

TEO LT, AB

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

29-01-2008 No. 02-49

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Jan-Erik Elsėrius, Chief Financial Officer and Deputy General Manager of TEO LT, AB, hereby confirm that, to the best of our knowledge, the attached not audited TEO LT, AB Interim Consolidated Financial Statements of for the twelve months of 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of TEO LT, AB and the Group of undertakings.

ENCLOSURE: TEO LT, AB Interim Consolidated Financial Statements of for the twelve months of 2007 (17 pages)

General Manager

A handwritten signature in blue ink, appearing to be 'AŠ', enclosed within a blue outline of a signature.

Arūnas Šikšta

Chief Financial Officer and
Deputy General Manager

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

Jan-Erik Elsėrius

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TEO LT, AB

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS OF 2007

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

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

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

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

TEO Group financial statements for the twelve months of 2007 are preliminary and not audited. TEO Group financial statements for the year ended 31 December 2006 have been audited by the external auditors.

CONSOLIDATED BALANCE SHEET OF TEO GROUP (LTL thousand)

ASSETS	2007-12-31	2006-12-31
Non-current assets		
Property, plant and equipment	666,886	644,164
Intangible assets	29,643	33,538
Non-current receivables	3,165	4,951
	699,694	682,653
Current assets		
Inventories	4,943	8,154
Receivables, prepayments and accrued revenue	112,768	248,719
Current income tax receivable	5,749	723
Held-to-maturity investments	116,726	40,419
Trading investments	34,561	34,287
Cash and cash equivalents	229,350	232,581
Assets held for sale	1,851	1,515
	505,948	566,398
TOTAL ASSETS	1,205,642	1,249,051

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

EQUITY	2007-12-31	2006-12-31
Shareholders' equity		
Share capital	814,913	814,913
Treasury shares	(120,000)	(120,000)
Legal reserve	81,499	81,499
Translation differences	--	(1)
Retained earnings	294,167	333,301
	1,070,579	1,109,712
Minority interest	--	--
Total equity	1,070,579	1,109,712
LIABILITIES		
Non-current liabilities		
Borrowings	6,809	7,764
Deferred tax liabilities	9,530	17,481
Grants	2,768	4,727
Deferred revenue	1,900	2,634
	21,007	32,606
Current liabilities		
Trade, other payables and accrued liabilities	112,047	94,690
Current income tax liabilities	104	11,140
Borrowings	805	818
Provisions	1,100	--
Liabilities related to assets held for sale	--	85
	114,056	106,733
Total liabilities	135,063	139,339
TOTAL EQUITY AND LIABILITIES	1,205,642	1,249,051

CONSOLIDATED INCOME STATEMENT OF TEO GROUP (LTL thousand)

	October – December 2007	October – December 2006	January – December 2007	January – December 2006
Revenue	211,120	188,212	793,450	734,811
Other income	1,559	1,637	4,057	4,367
Employee related expenses	(46,464)	(36,747)	(160,564)	(127,208)
Interconnection expenses	(31,216)	(27,378)	(119,460)	(105,329)
Other operating expenses	(48,755)	(46,178)	(171,637)	(158,951)
Depreciation, amortisation and impairment charge	(41,219)	(42,830)	(166,696)	(193,500)
Other gain (loss), net	538	(157)	6,318	4,271
Operating profit	45,563	36,559	185,468	158,461
Finance income	2,862	1,772	11,463	5,038
Finance costs	(170)	(202)	(784)	(1,448)
Finance income (costs), net	2,692	1,570	10,679	3,590
Share of result of associates	--	--	--	41
Profit before income tax	48,255	38,129	196,147	162,092
Income tax	(7,952)	(6,381)	(33,317)	(30,291)
Profit for the period from continuing operations	40,303	31,748	162,830	131,801
Discontinued operations:				
Profit (loss) for the period from discontinued operations	--	(504)	--	(1,252)
Profit for the period	40,303	31,244	162,830	130,549
Attributable to:				
Equity holders of the Company	40,303	31,244	162,830	130,421
Minority interest	--	--	--	128
	40,303	31,244	162,830	130,549
Earnings per share for profit attributable to the equity holders of the Company (in litas)	0.052	0.040	0.210	0.168

CONSOLIDATED CASH FLOW STATEMENT OF TEO GROUP (LTL thousand)

