64.90% of the Company’s shares and 68.08% of votes. Majority shareholders of TeliaSonera AB (publ) are Governments of Sweden and Finland. The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	44,386	55,416	39,302	50,682
Subsidiaries of the Company	-	-	10,861	10,528
Total sales of telecommunication and other services	**44,386**	**55,416**	**50,163**	**61,210**

Sales of property to:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Subsidiary of the Company UAB Verslo investicijos				
Transaction price	-	-	25,258	-
Transaction profit	-	-	12,132	-

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

34 Related party transactions (continued)

Purchases of assets and services:

	GROUP		COMPANY	
Purchases of assets from:	**2009**	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	10	1,115	-	-
Subsidiaries of the Company	-	-	689	1,332
	10	**1,115**	**689**	**1,332**

	GROUP		COMPANY	
Purchases of services from:	**2009**	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	31,502	44,783	27,183	43,178
Subsidiaries of the Company	-	-	44,715	51,732
	31,502	44,783	71,898	94,910
Total purchases of assets and services	**31,512**	**45,898**	**72,587**	**96,242**

Year-end balances arising from sales/purchase of assets/services:

Total receivables and accrued revenue from related parties

	GROUP		COMPANY	
Receivables from related parties:	**2009**	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	2,397	3,817	1,202	3,034
Subsidiaries of the Company	-	-	1,633	2,130
	2,397	**3,817**	**2,835**	**5,164**

	GROUP		COMPANY	
Accrued revenue from related parties:	**2009**	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	2,528	1,628	1,830	1,628
	2,528	1,628	1,830	1,628
Total receivables and accrued revenue from related parties	**4,925**	**5,445**	**4,665**	**6,792**

Payables and accrued expenses to related parties

	GROUP		COMPANY	
Payables to related parties:	**2009**	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	987	1,946	722	1,044
Subsidiaries of the Company	-	-	5,609	7,353
	987	**1,946**	**6,331**	**8,397**

	GROUP		COMPANY	
Accrued expenses to related parties:	**2009**	**2008**	**2009**	**2008**
TeliaSonera AB (publ) and its subsidiaries	183	628	183	628
	183	628	183	628
Total payables and accrued expenses to related parties:	**1,170**	**2,574**	**6,514**	**9,025**

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

34 Related party transactions (continued)

Loans to related parties:

	GROUP		COMPANY	
	2009	**2008**	**2009**	**2008**
Beginning of the year	-	-	9,569	8,043
Loans advanced during year	-	-	8,870	2,500
Acquisition of subsidiary	-	-	-	2,597
Loan repayments received (in cash and non-cash)	-	-	(5,370)	(1,000)
Legal merge of subsidiary	-	-	-	(2,597)
Interest charged (including VAT)	-	-	963	880
Interest received (including VAT)	-	-	(939)	(854)
End of the year	-	-	13,093	9,569

The loans advanced to related parties have the following terms and conditions:

Name of the related party	Date of agreement	Original currency of agreement	Balance outstanding as at 31 December 2009	Maturity	Interest rate
UAB Baltic Data Center	20 July 2007	LTL	9,000	due on 21 January 2010	9,2%
UAB Verslo Investicijos	1 September 2009	EUR	4,000	due on 11 September 2011	1,746%

All transactions with related parties are carried out based on the arm's length principle.

Transactions with the immediate parent Amber Teleholding A/S during 2009: paid out dividends amounting to LTL 112,458 thousand (2008: LTL 122,237 thousand).

Remuneration of the Group's and the Company's key management

	2009	**2008**
Remuneration of key management personnel	12,958	10,028
Social security contributions on remuneration	4,014	3,106
Total remuneration	16,972	13,134

Key management includes General Manager, Chief Officers, and Directors of main units, departments and regional centers. The total number of top management personnel employed as of 31 December 2009 was 28 (as of 31 December 2008: 29).

The total amount including remuneration and annual compensations (tantiems) paid to the seven members of the Board of the Company during 2009 amounted to LTL 378 thousand (2008: LTL 378 thousand).

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

35 Events after balance sheet day

The Loan agreement between Company and UAB Baltic Data Center was extended from 21 January 2010 till 21 July 2010, and interest rate of 4.43% was set.

The Company will no longer support the women's basketball team from the next season starting in the autumn of 2010. An amount of more than LTL 2 million per year used to be allocated through associated non-profit organization TEO Sportas to the above mentioned team.

Board of the Company proposed to consider two alternative proposals regarding treasury stocks: (1) sale of treasury stocks and set up of the procedure for sale of treasury stocks, and (2) cancelation of treasury stocks and related to that reduction of the Company's authorised share capital.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Giedrius Vegys, Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Financial Statements as of and for the year ended 31 December 2009 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group of undertakings.

Arūnas Šikšta	Giedrius Vegys
General Manager	Chief Financial Officer

CONSOLIDATED ANNUAL REPORT

Approved by the Board
as at 25 March 2010

I. GENERAL INFORMATION

Reporting period

Year ended 31 December 2009

Issuer and its contact details

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

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

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

Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in Lithuania on the following markets of:
- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- publicly available local and/or national telephone services provided at a fixed location for residential customers;
- publicly available international telephone services provided at a fixed location for residential customers;
- publicly available local and/or national telephone services provided at a fixed location for non-residential customers;
- publicly available international telephone services provided at a fixed location for non-residential customers;
- minimum set of leased lines;
- calls origination on public telephone network provided at a fixed location;
- calls termination on public telephone network provided at a fixed location;
- national transit in fixed public telephone network;
- international transit in fixed public telephone network;
- wholesale broadband access;
- wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services;
- wholesale terminating segments and trunk segments of leased lines.

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

As on 31 December 2009, TEO Group consisted of the parent company, TEO LT, AB, (registered on 6 February 1992, code 121215434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Savanorių ave. 28, LT-03501 Vilnius tel.: +370 5 262 15 11; fax. +370 5 212 66 65; internet address: www.teo.lt) and its subsidiaries:

Name of the company	Date of registration, code, name of Register of Legal Entities	Contact details	TEO share in the share capital of the company (%)	TEO share of votes (%)
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	J. Galvyd io str. 7/ ygio str. 97, LT-08222 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.lintel.lt	100.00	100.00
UAB Baltic Data Center	17 December 2001, code 125830791, State Enterprise Center of Registers	irmūnų str. 141, LT-09128 Vilnius, Lithuania tel. +370 5 274 8360, fax. +370 5 278 3399, www.bdc.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	5 July 1995, code 134517169, State Enterprise Center of Registers	Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania tel. +370 5 236 7214, fax. +370 5 231 3444	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Jogailos str. 9A / A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613	100.00	100.00
VšĮ TEO Sportas	28 April 1998, code 124366950, State Enterprise Center of Registers	Savanorių ave. 28, LT-03501 Vilnius, Lithuania tel. +370 5 236 8792 fax. +370 5 231 3650 www.teobasket.lt	-	100.00

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

UAB Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. It handles around 14 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118 and consultations to computer users by phone 1518 as well as telemarketing and remote customer care services to business customers. In 2009, UAB Lintel paid to the Company LTL 4 million in dividends for the year 2008.

UAB Baltic Data Center is a leading provider of data center and information system management services in the Baltic States. Baltic Data Center provides professional data centre, computer workstation and business management system support and development services. On 30 November 2009, UAB Baltic Data Center acquired a 100 per cent stake in one of a leading web-hosting services provider, UAB Interdata, which has a subsidiary, UAB Hosting. Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA, which is a dormant company.

In June 2009, UAB Kompetencijos Ugdymo Centras terminated provision of its consultancy and training services due to lack of demand.

A newly established company UAB Verslo Investicijos for the implementation of an investment project was acquired by TEO LT, AB on 23 December 2008.

VšĮ TEO Sportas supports TEO women basketball team, a multiple champion of Lithuania and the Baltic States. The Company will terminate support of the team from the next season, starting in the autumn of 2010.

TEO LT, AB has no branches and representative offices.

Agreements with intermediaries of public trading in securities

Since 1 December 2000 the Company and AB SEB Bankas (code 112021238), Gedimino ave. 12, LT-01103 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

Data about securities traded on regulated market

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

Type of shares	Number of shares	Nominal value (in LTL)	Total nominal value (in LTL)	Issue Code
Ordinary registered shares	814,912,760	1	814,912,760	LT0000123911

32,596,510 TEO LT, AB Global Depository Receipts (1 GDR represents 10 ORS) are admitted to the Official List of the UK Listing Authority and could be traded on the Main Market of London Stock Exchange (code: TEOL). TEO GDRs could be traded on the NASDAQ PORTAL market (U.S.A.).

Following the directives of European Union, the Company is informed that GDRs of TEO are included in Frankfurt Deutsche B rse Stock Exchange trading within the Open Market (*Freiverkehr*) and being traded on the Munich Stock Exchange.

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

II. FINANCIAL INFORMATION

In 2009, the Company continued to provide good result despite harsh economic climate. In order to build its business value TEO heavily invested in next generation FTTH network. This strategy proved to be successful. Alongside with efficient costs saving this allowed the Company to maintain its profitability. Last year TEO reached two important milestones – the number of its broadband customers exceeded 300 thousand, while the number of TV customers – 100 thousand. This solid customer base provides good opportunities for diversification of the Company's revenue.

