TEO LT, AB

FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS

PricewaterhouseCoopers UAB
J. Jasinskio 16B
LT-01112 Vilnius
Lithuania
Telephone +370 (5) 239 2300
Facsimile +370 (5) 239 2301
E-mail vilnius@lt.pwc.com
www.pwc.com/lt

Independent auditor's report

To the Shareholders of TEO LT, AB

Report on the financial statements

We have audited the accompanying consolidated financial statements of TEO LT, AB and its subsidiaries ('the Group') and the financial statements of TEO LT, AB ('the Company') set out in pages 5 – 56 which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2008 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2008 set out on pages 57 – 102 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2008.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Rimvydas Jogėla
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
23 March 2009

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

INCOME STATEMENT

Approved by the Annual General Meeting
of Shareholders as at 28 April 2009

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2008	2007	2008	2007
Revenue	5	**826,267**	**793,450**	**804,026**	**771,527**
Other income	6	7,980	4,056	32,262	35,231
Employee related expenses		(183,382)	(160,564)	(146,360)	(132,235)
Interconnection expenses		(119,997)	(119,460)	(119,997)	(119,460)
Other operating expenses	7	(183,697)	(171,638)	(212,170)	(192,196)
Depreciation, amortisation and impairment of fixed assets	13	(166,833)	(166,696)	(157,817)	(159,559)
Other gain/ (loss) - net	8	1,900	6,318	1,831	6,109
Impairment of investments in subsidiaries	15	-	-	(1,488)	-
Operating profit		**182,238**	**185,466**	**200,287**	**209,417**
Finance income		7,557	11,463	7,454	11,351
Finance costs		(295)	(782)	(266)	(768)
Finance income/ costs - net	9	7,262	10,681	7,188	10,583
Profit before income tax		**189,500**	**196,147**	**207,475**	**220,000**
Income tax	10	(29,592)	(33,317)	(27,193)	(31,833)
Profit for the year		**159,908**	**162,830**	**180,282**	**188,167**
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)	11	0.21	0.21	0.23	0.24

The notes on pages 10 to 56 form an integral part of these financial statements.

The financial statements on pages 5 to 56 have been approved for issue by the Board of Directors as at 20 March 2009 and signed on their behalf by the General Manager and the Chief Financial Officer:

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
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 28 April 2009

		As at 31 December			
		GROUP		COMPANY	
	Note	2008	2007	2008	2007
ASSETS					
Non-current assets					
Property, plant and equipment	13	669,413	657,962	627,465	617,172
Intangible assets	14	41,792	29,643	32,895	21,569
Investments in subsidiaries and associates	15	-	-	30,251	31,739
Trade and other receivables	17	5,563	3,166	5,563	3,166
		716,768	**690,771**	**696,174**	**673,646**
Current assets					
Inventories		8,888	4,943	8,787	4,879
Trade and other receivables	17	118,682	121,691	124,794	124,776
Current income tax receivable		3,159	5,749	1,759	2,000
Held-to-maturity investments	18	111,866	116,726	111,866	101,492
Loans to banks	19	60,429	-	60,429	-
Trading investments		-	34,561	-	34,561
Cash and cash equivalents	20	149,898	229,350	141,451	220,117
Assets held for sale	21	12,933	1,851	12,933	108
		465,855	**514,871**	**462,019**	**487,933**
Total assets		**1,182,623**	**1,205,642**	**1,158,193**	**1,161,579**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	814,913	814,913	814,913	814,913
Treasury shares	22	(120,000)	(120,000)	(58,514)	(58,514)
Legal reserve	23	81,499	81,499	81,499	81,499
Retained earnings		259,818	294,167	183,376	197,298
Total equity		**1,036,230**	**1,070,579**	**1,021,274**	**1,035,196**
LIABILITIES					
Non-current liabilities					
Borrowings	25	5,972	6,809	5,972	6,809
Deferred tax liabilities	26	5,757	9,530	1,069	6,064
Grants	27	1,361	2,768	1,361	2,768
Deferred revenue	24	1,605	1,900	1,043	1,244
		14,695	**21,007**	**9,445**	**16,885**
Current liabilities					
Trade, other payables and accrued liabilities	24	129,268	112,047	125,138	107,593
Current income tax liabilities		-	104	-	-
Borrowings	25	836	805	836	805
Provisions	28	1,594	1,100	1,500	1,100
		131,698	**114,056**	**127,474**	**109,498**
Total liabilities		**146,393**	**135,063**	**136,919**	**126,383**
Total equity and liabilities		**1,182,623**	**1,205,642**	**1,158,193**	**1,161,579**

The notes on pages 10 to 56 form an integral part of these financial statements.

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
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 28 April 2009

GROUP	Note	Share capital	Treasury shares	Legal reserve	Translation differences	Retaining earnings	Total equity
Balance at 1 January 2007		**814,913**	**(120,000)**	**81,499**	**(1)**	**333,301**	**1,109,712**
Currency translation differences		-	-	-	1	9	10
Net profit		-	-	-	-	162,830	162,830
Total recognised income and expenses for 2007		**-**	**-**	**-**	**1**	**162,839**	**162,840**
Dividends paid for 2006	12	-	-	-	-	(201,973)	(201,973)
Balance at 31 December 2007		**814,913**	**(120,000)**	**81,499**	**-**	**294,167**	**1,070,579**
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 recognised income and expenses for 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**

COMPANY	Note	Share capital	Treasury shares	Legal reserve	Translation differences	Retaining earnings	Total equity
Balance at 1 January 2007		**814,913**	**-**	**81,499**	**-**	**211,104**	**1,107,516**
Dividends paid for 2006	12	-	-	-	-	(201,973)	(201,973)
Net profit		-	-	-	-	188,167	188,167
Treasury shares		-	(58,514)	-	-	-	(58,514)
Balance at 31 December 2007		**814,913**	**(58,514)**	**81,499**	**-**	**197,298**	**1,035,196**
Balance at 1 January 2008		**814,913**	**(58,514)**	**81,499**	**-**	**197,298**	**1,035,196**
Dividends paid for 2007	12	-	-	-	-	(194,204)	(194,204)
Net profit		-	-	-	-	180,282	180,282
Balance at 31 December 2008		**814,913**	**(58,514)**	**81,499**	**-**	**183,376**	**1,021,274**

The notes on pages 10 to 56 form an integral part of these financial statements.

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
Chief Financial Officer

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

CASH FLOW STATEMENT

Approved by the Annual General Meeting
of Shareholders as at 28 April 2009

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	**2008**	**2007**	**2008**	**2007**
Operating activities					
Profit for the year from continuing operations		159,908	162,830	180,282	188,167
Income tax	10	29,592	33,317	27,193	31,833
Depreciation, amortisation and impairment charge	13	166,833	166,696	157,817	159,559
Dividends received from subsidiaries	6	-	-	(24,000)	(30,800)
Other gains and losses	8	(1,900)	(6,318)	(1,831)	(6,109)
Write off of property, plant and equipment and intangible assets		108	901	121	59
Impairment of investments in subsidiaries	15	-	-	1,488	-
Interest income		(15,495)	(15,440)	(15,824)	(15,703)
Interest expenses	9	289	320	288	320
Other non-cash transactions		-	153	-	135
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(3,865)	3,211	(3,827)	3,177
Trade and other receivables		(8,505)	(14,503)	(9,739)	(13,413)
Trade, other payables and accrued liabilities		12,655	7,621	11,368	8,381
Cash generated from operations		339,620	338,788	323,336	325,606
Interest paid		(289)	(350)	(288)	(349)
Interest received		7,515	12,726	8,120	13,223
Tax paid		(30,882)	(57,330)	(31,947)	(45,089)
Net cash from operating activities		**315,964**	**293,834**	**299,221**	**293,391**

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

CASH FLOW STATEMENT (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	**2008**	**2007**	**2008**	**2007**
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(175,964)	(182,175)	(167,497)	(167,985)
Proceeds from disposal of PPE and intangible assets		1,633	11,974	3,706	11,262
Acquisition of held-to-maturity investments, amounts loaned to banks		(575,001)	(260,000)	(575,001)	(245,000)
Disposal of held-to-maturity investments, repayment of amounts loaned to banks		527,417	186,960	511,906	186,960
Disposal of trading investments		35,411	-	35,411	-
Acquisition of subsidiaries		(16,078)	-	(16,078)	-
Disposal of assets held for sale and shares		2,175	1,714	2,175	1,714
Loans granted		-	(2,597)	(1,500)	(10,597)
Loans repaid		-	150,000	-	156,084
Dividends received		-	-	24,000	30,800
Net cash used in investing activities		**(200,407)**	**(94,124)**	**(182,878)**	**(36,762)**
Financing activities					
Repayment of borrowings		(805)	(968)	(805)	(964)
Dividends paid shareholders of the Company	12	(194,204)	(201,973)	(194,204)	(201,973)
Treasury shares repurchased			-	-	(58,514)
Net cash used in financing activities		**(195,009)**	**(202,941)**	**(195,009)**	**(261,451)**
Increase (decrease) in cash and cash equivalents		**(79,452)**	**(3,231)**	**(78,666)**	**(4,822)**
Movement in cash and cash equivalents					
At the beginning of the year		229,350	232,581	220,117	224,939
Increase (decrease) in cash and cash equivalents		(79,452)	(3,231)	(78,666)	(4,822)
At the end of the year	20	**149,898**	**229,350**	**141,451**	**220,117**

The notes on pages 10 to 56 form an integral part of these financial statements.

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
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 traded on the London Stock Exchange.

The shareholders' structure of the Company as at 31 December 2008 was as follows:

	Number of shares	**%**
Amber Teleholding A/S (ultimate parent – TeliaSonera AB)	488,947,656	60.00
TEO LT, AB (treasury shares, Note 22)	38,095,242	4.67
Republic of Lithuania represented by State Property Fund	9,888,363	1.21
Republic of Lithuania represented by State Tax Inspectorate	362,630	0.04
Other shareholders (including GDR holders)	277,618,869	34.08
	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.

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 2008 amounted to 2,981 (2007: 2,907). The number of full time staff employed by the Company at the end of 2008 amounted to 2,101 (2007: 2,213).