	January – December 2007	January – December 2006
Operating activities		
Profit for the period from continuing operations	162,830	131,801
Adjustments for:		
Income tax	33,317	30,291
Depreciation, amortisation and impairment charge	166,696	193,500
Share of result of associates	--	(41)
Elimination of gain and losses	(5,383)	(4,271)
Interest income	(15,441)	(8,777)
Interest expenses	328	583
Other non-cash transactions	113	59
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):		
Inventories	3,211	(4,418)
Trade and other accounts receivable	(11,811)	(10,843)
Trade and other accounts payable and deferred revenue	7,621	3,085
Cash generated from operations	341,481	330,969
Interest paid	(352)	(576)
Interest received	12,725	5,845
Income tax paid	(57,330)	(41,393)
Net cash from operating activities	296,524	294,845

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

Investing activities	January – December 2007	January – December 2006
Purchase of property, plant and equipment (PPE) and intangible assets	(184,865)	(97,925)
Proceeds from disposal of PPE, intangible assets, assets held for sale	11,974	81,489
Acquisition/disposal of held-to-maturity investments, net	(73,040)	82,116
Acquisition of subsidiaries	--	(5,062)
Disposal of subsidiaries	1,714	12,420
Dividends received	--	47
Loans granted	(2,597)	(150,000)
Loans repaid	150,000	--
Net cash from investing activities	(96,814)	(76,915)
Financing activities		
Repayment of borrowings	(968)	(10,659)
Dividends paid to the shareholders of the Company	(201,973)	(124,291)
Net cash from financing activities	(202,941)	(134,950)
Increase (decrease) in cash and cash equivalents	(3,231)	82,980
Movement in cash and cash equivalents		
At start of the period	232,581	149,601
Increase (decrease) during the period	(3,231)	82,980
At end of the period	229,350	232,581

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

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share Capital	Treasury Shares	Legal reserves	Translation differences	Retained earnings		
Balance at 1 January 2006	814,913	(120,000)	81,499	(21)	327,171	2,329	1,105,891
Dividends paid for the year 2005	--	--	--	--	(124,291)	--	(124,291)
Net profit	--	--	--	--	130,421	128	130,549
Currency translation differences	--	--	--	20	--	--	20
Acquisition of minority interest	--	--	--	--	--	(2,457)	(2,457)
Balance at 31 December 2006	814,913	(120,000)	81,499	(1)	333,301	--	1,109,712
Balance at 1 January 2007	814,913	(120,000)	81,499	(1)	333,301	--	1,109,712
Dividends paid for the year 2006	--	--	--	--	(201,973)	--	(201,973)
Net profit	--	--	--	--	162,830	--	162,830
Currency translation differences	--	--	--	1	9	--	10
Balance at 31 December 2007	814,913	(120,000)	81,499	--	294,167	--	1,070,579

EXPLANATORY LETTER

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

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

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

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

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

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

As on 31 December 2007, 55,390,530 ordinary shares of the Company (6.80% of the total share capital) were represented by 5,539,053 GDRs.

As on 31 December 2007, the total number of TEO LT, AB shareholders was 14,117. The number of shareholders on the day of the last Annual General Meeting of Shareholders, which was held on 26 April 2007, was 12,827.

Shareholders of TEO LT, AB as on 31 December 2007:

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	--	--
East Capital Asset Management AB, Box 1364, SE-111 93 Stockholm, Sweden, code 556564-5370	42,007,382 (c)	4.00	4.20	--
State of Lithuania (d)	12 805 485 (d)	1.57	1.65	--
Other shareholders	242 503 337	29.76	31.21	--
Total:	814 912 760	100.00	100.00	--

NOTE: (a) Amber Teleholding A/S is a fully owned subsidiary of Swedish TeliaSonera AB.
(b) 12,698,412 ordinary registered shares and 2,539,683 Global Depository Receipts.
(c) 18,601,390 ordinary registered shares and 1,398,965 Global Depository Receipts.
(d) The State Property Fund (12,442,855 shares) and the State Tax Authorities (362,630 shares).

TEO together with its related legal entities is designated as an operator with significant market power (SMP) in Lithuania on the following markets of:

- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- publicly available local and/or national telephone services provided at a fixed location for residential customers;
- publicly available international telephone services provided at a fixed location for residential customers;
- publicly available local and/or national telephone services provided at a fixed location for non-residential customers;
- publicly available international telephone services provided at a fixed location for non-residential customers;
- minimum set of leased lines;
- calls origination on public telephone network provided at a fixed location;
- calls termination on public telephone network provided at a fixed location;
- national transit in fixed public telephone network;
- international transit in fixed public telephone network;
- wholesale broadband access;

- wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services;
- wholesale terminating segments and trunk segments of leased lines.