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

Key figures of TEO Group

Financial figures	2009	2008	Change (%)
Revenue (LTL thousand)	815,551	826,267	(1.3)
Operating profit (LTL thousand)	196,047	182,238	7.6
Operating profit margin (%)	24.0	22.1	
Profit before income tax (LTL thousand)	197,930	189,500	4.4
Profit for the period (LTL thousand)	169,072	159,908	5.7
Profit for the period margin (%)	20.7	19.4	
Earnings per share (LTL)	0.218	0.206	5.7
Number of shares excluding treasury stocks (thousand)	776,818	776,818	-

Financial ratios	31-12-2009	31-12-2008
Return on capital employed (%)	19.5	18.5
Return on average assets (%)	17.6	16.0
Return on shareholders' equity (%)	16.9	15.7
Gearing ratio (%)	(29.3)	(30.4)
Debt to equity ratio (%)	0.6	0.7
Current ratio (%)	410.8	353.7
Rate of turnover of assets (%)	73.4	72.6
Equity to assets ratio (%)	89.2	87.6

Operating figures	31-12-2009	31-12-2008	Change (%)
Number of fixed telephone lines in service	721,953	767,805	(6.0)
Digitalisation rate (%)	94.2	94.0	4.7
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other)	313,449	298,080	5.2
Number of IP TV customers	55,915	40,350	38.6
Number of DVB-T customers	46,454	26,327	76.5
Number of wireless Internet (WiFi) hot-spots	3,998	4,203	(4.9)
Number of personnel (head-counts) at the end of period	3,060	3,332	(8.2)
Number of full-time employees at the end of the period	2,713	2,981	(9.0)

Revenue

The total consolidated TEO Group's revenue for the year 2009 was LTL 816 million, a decline by 1.3 per cent over the total revenue of LTL 826 million for the year 2008.

From January 2009 the value-added tax (VAT) rate was increased in Lithuania from 18 to 19 per cent and from September – from 19 to 21 per cent. TEO is compensating the VAT rate difference by refusing part of its revenue and not changing retail prices for residential customers. In 2009, such compensation cost TEO almost LTL 10 million.

Growth in revenue from Internet, data communication, television and IT services, driven by continuous growth of the number of customers, offset a decline in revenue from voice telephony services.

During 2009 share of revenue from voice telephony services from total amount of revenue amounted to 56.5 per cent, Internet and data communications services – 33.8 per cent, television services – 3.4 per cent, IT services – 3 per cent and other services – 3.3 per cent of total revenue for the year 2009.

Revenue from voice telephony services went down by 9.3 per cent due to lower traffic volumes and the decreased number of telephone lines in service. The main decrease was in the business customer segment and this is a reflection of the current economic situation in the country.

During 2009, the total number of main telephone lines in service decreased by 45.9 thousand: 34.7 thousand of new telephone lines were installed while 80.6 thousand were disconnected.

Lower number of voice telephony service users resulted in a decline of revenue from subscription fees in 2009 by 6 per cent compared with a year ago.

In May 2009, residential customers were offered improved flat-fee payment plans and that, in spite of the decreased number of telephone lines, resulted in increased traffic volumes. During 2009 the traffic generated by residential customers increased by 1.3 per cent, while the traffic volume of business customers decreased by 18.2 per cent compared to 2008. As a result, over the year revenue from traffic charges went down by 18.2 per cent.

In 2009, revenue from network interconnection services went down by 1.2 per cent due to lower international transit and national interconnection prices. National network interconnection tariffs were reduced in August 2008. From 1 January 2010 prices for call termination on fixed networks during peak hours were further reduced from 6 cents to 5.42 cents (excluding VAT) and during off-peak hours – from 3.6 cents to 2.79 cents (excluding VAT) per minute.

In 2009, TEO maintained its leading position on the voice telephony market. According to the Report of the Communications Regulatory Authority (CRA) for the third quarter of 2009, TEO retained its market share of the fixed-line telephony market in terms of customers (93.6 per cent) and in terms of revenue (94.6 per cent). In terms of revenue TEO share of the network interconnection market increased and amounted to 20.3 per cent (15.6 per cent for the fourth quarter of 2008).

In 2009, the Company accelerated expansion of its next-generation fibre optic Internet access network using FTTH (Fiber to the Home) and FTTB (Fiber to the Building) technologies. By the end of 2009 almost 20 per cent of the total number of TEO broadband Internet access users had fibre optic access.

During the year the number of FTTH connections increased 3.5 times to 50.9 thousand and the number of FTTB connections increased by 25.2 per cent to 11.6 thousand, while the number of copper DSL connections used by retail customers went down by 8.9 per cent.

At the end of 2009, out of total 313.4 thousand broadband connections, 226.5 thousand were copper DSL connections sold to retail customers, 62.8 thousand – fiber optic connections, 22.5 thousand – wireless connections via WiFi network and 1.6 thousand DSL connections were the ones sold to wholesale customers. During 2009, the total number of broadband Internet access users increased by 15.4 thousand.

Compared with 2008, revenue from Internet services in 2009 went up by 6.5 per cent and revenue from data communication services by 8.5 per cent. The slowdown in growth of revenue from Internet and data communication services was caused by zero growth in the business customers' segment.

In 2009, the Company sustained its share of the Internet service market. According to the CRA Report, the Company's market share of the total Internet providers market in terms of revenue during the third quarter of 2009 amounted to 40.8 per cent while its share of the market of broadband Internet access using fixed connection was 50.3 per cent. On 30 September 2009 the penetration of broadband Internet using fixed connection per 100 residents of Lithuania was 18.6 per cent. In terms of revenue TEO had 62.4 per cent of the leased lines market and 69 per cent of the data communications market.

The number of television services users continued to grow and by the end of 2009 it exceeded 100 thousand. During 2009 the number of digital terrestrial television (DVB-T) service users increased by 76.5 per cent to 46.5 thousand, while the number of IPTV service users increased by 38.6 per cent to 55.9 thousand. In total, during 2009 the Company attracted 35.7 thousand of new television services users, an increase by 53.5 per cent.

In 2009, the Company continued to develop its television services. Since May IPTV service users may watch 4 high-definition television (HDTV) channels. In November, TEO offered a new DVB-T set-top-box with a hard disk, enabling to record and playback TV programs as well as watch HDTV channels (currently 3 channels in Vilnius area).

Revenue from television services for the year 2009, compared with the revenue a year ago, increased by 67.7 per cent.

According to the Company's estimations, TEO market share of the total pay-TV services market in terms of customers at the end of September 2009 amounted to 15.8 per cent.

Revenue from IT services increased by 16.8 per cent and was mainly generated by the Company's subsidiary UAB Baltic Data Center that provides data center and information system management services.

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. During the second quarter of 2009 Kompetencijos Ugdymo Centras (Competence Development Center) terminated provision of its consultancy and training services due to lack of demand.

In 2009, the growth in revenue from other services was driven by higher volumes of Contact Center services provided to external customers and an increased amount of fines for termination of agreements. Revenue from other services for the year 2009 increased by 13.8 per cent, in spite of the fact that in 2008 revenue from other services included revenue of LTL 1.3 million from a one-time special telecommunication project.

Other income, that consist of interest income from bonds, in 2009 was slightly higher (by 1.3 per cent) than in 2008. Other gain (loss) from sale of property, investments and etc. during the year decreased by 39.4 per cent.

Operating expenses

In 2009, the Company continued its strict cost control policy and as a result total operating expenses of the Group were by 0.1 per cent lower than total operating expenses a year ago.

Employee-related expenses decreased by 2.9 per cent. Over the year the total number of employees (headcount) in TEO Group went down by 272 from 3,332 to 3,060. In terms of full-time employees, the total number of employees in TEO Group over the year went down by 268.

Interconnection expenses went down by 4.4 per cent due to the decrease of prices for calls termination in Lithuanian mobile networks from 1 January 2009.

Other expenses increased by 5.6 per cent due to the growth of television and IT business areas. The increased number of television services users resulted in higher payments to TV content providers, costs of customer end equipment and higher expenses for DVB-T broadcasting.

Due to economic situation in the country the Company's bad debt provisions increased somewhat in 2009, but TEO uses prevention tools and keeps this process under strict control.

Earnings

Depreciation and amortisation charges decreased by 14.9 per cent and in 2009 amounted to 17.4 per cent of total revenue (20.2 a year ago). As a result, operating profit was by 7.6 per cent higher than a year ago and operating profit margin increased from 22.1 per cent a year ago to 24 per cent.

Net financial income in 2009 went down by 74.1 per cent due to lower interest rates and lower interest income on cash and cash equivalents.

Profit before income tax for the twelve months of 2009 was up by 4.4 per cent and amounted to LTL 198 million (LTL 190 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. At the end of 2009, the Company recalculated its deferred profit tax liability due to the change of the tax rate. Also, following amendments to the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the Company accounted profit tax relief of LTL 13 million in the balance sheet as current income tax receivable.

Profit for the period amounted to LTL 169 million, an increase by 5.7 per cent over LTL 160 million a year ago. Over the year, the profit margin increased from 19.4 per cent to 20.7 per cent.

Balance sheet and cash flow

During 2009 total assets of TEO Group decreased by 2.7 per cent due to payment of dividends, and depreciation and amortisation of assets.

Over the year non-current assets decreased by 1.4 per cent and current assets by 4.7 per cent. In May, dividends of LTL 179 million for the year 2008 were paid to the shareholders of TEO.

As of 31 December 2009, total non-current assets of TEO Group amounted to 61.4 per cent and current assets to 38.6 per cent of the total assets. Cash, held-to-maturity investments and loans to banks amounted to LTL 307 million or 26.7 per cent of the total assets.