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

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

Subsidiary/associate	Country of incorporation	Ownership interest in % 31 December 2008	31 December 2007	Profile
UAB Lintel	Lithuania	100%	100%	Provider of Directory Inquiry Service 118 and Contact Center services. Until September 2007 UAB Lintel owned treasury shares of the Company.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties. The subsidiary also has 100% stake in a dormant sub-subsidiary Baltic Data Center SIA located in Latvia.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	UAB Kompetencijos Ugdymo Centras provides training and consultancy services.
UAB Voicecom	Lithuania	-	100%	UAB Voicecom maintains the right to provide services of mobile analogue cellular radio communications, to construct and operate mobile analogue cellular (NMT-450 standard) radio communications national network. In 2008, NMT-450 licence was prolonged till end of April 2009. On 31 December 2008 the Company sold its 100% stake in UAB Voicecom to the third party.
VšĮ TEO Sportas	Lithuania	100%	100%	Non profit organisation supports a women's basketball team and until June 2007 operated a fitness center at P. Lukšio str., in Vilnius.
UAB Verslo Investicijos	Lithuania	100%	-	On 23 December 2008 the Company from the third party acquired 100% stake in a newly established and dormant company UAB Verslo Investicijos. The company is acquired for the implementation of short-term investment project.
AB Nacionalinė Skaitmeninė Televizija	Lithuania	-	-	On 3 January 2008, teh Company acquired 100% stake in UAB Nacionalinė Skaitmeninė Televizija. The company had two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks. On 25 August 2008, the company changed its legal status from closed joint-stock company to joint-stock company and became AB Nacionalinė Skaitmeninė Televizija. Following the decisions of shareholders AB Nacionalinė Skaitmeninė Televizija was reorganized and on 31 December 2008 merged into the Company. The Company took over all assets, rights and obligations of AB Nacionalinė Skaitmeninė Televizija.

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 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 polices. 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) Standards, amendment and interpretations effective in 2008

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). 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 in 2007. This interpretation does not have a significant impact on the Group's financial statements.

(c) Amendments to existing standards and interpretations effective in 2008 but not relevant

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provide guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transaction in the stand-alone accounts of the parent and Group companies.

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provides services to the public sector.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement', and IFRS 7 'Financial instruments: Disclosures on Reclassification of financial assets'. This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification. This amendment does not have an impact on the Group's financial statements.

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

IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment does not have any impact on the group's financial statements.

IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

– The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

– IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statements and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.

IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply IAS 23 (Amendment) prospectively to the capitalisation of borrowing cost on qualifying assets from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
– This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
– The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profittaking is included in such a portfolio on initial recognition.
– The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker.
– When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.
The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's income statement.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

IFRIC 16, 'Heges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC 16 from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

(e) Amendments and interpretations to existing standards that are not yet effective and not relevant for the group's operations

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions.

IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the group's operations because none of the group's companies ordinary activities comprise renting and subsequently selling assets.

IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-for-sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the group's operations because it is the group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the group's operations because it is the group's policy for an investment in an associate to be equity accounted in the group's consolidated accounts.

IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the group's operations, as none of the group's subsidiaries or associates operate in hyperinflationary economies.

IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation', and IFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the group's operations as there are no interests held in joint ventures.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the group's operations, as all intangible assets are amortised using the straight-line method.

IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where 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 and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the group's operations, as there are no investment properties are held by the group.

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the group's operations as no agricultural activities are undertaken.

IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the group's operations as there are no loans received from the government.

The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property', and IAS 41, 'Agriculture', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments will not have an impact on the group's operations as described above.

IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction contracts', should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

IFRIC 12, 15, 16 and amended IAS 23, IAS 39 as well as revised IFRS 1 and IFRS 3 have not been yet endorsed by the EU.

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 income statement

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

Transactions and minority interests

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

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.

Until 31 January 2002 the exchange rate of the Litas was fixed to the US Dollar (USD) at a rate of 4 LTL=1 USD. As from 1 February 2002 Lithuania pegged the Litas to the Euro at rate of 3.4528 LTL=1 Euro.

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 income statement.

Foreign exchange gains and losses that relate to borrowings and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statements 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 income statement 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	3 – 10 years
Motor vehicles	2 – 10 years
Other tangible fixed assets	5 – 10 years

The assets' residual values and useful lives 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 income statement.

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	5 - 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 cost previously recognised as an expense are not recognised as an asset in a subsequent period.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

2.7.1 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 category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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 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.

2.7.2 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 income statement. 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. Financial assets at fair value through profit or loss are subsequently carried at fair value. 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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gain/ (loss) – net, in the period in which they arise.

The fair values of quoted investments are based on current bid prices.

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.

2.8 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.

2.9 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.

2.10 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by using the stage of completion method. The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Costs incurred in the year in connection with future activity on a contract are excluded and shown as contract work in progress. The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under receivables, prepayments and accrued revenue. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under trade, other payables and accrued liabilities.

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 income statement 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 income statement.

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 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 income statement 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 income statement 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 income statement 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 income statement 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 comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to item recognised directly in equity. In this case, the tax is also recognised in equity.

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 2008 is taxable at a rate of 15% (2007: 15%) in accordance with Lithuanian regulatory legislation on taxation.

Lithuanian Parliament at 22 December of 2008 appointed new profit tax rates from 1st of January 2009 at 20%. Following this, the Company calculated its deferred tax liability as of 31 December 2008 using 20% rate.

Temporary social tax on profit was not applicable for 2008 (3% in 2007). See Note 10.

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 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 2008 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 income statement 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 income statement 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 not recognised for future operating losses.

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. At the end of each reporting period the Company estimates accumulated discounts and recognise the amount as deferred income. In the income statement these discounts 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 service revenues are contingent upon provision of services under multiple element arrangements, 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.

2.23 Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend distribution received by the Company from pre-acquisition profits of subsidiaries and associates is deducted from the cost of respective investments.

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 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 or whenever an employee accepts voluntary redundancy in exchange for these benefits. 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 an 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.

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 Group and the Company uses its fixed line network to generate different types of revenue (see Note 5). The Group is operating in one business segment (fixed line services) and one geographical segment and therefore no segment information is disclosed.

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: foreign exchange risk, credit risk, liquidity risk. The Group's overall risk management programme 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 central treasury unit (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.

<u>Market risk</u>

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. Therefore the foreign exchange risk is considered immaterial with respect to Group's operations. The Group manages foreign exchange risk by minimising the net exposure to open currency position. Further exposure to foreign exchange risk is disclosed in Notes 17 and 24.

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.

Price risk

As of 31 December 2008, the Group is not exposed to share price risk. As of 31 December 2007, the Group was exposed to Deutsche Bank Platinum IV Euro Sovereign Elite Fund share price risk because of investment held by the Group and classified as fair value though profit or loss. The Group is not exposed to commodity price risk.

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 LTL 111,866 thousand for the Group and for the Company (2007: LTL 116,726 thousand for the Group and LTL 101,492 thousand for the Company). For further information on held-to-maturity investments see Note 18. Other significant interest bearing asset is loans to banks amounting to LTL 60,429 thousand (2007: none), see further information in Note 19.

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 consist 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 25.

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.

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 2008 and 31 December 2007, all Group companies, except UAB "Kompetencijos ugdymo centras", which is currently under reorganisation, 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 2008 and 2007.

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	
	2008	**2007**	**2008**	**2007**
Fixed voice services	508,510	528,326	506,268	526,574
Internet and data services	256,662	214,027	258,501	214,991
IT services	21,282	14,050	10,234	3,431
TV services	16,457	8,368	16,457	8,368
Other revenues	23,356	28,679	12,566	18,163
Total revenue	**826,267**	**793,450**	**804,026**	**771,527**

6 Other income

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Interests income on held –to – maturity investments and loans	7,980	4,056	8,262	4,431
Income from dividends	-	-	24,000	30,800
	7,980	**4,056**	**32,262**	**35,231**

7 Other operating expenses

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Materials, maintenance and services costs	98,081	94,372	131,944	120,598
Energy, premises and transport costs	40,084	34,014	39,746	33,270
Marketing expenses	16,102	17,610	15,123	16,395
Impairment of accounts receivable	3,245	(302)	3,090	(307)
Other expenses	26,185	25,944	22,267	22,240
	183,697	**171,638**	**212,170**	**192,196**

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

8 Other gain/loss - net

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Gain on sales of property, plant and equipment	1,044	6,316	949	5,836
Gain (loss) on sale of investments	151	19	144	(3)
Fair value gain (loss) on trading investments	850	274	850	274
Loss on sales of property, plant and equipment	(127)	(325)	(97)	(31)
Other gain (loss)	(18)	34	(15)	33
	1,900	**6,318**	**1,831**	**6,109**

9 Finance income and costs

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Interest income on cash and cash equivalents	7,082	9,952	6,979	9,840
Other finance income	475	1,511	475	1,511
Finance income	**7,557**	**11,463**	**7,454**	**11,351**
Interest expenses	(282)	(320)	(281)	(320)
Foreign exchange gain (loss) on financing activities	190	(296)	215	(284)
Other finance costs	(203)	(166)	(200)	(164)
Finance costs	**(295)**	**(782)**	**(266)**	**(768)**
Finance income/costs– net	**7,262**	**10,681**	**7,188**	**10,583**

10 Income tax

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Current tax	33,365	41,268	32,188	39,404
Deferred tax	(5,404)	(7,951)	(5,262)	(7,571)
Impact of change in tax rate, net	1,631	-	267	-
Total deferred tax (Note 26)	(3,773)	(7,951)	(4,995)	(7,571)
Income tax expense	**29,592**	**33,317**	**27,193**	**31,833**

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.

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

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	
	2008	2007	2008	2007
Profit before tax and share of result of associates	189,500	196,147	207,475	220,000
Tax calculated at a tax rate of 15% (2007: 18%)	28,425	35,306	31,121	39,600
Deferred tax asset not recognised on tax losses	333	286	-	-
Non taxable dividends received	-	-	(3,600)	(5,400)
Income tax on reduction of share capital of subsidiary	-	-	-	(144)
Income not subject to tax and expenses not deductible for tax purposes	435	(1,262)	606	(1,219)
Income tax on dividends	(1,114)	(1,189)	(1,114)	(1,189)
Impact of change in tax rate for temporary differences	1,901	-	537	-
Impact of change in tax rate for tax loss of the merged subsidiary	(270)	-	(270)	-
Other	(118)	176	(87)	185
Tax charge	**29,592**	**33,317**	**27,193**	**31,833**

On 7 June 2005, the Provisional Law on Social Tax was adopted, which provides that the tax base for this tax is taxable profit calculated in accordance with the procedure stipulated in the Lithuanian Law on Corporate Profit Tax. Temporary Social tax rate was set at 3% for 2007 and 0% for 2008 and subsequent years.

Temporary differences recognised as at 31 December 2008 which will be realised in 2009 and subsequent years according to enacted legislation will be subject to income tax at a rate of 20% (31 December 2007: 15%).

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.

11 Earnings per share (continued)

Weighted average number of shares in issue (thousands) for year ended 31 December 2008 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	
	2008	**2007**	**2008**	**2007**
Net profit	**159,908**	**162,830**	**180,282**	**188,167**
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
Basic earnings per share (LTL)	**0.21**	**0.21**	**0.23**	**0.24**

12 Dividends per share

The dividends per share, excluding treasury shares, declared in respect of 2007 and 2006 and paid in 2008 and 2007 were LTL 0.25 and LTL 0.26 respectively. There were no dividends proposed or declared in respect of 2008 as at the date of approval of these financial statements.