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

As on 31 December 2007, TEO Group consisted of the parent company, TEO LT, AB, (Savanorių ave. 28, LT-03501 Vilnius, www.teo.lt) and its daughter companies:

Name of the company	Activities of the company	Legal address	TEO part in the share capital of the company (%)	Part of TEO votes (%)
UAB Lintel	Directory inquiry service 118, Call Center services	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, www.lintel.lt	100	100
UAB Baltic Data Center	IT infrastructure services	Žirmūnų str. 141, LT-09128 Vilnius, www.bdc.lt	100	100
UAB Kompetencijos Ugdymo Centras	Training and consultancy	Palangos str. 4, LT-01117 Vilnius, www.kuc.lt	100	100
UAB Voicecom	NMT-450 network	Savanorių ave. 28, LT-03501 Vilnius	100	100
VšĮ TEO Sportas	Women's basketball team	Savanorių ave. 28, LT-03116 Vilnius, www.teobasket.lt	--(a)	100

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

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.

On 3 January 2008, TEO acquired 100 per cent stake in UAB Nacionaline Skaitmenine Televizija, which has two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks.

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

UAB Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. It handles around 16 million contacts per year. Lintel also provides Directory Inquiry Service 118, telemarketing and customer care services. Till September 2007 UAB Lintel held 4.67 per cent of treasury stocks of the Company.

UAB Baltic Data Center is one of the most rapidly growing providers of IT services for enterprise customers in Lithuania. Services provided by UAB Baltic Data Center comprise a complex enterprise systems maintenance package that implies Server, Data Base and data streams as well as IT Service Desk services. UAB Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA, which is a dormant company.

UAB Voicecom has the permission to use the national network of mobile analogue cellular radio communication of the NMT-450 standard. Permission was valid until 31 October 2007 but in 2007 it was prolonged until 31 October 2008.

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

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

TEO Group accounting

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

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

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

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

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

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

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

Key figures of TEO Group

Financial figures	January – December 2007	January – December 2006	Change (%)
Revenue (LTL thousand)	793,450	734,811	8.0
EBITDA (LTL thousand)	352,164	351,961	0.1
EBITDA margin (%)	44.4	47.9	
Operating profit (LTL thousand)	185,468	158,461	17.0
Operating profit margin (%)	23.4	21.6	
Profit before income tax (LTL thousand)	196,147	162,092	21.0
Profit for the period (LTL thousand)	162,830	130,549	24.7
Profit for the period margin (%)	20.5	17.8	
Earnings per share (LTL)	0.210	0.168	25.0
Number of shares excluding treasury stocks (thousand)	776,818	776,818	--
Cash flow from operating activities (LTL thousand)	341,481	330,969	3.2
Cash used for capital investments (LTL thousand)	184,865	97,925	88.8
Financial ratios	2007-12-31	2006-12-31	
Return on capital employed (a) (%)	18.4	14.4	
Return on average assets (a) (%)	15.7	12.6	
Return on shareholders' equity (a) (%)	15.3	11.8	
Gearing ratio (%)	-34.8	-26.9	
Debt to equity ratio (%)	0.7	0.8	
Current ratio (%)	443.6	530.7	
Rate of turnover of assets (a) (%)	67.0	58.6	
Equity to assets ratio (%)	88.8	88.8	

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

The total consolidated TEO Group's revenue for the twelve months of 2007 was LTL 793 million, an increase by 8 per cent over the total revenue of LTL 735 million for the twelve months of 2006. Total revenue excluding Comliet construction activities that contributed LTL 1.7 million during the year 2006 grew by 8.2 per cent over the year. The total revenue for October – December of 2007 was LTL 211 million, an increase by 12.2 per cent over the total revenue of LTL 188 million for October – December of 2006.

In 2007 revenue of TEO Group increased due to rapid development of new business areas such as IT and TV services, continuous growth of revenue from Internet and data communication services driven by continuous growth of the number of customers, increase in revenue from non-telecommunications activities generated by subsidiaries, and after a number of years not only stabilised but also growing revenue from voice telephony services.

During the twelve months of 2007 share of revenue from traditional voice telephony services from total amount of revenue continued to shrink and amounted to 66.6 per cent of total revenue, while share of Internet and data communications revenue continued to grow and amounted to 27 per cent. Revenue from IT services amounted to 1.8 per cent, television services – 1.1 per cent and other services – 3.6 per cent of total revenue for January – December of 2007.