Dividends paid for the year 2008 (LTL 179 million) a bit exceeded net profit earned (LTL 169 million) during 2009, therefore shareholders' equity eased by 0.7 per cent and amounted to 89.2 per cent of the total assets.

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 of the Group. As of 31 December 2009 retained earnings of TEO LT, AB amounted to LTL 166 million or LTL 0.214 per share.

From 1 January 2010 dividends paid to legal entities (residents and non-residents) will be subject to reduced withholding Corporate income tax of 15 per cent, unless otherwise provided for by the laws. Dividends paid to natural persons (residents and non-residents) will be subject to unchanged withholding Personal income tax of 20 per cent but residents of Lithuania will not be charged a Compulsory Health Insurance tax of 6 per cent as it was in 2009.

At the end of 2009 the total amount of borrowings representing mainly financial liabilities related to financial leasing of premises amounted to LTL 6.2 million. Net debt was negative and amounted to LTL 301 million. The net debt-to-equity ratio was negative and amounted to 29.3 per cent.

Net cash flow from operating activities in 2009 was by 7.1 per cent lower than a year ago.

LTL 43.7 million of cash spent in 2009 for capital investments were payments for investments made in 2008 and LTL 26 million of capital investments made in 2009 will be paid in 2010.

During 2009 capital investments amounted to LTL 117 million (LTL 180 million in 2008). The majority of capital investments (85.3 per cent or LTL 100 million) went to expansion of the core network and development of the next generation fiber-optic access network. The remaining part was invested into upgrading of IT systems (LTL 11 million), the renovation of technological buildings (LTL 6 million) and transport.

In November 2009, the Company's subsidiary UAB Baltic Data Center acquired one of the leading web-hosting service providers in Lithuania, UAB Interdata, which has a subsidiary, UAB Hosting.

Financial activities mainly consist of dividend payment. Dividends paid to the shareholders in 2009 for the year 2008 amounted to LTL 179 million while dividends for the year 2007 paid in 2008 amounted to LTL 194 million.

Due to capital investments and dividends paid to shareholders being lower in 2009 than in previous year cash and cash equivalents during 2009 increased by LTL 32 million.

During 2009 TEO LT, AB paid more than LTL 140.5 million of taxes and contributions, not including taxes and contributions that the Company withheld and paid on behalf of other persons. Amount of LTL 31.1 million was contributed to the State Social Insurance Fund and LTL 109.4 million was paid to the State Tax Inspectorate.

Information about related party transactions

Information about related party transactions is provided in Note 34 of TEO LT, AB Financial Statements for the year ended 31 December 2009.

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

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

The Company and the Group directly and indirectly through its largest shareholder, Amber Teleholding A/S, a subsidiary of TeliaSonera AB (publ), are related to TeliaSonera Group that provides telecommunication services in 20 countries. The main buyers and providers of telecommunications services to the Group are UAB Omnitel (Lithuania), TeliaSonera International Carrier (Sweden), Elion Ettevotted AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland).

Other material information

On 19 October 2009, the Supreme Administrative Court of Lithuania decided to uphold its previous decision on the validity of the detailed plan of the TEO administrative building on Lvovo street, Vilnius. The court's judgment in the case, where the decision of the Council of Vilnius City Municipality regarding the approval of the detailed plan and the inspection statement of the territory planning document of the Vilnius County Governor's Administration was appealed, is final and not subject to appeal. Examining the case, the court did not determine any violations of the detailed plan or its approval procedures. During the case examination the construction works of the administrative building were not carried out.

Recent events

On 9 February 2010, the Board of the Company decided to prepare and propose for the forthcoming Annual General Meeting of Shareholders, which is planned to be held on 26 April 2010, to consider two alternative proposals regarding treasury stocks: (1) regarding sale of treasury stocks and set up of a procedure for sale of treasury stocks, and (2) regarding cancelation of treasury stocks and related to that reduction of the Company's authorised share capital. TEO has 38,095,242 treasury stocks that amount to 4.67 per cent of the total number of the Company shares. Treasury stocks were acquired during the Initial Public Offering (IPO) in the 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.

On 24 February 2010, the Lithuanian Communications Regulatory Authority (CRA) recognised TEO LT, AB 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 LT, AB.

Research and development activities

There were no major research and development projects undertaken during 2009, except the ongoing development and improvement of the Company's services.

Environmental protection

In its activities, TEO uses only the most innovative means and the most modern technological processes that meet all ecological standards and help reduce the negative impact on the environment. In 2009, the Company reduced its electricity usage by 4 per cent, office paper – 10 per cent, fuel – 16 per cent, and water consumption per employee – 16 per cent. More information about the Company's activities in environmental protection as well as other corporate social responsibility activities is provided in annually issued TEO Corporate Social Responsibility Reports.

The main features of the Group's interna contro and risk management systems re ated to preparation of consolidated financial statements

TEO Group prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS) as adopted by EU.

In collaboration with TeliaSonera AB (publ), the Company implemented process of internal controls. It was implemented following the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

The process of the Company's internal controls implies control of business processes related to provision of services and revenue assurance (customers' settlements and accounting, development and management of services, services provision), performance of IT systems (customer care and billing, infrastructure, network information, financial accounting, salary accounting, networks' interconnection) and process of preparation of financial reports.

The Company's Procedure for Preparation of Financial Statements provides that financial statements shall be prepared in a correct and timely manner. The annex to the Procedure for Preparation of Financial Statements describes potential risks, methods, types and frequencies of risks control, proves of control, employees responsible for and employees executing control related to preparation of financial statements.

Risk management

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

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- Acceptance of new products of the Company by the market.
- Currencies' exchange rates fluctuation.
- General economic situation in the Republic of Lithuania.
- Changes in the Lithuanian legislation.
- Changes in the regulation of accounting and taxation systems.
- As of 31 December 2009 the total amount of borrowings of TEO Group amounted to LTL 6.2 million.

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

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

Information about the Company's financial risk management is provided in Note 3 of TEO LT, AB Financial Statements for the year ended 31 December 2009.

Plans and forecasts

In 2010, TEO will focus on further development of its next generation network and will continue its revenue diversification. Quality of service and cost control will remain on our Company's list of top priorities. With its rapidly expanding digital terrestrial television services, TEO will contribute to Lithuania's transition from analogue to digital television broadcasting.

In 2010, capital investments will be oriented towards continuous expansion of the fibre-optic access network, improvement of quality of services and development of digital TV services.

III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS

Share capital

The share capital of the Company remains unchanged since 1997 and amounts to 814,912,760 Litas. It consists of 814,912,760 ordinary registered shares with a nominal value of one Litas each.

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

Since June 2000 TEO runs a Global Depository Receipt (GDR) programme. According to the programme, one GDR represents 10 ordinary registered shares of the Company. Shares are held by the depository bank, Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A.

As of 31 December 2009, 30,516,660 ordinary shares of the Company (3.74% of the total share capital) were represented by 3,051,666 GDRs. During 2009 the number of outstanding GDR's decreased by 112,501 unit.

Shares of TEO are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L) and GDRs are quoted on the Main Market of the London Stock Exchange (LSE) (code: TEOL).

Shareholders

The number of shareholders on the shareholders registration day for the Annual General Meeting of Shareholders, which was held on 28 April 2009, was 15,994.

On 23 August 2009 TEO LT, AB received a notification on the intention of TeliaSonera AB (publ), an indirect major shareholder of the Company, to launch the voluntary takeover bid.

On 11 September 2009 the Lithuanian Securities Commission decided to approve the circular of the voluntary tender offer of TeliaSonera AB (publ), Sweden, for acquisition of remaining 281,470,107 ordinary registered shares, which have the voting rights, of TEO LT, AB paying LTL 1.83 per share. The offer was valid from 17 September until 9 October 2009.

On 23 September 2009 the Board announced its opinion regarding the tender offer of TeliaSonera AB (publ) in respect of shares of TEO LT, AB: the offer has been submitted pursuant to the requirements of the legal acts of the Republic of Lithuania and the Board considers the offer price as fair, but the Board is not providing recommendations to the shareholders of TEO LT, AB to accept or to reject the offer, because 5 out of 7 Board members are employees of TeliaSonera AB (publ) and due to that, in the opinion of the Board, it is not appropriate for the Board to make recommendations on the acceptance or rejection of the offer. Six members of the Board voted in favour and one member voted against the opinion of the Board.

On 2 October 2009 the Board and General Manager of TEO LT, AB received a joint offer from East Capital Explorer Investments AB (Sweden), East Capital Special Opportunities Fund (Cayman Islands) and East Capital Asset Management AB (Sweden) on behalf of East Capital Baltic Fund (Sweden) and East Capital Eastern European Fund (Sweden), to sell TEO LT, AB treasury stocks, i.e. 38,095,242 shares or 4.67 per cent of the total number of the Company's shares, to East Capital Explorer Investments AB, East Capital Special Opportunities Fund and East Capital Asset Management AB on behalf of East Capital Baltic Fund and East Capital Eastern European Fund, paying 1.95 Litas per share. The offer was valid until 9 October 2009 15:00 (Lithuanian time). On 6 October 2009 the Board of TEO LT, AB stated, that the Company's Board has no competence to take decisions regarding purchase or sale of treasury stocks, as well as is not entitled to respond to any offers to sell treasury stocks.

On 9 October 2009, East Capital Asset Management AB (Sweden) on behalf of East Capital Explorer Investments AB (Sweden) notified about crossing of the 5 per cent limit of votes at the General Meeting of TEO LT, AB.