13 Property, plant and equipment

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Depreciation of property, plant and equipment	154,863	156,164	148,388	150,603
Amortisation of intangible assets (Note 14)	12,987	12,492	10,446	10,916
Amortisation of grants received (Note 27)	(1,017)	(1,960)	(1,017)	(1,960)
	166,833	**166,696**	**157,817**	**159,559**

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.

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

13 Property, plant and equipment (continued)

In 2008 the Company revised the useful lives of its property, plant and equipment. After the above revision the depreciation charge for 2008 increased by LTL 0.38 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was not revised in 2008.

GROUP	Land and buildings	Ducts and telecom-munication equipment	Other tangible fixed assets	Construction in progress	Total
At 31 December 2006					
Cost	120,635	2,206,266	67,513	9,124	2,403,538
Accumulated depreciation	(45,108)	(1,669,401)	(51,099)	-	(1,765,608)
Net book amount	**75,527**	**536,865**	**16,414**	**9,124**	**637,930**
Year ended 31 December 2007					
Opening net book amount	75,527	536,865	16,414	9,124	637,930
Additions	1,312	10,097	171	172,361	183,941
Reclassifications	(1,677)	(235)	(16)	-	(1,928)
Disposals and retirements	(5,095)	(80)	(642)	-	(5,817)
Transfers from construction in progress	4,154	140,587	6,419	(151,160)	-
Depreciation charge	(5,147)	(145,618)	(5,399)	-	(156,164)
Closing net book amount	**69,074**	**541,616**	**16,947**	**30,325**	**657,962**
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		1,138			1,138
Reclassifications	(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**
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**

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

13 Property, plant and equipment (continued)

In 2008 the Company revised the useful lives of its property, plant and equipment. After the above revision the depreciation charge for 2008 increased by LTL 0.38 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was not revised in 2008.

COMPANY	Land and buildings	Ducts and telecom-munication equipment	Other tangible fixed assets	Construction in progress	Total
At 31 December 2006					
Cost	87,333	2,182,099	58,561	9,124	2,337,117
Accumulated depreciation	(40,167)	(1,652,040)	(44,922)	-	(1,737,129)
Net book amount	**47,166**	**530,059**	**13,639**	**9,124**	**599,988**
Year ended 31 December 2007					
Opening net book amount	47,166	530,059	13,639	9,124	599,988
Additions	0	11	25	173,673	173,709
Disposals and write-offs	(4,236)	(84)	(65)	(1,312)	(5,697)
Reclassifications	21	(233)	(13)	-	(225)
Transfers from construction in progress	4,154	140,587	6,419	(151,160)	-
Depreciation charge	(4,276)	(141,790)	(4,537)	-	(150,603)
Closing net book amount	**42,829**	**528,550**	**15,468**	**30,325**	**617,172**
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		1,138			1,138
Disposals and write-offs	(371)	(275)	(19)	(914)	(1,579)
Reclassifications	(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)

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	
	2008	2007	2008	2007
Cost	14,883	3,883	14,883	3,883
Accumulated depreciation at 1 January	(432)	-	(432)	-
Depreciation charge for the year	(1,508)	(432)	(1,508)	(432)
Net book amount	12,943	3,451	12,943	3,451

14 Intangible assets

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
At 31 December 2006						
Cost	2,575	266,353	2,658	15,276	774	287,636
Accumulated amortisation	(2,357)	(238,823)	-	(12,918)	-	(254,098)
Net book amount	**218**	**27,530**	**2,658**	**2,358**	**774**	**33,538**
Year ended 31 December 2007						
Opening net book amount	218	27,530	2,658	2,358	774	33,538
Additions	-	3,392		-	5,205	8,597
Disposals and write-offs	-	-	-	-	-	-
Reclassification	-	5,474	-	-	(5,474)	-
Reclassification from other accounts	-	-	-	-	-	-
Amortisation charge	(218)	(10,944)	-	(1,330)	-	(12,492)
Closing net book amount	**-**	**25,452**	**2,658**	**1,028**	**505**	**29,643**
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	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**

(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 2006					
Cost	1,691	243,911	15,208	661	261,471
Accumulated amortisation	(1,550)	(219,218)	(12,857)	-	(233,625)
Net book amount	**141**	**24,693**	**2,351**	**661**	**27,846**
Year ended 31 December 2007					
Opening net book amount	141	24,693	2,351	661	27,846
Additions	-	-	-	4,639	4,639
Reclassifications	-	5,195	-	(5,195)	-
Amortisation charge	(141)	(9,452)	(1,323)	-	(10,916)
Closing net book amount	**-**	**20,436**	**1,028**	**105**	**21,569**
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	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**

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

The licences acquired 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 Investments in subsidiaries and associates

	GROUP		COMPANY	
	2008	2007	2008	2007
At the beginning of year	-	-	31,739	31,739
Acquisition of subsidiary (Note 31)	-	-	16,472	-
Contribution to cover losses of subsidiary	-	-	7,350	-
Impairment of investments	-	-	(1,488)	-
Subsidiary merged (Note 31)	-	-	(23,822)	-
Subsidiary disposed (Note 32)	-	-	-	-
At end of year	-	-	30,251	31,739

As the equity of the one subsidiary's on 31 December 2008 was negative and management has plans to restructure it in 2009, the Company recorded an impairment provision for the following investments accounted under Investments in subsidiaries:

	Year ended 31 December	
	COMPANY	
	2008	2007
UAB Kompetencijos Ugdymo Centras (former Lietuvos Telekomo Verslo Sprendimai)	1,488	-
	1,488	-

16 Financial instruments by category

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

GROUP

	Loans and receivables	Assets at fair value through the profit and loss	Held-to-maturity investments	Total
31 December 2008				
Assets as per balance sheet				
Trade and other receivables	125,660	-	-	125,660
Held-to-maturity investment	-	-	111,866	111,866
Loans to banks	60,429	-		60,429
Trading investment	-	-	-	-
Cash and cash equivalents	149,898	-	-	149,898
Total	**335,987**	**-**	**111,866**	**447,853**

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

16 Financial instruments by category (continued)

	Loans and receivables	Assets at fair value through the profit and loss	Held-to-maturity investments	Total
31 December 2007				
Assets as per balance sheet				
Trade and other receivables	124,679	-	-	124,679
Held-to-maturity investment	-	-	116,726	116,726
Trading investment	-	34,561	-	34,561
Cash and cash equivalents	229,350	-	-	229,350
Total	**354,029**	**34,561**	**116,726**	**505,316**

COMPANY

	Loans and receivables	Assets at fair value through the profit and loss	Held-to-maturity investments	Total
31 December 2008				
Assets as per balance sheet				
Trade and other receivables	122,872	-	-	122,872
Held-to-maturity investment	-	-	111,866	111,866
Loans to banks	60,429	-	-	60,429
Trading investment	-	-	-	-
Cash and cash equivalents	141,451	-	-	141,451
Total	**324,752**	**-**	**111,866**	**436,618**

	Loans and receivables	Assets at fair value through the profit and loss	Held-to-maturity investments	Total
31 December 2007				
Assets as per balance sheet				
Trade and other receivables	129,062	-	-	129,062
Held-to-maturity investment	-	-	101,492	101,492
Trading investment	-	34,561	-	34,561
Cash and cash equivalents	220,117	-	-	220,117
Total	**349,179**	**34,561**	**101,492**	**485,232**

Both in 2008 and 2007 all financial liabilities of the Company and the Group fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

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

17 Trade and other receivables

	GROUP		COMPANY	
	2008	2007	2008	2007
Trade receivables from business customers and residents	104,966	100,864	100,832	95,890
Trade receivables from other operators	14,322	15,455	14,322	15,455
Total trade receivables	**119,288**	**116,319**	**115,154**	**111,345**
Less: provision for impairment of receivables	(17,010)	(15,199)	(16,810)	(15,153)
Trade receivables - net	**102,278**	**101,120**	**98,344**	**96,192**
Receivables from companies collecting payments for telecommunication services	930	1,623	930	1,623
Prepaid expenses and other receivables	15,592	17,751	14,722	16,363
Receivables from related parties (Note 33)	5,445	4,363	6,792	5,721
Loans to related parties (Note 33)	-	-	9,569	8,043
	124,245	**124,857**	**130,357**	**127,942**
Less non-current portion	(5,563)	(3,166)	(5,563)	(3,166)
Current portion	**118,682**	**121,691**	**124,794**	**124,776**

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

The fair values of trade and other receivables are as follows:

	GROUP		COMPANY	
	2008	2007	2008	2007
Trade receivables from business and residents	104,034	100,514	99,900	95,540
Trade receivables from other operators	14,322	15,455	14,322	15,455
Total trade receivables	**118,356**	**115,969**	**114,222**	**110,995**
Less: provision for impairment of receivables	(17,010)	(15,199)	(16,810)	(15,153)
Trade receivables - net	**101,346**	**100,770**	**97,412**	**95,842**
Receivables from companies collecting payments for telecommunication services	930	1,623	930	1,623
Prepaid expenses and other receivables	15,592	17,751	14,722	16,363
Receivables from related parties	5,445	4,363	6,792	5,721
Loans to related parties (Note 33)	-	-	9,569	8,043
	123,313	**124,507**	**129,425**	**127,592**

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

17 Trade and other receivables (continued)

The fair values of accrued revenue are based on cash flows discounted using a rate of 11.5% (2007: 8.3%). The discount rate equals to VILIBOR plus appropriate credit margin.

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 2008, the Group's trade receivables of LTL 11,925 thousand (2007: LTL 12,960 thousand) and the Company's trade receivables of LTL 11,621 thousand (2007: LTL 12,781 thousand) were past due but not impaired.

As of 31 December 2008, the Group's trade receivables of LTL 17,429 thousand (2007: LTL 17,314 thousand) and the Company's trade receivable of LTL 17,389 thousand (2007: LTL 16,733 thousand) were impaired and provided for. The amount of the Group's provision was LTL 17,010 thousand as of 31 December 2008 (2007: LTL 15,199 thousand) and the amount of the Company's provision was LTL 16,810 thousand as of 31 December 2008 (2007: LTL 15,153 thousand).

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Trade receivable total	119,288	116,319	115,154	111,345
Of which not overdue	89,934	86,045	86,144	81,831
Overdue up to 3 months	11,925	12,960	11,621	12,781
4 to 6 months	1,981	2,354	1,941	1,807
7 to 12 months	2,264	1,121	2,264	1,088
Over 12 months	13,184	13,839	13,184	13,838

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Currency				
LTL	100,057	95,712	107,620	100,828
EUR	23,600	27,568	22,153	25,537
XDR	206	1,463	206	1,463
Other currency	382	114	378	114
	124,245	124,857	130,357	127,942

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

17 Trade and other receivables (continued)

Movements of impairment losses for trade receivables are as follows:

	GROUP		COMPANY	
	2008	2007	2008	2007
At the beginning of year	15,199	18,813	15,153	19,184
Receivables written off during the year as uncollectible	(1,459)	(3,312)	(1,459)	(3,724)
Provision for receivables impairment/ Unused amount reversed (-)	3,270	(302)	3,116	(307)
At the end of year	**17,010**	**15,199**	**16,810**	**15,153**

The creation and release of provision for impaired receivables have been included in 'Other operating expenses' in the Income statement (Note 7).

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

18 Held-to-maturity investments

Held-to-maturity investments consist of short-term bonds issued by the Lithuanian commercial banks. The effective interest rate on the bonds was 8.28% (2007: 8.10%). As of 31 December 2008, average maturity of bonds is 57 days (2007: 68 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.

19 Loans to banks

Loans to banks are repurchase receivables from AB SEB Bank according to securities' repurchase agreements. Effective interest rate on these loans was 9.0%, and average maturity as of 31 December 2008 was 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 maximum exposure to credit risk at the reporting date is the fair value of loans to banks classified as loans and receivables.

20 Cash and cash equivalents

	GROUP		COMPANY	
	2008	2007	2008	2007
Cash in hand and at bank	79,898	83,672	71,451	74,439
Short term bank deposits	70,000	145,678	70,000	145,678
	149,898	**229,350**	**141,451**	**220,117**

The effective interest rate on the Group's and the Company's short-term bank deposits, held with Lithuanian banks was 8.66% (2007: 6.60%). Vast majority of cash and cash equivalents (99.8 %) is held in 3 commercial Lithuanian banks whose long-term borrowing rating assigned by FitchRatings varies from A to AA-.

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

21 Assets held for sale

As at 31 December 2008 the Group and the Company accounted as assets held for sale one building, construction in progress and prepayment for the building construction that will be contracted for sale to a third party (2007: group of buildings that will be contracted for sale to a third party). Assets held for sale also include group of passenger cars.

Major classes of assets classified as held for sale:

	As at 31 December			
	GROUP		COMPANY	
	2008	2007	2008	2007
Prepayment for the building construction	4,395	-	4,395	-
Property, plant and equipment	8,538	1,851	8,538	108
Total assets classified as held for sale	**12,933**	**1,851**	**12,933**	**108**

22 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 2008.

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 2008.

23 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.

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

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2008	2007	2008	2007
Trade payables	70,969	63,148	66,269	60,154
Trade payables to operators	3,059	3,990	3,961	4,006
Taxes, salaries and social security payable	37,177	27,573	30,864	23,329
Accruals to operators	6,736	3,654	6,736	3,731
Accrued liabilities	2,556	5,456	2,517	3,627
Other payables and deferred revenue	7,802	8,147	6,809	6,801
Amounts payable to related parties (Note 33)	2,574	1,979	9,025	7,189
	130,873	**113,947**	**126,181**	**108,837**
Less non-current portion	(1,605)	(1,900)	(1,043)	(1,244)
Current portion	**129,268**	**112,047**	**125,138**	**107,593**

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

	GROUP		COMPANY	
	2008	2007	2008	2007
Currency				
LTL	110,677	94,799	106,581	90,410
EUR	17,156	14,855	17,129	14,814
XDR	1,101	2,221	1,101	2,221
Other currency	334	172	327	148
	129,268	**112,047**	**125,138**	**107,593**

25 Borrowings

	GROUP		COMPANY	
	2008	2007	2008	2007
Current				
Finance lease liabilities	836	805	836	805
	836	**805**	**836**	**805**
Non-current				
Finance lease liabilities	5,972	6,809	5,972	6,809
	5,972	**6,809**	**5,972**	**6,809**
Total borrowings	**6,808**	**7,614**	**6,808**	**7,614**

Fair value of borrowings approximate to their carrying values.

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

25 Borrowings (continued)

In 2005 the Company concluded an agreement with a third party for sales and leaseback of certain technical premises. Leaseback of three premises in substance qualified as a finance lease, whereas leaseback of other premises is accounted for as operating lease. All these 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.

Group's and 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 2007	1,087	4,346	3,470	8,903
Less future finance charges	(282)	(796)	(211)	(1,289)
Present value of minimum lease payments at 31 December 2007	805	3,550	3,259	7,614
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

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	
	2008	2007	2008	2007
Premises	6,465	7,364	6,465	7,364
	6,465	**7,364**	**6,465**	**7,364**

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

26 Deferred income taxes

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
At the beginning of year	9,530	17,481	6,064	13,635
Income statement credit (Note 10)	(3,773)	(7,951)	(4,995)	(7,571)
At the end of year	**5,757**	**9,530**	**1,069**	**6,064**
Deferred income tax to be recovered after more than 12 months	5,244	4,270	542	1,085
Deferred income tax to be recovered within 12 months	513	5,260	527	4,979
	5,757	**9,530**	**1,069**	**6,064**

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**	**Other**	**Total**
At 31 December 2007	49,880	-	49,880
Charged/ (credited) to net profit	4,588	1,004	5,592
At 31 December 2008	**54,468**	**1,004**	**55,472**

GROUP – deferred tax assets	**Accelerated depreciation**	**Tax losses**	**Other**	**Total**
At 31 December 2007	(38,582)	-	(1,768)	(40,350)
Charged/ (credited) to net profit	(8,310)	(1,081)	26	(9,365)
At 31 December 2008	**(46,892)**	**(1,081)**	**(1,742)**	**(49,715)**

Tax losses of LTL 1,081 thousand arose from Company's subsidiary AB Nacionalinė Skaitmeninė Televizija which was merged into the Company as of 31 December 2008.

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 2.4 million (2007: 1.6 million) that can be carried forward without expiry against future taxable income.

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

26 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**	**Other**	**Total**
At 31 December 2007	46,350	-	46,350
Charged/ (credited) to net profit	3,614	669	4,283
At 31 December 2008	**49,964**	**669**	**50,633**

COMPANY – deferred tax assets	**Accelerated depreciation**	**Tax losses**	**Other**	**Total**
At 31 December 2007	(38,582)		(1,704)	(40,286)
Charged/ (credited) to net profit	(8,310)	(1,061)	93	(9,278)
At 31 December 2008	**(46,892)**	**(1,061)**	**(1,611)**	**(49,564)**

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**	
	2008	**2007**	**2008**	**2007**
Deferred tax assets	(49,715)	(40,350)	(49,564)	(40,286)
Deferred tax liabilities	55,472	49,880	50,633	46,350
	5,757	**9,530**	**1,069**	**6,064**

27 Grants

Movement of the grants may be summarised as follows:

	GROUP		**COMPANY**	
	2008	**2007**	**2008**	**2007**
At the beginning of year	2,768	4,727	2,768	4,727
New grants received	1,419	2,457	1,419	2,457
Amortization of deferred income to match r elated depreciation	(1,017)	(1,960)	(1,017)	(1,960)
Amortization of deferred income to match related expenses	(1,809)	(2,456)	(1,809)	(2,456)
At the end of year	**1,361**	**2,768**	**1,361**	**2,768**

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

28 Provisions

The Group and the Company established a provision for restructuring costs. The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company and the Group's subsidiary. Provisions for restructuring are expected to be fully utilized during the year 2009.

Provisions as of 31 December 2007 were fully utilised during 2008.

29 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2008 the aggregate of bank guarantees (tender, agreement performance, payment) provided by SEB bankas AB on behalf of the Company and the Group amounts to LTL 3.42 million (2007: LTL 7.13 million).

Minimum lease payments receivable

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Not later than 1 year	9,816	2,932	9,816	2,932
Later than 1 year but not later than 5 years	23,816	4,884	23,816	4,884
Later than 5 years	-	-	-	-
	33,632	**7,816**	**33,632**	**7,816**

Contingent-based rents recognised in the income statement were LTL 3,191 thousand (2007: LTL 979 thousand).

The Company lease terminal telecommunication equipment under various agreements which terminate in 2011.

30 Commitments

Capital commitments

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Property, plant and equipment	65,186	70,293	65,186	70,293
	65,186	**70,293**	**65,186**	**70,293**

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.

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

30 Commitments (continued)

As discussed in Note 25, the Company leases premises under operating lease agreements for 10 years.

In addition, the Group rents other premises. The Group has prolonged certain rent agreements that expired in 2008 for additional 1 year, also one agreement was prolonged for additional 8 years.

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Minimum lease payments	9,287	6,197	8,492	5,260

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

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Not later than 1 year	7,697	4,473	7,290	4,426
Later than 1 year but not later than 5 years	9,144	7,678	8,559	7,657
Later than 5 years	2,752	4,082	2,752	4,082
	19,593	**16,233**	**18,601**	**16,165**

31 Business combination

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)

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)**

32 Disposals

On 31 December 2008 entire holding in UAB Voicecom was disposed (2007: OOO Comliet-Kaliningrad). During 2008 the disposed business contributed revenue of LTL 484 thousand (2007: LTL 17 thousand) and costs of LTL 480 thousand (2007: LTL 17 thousand).

The assets and liabilities disposed of UAB Voicecom are as follows:

	Disposed carrying amounts
Cash and cash equivalents	82
Receivables, prepayments, and accrued revenue	3
Total assets	**85**
Equity	46
Trade, other payables and accrued liabilities	39
Total equity and liabilities	**85**
Disposed consideration settled in cash:	-
Total disposal consideration	144
Less cash not received	144
Cash inflow from disposal	-

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

33 Related party transactions

The Group is controlled by Amber Teleholding A/S which owns 60 % of the Company's shares. The ultimate parent of the Group is TeliaSonera AB. Majority shareholders of TeliaSonera AB are Governments of Sweden and Finland. The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	55,416	58,204	50,682	53,629
Subsidiaries of the Company		-	10,528	5,978
Total sales of telecommunication and other services	**55,416**	**58,204**	**61,210**	**59,607**

Purchases of assets and services:

	GROUP		COMPANY	
Purchases of assets from:	**2008**	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	1,115	523	-	-
Subsidiaries of the Company	-	-	1,332	454
	1,115	**523**	**1,332**	**454**

	GROUP		COMPANY	
Purchases of services from:	**2008**	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	44,783	49,271	43,178	48,205
Subsidiaries of the Company	-	-	51,732	45,055
	44,783	49,271	94,910	93,260
Total purchases of assets and services	**45,898**	**49,794**	**96,242**	**93,714**

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

Total receivables and accrued revenue from related parties

	GROUP		COMPANY	
Receivables from related parties:	**2008**	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	3,817	3,049	3,034	1,895
Subsidiaries of the Company	-	-	2,130	2,491
	3,817	**3,049**	**5,164**	**4,386**

	GROUP		COMPANY	
Accrued revenue from related parties:	**2008**	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	1,628	1,314	1,628	1,335
	1,628	1,314	1,628	1,335
Total receivables and accrued revenue from related parties	**5,445**	**4,363**	**6,792**	**5,721**

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

33 Related party transactions (continued)

Payables and accrued expenses to related parties

	GROUP		COMPANY	
Payables to related parties:	**2008**	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	1,946	1,361	1,044	1,345
Subsidiaries of the Company	-	-	7,353	5,303
	1,946	**1,361**	**8,397**	**6,648**

	GROUP		COMPANY	
Accrued expenses to related parties:	**2008**	**2007**	**2008**	**2007**
TeliaSonera AB and its subsidiaries	628	618	628	541
	628	618	628	541
Total payables and accrued expenses to related parties:	**2,574**	**1,979**	**9,025**	**7,189**

Loans to related parties:

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
Beginning of the year	-	150,583	8,043	156,683
Loans advanced during year	-	-	2,500	8,250
Acquisition of subsidiary			2,597	
Loan repayments received	-	(150,000)	(1,000)	(156,334)
Legal merge of subsidiary			(2,597)	
Interest charged	-	758	880	1,477
Interest received	-	(1,341)	(854)	(2,033)
End of the year	-	-	9,569	8,043

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

Name of the related party	**Loan granted**	**Balance outstanding as at 31 December 2008**	**Maturity**	**Interest rate**
UAB Baltic Data Center	9,000	9,000	due on 21 July 2009	6,73%
UAB Kompetencijos ugdymo centras	500	500	due on 14 July 2009	6,82%

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 2008: paid out dividends amounting to LTL 122,237 thousand (2007: LTL 127,126 thousand).

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

33 Related party transactions (continued)

Remuneration of the Group's top management (excluding social security contributions)

	2008	2007
Remuneration of key management personnel	4,537	4,523

The total amount including remuneration and annual compensations (tantjems) paid to the seven members of the Board of the Company during 2008 amounted to LTL 378 thousand (2007: LTL 974 thousand).

34 Events after balance sheet day

On 23 Fabruary 2009 the peace treaty concerning cancellation of headquarters building construction was signed with AB YIT Kausta. As the result capital commitment decreased from LTL 65,186 thousand to LTL 7,211 thousand.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Jan-Erik Elsérius, Chief Financial Officer and Deputy General Manager 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 2008 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.

Jan-E Elsérius

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
Chief Financial Officer

CONSOLIDATED ANNUAL REPORT

Approved by the Board
as at 20 March 2009

I. GENERAL INFORMATION

Reporting period

Year ended 31 December 2008

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 15 11
Fax number	+370 5 212 66 65
Internet address	www.teo.lt

Main activities of the Group

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

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

As on 31 December 2008, 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. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5278 3322, www.lintel.lt	100,00	100,00
UAB Baltic Data Center	17 December 2001, code 125830791, State Enterprise Center of Registers	Žirmūnų 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 5 274 8477, fax. +370 5 212 1569, www.kuc.lt	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-03116 Vilnius, Lithuania tel. +370 5 278 8944 fax. +370 5 278 8831 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 16 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118 and consultations to computer users by phone 1518 as well as telemarketing and remote customer care services to business customers. Till September 2007 UAB Lintel held 4.67 per cent of treasury stocks of the Company. In 2008, UAB Lintel paid to the Company LTL 24 million in dividends for the year 2007.

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

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

On 3 January 2008, TEO acquired 100 per cent stake in UAB Nacionalinė Skaitmeninė Televizija (registered on 12 September 2007, code 301110538, name of the Register of Legal Entities: State Enterprise Center of Registers, address: Savanorių pr. 125, LT-44146 Kaunas). The company had two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks and from March 2008 started provision of digital terrestrial television services *Skaitmeninė GALA (Digital GALA)*.

On 25 August 2008, UAB Nacionalinė Skaitmeninė Televizija changed its legal status from closed joint-stock company to joint-stock company and became AB Nacionalinė Skaitmeninė Televizija.

On 15 October 2008, the Board of TEO LT, AB and the Board of AB Nacionalinė Skaitmeninė Televizija approved reorganization conditions for merging AB Nacionalinė Skaitmeninė Televizija that, after the reorganization, will cease its activities as a legal entity, into TEO LT, AB that will continue its activities after the reorganization.

On 25 November 2008, Extraordinary General Meeting of TEO LT, AB shareholders decided to reorganize TEO LT, AB and AB Nacionalinė Skaitmeninė Televizija by merger AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB. General Meeting also approved the new edition of the By-laws of TEO LT, AB that continues its business activities after the reorganization.

On 31 December 2008, the Register of Legal Entities registered the new edition of the By-laws of TEO LT, AB and thus reorganisation of TEO LT, AB and AB Nacionalinė Skaitmeninė Televizija by merger of AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB was completed. TEO LT, AB took over the assets, rights and obligations of AB Nacionalinė Skaitmeninė Televizija and AB Nacionalinė Skaitmeninė Televizija ceased its activities as a legal entity.

During 2008, TEO LT, AB as a sole shareholder made a cash contribution of LTL 7.4 million to cover the losses of Nacionalinė Skaitmeninė Televizija.

On 31 December 2008 TEO LT, AB sold its 100 per cent stake in subsidiary UAB Voicecom (registered on 6 March 2001, code 210860630, name of the Register of Legal Entities: State Enterprise Center of Registers, address: Savanorių ave. 28, LT-03501 Vilnius, Lithuania, tel. +370 5 236 7209, fax. +370 5 231 3860) to the company not related to TEO Group. UAB Voicecom has the licence to use the national network of mobile analogue cellular radio communication of the NMT-450 standard. Permission is extended till the end of April 2009.

On 23 December 2008 TEO LT, AB acquired 100 percent stake in a newly established and dormant company UAB Verslo Investicijos from UAB Management and Accounting Services. The authorised share capital of UAB Verslo Investicijos amounts to LTL 10 thousand. The company Verslo Investicijos is acquired for the implementation of short-term investment project.

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

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

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 (previously named 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	12391

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 International Main Market of London Stock Exchange. TEO GDRs could be traded on the PORTAL market, a subsidiary of the NASDAQ Stock Market Inc.

Following the directives of European Union, the Company is informed that GDRs of TEO are included in Frankfurt Deutsche Börse 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 or/and 100 per cent owned by the Company.

II. FINANCIAL INFORMATION

The Company's results for 2008 are very good. The financial result is better than planned, though such factors as increased regulation in the network interconnection services market, growing inflation and energy costs had a negative impact on revenues. In 2008, the Company achieved a record increase in the number of customers using digital terrestrial television and interactive television services and, in addition, successfully retained the share of the market of Internet and data communications services.

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	2008	2007	Change (%)
Revenue (LTL thousand)	826,267	793,450	4.1
Operating profit (LTL thousand)	182,238	185,466	(1.7)
Operating profit margin (%)	22.1	23.4	
Profit before income tax (LTL thousand)	189,500	196,147	(3.4)
Profit for the period (LTL thousand)	159,908	162,830	(1.8)
Profit for the period margin (%)	19.4	20.5	
Earnings per share (LTL)	0.206	0.210	(1.8)
Number of shares excluding treasury stocks (thousand)	776,818	776,818	--

Financial ratios	31-12-2008	31-12-2007
Return on capital employed (%)	18.5	18.4
Return on average assets (%)	16.0	15.7
Return on shareholders' equity (%)	15.7	15.3
Gearing ratio (%)	(30.4)	(34.8)
Debt to equity ratio (%)	0.7	0.7
Current ratio (%)	353.7	451.4
Rate of turnover of assets (%)	72.6	67.0
Equity to assets ratio (%)	87.6	88.8

Operating figures	31-12-2008	31-12-2007	Change (%)
Number of fixed telephone lines in service	767,805	788,946	(2.7)
Digitalisation rate (%)	94.0	94.0	
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other)	298,080	258,819	15.2
Number of wireless Internet (WiFi) hot-spots	4,203	3,182	32.1
Number of IP TV customers	40,350	17,453	131.2
Number of DVB-T customers	26,327	-	
Number of personnel (head-counts) at the end of period	3,332	3,177	4.9
Number of full time employees at the end of the period	2,981	2,907	2.5

Revenue

The total consolidated TEO Group's revenue for the year 2008 was LTL 826 million, an increase by 4.1 per cent over the total revenue of LTL 793 million for the year 2007.

Rapid increase in revenue from IT and TV services and continuous growth of revenue from Internet and data communication services, driven by continuous growth of the number of customers, fully off-set decline in revenue from voice telephony services due to lower traffic volumes and reduced national interconnection tariffs.

During 2008 share of revenue from traditional voice telephony services from total amount of revenue continued to shrink and amounted to 61.5 per cent of total revenue, while share of Internet and data communications revenue continued to grow and amounted to 31.1 per cent. Revenue from IT services amounted to 2.6 per cent, television services – 2 per cent and other services – 2.8 per cent of total revenue for the year 2008.

Revenue from voice telephony services for the year 2008 mainly decreased by 3.8 per cent due to decrease in revenue from traffic charges by 10.1 per cent and decline of revenue from networks' interconnection services by 5.8 per cent. However revenue from subscription fees increased by 3.3 per cent. Decline in revenue from traffic charges was caused by lower traffic from business customers. Lower traffic from national operators abroad and reduced interconnection tariffs had an impact on revenue from networks' interconnect.

By implementing the pricing model established by the Communications Regulatory Authority of the Republic of Lithuania TEO reduced by 40 per cent the network interconnection fees for Lithuanian operators whose customers make calls to TEO network. From August 2008 the following rates per minute apply: 6 cents (excluding VAT) during peak hours and 3.6 cents (excluding VAT) during off-peak hours.

From 1 August 2008, the Company also reduced prices for calls to the networks of other Lithuanian fixed-line operators. For TEO customers, calls to other fixed-line networks in Lithuania will, from now on, be charged at the rate starting from 10 cents (including VAT) per minute.

During 2008 the total number of main telephone lines in service decreased by 21.1 thousand: 50.4 thousand new telephone lines were installed, while 71.5 thousand lines were disconnected. From February 2008 the Company terminated provision of temporary disconnected telephone line with incoming calls service. As a result from February number of active lines used by residential customers increased by 35 thousand.

Total calls traffic for the year 2008, compared to 2007, declined by 0.7 per cent. Traffic generated by residential customers increased by 4.4 per cent while traffic generated by business customers decreased by 11.8 per cent due to competition with other operators.

In 2008, TEO maintained its leading position on the voice telephony market. According to the Report of the Communications Regulatory Authority (CRA), TEO market share of the fixed-line telephony market in terms of main lines during the third quarter of 2008 amounted to 98 per cent and in terms of revenue – to 95.5 per cent. TEO networks' interconnection market share in terms of revenue shrank and amounted to 15.6 per cent (19.3 per cent for the third quarter of 2007).

The Company continuously increased the number of broadband Internet services users. During 2008 the number of broadband Internet access users increased by 39.3 thousand. Out of total 298.1 thousand broadband connections, 248.6 thousand are copper DSL connections sold to retail customers, 23 thousand are wireless connections via the WiFi network, 24.3 thousand are fiber optic connections and 2.3 thousand DSL connections are the connections sold to wholesales customers.

Fiber to the home (FTTH) connections showed the most rapid growth. Over the year number of FTTH connections increased by 8.9 times to 14.7 thousand connections while Fiber to the building (FTTB) and then via local network connections increased by 1.6 times to 9.3 thousand.

The number of dial-up Internet access users continued to go down. During the year the number of dial-up service customers decreased from 5.1 thousand to 2.8 thousand.

Compared with the year 2007, revenue from Internet and data communication services for the year 2008 went up by 19.9 per cent.

In 2008, the Company sustained its share on the Internet service market. According to the Report of the CRA, the Company's market share of the total Internet providers' market in terms of revenue during the third quarter of 2008 amounted to 41.7 per cent, while its share of the broadband Internet access market was 48.2 per cent. On 30 September 2008 broadband Internet penetration per 100 residents of Lithuania was 16.9 per cent. In terms of revenue TEO had 53.7 per cent of the leased lines market and 61.9 per cent of the data communications market.

The digital terrestrial television service Digital GALA that was introduced to the customers in March 2008 is now available almost all over the country and offers 41 TV channel in Lithuanian, English, Russian and other languages.

In 2008, TEO Internet television (IPTV) service that was launched in October 2006 was named Interactive GALA and offered a number of new TV channels, special TV channels package for kids and new services such as My TV Records and Karaoke.

Revenue from television services for the year 2008, compared with the revenue a year ago, almost doubled as number of customers increased by 3.8 times.

According to the Company's estimations, TEO Group's market share of the total paid TV services market in Lithuania in terms of customers during the third quarter of 2008 amounted to 9 per cent.

During the year 2008 number of small and medium size customers using IT services provided by subsidiary Baltic Data Center increased by 275. Baltic Data Center continuously provided IT infrastructure services to DnB NORD finance group and constructed the first underground data center.

In 2008, revenue from IT services increased by 51.5 per cent over the revenue from IT services in 2007.

During the year 2008 the Company implemented a few special telecommunications projects by order of governmental institutions and increased its revenue from other services by LTL 1.3 million. Revenue from special projects during the year 2007 amounted to LTL 11.9 million.

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

At the end of 2008 revenue from the fines for termination of agreements was moved from financial income to revenue from other services. During the year 2008 such fines amounted to LTL 3.6 million.

Revenue from other services, excluding revenue from special projects and fines, for the year 2008 compared with the same revenue a year ago increased by 10.1 per cent.

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

Operating expenses

Total operating expenses of the Group during 2008 were by 7.8 per cent higher than total operating expenses a year ago.

Due to higher number of employees and higher salaries employee related expenses increased by 14.2 per cent. Networks' interconnection expenses were almost at the same level as a year ago – slight increase by 0.4 per cent. Other operating expenses increased by 7 per cent. In the group of other operating expenses, the biggest increase was in network maintenance and expenses related to IT as well as energy, premises and transportation expenses. Provisions for the bad debts also increased. In 2008, expenses for purchase of telecommunication equipment and services, marketing and other expenses were lower than in 2007.

Increase in operating expenses is related to development of new and more complex services such as IT and digital TV, growth of Internet and interconnect services, increase in employees' salaries, inflation and more expensive energy resources.

Earnings

In spite of higher investments in 2007-2008, depreciation and amortisation charges over the year remained almost at the same level (increased by 0.1 per cent) and during 2008 amounted to 20.2 per cent of total revenue (21 per cent a year ago). Accordingly, operating profit was by 1.7 per cent lower than a year ago and operating profit margin was 22.1 per cent (23.4 per cent a year ago).

At the end of 2008, fines for termination of agreements were moved from financial income to revenue from other services, therefore financial income for October-December 2008 was negative. Net financial income for the year 2008 was lower by 32 per cent than in the year 2007.

Profit before income tax for the twelve months of 2008 went down by 3.4 per cent and amounted to LTL 190 million (LTL 196 million a year ago).

Due to changed income (profit) tax rate from 15 to 20 per cent as of 1 January 2009, the Company had to recalculate deferred profit tax liabilities and increase income tax expenses by LTL 1.6 million.

Profit for the period amounted to LTL 160 million, a decrease by 1.8 per cent over LTL 163 million a year ago. Over the year, the profit margin slightly decreased and amounted to 19.4 per cent (20.5 per cent in 2007).

Balance sheet and cash flow

During January–December 2008 the total assets of TEO Group decreased by 2 per cent mainly due to payment of dividend for the year 2007.

Due to higher investment non-current tangible assets increased by 1.7 per cent and non-current intangible assets increased by 41 per cent due to acquisition of TV channels re-broadcasting licences (acquisition of Nacionalinė Skaitmeninė Televizija). During 2008 the total non-current assets increased by 3.8 per cent and amounted to 60.6 per cent of the total assets.

In May, following the resolution of the Annual General Meeting of Shareholders of 29 April 2008, dividend of total LTL 194 million or LTL 0.25 per share were paid to the shareholders of TEO. Current assets decreased by 9.5 per cent and amounted to 39.4 per cent of the total assets, whereof cash, held-to-maturity investments and loans to banks alone represented 27.2 per cent of the total assets.

Due to dividend payment, shareholders' equity decreased by 3.2 per cent but still amounted to 87.6 per cent of the total assets.

At the end of 2008 retained earnings of TEO Group amounted to LTL 260 million (LTL 294 million in 2007). 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 2008 retained earnings of TEO LT, AB amounted to LTL 183 million (LTL 197 million in 2007).

At the end of 2008, the total amount of borrowings included only financial liabilities related to financial leasing of premises and amounted to LTL 6.8 million. Net debt was negative and amounted to LTL 315 million. The net debt to equity ratio was negative and amounted to 30.4 per cent.

Net cash flow from operating activities during the year 2008 was by 7.5 per cent higher than net cash from operating activities a year ago.

Due to capital investments, acquisition of Nacionalinė Skaitmeninė Televizija (LTL 16 million) and payment of dividends for the year 2007 (LTL 194 million), cash and cash equivalents during 2008 decreased by LTL 79 million.

Investments

During 2008 capital investments amounted to LTL 180 million and this is more than it was planned. At the beginning of the year it was planned to spend LTL 150 million, then during the year investment plan was corrected upwards up to LTL 173 million.

In 2008, the majority of investments went into the network – LTL 127 million (or 70 per cent of all investments), LTL 25.4 million (14 per cent) into IT area, LTL 19.5 million (11 per cent) into upgrading of buildings and customer care centers, LTL 6.7 million (4 per cent) into transport and LTL 1.8 million (1 per cent) went to other investments.

During 2008 the Company continued development of its IP and transmission backbone networks, rapid expansion of fiber optic (FTTH) access network, installation of new digital terrestrial television (DVB-T) transmitters, launching of new TV channels and new interactive television functionalities.

Other material information

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

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

Recent events

During an Extraordinary General Meeting of Shareholders on 9 February 2009 Martynas Česnavičius was elected as a new Board member for the current term of the Board.

Research and development activities

In 2008, TEO together with its partners successfully completed research and development project for Creation of prototype of IPTV interactive services and content management and provision system. Project's implementation was partially financed from European Union Structural Fund. This project was started in May 2006.

Also since December 2006 TEO together with the partners from Estonian Elion, Kaunas Technology University and UAB VRS Group was participating in the EU financed FP6 program project for Creation of automated digital cross media content production, aggregation and distribution through multimedia system. The project was completed in September 2008.

Risk management

The main risk factors associated with the activities of TEO LT, AB 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.
- Fluctuation of currencies' exchange rates.
- 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 2008 total amount of borrowings of TEO Group amounted to LTL 6.8 million.

The Group's and the Company's activities expose it to financial risks: foreign exchange risk, credit risk, liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

Financial risk management is carried out by a central treasury unit (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, interest rate and credit risk, and investing excess liquidity.

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. Therefore the foreign exchange risk is considered immaterial with respect to Group's operations. The Group manages foreign exchange risk by minimising the net exposure to open currency position. 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.

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 consist 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.

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.

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 2008 and 31 December 2007, all Group companies, except UAB Kompetencijos Ugdymo Centras" which is currently under reorganisation, 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 2008 and 2007.

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.

Plans and forecasts

In 2009, TEO will focus on development of the fiber-optic network and improvement of the quality of services. It is planned to actively increase the number of digital terrestrial television service users. Taking into account the impact that the market and economic situation will have on Group revenues and the fact that the telecommunications sector becomes increasingly regulated, the Company will continue a complex reduction of operating expenses.

In 2009 capital investments should amount up to LTL 112 million and will be oriented towards extension of the backbone network capacities, rapid development of fibre-optic access network, improvement of quality of services and further development of digital TV services.

III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS

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.

Shares of TEO LT, AB are listed on the Main List of NASDAQ OMX Vilnius stock exchange (previously named Vilnius Stock Exchange) (code: TEO1L).

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

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

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

As on 31 December 2008, the total number of TEO LT, AB shareholders was 15,721. The number of shareholders on the day of the last General Meeting of Shareholders, which was held on 9 February 2009, was 15,802.

Shareholders of TEO LT, AB as on 31 December 2008:

Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder	Share of the share capital (%)	Share of votes given by the shares owned by the right of ownership (%)	Share of votes held together with persons acting in concert (%)
Amber Teleholding A/S (a), c/o „TeliaSonera Danmark A/S", Holmbladsgade 139, DK-2300 Copenhagen S, Denmark, code 20758694	488,947,656	60.00	62.94	--
TEO LT, AB, Savanorių pr. 28, LT-03501 Vilnius, Lithuania, code 121215434 (Treasury stocks)	38,095,242 (b)	4.67	--	--
Republic of Lithuania, represented by State Enterprise State Property Fund, Vilniaus g. 16, LT-01507, Vilnius, Lithuania, code 110073154	9,888,363	1.21	1.27	--
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	277,618,869	34.08	35.74	--
TOTAL:	814,912,760	100.00	100.00	--

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

On 12 June 2000, during the Initial Public Offering UAB Lintkom, then a 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 2008, 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.

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 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.

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.

In 2008 trading in TEO shares was strongly influenced by the negative trends on global equity markets. During the year TEO share price on NASDAQ OMX Vilnius stock exchange dipped by 51.3 per cent: at the beginning of 2008 the price of one share of the Company was 2.38 Litas and at the end – 1.16 Litas. The lowest share price during the year was 1.13 Litas and the highest – 2.39 Litas. Shares' turnover on Vilnius stock exchange in 2008, compared to the year 2007, decreased by 29.9 per cent and amounted to 138.6 million shares. In terms of value, turnover during 2008 was by 48.1 per cent lower than during 2007 and amounted to LTL 261.2 million. At the end of 2008 TEO market capitalisation amounted to LTL 945 million (LTL 1,931 million in 2007).

Trading in TEO Global Depository Receipts on London Stock Exchange decreased significantly as during 2008 number of outstanding GDRs as a percentage of total share capital of the Company went down from 6.8 to 3.88 per cent. GDRs were converted into ordinary shares and traded on NASDAQ OMX Vilnius stock exchange. At the beginning of 2008 the price of one TEO GDR was 10.15 US dollar and at the end – 4,67 US dollar. The lowest GDR price during 2008 was 4.41 US dollar and the highest – 10.48 US dollar. Turnover of Global Depository Receipts amounted to 337 thousand GDRs (2.6 million GDRs in 2007) or USD 3 million (13 million British pounds in 2007).

In 2008, the Company paid out to the shareholders LTL 194,204 thousand of dividends or 0.25 Litas per share for the year 2007. Following the Law dividends were paid to the shareholders who on the dividend record day, 29 April 2008, i.e. the day of the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. On 28 May 2008 dividends to all share and GDR holders were paid in cash.

IV. PERSONNEL

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

	2008	2007
Number of personnel (head-counts)	3,332	3,177
Number of full time employees	2,981	2,907

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

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

Name of the company	31 December 2008	31 December 2007	Change
TEO LT, AB	2,183	2,274	(91)
UAB Lintel	934	738	196
UAB Baltic Data Center	186	136	50
UAB Kompetencijos Ugdymo Centras	22	22	-
VšĮ TEO Sportas	7	7	-
	3,332	3,177	155

Information about employees of TEO LT, AB as of 31 December 2008:

Group of employees	Number of employees	Education				Average monthly salary (in litas)
		University	College	High school	Not completed high school	
Leading Managers	11	11	–	–	–	30,727
Operation Level Managers	266	218	31	17	–	5,272
Leading Specialist	75	64	7	4	–	4,055
Specialists	1,738	821	413	498	6	2,519
Technicians	93	47	24	22	–	1,968
	2,183	1,161	475	541	6	

From 25 April 2007 a new 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.

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.

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 decisions of the General Meeting made regarding the matters of competence of 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 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 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.

The Board Activities

Current TEO Board for the two years term was elected during the Annual General Meeting of Shareholders in 2007. All seven members are non-executive directors. Five members of the Board represent TeliaSonera Group and two members of the Board – Matti Hyyrynen and Gert Tiivas who represent minority interest – are regarded as independent members of the Board.

Gert Tiivas resigned from the Board as of 28 April 2008 but Annual General Meeting of Shareholders held on 29 April 2008 did not elect a new Board member as no candidates for elections to the Board member position were received.

A new Board member, Justas Pipinis, proposed by Amber Teleholding A/S, was elected for the current term of the Board on 15 July 2008 during Extraordinary General Meeting of Shareholders. Justas Pipinis (born in 1973) was Managing Director of East Capital Holding AB (Sweden) and East Capital International AB (Sweden), and member of the Board of a number of companies related to East Capital Group. He had no direct interest in the share capital of TEO LT, AB, while East Capital owned shares of TEO LT, AB which amounted to less than 4 per cent of the Company's share capital and votes. Following The Governance Code for the Companies Listed on the NASDAQ OMX Vilnius stock exchange Justas Pipinis was regarded as independent and non-executive member of the Board.

On 23 July 2008 the Board of TEO LT, AB decided due to termination of the term of the Remuneration Committee of the Board, to re-elect Jörgen Latte, Anders Gylder and Björn Lyndegren to the Remuneration Committee of the Board for a new one year term of the committee, also to elect Justas Pipinis to the Audit Committee of the Board for the current two-year term of the committee. Matti Hyyrynen (chairman) and Joakim Sundström are member of the current term Audit Committee.

As of 4 December 2008 Justas Pipinis resigned from the Board of the Company and Extraordinary General Meeting of Shareholders held on 9 February 2009 elected Martynas Česnavičius, proposed by Amber Teleholding A/S, to the Board for the remaining term of the Board. Martynas Česnavičius (born in 1972) is Advisor to Luxemburg domiciled Investment Fund Amber Trust I and Amber Trust II as well as member of the Board of a number of Lithuanian companies. He has no direct interest in the share capital of TEO LT, AB. UAB Profinance, a company where Martynas Česnavičius has a 50 per cent stake, owns 45,000 shares of TEO LT, AB which amounts to 0.0055 per cent of the Company's share capital and 0.0058 per cent of votes. Following provisions of The Governance Code for the Companies Listed on the NASDAQ OMX Vilnius stock exchange Martynas Česnavičius is regarded as independent and non-executive member of the Board. On 9 February 2009 he was elected to the Audit Committee of the Board for the remaining term of the committee.

During 2008 eight meetings of the Board were held: all of them were convened according to preliminary approved schedule of the Board meetings. During all Board meetings in 2008 there was quorum prescribed by legal acts. The Board has approved annual and interim financial statements of the Company, convoked the Annual and two Extraordinary General Meetings of Shareholders, proposed profit allocation for the year 2007, approved reorganization of the Company by merging subsidiary Nacionalinė Skaitmeninė Televizija into TEO LT, AB, approved business plan for the year 2009 and followed up implementation of business plan for the year 2008, approved acquisition of UAB Verslo Investicijos and disposal of UAB Voicecom by TEO, approved and revised investment plan of the Company.

In 2008, Remuneration Committee was re-elected by the Board for a new one year term of the committee. During 2008 there were no meetings of Remuneration Committee held as there were no change in Remuneration policy of the Company and no appointments that should be approved by Remuneration Committee.

In 2008, four Audit Committee meetings for review and discussion of financial results of the Company, continuous follow up on risk development and internal control, approval and follow up of internal audit and investment plans were held. All the Audit Committee's meetings, except one when one member was missing, were attended by all members of the Committee. Chairman of the meetings and the Committee was independent non-executive member of the Board.

Members of the Board as of 31 December 2008

Jörgen Latte (born in 1954) – Chairman of the Board of TEO LT, AB, as a member of the Board of TEO LT, AB elected for the two-year term on 26 April 2007 (nominated by Amber Teleholding A/S), Chairman of the Remuneration Committee of the Board of TEO LT, AB. Education: University of Stockholm, Bachelor of Business Administration. Employment: CFO of TeliaSonera AB Business Area Broadband Services (Sweden). Current Board assignments: Eesti Telekom AS (Estonia), member of the Supervisory Board; Elion Ettevõtted AS (Estonia), Chairman of the Supervisory Board; TeliaSonera Sverige Net Fastigheter AB (Sweden), Chairman of the Board; Telia Lithuania AB (Sweden), Chairman of the Board; Amber Teleholding A/S (Denmark), Chairman of the Board; Tilts Communications A/S (Denmark), Chairman of the Board; Telia Pensionfund (Sweden), member of the Board; TeliaSonera International Carrier AB (Sweden), member of the Board; TeliaSonera Försäkring AB (Sweden), member of the Board; TeliaSonera Skanova Access AB (Sweden), member of the Board; NextGenTel Holding ASA (Norway), member of the Board; Avnos AB (Sweden), deputy member of the Board. TeliaSonera AB (Sweden), through its subsidiary Amber Teleholding A/S (Denmark), which nominated Jörgen Latte to the Board of TEO LT, AB, has 488,947,656 shares of TEO LT, AB that accounts to 60 per cent of the share capital and gives 62.94 per cent of votes. Jörgen Latte 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, elected for the two-year term on 26 April 2007 (nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board of TEO LT, AB. Education: Linköping Institute of Technology, Master of Science in Engineering. Employment: TeliaSonera AB Business Area Broadband Services (Sweden), Executive Vice President. Current Board assignments: Lattelecom SIA (Latvia), Deputy Chairman of the Supervisory Council, member of Remuneration Committee, and Business Planning and Finance Committee; Amber Teleholding A/S (Denmark), member of the Board; Tilts Communications A/S (Denmark), member of the Board. TeliaSonera AB (Sweden), through its subsidiary Amber Teleholding A/S (Denmark), which nominated Anders Gylder to the Board of TEO LT, AB, has 488,947,656 shares of TEO LT, AB that accounts to 60 per cent of the share capital and gives 62.94 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, elected for the two-year term on 26 April 2007 (nominated by Amber Teleholding A/S). Education: University of Uppsala, Master of Business Administration, International Business; Royal Institute of Technology (KTH), Stockholm, Master of Science, Engineering Physics. Employment: TeliaSonera AB Business Area Broadband Services (Sweden), Head of Product and Production. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Board; Telia Stofa A/S (Denmark), member of the Board; NextGenTel Holding ASA (Norway), member of the Board. TeliaSonera AB (Sweden), through its subsidiary Amber Teleholding A/S (Denmark), which nominated Ove Alm to the Board of TEO LT, AB, has 488,947,656 shares of TEO LT, AB that accounts to 60 per cent of the share capital and gives 62.94 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.

Joakim Sundström (born in 1959) – a member of the Board of TEO LT, AB, elected for the two-year term on 26 April 2007 (nominated by Amber Teleholding A/S), member of the Audit Committee of the Board of TEO LT, AB. Education: Stockholm University, Bachelor of Business Administration. Employment: TeliaSonera AB Business Area Broadband Services (Sweden), Vice President of Business Control. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Board, 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. TeliaSonera AB (Sweden), through its subsidiary Amber Teleholding A/S (Denmark), which nominated Joakim Sundström to the Board of TEO LT, AB, has 488,947,656 shares of TEO LT, AB that accounts to 60 per cent of the share capital and gives 62.94 per cent of votes. Joakim Sundström 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.

Björn Lindegren (born in 1949) – a member of the Board of TEO LT, AB, elected for the two-year term on 26 April 2007 (nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board of TEO LT, AB. Education: Bachelor of Law, Degree in Maritime Law. Employment: TeliaSonera AB Business Area Broadband Services (Sweden), Senior Legal Advisor. Current Board assignments: Telia Electronic Commerce AB (Sweden), member of the Board; Konsumenternas tele-och Internetbyrå AB (Sweden), member of the Board; Amber Teleholding A/S (Denmark), member of the Board and Managing Director. TeliaSonera AB (Sweden), through its subsidiary Amber Teleholding A/S (Denmark), which nominated Björn Lindegren to the Board of TEO LT, AB, has 488,947,656 shares of TEO LT, AB that accounts to 60 per cent of the share capital and gives 62.94 per cent of votes. Björn Lindegren 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.

Matti Hyyrynen (born in 1954) – a member of the Board of the Company since 26 April 2002 (re-elected for the two-year term on 26 April 2007; nominated by East Capital through Amber Teleholding A/S), Chairman of the Audit Committee of the Board of TEO LT, AB. Education: Helsinki University, Master's Degree in Mathematics. Employment: European Bank for Reconstruction and Development, Head of the Vilnius Representative Office and responsible for the bank's business in the three Baltic countries. Current Board assignments: AB Siauliu Bankas (Lithuania), member of the Supervisory Council; AS Estonian Cell (Estonia), member of the Supervisory Council; AS Tallinna Vesi (Estonia), member of the Supervisory Council. As of 31 December 2008 East Capital (Sweden), a company that nominated Matti Hyyrynen to the Board of TEO LT, AB, held 22,169,902 shares that accounts to 2.7 per cent of the share capital and gives 2.85 per cent of votes. Matti Hyyrynen has no direct interest in the share capital of TEO LT, AB. He does not have interest in the share capital of Lithuanian companies.

Martynas Česnavičius (born in 1972) – Member of the Board of the Company since 9 February 2009, (nominated by Amber Teleholding A/S), member of the Audit Committee of the Board of TEO LT, AB. Education: Vilnius University, Diploma in Banking and Finance. Employment: Investment funds Amber Trust I and Amber Trust II (Luxemburg), Advisors. 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 Chemija, member of the Board; UAB Meditus, member of the Board; UAB Sidabra, member of the Board. Amber Teleholding A/S (Denmark), which nominated Martynas Česnavičius to the Board of TEO LT, AB, has 488,947,656 shares of TEO LT, AB that accounts to 60 per cent of the share capital and gives 62.94 per cent of votes. UAB Profinance, a company where Martynas Česnavičius 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 31 per cent stake in UAB Atradimų Studija. Martynas Česnavičius has no direct interest in the share capital of TEO LT, AB.

Members of the Company's Administration as of 31 December 2008

Arūnas Šikšta (born in 1968) from 2 January 2004 took the office of General Manager (CEO) of the Company. Education: Klaipėda University, Natural Science Faculty, Degree in Management (1995). From 2007 he studies at Vienna University of Economics and Business Administration, PMBA. Current Board assignments: AAS Gjensidige Baltic, a subsidiary of Norwegian non-life insurance company Gjensidige Forsikring BA, Deputy Chairman of the Board; International Business School at Vilnius University, member of the Council; 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 Gudačiauskas (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, 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. Darius Gudačiauskas has 13,719 shares of TEO LT, AB that accounts for 0.0017 per cent of the share capital and gives 0.0018 per cent of votes. 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, Bachelor of Econometrics (1993); International Management School, Budapest, Hungary, Candidate Master of Business Administration (1995); Emory University, Atlanda, 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 Didžgalvis (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, 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. Darius Didžgalvis has 4,669 shares of TEO LT, AB that accounts for 0.0005 per cent of the share capital and gives 0.0006 per cent of votes. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Jan-Erik Elsérius (born in 1943) from 1 March 2004 holds an office of Chief Financial Officer and Deputy General Manager, and also he is a Head of Treasury and Investor Relations Unit of the Company. Education: Uppsala University, BA in Management, Managerial Economy, Political Economy and Statistics (1967). Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; Swedish Chamber of Commerce in Lithuania, member of the Board. Jan-Erik Elsérius has 90,000 shares of TEO LT, AB that accounts for 0.011 per cent of the share capital and 0.0116 per cent of votes. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Information about the remunerations, tantiemes and other payments from the profit by the Company to the members of managing bodies during 2008:

	Remuneration during 2008 (in Litas)	Annual bonus for 2007 paid in 2008 (in Litas)	Tantiemes for 2007 paid in 2008 (in Litas)	Dividends for 2007 paid in 2008 (in Litas)	Total payoff during 2008 (in Litas)
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 Administration (b)	557,613	349,820	–	5,419	912,852
Total amount for all members of the Administration (b)	2,788,065	1,749,100	–	27,097	4,564,262

NOTES: (a) The Board consist of seven members. Annual compensation (tantiemes) to the members of the Board for 2007 were paid for those who were the members of the Board on 31 December 2007; (b) Members of the Company's Administration are General Manager, Chief Sales Officer and Deputy General Manager, Chief Marketing Officer and Deputy General Manager, Chief Technology Officer and Deputy General Manager, and Chief Financial Officer and Deputy General Manager.

In 2008, 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 administration of the Company for being members of their managing bodies.

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 and2 2008, and the related statements of income, cash flows and changes in shareholders' equity 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).

In 2008, UAB PricewaterhouseCoopers has organized training for some employees of the Company's Finance Division on changes in International Financial Reporting Standards. UAB PricewaterhouseCoopers as independent external audit company was approved by Lithuanian Securities Commission for auditing of TEO LT, AB financial statements for the year 2008.

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. According to the Articles of Association 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 the TEO. The Board of TEO consists of seven members that are elected for the period of two years and represents the shareholders. 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 are considered non-executive directors, whereby two out of seven members represent minority shareholders. In July the Board re-elected members of Remuneration Committees. All members of Audit Committee have financial background and 2 out of 3 Committee members represent minority shareholders.

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.

The By-Laws of TEO LT, AB provides 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 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 2008, following the By-Laws of the Company announcements to the shareholders about convocation of the Annual and two Extraordinary General Meetings of Shareholders, dividend payment and conditions of AB Nacionalinė Skaitmeninė Televizija and TEO LT, AB reorganisation by merging AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB were announced in daily Lietuvos Rytas. These obligatory announcements to the shareholders and all the rest announcements about stock release of TEO LT, AB were submitted to 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 2008 were related to the process of reorganisation of AB Nacionalinė Skaitmeninė Televizija and TEO LT, AB by merging of AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB (convocation of two Extraordinary General Meeting of Shareholders, Board's approvals of reorganisation conditions, completion of reorganisation). Also TEO informed about decisions of the Annual and Extraordinary General Meetings, election of an audit company, acquisition of UAB Nacionalinė Skaitmeninė Televizija and UAB Verslo Investicijos, disposal of UAB Voicecom shares, changing legal status of the Nacionalinė Skaitmeninė Televizija from closed limited liabilities (UAB) to public limited liabilities (AB) company, resignations of the Board members and election of a new one, disposal of the holdings in the Company by to the Company related shareholder (East Capital), acquisition of the Company's shares by a person related to one of the TEO managers and changes in subsidiaries' management, launching of a new digital terrestrial television service and reduction of national network's interconnection fees.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Jan-Erik Elsérius, Chief Financial Officer and Deputy General Manager of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Consolidated Annual Report for the year 2008 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

Jan-Erik Elsérius
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 2008

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 20.5 of the Trading Rules of the NASDAQ OMX Vilnius stock exchange, discloses its compliance with the Governance Code, approved by the stock exchange 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 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 oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' 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 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 including resigned and elected ones were 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, Board members are elected for a two-year term, not limiting number of the terms. Thus one member of the Board has been working in the Board since 2002, the other one until his resignation in April 2008 – since 2006, and the rest five – since April 2007. A new Board member was elected in July 2008 but resigned in December 2008. The By-Laws of the Company does not provide 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	Chairman of the Board represents 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 collegial body.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.		
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 could get acquainted with the detailed information about the nominees. In the Company, there exists the practice that minority shareholders through the majority shareholder may nominate candidates to the collegial body. As a result the current Board contains two out of seven members of the Board that were nominated by the minority shareholder. Annual compensations (tantiems) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last seven 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 member 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 interim Company's report 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 Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence. In periodic and annual reports for each preceding year of the Company information about the composition of the Board is presented.

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 four members of the Board having business administration or financial education and working in finance area, two members are Masters of Science in Engineering working in telecommunication area and one Bachelor of Law and working as a General Counsel. All three members of the Audit Committee including resigned and elected ones have financial background and work in finance area and one of them works as Business Controller.
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 including resigned and elected ones, 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;	Yes	According to the recommendations, at present there are two members of the Board including resigned and elected ones 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 interest of the majority shareholder. TEO Board work regulations do not provide criteria for Board members' independence, but when electing the Board, the unformalized independence criteria are taken into account.

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 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	In the Consolidated Annual Report for the year 2008 the Company public announced 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, and in the Consolidated Annual Report for the year 2008 the Company public announced that two members of the Board are regarded as independent members of the Board.
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 seven 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 shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all 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 of 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 2008 there was 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 fulfillment of their functions (for instance, the Board member 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 members of the Board having financial education and two of them including resigned and elected ones are independent members of the Board. 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 administration 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 if 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 including resigned and elected ones are non-executive directors and two of them are independent ones. Three non-executives director work in 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 periodic Company's reports and on the webpage of the Company. In 2008, no meetings of Remuneration Committee were held as there were no change in Remuneration policy of the Company and no appointments that should be approved by Remuneration Committee. In July 2008, the Board re-elected the same members of Remuneration Committee as one year term of the Committee came to an end. Following the Remuneration Committee work regulation, secretary of the meetings is Director of Human Resources Unit of the Company. In 2008, four Audit Committees' meetings were held. All the Audit Committee's meetings, except one when one member was missing, were attended by all members of the Committee. Chairman of the meetings and the Committee was independent non-executive member of the Board. Following the Audit Committee work regulation, 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;	Yes	The Remuneration Committee makes 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 presents 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) 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.		
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;	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.

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. 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 2008.

Principle V: The working procedure of the company's collegial bodies 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 bodies.		
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 work regulation, 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 fulfill 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 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 2008 was convened on 29 April 2008 at 1 p.m. In 2008, two Extraordinary General Meetings – one on 15 July 2008 and another on 25 November 2008, both at 1 p.m. – were convened to adopt decisions regarding the merger of subsidiary into parent company and election of a missing Board member in July. 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 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 18 April 2008 draft decisions proposed by the Board to the AGM were publicly announced and draft documents were placed on the webpage of the Company. Draft decisions and draft documents for the Extraordinary General Meetings were publicly announced and placed on the webpage on 4 July 2008 and 29 October 2008. Accordingly, documents approved by the shareholders after the AGM (financial statements, Annual Report) and after EGM (conditions of reorganization and new By-Laws) 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	

Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both 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 top managers 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 top managers 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;	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 each member of the administration of the Company during the reporting period. Information about the Board and the administration is provided separately. Also the Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the administration of the Company as well as whether subsidiaries paid salaries or other payouts to the members of the Board or the administration 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.

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 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 financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, 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 Social Responsibility which discussed principles and practices in relation to the cooperation with investors, employees, clients 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, 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 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 administration of the Company during the reporting period. Information about the Board and the administration is provided separately. Also, the Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the administration of the Company as well as whether subsidiaries paid salaries or other payouts to the members of the Board or the administration of the Company for being members of their managing bodies. The Company's 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.

Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion 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 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 shall be annually presented to the Lithuanian Securities Commission for approval of the audit firm's candidacy together with the audit firm's confirmations that non-audit services provided will not affect auditors' independence. In 2008, the Company's audit firm has organized training for some 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.