Breakdown of TEO Group revenue (LTL thousand)

	October - December 2007	October - December 2006	Change (%)	January- December 2007	January- December 2006	Change (%)
Voice telephony services	133,892	131,926	1.5	528,326	524,571	0.7
Internet and data communication services	59,357	48,147	23.3	214,027	181,348	18.0
IT services	5,162	1,677	207.8	14,050	9,892	42.0
TV services	4,179	708	490.3	8,368	708	1,081.9
Other revenues	8,530	5,754	48.2	28,679	16,641	72.3
Construction activities (Comliet)	--	--	--	--	1,651	
Total	211,120	188,212	12.2	793,450	734,811	8.0
Total excluding revenue from construction activities	211,120	188,212	12.2	793,450	733,160	8.2

Increase in revenue from voice telephony in 2007 compared with the revenue in 2006, was due to increase in revenue from subscription fees by 2.3 per cent, value added services – by 17.4 per cent and network interconnection services – by 12.1 per cent. And that increase fully off-set decline in revenue from traffic charges and wholesales services by 8.9 and 27.7 per cent, respectively.

During 2007, the total number of main telephone lines in service increased by almost 4 thousand lines: 57.6 thousand new telephone lines were installed, while 53.6 thousand lines were disconnected. During October – December of 2007 the number of main lines increased by 1.5 thousand.

During the year the number of lines used by residential customers increased by 2.7 thousand from 605.7 thousand (31 December 2006) to 608.4 thousand (31 December 2007). The number of lines used by business customers also increased in 2007 by 2.4 thousand from 175.6 thousand to 178 thousand. While the number of payphones went down from 3,575 to 2,440.

In spite of the increased number of telephone lines, total calls traffic in 2007, compared to 2006, declined by 3.7 per cent. Traffic of local calls decreased by 4.6 per cent, long distance domestic calls – by 1.2 per cent, international calls – by 2.9 per cent and fixed-to-mobile – by 3.4 per cent. Traffic generated by business customers decreased the most – by 9.7 per cent, while traffic generated by residential customers declined insignificantly – by 0.8 per cent.

The main indicators of TEO Group activities

	2007-12-31	2006-12-31	Change (%)
Number of fixed telephone lines in service	788,946	784,958	0.5
Digitalisation rate (%)	93.9	94.0	0.1
Number of broadband Internet connections (DSL, LAN, FTTH, WiFi)	258,552	180,774	43.0
Number of wireless Internet (WiFi) hot-spots	3,182	804	295.7
Number of IP TV customers	17,453	4,902	256.0
Number of VoIP customers	1,813	1,135	59.7
Number of IT services to small and medium size business customers	604	--	--
Number of personnel at the end of period	3,177	3,098	2.6

In 2007 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 customers during the third quarter of 2007 amounted to 93.3 per cent and in terms of revenue – to 95.3 per cent. TEO networks' interconnection market share in terms of revenue amounted to 19.3 per cent.

In 2007 continuously increased the number of broadband Internet services users. In 2007 TEO offered a novelty – Internet access via new-generation fiber-optic network, the fibers of which are installed up to the user's computer (FTTH). Fiber optic connection ensures higher speed as well as symmetrical upload and download.

To the residential customers that have access either to a fiber (FTTH) or a local (LAN) network the Company offered new Internet payment plans (“Basic Plus”, “Optimal Plus” and “Premium Plus”) that provide 10 Mbps Internet speed within Lithuania and from 512 Kbps up to 6 Mbps abroad.

From March 2007 the Company introduced charges for usage of wireless broadband Internet access (based on WiFi technology) at TEO hot-spots. Currently for residential TEO Internet service users the monthly fee is LTL 9.99, for TEO business customers, depending on the number of users, the monthly fee ranges from LTL 9.99 up to LTL 25 and for non-TEO customers the monthly fee is LTL 50 or LTL 5 per hour.

From July 2007, users of the wireless Internet service have the possibility to use the wireless Internet at more than 10 thousand wireless Internet hot-spots of 56 operators in 27 countries. And from November 2007 the connection speed at TEO hot-spots in Lithuania was increased up to 10 Mbps.

During January – December 2007, the number of broadband Internet access users increased by 77.8 thousand. Out of total 258.6 thousand broadband connections, 229.1 thousand are DSL connections sold to retail customers, 19.6 thousand are wireless connections via the WiFi network, 5.8 thousand – via local area networks (LAN), 1.7 thousand – via the new-generation fiber-optic network and 2.4 thousand DSL connections are the connections sold to wholesales customers.