On 9 October 2009, the tender offer of TeliaSonera AB (publ) regarding TEO LT, AB shares was over. 23,479,470 shares of the Company (2.88 per cent of total number of shares or 3.02 per cent of votes) were submitted into response to this tender offer and on 14 October 2009 they were purchased by TeliaSonera AB (publ). Also, TeliaSonera AB (publ) acquired 10,016,391 shares of the Company in the open market during the offer period at the price of the offer and 6,399,755 shares at the price of the offer were bought in the open market between the announcement of the offer and the beginning of the offer period.

As the result, TeliaSonera AB (publ) increased its direct holding in TEO LT, AB up to 4.90 per cent of the total number of shares or 5.14 per cent votes, and as of 14 October 2009 together with its subsidiary Amber Teleholding A/S held 64.90 per cent of the Company's share capital and 68.08 per cent of votes during the General Meeting of Shareholders. On 13 October 2009 TeliaSonera AB (publ) announced about crossing of the 5 per cent limit of votes during the Company's General Meeting of Shareholders.

Shareholders of TEO LT, AB as on 31 December 2009:

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", olmbladsgade 139, DK-2300 Copenhagen S, Denmark, code 20758694	488,947,656	60.00	62.94	68.08
TeliaSonera AB (publ) (a), Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	39,895,616	4.90	5.14	68.08
East Capital Asset Management AB, Kungsgatan 33, Stockholm, SE-111 93, Sweden, code 556564-5370	39,810,116	4.89	5.12	-
TEO LT, AB, Savanorių pr. 28, LT-03501 Vilnius, Lithuania, code 121215434 (Treasury stocks)	38,095,242 (b)	4.67	-	--
Republic of Lithuania, represented by State Enterprise State Property Fund, Vilniaus g. 16, LT-01507, Vilnius, Lithuania, code 110073154	3,799,753	0.47	0.49	-
Republic of Lithuania, represented by State Tax Inspectorate, Vasario 16-osios g. 15, LT-01514 Vilnius, Lithuania, code 188659752	362,630	0.04	0.05	
Other shareholders	204,001,747	25.03	26.26	-
TOTAL:	**814,912,760**	**100.00**	**100.00**	**-**

NOTES: (a) Amber Teleholding A/S is a fully owned subsidiary of TeliaSonera AB (publ); (b) 12,698,412 ordinary registered shares and 2,539,683 Global Depository Receipts.

Treasury stocks

On 12 June 2000, during the Initial Public Offering UAB Lintkom, the then subsidiary of UAB Lintel, which is a subsidiary of the Company, acquired 12,698,412 ordinary registered shares of the Company (1 share price was LTL 3.15) and 2,539,683 Global Depository Receipts of the Company (1 GDR price was USD 7.875) (1 GDR represents 10 ordinary registered shares of the Company). Overall, UAB Lintkom held 4.67 per cent of the Company's share capital.

In September 2002, the Company acquired all shares of UAB Lintkom from UAB Lintel. In December 2003, the Company transferred all UAB Lintkom shares back to UAB Lintel. In May 2004, after reorganisation of Lintel and Lintkom by merger of UAB Lintkom into UAB Lintel, the treasury stocks were transferred to UAB Lintel.

In July 2007, the Board of TEO LT, AB decided to acquire from UAB Lintel treasury stocks. In September 2007, the Company took over the treasury stocks from UAB Lintel.

As of 31 December 2009, TEO LT, AB held 12,698,412 ordinary registered shares of TEO LT, AB and 2,539,683 TEO LT, AB GDRs, i.e. 4.67 per cent of TEO share capital. Following the Law of the Republic of Lithuania on Companies treasury stocks have no rights to exercise any property and non-property rights provided by the Law on Companies.

The Company has never acquired any shares from the management of the Company.

Shareho ders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal except treasury stocks (in total 38,095,242 shares) that have no rights to exercise any property and non-property rights provided by the Lithuanian Law on Companies. Therefore, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders is 776,817,518. One ordinary registered share of TEO LT, AB gives one vote in the General Meeting of Shareholders.

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

Information a out trading in the Company's securities

In 2009, trading in TEO shares was influenced by general trends on global equity markets and by in August announced tender offer of TeliaSonera AB (publ) to acquire remaining Company's shares paying LTL 1.83 per share. During the year TEO share price on NASDAQ OMX Vilnius stock exchange increased by 57.8 per cent. and the shares' turnover, compared to the year 2008, rose by 31.1 per cent.

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in 2009:

Opening price (LTL)	Lowest price (LTL)	Highest price (LTL)	Last price (LTL)	Average price (LTL)	Turnover (units)	Turnover (LTL)
1.16	1.07	2.03	1.83	1.51	181,713,919	274,700,970

There was no trading in TEO Global Depository Receipts on London Stock Exchange since September 2008. During 2009 the number of outstanding GDRs, as a percentage of the total share capital of the Company, went down from 3.88 to 3.74 per cent. Information about trading in TEO GDRs on London stock exchange in 2009:

Opening price (USD)	Lowest price (USD)	Highest price (USD)	Last price (USD)	Average price (USD)	Turnover (units)	Turnover (USD)
4.68	4.14	8.61	7.60	5.83	0	0

TEO market capitalisation as of 31 December 2009 was LTL 1,491 million (LTL 945 million in 2008).

Dividends

In 2009, the Company paid out to the shareholders LTL 179 million of dividends or 0.23 Litas per share for the year 2008. Following the Law dividends were paid to the shareholders who at the end of the tenth business day following the Annual General Meeting that adopted a decision on dividend payment, i.e. on 13 May 2009 were shareholders of TEO LT, AB. On 28 May 2009 dividends to all share and GDR holders were paid in cash.

IV. PERSONNEL

Number of TEO Group employees at the end of the year:

	2009	2008
Number of personnel (head-counts)	3,060	3,332
Number of full-time employees	2,713	2,981

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

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

Name of the company	31-12-2009	31-12-2008	Change
TEO LT, AB	2,031	2,183	(152)
UAB Lintel	824	934	(110)
UAB Baltic Data Center	180	186	(6)
VšĮ TEO Sportas	7	7	0
UAB Kompetencijos Ugdymo Centras	3	22	(19)
UAB Interdata	13	-	13
UAB Hosting	2	-	2
	3,060	**3,332**	**(272)**

Information about employees of TEO LT, AB as of 31 December 2009:

Group of employees	Number of employees	Education			Average monthly salary (in litas)
		University	College	High school	
Leading Managers	28	28	0	0	21,034
Operation Level Managers	229	186	31	12	4,781
Leading Specialist	72	64	7	1	4,106
Specialists	1,633	780	396	457	2,562
Technicians	69	34	20	15	2,063
	2,031	**1,092**	**454**	**485**	

Collective Bargaining Agreement

Latest amendments to the Collective Bargaining Agreement between TEO LT, AB, as the employer, and employees of TEO LT, AB, represented by joint representation of Trade Unions, came into force from 1 June 2009.

This Collective Bargaining Agreement applies only to employees of TEO LT, AB. If provisions of Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of Agreement shall apply. If provisions of Agreement are more favourable than new legislation imposed during the period of Agreement validity, provisions of Agreement shall apply.

The Collective Bargaining Agreement of the Company grants a number of additional social guarantees to employees of TEO LT, AB:
- Information about vacant and new work places shall be publicly available within the Company and employees of the Company shall have priority to get the place, if their qualifications and other records fulfil requirements for that place.
- Taking into considering the type of activities and business conditions, and not violating interest of the employees, by order, regulation or command of the Employer, a flexible working time regime can be set in certain units: the beginning of the business day could range from 7 to 11 a.m. and the end of the business day could range from 4 p.m. to 8 p.m., respectively, but not exceeding the length of the business week of 40 hours established in the Company and not violating the length of non-interrupted rest time during 24 hours set by the Labour Code of the Republic of Lithuania. The business day can be split in two parts (each part shall not be shorter than 3 hours), but not exceeding 8 hours of daily and 40 hours of weekly business time.
- In case when public holiday is Tuesday or Thursday, the Employer has a right without separate consent of the trade unions to move a business day that goes before or after a public holiday to another holiday or set it as an additional holiday (this condition is not applied to the list, set by the Employer, of employees that are involved in customer care or are on duty and have to ensure non-interrupted provision of services and care).
- On the day of the annual corporate event dedicated to improve corporate culture and communication as well as relations with very important customers and partners, employees can be granted with an additional holiday by the order of General Manager.
- Christmas Eve (December 24) is a holiday at the Company and it is not paid for.
- Additional 30 calendar days of unpaid vacation can be granted because of family circumstances, sanatorium treatment, or for other important reasons in case business conditions are favourable. Upon an employee’s request for personal competence training abroad and if it is related to the interest of the Company, Director of Human Resources Unit could grant additional unpaid vacations.
- In case of death of the employee’s father, mother, wife, husband, child, brother or sister, or birth of a child, the employee gets additional 3 calendar days of paid vacations.
- Vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference.

- Being on duty at home is organised following the order set by Labour Code. During the duty employees are equipped with mobile phones.
- TEO employee's remuneration consists of regularly paid wage which consist of two parts: (1) fixed part – main salary, paid according to the employee's position and possessed competence, and (2) variable part – bonus which can be of two types: bonus for quarterly (monthly) results or bonus for achievement of annual goals. In exceptional cases, one-time bonus could be paid. The list of positions for which quarterly (monthly) or annual bonuses can be paid, bonus descriptions, amounts and payment conditions are set by a separate rules and procedures.
- During the validity of this Collective Bargaining Agreement, the minimal average salary for a full-time employee with a permanent employment contract for the fully worked month is 1,100 Litas.
- TEO LT, AB employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00).
- TEO LT, AB employees are paid 2 employee's hourly wage (basic salary) amount for working during weekends and public holidays.
- At the end of financial year employees can be paid bonuses for the Company's yearly results from the wage fund following the rules set by the Company.
- If the employee falls ill, the employer for first two days of illness pays 90 percent of the employee's average remuneration.
- Development of the Company's employee's competence and payment for it is executed following the annual competence development plans set after the evaluation of agreements reached by unit managers and employers in respect of training needs and with regards to the Company's development directions and financial abilities.
- The Employer, following valid documentation regulating support for employees' studies, could make a written agreement with employee regarding payment for his/her university level studies that are in line with his/her individual competence development needs, and pay for such studies on agreed terms.
- The Employer shall provide information about professional training in towns and districts organised by labour exchange to the employees, who have been notified about their intended dismissal.
- The Employer may provide conditions for the employees to be dismissed to attend professional training courses arranged by labour exchanges and, upon mutual agreement between the parties, to pay for them without exceeding the limit of 500 Litas including VAT.
- The employee, who has been notified about his/her intended dismissal, during the period of notification, at his/her request, shall be entitled to unpaid educational leave and may be granted by the Employer up to 50 per cent of time off from work (the employee shall retain his/her average wage for this time) to seek for a new job or to retrain.
- The Employer commits itself to additionally insure the Company employees against accidents at work and on the way to/from work with its own funds with the Company's funds to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in a timely manner and free of charge.
- The Company has established a Social Needs Fund. Its purpose is to improve the organisation's culture and to meet the social needs of the employees in accordance with the regulations of the Fund. The Fund shall be managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.
- In case of death of the employee's father, mother, wife, husband or child, he/she shall be paid an allowance amounting to 10 Minimum Standard of Living (MSL) from the Social Needs Fund; in case of death of the Company employee, his/her family members shall be paid all funeral expenses, excluding a funeral dinner, and his/her spouse or children maintained by him/her shall be paid a relief amounting to 12 MSL.
- The Fund also commits itself to buy Christmas presents to the employees' children (under 10 years of age), to allocate a bonus amounting to 10 MSL on the occasion of 20, 30 and 40 years of continuous record of service in telecommunications and on the occasion of 50 and 60 years birthday anniversary.
- The Fund may grant an allowance if, due to difficult financial situation of the employee or his/her family, the employee or his/her family has incurred substantial material loss.
- The Fund shall allocate funds to improve health of the employees: rent of sports premises and grounds, support of sports and culture events arranged on the Company level. The Fund shall organize and finance a culture and sports event of the Company's employees.

In 2009, the Social Needs Fund allocated almost LTL 603 thousand for the above mentioned purposes.

V. MANAGING BODIES OF THE ISSUER

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

The decisions of the General Meeting made regarding the matters of competence of the General Meeting, are binding upon the Shareholders, the Board, General Manager and other officials of the Company. The Shareholders of the Company that at the end of the date of record of the General Meeting are shareholders of the Company have the right to participate in the General Meeting. The date of record of the General Meeting of the Shareholders of the Company is the fifth business day prior to the General Meeting or the repeated General Meeting. The person, participating in the General Meeting and having the right to vote shall deliver his/her identification proving document. In case the person is not a shareholder he/she is to present a document, proving his/her right to vote at the General Meeting.

The Members of the Board serving on the Board of the Company are acting jointly as a governing body of the Company. The Board consists of seven Members. The members of the Board are elected for a term of two years. The Chairman of the Board is elected by the Board from its members for two years. The Members of the Board are elected by the General Meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The Board elects and recalls the General Manager, sets his/her remuneration and other conditions of the employment agreement, approves his/her office regulations, induces and applies penalties to him/her. The General Manager is the Head of the Company. The Head of the Company is a one-man management body of the Company and, within his scope of authority, organizes the day-to-day operation of the Company. The Work regulations of the Administration that are approved by the General Manager define the duties and authority of the General Manager and his/her Deputies as well as other officers of the Company in more details.

Procedure for amending the Company's y-laws

TEO LT, AB By-laws provide that the General Meeting shall have an exclusive competence to amend and supplement the By-laws of the Company, except for the cases provided for in the Law on Companies of the Republic of Lithuania. A qualified majority of 2/3 of votes present during the General Meeting shall be required at the General Meeting to adopt decisions concerning the amendment of the By-laws.

The Board Activities

Instead of Justas Pipinis, a member of the Board, who resigned from the Board as of 4 December 2008, a new member – Martynas esnavi ius – was elected for the current term of the Board during an Extraordinary General Meeting of Shareholders on 9 February 2009. He also became a member of the Audit Committee.

On 28 April 2009, the Annual General Meeting of Shareholders, upon termination of the two-year term of the Board, elected a new Board (for the next two-year term) consisting of the following nominees proposed by Amber Teleholding A/S: kan Dahlstr m, Anders Gylder, Ove Alm, Joakim Sundstr m, Tiia Tuovinen, Lars Ohnemus (independent candidate) and Martynas esnavi ius (independent candidate).

Following The Governance Code for the Companies Listed on the NASDAQ OMX Vilnius stock exchange all seven members are non-executive directors. Five members of the Board represent TeliaSonera Group and two members of the Board – Lars Ohnemus and Martynas esnavi ius who represent minority interest – are regarded as independent members of the Board.

On 11 June 2009, the Board elected kan Dahlstr m as Chairman of the Board. Also the Board elected kan Dahlstr m, Anders Gylder and Lars Ohnemus (independent member of the Board) as members of the Remuneration Committee, and Joakim Sundstr m, Tiia Tuovinen and Martynas esnavi ius (independent member of the Board) as members of the Audit Committee. On 14 September 2009, the Board elected Joakim Sundstr m as Chairman of the Audit Committee.

During 2009 sixteen meetings of the Board were held: ten of them were convened according to the preliminarily approved schedule of the Board meetings and six were convened as extraordinary meetings. During all Board meetings in 2009 there was quorum prescribed by legal acts. The Board convoked Extraordinary General Meeting of Shareholders for election of new member of the Board, approved annual and interim financial statements of the Company, convoked the Annual General Meeting of Shareholders, proposed profit allocation for the year 2008, appointed a new Chief Financial Officer of the Company, elected a new Chairman of the Board and members of the Audit and Remuneration Committees, announced its opinion regarding the tender offer made by TeliaSonera AB (publ) in respect of shares of the Company and its statement regarding East Capital' proposal to sell treasury stocks, approved acquisition of UAB Interdata and its subsidiary UAB Hosting, continuously followed up implementation of the business and investment plans for the year 2009, and approved the business and investment plans for the year 2010.

In 2009 one meeting of the Remuneration Committee was held. On 20 March 2009, the Remuneration Committee proposed to the Board to appoint Giedrius Vegys as Chief Financial Officer of the Company and set his remuneration. The meeting was attended by all members of the Committee and the Chairman of the meeting was the Chairman of the Company's Board.

Two meetings of the Audit Committee for discussion of financial results, internal and external risk management, internal audit and cash management were held in 2009. Both meetings were attended by all members of the Committee. The Chairman of the first meeting was the independent non-executive member of the Board and the second meeting was presided by the new Chairman of the Audit Committee, a non-executive member of the Board, who was elected in September.

Members of the Board as of 31 December 2009

kan Dah str m (born in 1962) – Chairman of the Board of TEO LT, AB, as member of the Board for the two-year term elected on 28 April 2009 (nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board. Education: Link ping University (Sweden), Master of Engineering in Computer Technology, and Heriot Watt University (Scotland), Master of Science in Digital Technology. Employment: TeliaSonera AB (publ) (Sweden), till 24 February 2010 – President of Business Area Broadband Services, from 24 February 2010 – President of Business Area Mobility Services. Current Board assignments: Nextgentel AS (Norway), Chairman of the Board; TeliaSonera Skanova Access AB (Sweden), Chairman of the Board; TeliaSonera International Carrier AB (Sweden), Chairman of the Board; TeliaSonera Sverige AB (Sweden), member of the Board; UAB Omnitel (Lithuania), member of the Board (since March 2010). TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated kan Dahlstr m to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. kan Dahlstr m has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Anders Gylder (born in 1950) – a member of the Board of TEO LT, AB since 26 April 2007, re-elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board Education: Link ping University (Sweden), Master of Science in Engineering. Employment: TeliaSonera AB (publ) (Sweden) Business Area Broadband Services, till 24 February 2010 – Executive Vice President, from 24 February 2010 – President. Current Board assignments: Lattelecom SIA (Latvia), Deputy Chairman of the Supervisory Council, member of Remuneration Committee, and Business Planning and Finance Committee; Tilts Communications A/S (Denmark), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Anders Gylder to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. Anders Gylder has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Ove Alm (born in 1959) – a member of the Board of TEO LT, AB, since 26 April 2007, re-elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S). Education: University of Uppsala (Sweden), Master of Business Administration, International Business; Royal Institute of Technology (KTH), Stockholm (Sweden), Master of Science, Engineering Physics. Employment: TeliaSonera AB (publ) (Sweden) Business Area Broadband Services, Head of Networks. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Council; NextGenTel Holding ASA (Norway), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Ove Alm to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. Ove Alm has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

oakim Sundstr m (born in 1959) – a member of the Board of TEO LT, AB since 26 April 2007, re-elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S), Chairman of the Audit Committee of the Board. Education: Stockholm University (Sweden), Bachelor of Business Administration. Employment: TeliaSonera AB (publ) (Sweden) Business Area Broadband Services, Vice President of Business Control. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Council, member of the Audit Committee, and member of the Business Planning and Finance Committee; Sergel Kredittjanster AB (Sweden), member of the Board; TeliaSonera Skanova Access AB (Sweden), deputy member of the Board; Tilts Communications A/S (Denmark), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Joakim Sundstr m to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. Joakim Sundstr m has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Tiia Tuovinen (born in 1964) – a member of the Board of TEO LT, AB, elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S), member of the Audit Committee of the Board. Education: University College London (United Kingdom), Master of Laws, and University of Helsinki (Finland), Master of Laws. Employment: TeliaSonera Finland Oyj (Finland), General Counsel for Broadband Services, and Vice President for Real Estates and