In 2007 the number of dial-up Internet access users continued to go down. During the year the number of dial-up service customers decreased by half from 10.5 thousand to 5.1 thousand.

Compared with the year 2006, revenue from Internet broadband access services for the year 2007 went up by 24.3 per cent while revenue from dial-up Internet service decreased by 58.4 per cent. Revenue from data communication and network capacity sale services increased by 19.5 and 17.3 per cent, respectively.

In 2007, 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 2007 amounted to 43.2 per cent, while its share of the broadband Internet access market was 48.1 per cent. On 30 September 2007 broadband Internet penetration per 100 residents of Lithuania was 13.7 per cent. In terms of revenue TEO had 55.6 per cent of the leased lines market and 51.5 per cent of the data communications market.

In 2007, TEO Group expands its portfolio of IT services for business customers: in March TEO offered a new computer rent and sale service, in May – an online backup service. At the year end there were more than 600 IT services users.

As evaluation of the Group's abilities could be regarded a contract signed by UAB Baltic Data Center, a subsidiary of TEO, with the world's leading IT solution company Hewlett-Packard (HP), and DnB NORD finance group for implementation and maintenance of a new IT infrastructure, which will interconnect the group's banks operating in six countries. The value of this long-term project is LTL 38 million.

Developing interactive digital television according to the concept "More Than Television", in May 2007 TEO offered new services of a virtual cinema theatre and game on TV to the users of its Internet television (IPTV) service. In November, the virtual cinema theatre service was substituted by a Video-on Demand service. During the year, the number of customers using the IPTV service that was launched in October 2006 increased by 3.5 times.

In April 2007, TEO signed an agreement for transmission of TV programs through the Company's digital terrestrial TV (DVB-T) network and in October made a deal for acquisition of UAB Nacionaline Skaitmenine Televizija, a company having two licences for re-broadcasting of TV programs through the DVB-T network. All shares of UAB Nacionaline Skaitmenine Televizija were acquired in January 2008. TEO plans to start offering digital terrestrial television services in the first quarter of 2008.

By the end of 2007 in the five biggest cities of Lithuania TEO had already installed the network of DVB-T transmitters that make digital TV channels available to 75-80 per cent residents of Lithuania.

In 2007 revenue from IPTV services amounted to LTL 6.7 million and from transmission of TV programs through DVB-T network – LTL 1.7 million.

In 2007 the Company implemented a special project by order of the Ministry of Internal Affairs of the Republic of Lithuania that increased consolidated revenue from other services by additional LTL 12 million. Revenue from other services consists of the following non-telecommunication services: lease of premises, Contact Center services of UAB Lintel, consultancy and training services of UAB Kompetencijos Ugdyimo Centras, fitness center services operated by TEO Sportas till June 2007.

Other income (interest income from bonds acquired and loans granted) for the twelve months of 2007 decreased by 7.1 per cent over the other income a year ago as TeliaSonera repaid its LTL 150 million loan in February 2007. Over the year other gain (loss) from sale of property, investments and etc. increased by 47.9 per cent.

Total operating expenses of the Group during January – December 2007 were by 15.4 per cent higher than total operating expenses a year ago. Due to changes in the number of employees and increase of salaries, employee-related expenses increased the most – by 26.2 per cent. Networks' interconnection expenses increased by 13.4 per cent and other operating expenses – by 8 per cent. In the group of other operating expenses, the biggest increase was in expenses for purchase of telecommunication equipment and services related to implementation of the project ordered by the Ministry of Internal Affairs. Network maintenance expenses, expenses for energy, premises and transport and IT costs increased as well. Only expenses for marketing in 2007 were lower than in 2006.

Increase in operating expenses is in line with the Company's plans and is related to entering into new and more complex service areas such as IT and digital TV, growth of Internet and interconnect services that require bigger number and more qualified employees.

During October – December 2007, the total number of employees (headcount) in TEO Group went down by 208 to 3,177. Therefore during January – December the total number of employees increased by just 79: in the parent company, TEO, the number of employees increased by 11, in Lintel – by 48, in Baltic Data Center – by 44, in Kompetencijos Ugdymo Centras – by 4, while, due to the discontinued operations of the fitness center, the number of TEO Sportas employees decreased by 28.

EBITDA for the twelve months of 2007, compared with the twelve months of 2006, remained on the same level (an increase by 0.1 per cent) and amounted to LTL 352 million. Due to 8 per cent increase in revenue EBITDA margin was lower and amounted to 44.4 per cent (47.9 per cent in 2006).