Property Planning in Finland. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Council; TeliaSonera Finland Oyj (Finland), member of the Board; TeliaSonera International Carrier AB (Sweden) member of the Board; Tilts Communications A/S (Denmark), member of the Board and Managing Director; member of the Board and Managing Director of several real estate companies in Helsinki, Finland. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Tiia Tuovinen to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. Tiia Tuovinen has no direct interest in the share capital of TEO LT, AB. She is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Lars Ohnemus (born in 1962) – a member of the Board of TEO LT, AB, elected for the two-year term on 28 April 2009 (nominated as independent candidate by Amber Teleholding A/S), member of the Remuneration Committee of the Board. Education: Copenhagen Business School (Denmark), Bachelor degree in Finance & Administration and Master degree in Corporate Finance and Marketing. Employment: Baltic Property Trust Partner Services A/S (Denmark), Chief Executive Officer, and Baltic Management Institute (Lithuania) and Copenhagen Business School (Denmark), Visiting Assoc. Professor. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board; RetNemt.dk (Denmark), member of the Board; Baltic Property Trust Asset Management (Denmark), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Lars Ohnemus as independent candidate to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. Lars Ohnemus has no direct interest in the share capital of TEO LT, AB. He does not have interest in the share capital of Lithuanian companies.

artynas esna i ius (born in 1972) – a member of the Board of the Company since 9 February 2009, re-elected for the two-year term of the Board on 28 April 2009 (nominated as independent candidate by Amber Teleholding A/S), member of the Audit Committee of the Board. Education: Vilnius University (Lithuania), Diploma in Banking and Finance. Employment: Investment funds Amber Trust I and Amber Trust II (Luxemburg), Advisor. Current Board assignments: UAB Malsena Plius, Chairman of the Board; AB Amilina, member of the Board; AB Kauno Pieno Centras, member of the Board AB Sanitas, member of the Board AB Snaigė, member of the Board UAB Atradimų Studija, member of the Board; UAB Laisvas Nepriklausomas Kanalas, member of the Board; UAB Litagros Prekyba, member of the Board; UAB Meditus, member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Martynas esnavi ius as independent candidate to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 64.90 per cent of the share capital and gives 68.08 per cent of votes. UAB Profinance, a company where Martynas esnavi ius has a 50 per cent stake, holds 45,000 shares of TEO LT, AB that accounts to 0.0055 per cent of the share capital and gives 0.0058 per cent of votes. Also he has a 31 per cent stake in UAB Atradimų Studija. Martynas esnavi ius has no direct interest in the share capital of TEO LT, AB.

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Ar nas ik ta (born in 1968) from 2 January 2004 took the office of General Manager (CEO) of the Company. Education: laipėda University (Lithuania), Natural Science Faculty, Degree in Management (1995), and Vienna University of Economics and Business (Austria), Master of Business Administration (2009). Current Board assignments: International Business School at Vilnius University (Lithuania), member of the Council and lector; Big Brothers Big Sisters International (Philadelphia, U.S.A.), member of the Board. Arūnas Šikšta has no interest in the share capital of TEO LT, AB, and is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Darius Guda iauskas (born in 1975) from 1 March 2006 took the office of Chief Sales Officer and Deputy General Manager of the Company. Education: Vilnius Gediminas Technical University (Lithuania), Bachelor degree of Business Administration (1997), Master of Business Administration (1999), Doctor of Social Sciences, Economics (2005). Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board. On 23 September 2009, Darius Guda iauskas sold his shareholding in the Company – 13,719 shares or 0.0017 per cent of the Company's share capital and 0.0018 per cent of votes – for 1.90 Litas per share. As on 31 December 2009 Darius Guda iauskas had no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Nerijus Ivanauskas (born in 1970) from 1 March 2006 took the Office of Chief Marketing Officer and Deputy General Manager of the Company. Education: Vilnius University (Lithuania), Bachelor of Econometrics (1993); International Management School, Budapest (Hungary), Candidate Master of Business Administration (1995); Emory University, Atlanta (U.S.A.), Master of Business Administration (1996). Nerijus Ivanauskas has no interest in the share capital of TEO LT, AB, and is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Darius Did ga is (born in 1969) from 9 February 2005 holds an office of Chief Technology Officer and Deputy General Manager of the Company. Education: Kaunas University of Technology (Lithuania), Engineer in radio electronics (1993), MSc in Telecommunication Engineering (2001), International Executive MBA (2003). Current Board assignments: UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board; UAB Interdata, a subsidiary of UAB Baltic Data Center, member of the Board. On 9 October 2009, Darius Did galvis sold his shareholding in the Company – 4,669 shares or 0.00057 per cent of the Company's share capital and 0.0006 per cent of votes – for 1.83 Litas per share. As on 31 December 2009 Darius Did galvis had no direct interest in the share capital of TEO LT, AB. e is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Giedrius Vegys (born in 1959) from 1 April 2009 took the office Chief Financial Officer of the Company. Education: Vilnius University (Lithuania), Faculty of Economic Cybernetics and Finance (1982), and Helsinki School of Economics (Finland), Executive MBA (2001). Current Board assignments: UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board. Giedrius Vegys has no interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

On 20 March 2009 the Board, upon termination of employment contract of Jan-Erik Els rius, Chief Financial Officer and Deputy General Manager of TEO LT, AB, decided to appoint Giedrius Vegys to the position of Chief Financial Officer of the Company as of 1 April 2009. Jan-Erik Els rius (born in 1943) was Chief Financial Officer of the Company from 29 March 1999.

Information about the remunerations, tantiemes and other payments from the profit by the Company to the members of the Board and management during 2009:

	Remuneration during 2009 (in LTL)	**Annual bonus for 2008 paid in 2009 (in LTL)**	**Tantiemes for 2008 paid in 2009 (in LTL)**	**Dividends for 2008 paid in 2009 (in LTL)**	**Total payoff during 2009 (in LTL)**
On the average per member of the Board (a)	-	-	54,000	-	54,000
Total amount for all members of the Board (a)	-	-	378,000	-	378,000
On the average per member of the management (b)	295,079	167,705	-	445	463,229
Total amount for all members of the management (b)	8,262,217	4,695,746	-	12,460	12,970,423

NOTES: (a) The Board consist of seven members. Annual compensation (tantiemes) to the members of the Board for 2008 were paid for those who were the members of the Board during 2008; (b) as of 31 December 2009 management of the Company consists of General Manager (CEO), Chief Financial Officer, three Deputy General Managers, six Directors of main units, twelve Directors of departments and five Directors of regional centres; in total twenty eight persons.

In 2009, there were no loans, guarantees or sponsorship granted to the members of the Board or Management by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or the employees of the Company for being members of their managing bodies.

Information about agreements of the Company and the members of its management bodies, or the employee providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the Company

All TEO LT, AB employment agreements with the employees, including management, of the Company are concluded following requirements of the Labour Code of the Republic of Lithuania. Employees are employed and laid off following requirements of the Labour Code.

Members of the Company's Board are elected for a two-year term by the shareholders without any employment agreements as they represent shareholders and are not employees of the Company. The Annual General Meeting of Shareholders while adopting decision on profit allocation shall pass a decision on granting annual payments (tantiemes) to members of the Board for their activities. Members of the Board shall have a right to resign from the Board prior to the termination of the term of the Board upon written notification to the Company submitted not later than 14 calendar days. The Work Regulations of the Board does not provide any compensations or payouts in case member of the Board resigns prior to the termination of the term of the Board.

Conditions of employment agreements of the General Manager (CEO), Deputy General Managers and Directors of main units of the Company shall be considered at the Remuneration Committee of the Board and then approved by the Board. The Remuneration Committee shall have a right to propose to the Board to include into employment agreements of the top managers additional conditions that provide compensations in case of their resignation and similar cases. According to the approved by the Board employment agreement of the General Manager of TEO LT, AB upon fulfilment of certain conditions General Manager in case of his resignation or dismissal could be entitled to the compensation amounting from 6 to 12 monthly salaries.

Auditors

Auditors from UAB PricewaterhouseCoopers audited the balance sheet of the Company and together with its consolidated subsidiaries for the years ended 31 December 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows and a summary of significant accounting policies and other explanatory notes for the years then ended.

On 29 April 2008, the shareholders of the Company during the Annual General Meeting of Shareholders elected UAB PricewaterhouseCoopers as the Company's audit enterprise for two years to make the audit of the Company's financial statements for the year 2008 and 2009 and to make assessment of the Company's Consolidated Annual Reports for the year 2008 and 2009. The Company's General Manager was authorised to conclude the Agreement for audit services, paying for services the price agreed between the parties but in no case more than 480,000 (four hundred and eighty thousand) Litas (VAT excluded) for the audit of the Company's financial statements for the two financial years and assessment of the Company Consolidated Annual Report for the year 2008 and 2009 (i.e. 240,000 (two hundred and forty thousand) Litas (VAT excluded) per one year).

Following the Law of the Republic of Lithuania on Audit UAB PricewaterhouseCoopers on 25 November 2009 submitted to the Audit Committee of the Board a letter evidencing UAB PricewaterhouseCoopers independence from TEO LT, AB. In 2009, UAB PricewaterhouseCoopers has organised training for employees of the Company's Finance Division on changes in International Financial Reporting Standards.

VI. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

TEO LT, AB essentially follows a recommendatory Corporate Governance Code for the Companies Listed on the NASDAQ OMX Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006 and valid as on 31 December 2009. According to the By-Laws of TEO LT, AB the governing bodies of the Company are the General Shareholder's Meeting, the Board and the General Manager. The Law of the Republic of Lithuania on Companies provides that Lithuanian companies at their discretion could have either two (Supervisory Council and Board) or only one collegial governing body. There is no Supervisory Council in TEO LT, AB. The Board of TEO LT, AB consists of seven members who are elected for the term of two years, represents the shareholders, and performs supervision and control functions. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

Following the Governance Code, all members of the Board elected in 2009 during the Annual General Meeting are considered non-executive directors, whereby two out of seven members are independent members of the Board. In June the Board elected new members of the Remuneration Committee and the Audit Committee. Two members of the Audit Committee have financial background and one member of this Committee is an independent member of the Board.

The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code that is attached as an appendix to this Consolidated Annual Report.

Publicly announced information

The By-Laws of TEO LT, AB provide that the Company's notices, including information and other documents related to the General Meeting to be convened, as well as notices and information about reorganization or liquidation of the Company, decisions of the General Meeting and the Board, other notices and documents which according to the laws of the Republic of Lithuania, By-laws or decisions of the Company's bodies must be announced to all shareholders and/or other persons, are given in the daily Lietuvos Rytas or delivered personally to each shareholder or any other person to whom notification is required, by registered mail or by recorded delivery.

In 2009, following the By-Laws of the Company, announcements to the shareholders about convocation of the Annual and Extraordinary General Meetings of Shareholders, dividend payment and the Opinion of the Board regarding the tender offer in respect of shares of TEO LT, AB were announced in the daily Lietuvos Rytas. These obligatory announcements to the shareholders and all the rest announcements about stock release of TEO LT, AB were submitted to the Lithuanian Securities Commission, NASDAQ OMX Vilnius stock exchange, London Stock Exchange, daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and were posted on the Company's webpage www.teo.lt.

The major regulatory news, except announcement of annual and interim results, during 2009 were related to the tender offer of TeliaSonera AB (publ) regarding acquisition of remaining shares of TEO LT, AB (announcement of intention to launch the voluntary takeover bid, registration of a circular for the tender offer by the Lithuanian Securities Commission, opinion of the Board of the Company regarding the tender offer, report on execution of the voluntary tender offer). Also, the Company informed about decisions of the Extraordinary and Annual General Meetings; election of a new Board, its new Chairman and new members of the Board Committees; appointment of a new Chief Financial Officer; disposal of the holdings in the Company by managers and persons related to managers of the Company; receipt of the proposal from East Capital Group to sell treasury stocks to East Capital Group and the Company's Board statement regarding the proposal; notification about crossing of the threshold of 5 per cent votes at the Company's General Meeting of Shareholders by East Capital Asset Management and TeliaSonera AB (publ); the decision of the Supreme Administrative Court of Lithuania regarding the detailed plan the TEO administrative building and acquisition of UAB Interdata and its subsidiary UAB osting by the Company's subsidiary UAB Baltic Data Center.

CONFIRMATION OF RESPONSIBLE PERSONS

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 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, TEO LT, AB Consolidated Annual Report for the year 2009 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Arūnas Šikšta General Manager	Giedrius Vegys Chief Financial Officer

APPENDIX TO THE CONSOLIDATED ANNUAL REPORT

TEO LT, AB DISCLOSURE CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON THE REGULATED MARKET IN 2009

TEO LT, AB (hereinafter 'TEO' or 'the Company') following paragraph 3 of Article 21 of the Law of the Republic of Lithuania on Public Trading in Securities and item 24.5 of the Listing Rules of NASDAQ OMX Vilnius stock exchange, discloses its compliance with the Governance Code, approved by the stock exchange and valid as of 31 December 2009 for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main TEO development directions and strategies are publicized in the Annual and Interim Reports and the Company's performance presentations, that are available on the Company's webpage, and are regularly discussed during conference calls with investors and etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the Company are acting in order to implement TEO mission – to create value for shareholders and customers by providing professional and high-quality telecommunications, TV and IT services.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company has the Board that represents the shareholders of the Company, is responsible for strategic management of the Company, supervises and controls activities of CEO of the Company, on a regular basis convokes meetings of the Board, where top management of TEO on a regular basis informs the Board about the Company's performance.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's policy towards employees, customers and local community is set up in the Company's Corporate Social Responsibility Policy and described in the Company's Corporate Social Responsibility Report.

Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective o ersight of the company's management odies, an appropriate a ance and distri ution of functions et een the company's odies, protection of the shareho ders' interests		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but minority shareholder as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the administration of the Company reports on the Company's performance ensures effective supervision and control of the Company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the recommendation are fulfilled by the Board of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Following the By-Laws of the Company, the Board consists of seven Board members elected for a two-year term. All members of the Board are non-executive directors.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	Following the By-Laws of the Company, the Board members are elected for a two-year term, not limiting the number of terms. Thus three members of the Board have been working in the Board since April 2007 and have been re-elected in April 2009. One Board member was elected in February 2009 instead of the member of the Board who resigned in December 2008 and was re-elected in April 2009. The rest four members were elected in April 2009. The By-Laws of the Company do not provide any possibility to recall a member of the Board. This can be done following the Laws.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Board who was elected in 2009 represents the majority shareholder of the Company and is not involved in any daily activities of the Company, and has not been working in the Company. Former general managers of the Company are neither working in the Company nor in any collegial body.

Princip e III The order of the formation of a co egia ody to e e ected y a genera shareho ders' meeting **The order of the formation a co egia ody to e e ected y a genera shareho ders' meeting shou d ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management odies**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	While electing the collegial body, the Company's shareholders well before or during the Annual General Meeting can get acquainted with the detailed information about the nominees. In the Company, there exists the practice that the majority shareholder nominates independent or minority candidates to the collegial body. As a result a newly elected Board contains two out of seven independent members of the Board that were nominated by the majority shareholder. Annual compensations (tantiems) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last eight years the same amount of annual compensation (tantiem) (LTL 54 thousand) was allocated to each member of the Board.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	CVs of the candidates to the Board (including information about candidate's participation in activities of other companies) are included into the material for the Annual General Meeting (AGM) and shareholders may get acquitted with such information in advance. Information about employment of the Board members as well as their participation in the activities of other companies is continuously monitored and collected, and at the end of each quarter corrected and updated by contacting each member of the Board. Then information is provided in the Company's interim reports and placed on the webpage of the Company.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence. Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.

3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	There are three members of the Board having the degrees of Masters of Science in Engineering (besides, one has the Master of Business Administration degree) and are working in the telecommunications area; one member having business administration education is working as a Business Controller; two members having financial education are working in the finance area and one with the Master of Law degree is working as a General Counsel. Two members of the Audit Committee have financial background and work in the finance area and one member is a lawyer.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and other shareholders have less than 10 per cent of votes, TEO Board consists of five dependent (all five members are employees of the majority shareholder) and two independent members of the Board in order to ensure proper resolution of conflicts of interest.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative	Yes	According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body. Other five members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder. TEO Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalized independence criteria are taken into account.

of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Not applicable	

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	When electing a new Board in April 2009 it was disclosed that two members of the Board are regarded as independent members of the Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Annual compensations (tantiems) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last eight years the same amount of annual compensation (tantiem) (LTL 54 thousand) was allocated to each member of the Board. Following International Financial Reporting Standards annual compensations (tantiems) to the members of the Board are considered as operating expenses.

Principle IV: The duties and liabilities of a collegial body elected by the general shareho ders’ meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body e ected y the genera shareho ders’ meeting, and the po ers granted to the co egia ody shou d ensure effective monitoring of the company’s management odies and protection of interests of a the company’s shareholders.

4.1. The collegial body elected by the general shareholders’ meeting (hereinafter in this Principle referred to as the ‘collegial body’) should ensure integrity and transparency of the company’s financial statements and the control system. The collegial body should issue recommendations to the company’s management bodies and monitor and control the company’s management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company’s Consolidated Annual Report. Also, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the administration of the Company provides information about the Company’s performance.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information possessed by the Company, all members of the Board are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2009 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company’s shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company’s affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company’s managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company’s actions in periodic reports.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The collegial body is mainly dependent on the majority shareholder that operates in the same business area but in decision-making acts in the interest of the Company. The Company provides the Board and its Committees with the resources needed for fulfilment of their functions (for instance, the Board members are reimbursed for expenses of traveling to the Board meetings), and employees of the Company who are responsible for the discussed area participate in the meetings of the Board and the Committees and provide all necessary information to the Board. The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	The Board institutes two Committees: Audit and Remuneration. The Nomination Committee is not instituted as its functions are performed by the Remuneration Committee. Three members of the Board comprise each committee. Members of the Audit Committee are two members of the Board having financial education (one of them is an independent member of the Board) and one member of the Board having lawyer's education. The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its internal orders. The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The annual and interim financial statements at first are discussed at the Audit Committee and then, with the conclusions of the Committee, are presented for the Board's approval. Before submitting for the Board's approval nominees to the top management of the Company and their remuneration terms, nominees at first are discussed and approved at the Remuneration Committee.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Six out of seven member of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executives director (one of them is independent) are elected to the Remuneration Committee.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	Responsibilities and work regulations of the Board committees are approved by the Board. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. In 2009, one meeting of the Remuneration Committee was held for appointment of a new Chief Financial Officer. In July 2009, the new Board elected new members of the Remuneration Committee. Following the Remuneration Committee's work regulations, the secretary of the meetings shall be Director of Human Resources Unit of the Company. In 2009, two meetings of the Audit Committee were held. All the Audit Committee's meetings were attended by all members of the Committee. During the first meeting, the Chairman of the meeting and the Committee was an independent non-executive member of the Board, during the second one – the newly elected Chairman of the Committee (a non-executive member of the Board). Following the Audit Committee's work regulations, the secretary of the meetings was Chief Financial Officer of the Company.

4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	In TEO, the function of the Nomination Committee is performed by the Remuneration Committee.

4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	Yes	The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders. Twice per year the Committee should present updated information to the Board about the Committee's activities, if any. The Remuneration Committee reviews and establishes the general compensation goals and guidelines for the Company's employees and the criteria by which bonuses are determined, reviews and makes recommendation for compensation for executives and management, plans for executive development and succession, supports the Chairman of the Board in the recruitment of the General Manager and supports the General Manager in recruitment of the managers directly reporting to the General Manager.

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.	Yes	The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and internal orders.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	Yes	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2009.

Princip e The orking procedure of the company’s co egia odies

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company’s odies

5.1. The company’s supervisory and management bodies (hereinafter in this Principle the concept ‘collegial bodies’ covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company’s Board meetings are chaired by the Chairman of the Board. Director of Corporate Administration and Legal Unit of the Company is the Secretary of the Board and assists in organizing activities of the Board.
5.2. It is recommended that meetings of the company’s collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company’s supervisory board should be convened at least once in a quarter, and the company’s board should meet at least once a month.	Yes	The meetings of TEO Board are convoked following the schedule, preliminary agreed and approved by the Board. Not less than two meetings are convoked per quarter. It is publicly announced about the Board meetings that are approving financial statements and then, accordingly, financial statements are made publicly available.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Following the Board’s work regulations, information about the meeting convocation, agenda and all materials related to the agenda issues should be provided to each Board member not later than seven days before the meeting. The meeting agenda should not be changed during the meeting, unless all members present at the meeting agree or absentees inform that they agree with the changed agenda.
5.4. In order to co-ordinate operation of the company’s collegial bodies and ensure effective decision-making process, chairpersons of the company’s collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company’s board should be free to attend meetings of the company’s supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	TEO could not fulfil this recommendation as only the Board is instituted at the Company.

Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The share capital of the Company consists of 814,912,760 ordinary registered shares of one litas (LTL 1) nominal value each. All shareholders of the Company's shares (except treasury stocks) are given equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The By-Laws of the Company that stipulates all the rights of shareholders are publicly available on the Company's webpage.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The shareholders approve only transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	TEO shareholders' meetings are convened at the head-quarters of the Company in Vilnius. The Annual General Meetings are held in the second half of April. The Annual General Meeting in 2009 was convened on 28 April 2009 at 1 p.m. In 2009, one Extraordinary General Meeting on 9 February 2009 at 1 p.m. was convened for election of a new Board member instead of the resigned one. The shareholders have a right to get acquainted with meeting materials not later than 10 days before the meeting. In the notice of the meeting the Company provides a phone number for additional information about issues proposed for the meeting and etc.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	On 17 April 2009 draft decisions proposed by the Board to the AGM were publicly announced and draft documents were placed on the webpage of the Company. Draft decision and draft documents for the Extraordinary General Meeting were publicly announced and placed on the webpage on 16 January 2009. Accordingly, documents approved by the shareholders were placed on the webpage of the Company. All information and documents for investors are presented in Lithuanian and English in stock exchanges information systems and on the Company's webpage.

6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of TEO may exercise their right to vote in the General Shareholders' Meeting in person or through a representative upon issuance of proper proxy or having concluded an agreement on transfer of voting right in the manner compliant with the legal regulations, also the shareholder may vote by completing the general voting ballot in the manner provided by the Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the managing bodies are acting in a manner that voids conflicts of interest; therefore there have not been any such cases in practice.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	

Princip e III Company's remuneration po icy **Remuneration po icy and procedure for appro a , re ision and disc osure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it shou d ensure pu icity and transparency oth of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential. General information about the remuneration policy, total employee-related expenses, average salaries of certain employee groups and the total amount of salaries paid over the year to the management of the Company is publicly announced in the Company's Annual Report.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Yes	Information about the total amount of salaries paid over the year to the management of the Company is publicly announced in the Company's Annual Report.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	Agreements with top managers of the Company are concluded and approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Agreements with top managers of the Company are concluded and approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. Before submitting for the Board's approval nominees to the administration of the Company and their remuneration terms, nominees at first are discussed and approved at the Remuneration Committee.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	

8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution	No	In the Annual Report the Company discloses information about the total and average amounts of salaries, annual compensations (tantiems) and other payouts paid to each member of the Board and to the management of the Company during the reporting period. Information about the Board and the management is provided separately. Also the Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other payouts to the members of the Board or employees of the Company for being members of their managing bodies. The Company Annual Report is publicly available on the Company's webpage. The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.

scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	

8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Not applicable	

Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financia sustaina i ity or the purposes of this Princip e, the concept stakeho ders inc udes in estors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement which obligates the management of the Company to inform employees, on a regular basis, about implementation of the Collective Agreement, the Company's performance, changes in the market and etc. In 1999, following the Company's privatization program, almost 5 per cent of the Company's shares were sold to its employees. The current and former employees of the Company actively participate in the shareholders meetings, show interest in the Company's performance and results. Every year the Company pays dividends to the shareholders. The Company has approved Principles for Sponsorship and Support and, on the basis of them, builds its relations with society and local communities. The Company prepares the Report on Corporate Social Responsibility which discusses principles and practices in relation to the Company's cooperation with investors, employees, customers and local communities.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes (except item 4)	Information about the financial situation, performance and management of the Company and its subsidiaries is disclosed on a regular basis by disseminating press and stock releases, annual and interim reports of the Company, financial statements of the Group, and presentations to the investors. All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English. TEO Group prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the EU. In the Consolidated Annual Report the Company discloses information about the total and average amounts of salaries, annual compensations (tantiems) and other payouts paid to each member of the Board and to each member of the management of the Company during the reporting period. Information about the Board and the management is provided separately. Also, the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other payouts to the members of the Board or employees of the Company for being members of their managing bodies. The Company's Consolidated Annual Report is publicly available on the Company's webpage. Information about the education, working experience, current employment, participation in activities of other companies, possession of shares of the Company by the members of the Board or the administration of the Company is publicly disclosed in periodic reports and available on the Company's webpage.
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	No	
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	No	
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Not applicable	

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Since 2000 the Company has been submitting information (both in English and Lithuanian) to the information system operated by the NASDAQ OMX Vilnius stock exchange in order that the latter can publish the received information on its webpage and the trading system simultaneously, thus ensuring dissemination of the information simultaneously to everyone interested. Also, the Company at the same time provides information to the London Stock Exchange. TEO always strives to announce information before or after trading hours on the NASDAQ OMX Vilnius stock exchange and disseminate information to the all markets where the Company's securities are traded at the same time. The Company strictly follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company's webpage contains the Company's all annual and interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on the NASDAQ OMX Vilnius stock exchange in both Lithuanian and English.

Princip e I The se ection of the company’s auditor **The mechanism of the se ection of the company’s auditor shou d ensure independence of the firm of auditor’s conc usion and opinion**		
11.1. An annual audit of the company’s financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company’s financial statements.	Yes	An independent audit firm carries out an audit of the annual stand alone financial statements of the Company and consolidated financial statements of the Company together with its subsidiaries prepared in accordance with International Financial Reporting Standards as adopted by the EU. This independent audit firm also reviews consolidated annual reports for any inconsistencies with audited financial statements.
11.2. It is recommended that the company’s supervisory board and, where it is not set up, the company’s board should propose a candidate firm of auditors to the general shareholders’ meeting.	Yes	The Board proposes the candidacy of an independent audit firm to the Annual General Meeting of Shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company’s supervisory board and, where it is not formed, the company’s board upon their consideration which firm of auditors to propose for the general shareholders’ meeting.	Yes	Information about non-audit services provided to the Company by the audit firm following the laws is annually presented to the Audit Committee together with the audit firm’s confirmations of auditors’ independence from the Company. In 2009, UAB PricewaterhouseCoopers has organised training for employees of the Company’s Finance Division on changes in International Financial Reporting Standards. This information is presented in the Annual Report of the Company.