Depreciation and amortisation charges continuously went down over the year by 13.9 per cent and in 2007 amounted to 21 per cent of total revenue (26.3 per cent a year ago). Consequently, operating profit was 17 per cent higher than a year ago and operating profit margin was 23.4 per cent (21.6 per cent a year ago).

Due to repayment of the loan in 2006 and received higher interest income on cash and cash equivalents net financial income during 2007 was almost 3 times higher than a year ago.

Profit before income tax for the twelve months of 2007 was up by 21 per cent and amounted to LTL 196 million (LTL 162 million a year ago). Profit for the period (including minority interest and profit from discontinued operations) amounted to LTL 163 million, an increase by 24.7 per cent over LTL 131 million a year ago. Over the year, the profit margin went up from 17.8 per cent to 20.5 per cent.

Discontinued operations imply result of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija activities during January – February of 2006 and OOO Comliet-Kaliningrad activities from February 2006 till February 2007.

During January – December 2007, the total assets of TEO Group decreased by 3.5 per cent. Due to higher investments, non-current assets increased by 2.5 per cent and amounted to 58 per cent of the total assets. Current assets decreased by 10.7 per cent mainly due to the year 2006 dividend payout and amounted to 42 per cent of the total assets. But, in spite of LTL 202 million or 0.26 litas per share dividend payment, cash, trading investment and held-to-maturity investments alone represented 31.6 per cent of the total assets.

In February 2007, TeliaSonera AB repaid the loan of LTL 150 million to TEO and at the end of 2007 TEO extended a LTL 2.6 million loan to UAB Nacionaline Skaitmenine Televizija that was acquired in January 2008.

Due to dividend payment, shareholders' equity at the end of 2007 was by 3.5 per cent lower than at the beginning of 2007, but still amounted to 88.8 per cent of the total assets.

At the end of 2007 retained earnings of TEO Group amounted to LTL 294 million (LTL 333 million in 2006), but it should be noted that, 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 2007 retained earnings of TEO LT, AB amounted to LTL 197 million (LTL 211 million in 2006).

Borrowings of TEO Group

Borrower	Lender	Currency	Book value as of 31 December 2007 (LTL thousand)
TEO LT, AB	AB Invaldos Nekilnojamo Turto Fondas (premises leasing)	LTL	7,614
Total			7,614

In 2007, financial liabilities related to leasing agreement of TEO Group were paid for and at the end of the year only financial liabilities related to financial leasing of premises comprised borrowings (financial liabilities) of the Group. As on 31 December 2007, net debt was negative and amounted to LTL 373 million. The net debt to equity ratio was negative and stood at 34.8 per cent.

Net cash flow from operating activities during 2007 was by 0.6 per cent higher than net cash from operating activities a year ago. Cash spend on capital investments, including LTL 13.2 million paid in 2007 for investment done in 2006, increased by 88.8 per cent. In 2008, LTL 39 million will be paid for investments done in 2007. Part of the LTL 150 million loan repaid by TeliaSonera was used for investments into held-to-maturity investments. During January – December 2007 by 25.9 per cent more cash was used in investment activities than in 2006.

In 2007, net cash flow from operating and investing activities in total amounted to LTL 200 million, but due to the payment of dividends of LTL 202 million and the repayment of borrowings, cash and cash equivalents during 2007 decreased by LTL 3 million.

Total capital expenditure during 2007 amounted to LTL 195 million (it was planned to spend LTL 199 million).

During 2007 the Company invested LTL 136 million into the network development: completed upgrading of its backbone network, commenced a rapid development of wireless Internet and new-generation fiber optic access networks. In October, the upgrading of a new backbone network that ensures higher Internet speed, is more reliable and creates possibilities for usage of most modern telecommunication and IT technologies, was completed. In 2007, the capacity of direct connections to the international Internet network was increased by 2.6 time and now amounts to 11.6 Gbps.

Investments into information technologies, including investments related to the IT infrastructure project of DnB NORD Group, amounted to LTL 36 million. Investments into the upgrading of customer care centers and the construction of a new TEO building in Vilnius amounted to LTL 16 million. Due to unforeseen legal problems, investments into construction of the new headquarters amounted to LTL 8.6 million instead of the planned amount of LTL 33 million. Other investments amounted to LTL 6.8 million.

On 3 January 2008, TEO acquired 100 per cent stake in UAB Nacionaline Skaitmenine Televizija, which has two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks.