



 **TEO** ANNUAL REPORT | 2007 |

# TABLE OF CONTENT

■ WHAT IS TEO?	3
■ TEO GROUP	3
■ KEY INDICATORS	4
■ TEO BUSINESS PHILOSOPHY	4
■ IMPORTANT EVENTS IN 2007	5
■ GENERAL MANAGER'S WORD	6
■ THE LITHUANIAN ELECTRONIC COMMUNICATIONS MARKET	7
■ INNOVATION, RESEARCH AND DEVELOPMENT ACTIVITIES	8
■ NEW SERVICES OF TEO GROUP	9
■ CHANGES IN CUSTOMER CARE	13
■ INSTALLATION OF THE NEW-GENERATION NETWORK	15
■ THE ORGANIZATION AND PEOPLE	17
■ SPONSORSHIP AND SOCIAL RESPONSIBILITY	19
■ MANAGEMENT AND CORPORATE GOVERNANCE	23
■ TEO SHARES AND SHAREHOLDERS	32
■ INFORMATION TO INVESTORS	35
■ CONTACT INFORMATION	36
■ MAIN FIGURES OF TEO GROUP	37

■ FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT AUDITOR'S REPORTS FOR THE YEAR ENDED 31 DECEMBER 2007	
---	--

## WHAT IS TEO?

**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.

Shares of TEO LT, AB are listed on the Vilnius Stock Exchange (ticker – TEO1L) and TEO Global Depository Receipts (GDR) are traded on the London Stock Exchange (ticker – TEOL).

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.

## TEO GROUP

### TEO LT, AB

Voice, Internet, wholesales, data communication, IT, digital TV services; Internet portal zebra.lt

100 %

#### UAB Lintel

Information, telemarketing and remote customer care service

100 %

#### UAB Baltic Data Center

Data center and information system management services

100 %

#### UAB Nacionalinė Skaitmeninė Televizija

Re-broadcasting of TV channels over DVB-T network

100 %

#### UAB Voicecom

NMT-450 network

100 %

#### UAB Kompetencijos Ugdymo Centras

Training and consultancy services

100 %

#### VšĮ TEO Sportas

Women's basketball team TEO

TEO Group as of 5 January 2008.

## KEY INDICATORS

	2007	2006	2005	2004	2003
Revenue (LTL million)	793	735	733	721	808
EBITDA (LTL million)	352	352	354	336	386
EBITDA margin (%)	44.4	47.9	48.5	46.6	47.8
Profit (loss) before income tax (LTL million)	196	162	109	41	(38)
Profit (loss) for the year (LTL million)	163	131	84	34	(35)
Earnings per share (LTL)	0.21	0.17	0.11	0.04	(0.05)
Dividend per share (LTL)	0.25 (a)	0.26	0.16	0.13	0.06

NOTE. (a) On 13 March 2008 the Board of the Company proposed to the Annual General Meeting of Shareholders that will take place on 29 April 2008 to pay a dividend of LTL 0.25 per share for the year 2007.

## TEO BUSINESS PHILOSOPHY

### VISION

YOUR BEST PARTNER IN COMMUNICATING WITH THE CONSTANTLY CHANGING WORLD.

*By employing the most modern technologies we enable our customers to reach people, knowledge and entertainment.*

### MISSION

TO CREATE VALUE FOR SHAREHOLDERS AND CUSTOMERS BY PROVIDING PROFESSIONAL AND HIGH-QUALITY TELECOMMUNICATIONS, TV AND IT SERVICES.

### VALUES

#### OPENNESS

WE COOPERATE OPENLY AND WE ARE OPEN FOR NOVELTIES AND CHANGES.

#### RELIABILITY

WE ARE RELIABLE IN RELATIONS WITH CUSTOMERS, COLLEAGUES AND SOCIETY AND KEEPING PROMISES.

#### BUSINESS MINDED

WE UNDERSTAND BUSINESS ENVIRONMENT AND CREATE VALUE FOR CUSTOMERS AND SHAREHOLDERS.

#### PARTNERSHIP

OUR RELATIONS WITH CUSTOMERS AND COLLEAGUES ARE BASED ON GOOD WILL AND RESPECT.

## IMPORTANT EVENTS IN 2007

### On 15 February

TEO sold OOO Comliet-Kaliningrad, a company in the Russian Federation.

### From 1 March

The Company introduced charges for using the Internet access at WiFi hot-spots.

### On 15 March

A new IT service – Computer Rent and Sale for business customers – was started.

### On 6 April

TEO signed an agreement for transmission of digital terrestrial TV programs.

### On 23 April

The zebra.lt Internet portal offered a novelty in Lithuania – the possibility to post personal videos online for free.

### On 26 April

A new Board of TEO was elected during the Annual General Meeting.

The Company's first Corporate Social Responsibility Report was presented to the shareholders.

### On 10 May

The Company offered its IPTV users new services – Virtual Cinema Theatre and Games on TV.

### On 28 May

A new Online Backup service was offered to customers.

### On 30 May

An upgraded online customer self-service system “Mano TEO” (My TEO) was started.

### On 1 June

TEO commenced the installation of a new-generation fiber-optic (FTTH) access network in Lithuania.

### From 1 July

The wireless (WiFi) Internet became available to the ZEBRA wireless Internet users in 27 countries of the world.

### In October

TEO completed the installation of the new-generation backbone network.

### On 22 November

The Company started providing a new IPTV service – Video-On-Demand (VOD).

## GENERAL MANAGER'S WORD



### Dear Shareholders of TEO,

Last year for TEO Group was a year full of hard work, big and small victories. The Company's financial results for the year 2007 were the best over the last four years. Over the year, the Company's revenue increased by 8 per cent showing positive trends in all services areas. Revenue for the fourth quarter of 2007 went up even by 12 per cent, year-on-year. We are indeed proud to report a 24.7 per cent net profit growth. An increase in operating expenses is just a temporary factor in order to stimulate an increase of the Company's market share, activities in the new business areas as well as improvement of the internal structure.

It is very important that over the last year, by upholding sustainable development of new business areas, TEO has become a universal company which manages an extremely wide spec-

### "THE COMPANY'S FINANCIAL RESULTS FOR THE YEAR 2007 WERE THE BEST OVER THE LAST FOUR YEARS".

trum of new technologies. The establishment of such a universal business model provides a stable basis for future revenues as well as success. In this respect, the agreement signed at the end of 2007 for the acquisition of the shares of UAB Nacionalinė Skaitmeninė Televizija has particular significance. This investment enables us to start providing digital terrestrial TV services all over Lithuania. We are ready to allocate significant investments and organizational capacities for the development of TV services in 2008.

The strategic guides of our actions on the market in 2008 are also clear. In the residential customers segment, we are going to be especially strongly focused on further increasing IPTV, DVB-T as well as broadband Internet customer base. In the business customers segment, we will make every effort to offer IT/Telco service packages to companies and organisations.

This year we will also invest in the Internet content area and will seek to increase its share in the Company's services and revenue.

In the area of corporate and marketing communication, we see the need to apply modern methods, original instruments to present to the public and customers the services and technological capabilities of TEO. Some of them are going to be a novelty for the country's marketing specialists.

One of the reasons of the regular success of TEO – its ability to change constantly and to react creatively to the market challenges. The company's management team is in constant search for new solutions not only for developing products and services, but also for correcting internal structures and the models of cooperation among units. In 2008, we envisage to continue the internal reorganisation and structure optimisation process that was started last autumn and the essence of which – the company's transformation from a technology-based company into a sales-focused one, the merging of the currently separate technological and sales competences into one universal TEO specialist who is ready to solve all customer problems.

I believe that in the stormy sea of stock markets in 2008 TEO will reliably – as until now – perform its mission and will generate a profitable return on investment.

Arūnas Šikšta  
General Manager of TEO LT, AB

## THE LITHUANIAN ELECTRONIC COMMUNICATIONS MARKET

**TEO** – a leader on Internet, data communication and fixed-line telephony markets in Lithuania.

During 2007, the revenues of the Lithuanian electronic communications market continued to grow. According to the Report of the Communications Regulatory Authority (the CRA), in 2007 the total revenue of the market, as compared to the data for 2006, grew by 10.3 per cent and amounted to LTL 2.9 billion. The electronic communications market includes fixed-line telephony, mobile telephony, leased lines, Internet access, data communication, cable television and microwave multi-channel television (MMDS) services, and also wire radio and radio and television programs transmission services.

### Breakdown of the Lithuanian electronics communications market revenue during 2007 (LTL million):

Mobile telephony services	1,387.2
Networks' interconnection services	673.2
Fixed-line telephony services	412.7
Internet access services	313.0
Cable and MMDS television services	71.7
Data communication services	55.6
Leased lines services	26.7
Radio and TV programs transmission services	25.3
Services of provision of physical optical lines' fibers	6.9
Wire radio services	1.6
<b>In total:</b>	<b>2,973.9</b>

The number of computer and Internet users in Lithuania keeps increasing. According to the data of the market research company TNS-Gallup, at the end of 2007 52 per cent of households had computers and 40 per cent – an access to the Internet. According to the data of the CRA, at the end of the fourth quarter of 2007 almost 45 per cent of Internet users used the Internet access services provided by TEO, while the number of the Company's broadband Internet access users constituted more than a half (50.5 per cent) of the total number of broadband Internet access users in Lithuania.

During 2007, the number of broadband Internet access users in Lithuania increased by 37.7 per cent or by almost 139 thousand – from 368.7 thousand at the beginning of the year up to 507.6 thousand at the end of the year. At the end of 2007, the number of broadband Internet access users per 100 inhabitants of Lithuania was 15.1. The most rapid growth was in the number of users, connected to the broadband Internet via wireless communication lines (a yearly increase by 96.7 per cent), via the mobile telephone network (83.1 per cent), via

optical communication lines (79.8 per cent) and via local area networks (LAN) (43.5 per cent). DSL Internet access via copper remains the most popular means of access to the Internet (its share of the total number of Internet users is 39.8 per cent), while dial-up (fixed-line) Internet access is declining in popularity (1 per cent of users).

The fast development of broadband Internet was influenced by expanded Internet access territories, new forms of access and tax refunds for people purchasing personal computers and Internet access services. For example, over the year the number of wireless Internet (WiFi) hot-spots in Lithuania increased by almost 3.5 times and at the end of the year reached 3,457, of which even 3,182 belonged to TEO. According to the data as on 31 December 2007, Internet access services in Lithuania were provided by 115 service providers.

In 2007, the total number of fixed telephone lines in Lithuania increased by 0.89 per cent or 7.1 thousand and at the end of the year reached 799 thousand. 93.8 per cent of fixed-line telephony subscribers were TEO customers, while 6.2 per cent – customers of alternative operators. At the end of the year, there were 48 companies engaged in the provision of fixed telephone communication services in Lithuania. The number of fixed telephone lines per 100 inhabitants was 23.7, or 45.2 lines per 100 households. During the year the number of payphones decreased by 31.8 per cent from 3,575 down to 2,440.

According to the Company's estimation, at the end of 2007 the number of customers using the IPTV services provided by TEO (17,453) constituted 4.3 per cent of the Lithuanian multi-channel television market. In March 2008, TEO also launched the provision of digital terrestrial television (DVB-T) services.

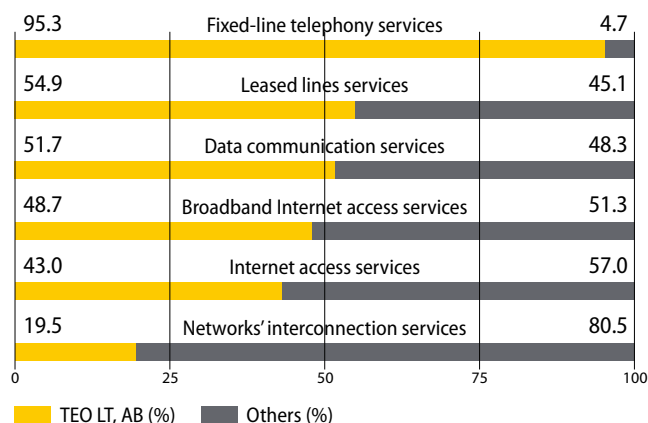
In 2007, TEO actively involved in the activities of TV signals transmission via terrestrial television (DVB-T) transmitter networks.

The Lithuanian information technologies (IT) market is developing fast, too. The growth of this market is estimated to be 20-30 per cent per year. Due to that, foreign investors are also more actively entering the Lithuanian IT market through acquisition of controlling stakes in companies. According to the data of the research carried out by Prime Investment, by revenue for the first half of 2007, more than half of the top 20 Baltic IT companies are Lithuanian. UAB Baltic Data Center, a subsidiary of TEO, was ranked in the 6th position in the Baltic States according to revenue from IT services for the first half of 2007.

TEO entered the IT market in 2006 and in the year 2007 offered even more novelties: computer rent and sale, and online backup services.

**TEO** competes on all electronic communications markets, except mobile telephony services.

**TEO shares of the electronic communications market by revenues for the fourth quarter of 2007**



## INNOVATION, RESEARCH AND DEVELOPMENT ACTIVITIES

In 2007, **TEO** actively participated in scientific research and technological development activities both within the Company and on the national level.

In 2007 Director of Strategic Development and Research Unit of TEO chaired the National Networked and Electronic Media Technology Platform. This Platform involves the participation of more than 20 companies and scientific research organizations acting in the area of networked and electronic media technologies. In 2007, the Platform's partners jointly prepared the joint vision for the development of the Lithuanian networked and electronic media technology sector and the long-term strategic research plan for this sector until 2016. Also, a workshop was held where issues relevant to content dissemination in Lithuania were discussed.

In cooperation with partners – Tilde IT and the Real Time Computer Systems Centre at the Faculty of Informatics of the Kaunas University of Technology (KTU) – TEO continued to implement the LTL 3 million worth research and technological development project TV Mozaika (TV Mosaic), co-financed from the European Union structural funds. The aim of the project – to develop a prototype of the IPTV interactive services and content management and provision system that will provide possibilities to external participants of the IPTV value chain to provide interactive IPTV services through integrating into the service provision system of TEO via the special interfaces created for these participants.

In collaboration with the KTU specialists, the Company also participated in another project – “High Technologies and Equipment of Future Housing”, aimed at creating an intelligent housing system, which would not only improve housing com-

fort, but most importantly – would reduce the costs of energy consumed by households and would allow efficient use of natural resources. The system would provide the consumer with the possibility to manage and control, on a centralized basis, utility services, automated systems, alarm systems, and other installed systems. The system will also promote dialogue and the search for shared solutions between residents and housing maintenance organizations, for example, district heating networks, electricity supply networks, etc.

Being a leader in innovations in its business area, TEO actively participates in technological development activities on European level as well. In 2007, TEO, as a participant of the international consortium, continued the activities of the international project AXMEDIS under the Sixth Framework Programme (FP6) of the European Commission that was launched in 2006. The consortium gathered by TEO involves Elion (Estonia), Kaunas University of Technology and UAB VRS Grupė. Members of AXMEDIS – 35 partners, such as BBC, Eutelsat, Hewlett Packard, Tiscali, Giunti Interactive Labs, XIM and scientific research institutions, such as the University of Florence (Università degli Studi di Firenze, UNIFI), University of Reading, École Polytechnique Fédérale de Lausanne (EPFL). The aim of the project – to develop an automated system for cross media content production, aggregation and multi-channel distribution that would allow to reduce the costs of cross media (Multi-media) production and distribution, make it more diverse and easily available to users in Europe.



## NEW SERVICES OF TEO GROUP

Nerijus Ivanauskas,  
Chief Marketing Officer:

"BY DEVELOPING  
NEW SERVICES AND  
SOLUTIONS, WE SEEK  
TO IMPROVE THE  
QUALITY OF LIFE OF  
TEO CUSTOMERS AND  
TO INCREASE THE  
COMPETITIVENESS OF  
BUSINESSES".

### ■ DIGITAL TV DEVELOPMENT

During 2007 TEO continued improving the Internet technology-based (IPTV) interactive digital television service GALA, which was launched in 2006. In spring, the Company supplemented its basic package of GALA TV channels with regional TV programmes and offered the first virtual entertainment services – Games on TV and Virtual Cinema Theatre, the latter of which in autumn was replaced by Virtual Video-On-Demand. The Virtual Video-On-Demand service allows customers, simply by using a remote control, to select and rent any film they want from a large list of dramas, comedies, action or horror films. TEO has also upgraded the TV service design and the management of services. The electronic program guide has become more comprehensive and attractive – it is possible to preview the schedule of TV programs for several days ahead and to set reminders, which help not to miss favourite programs. Starting from summer, lovers of adrenalin were offered a new package of sports channels.

At the beginning of 2008, TEO acquired UAB Nacionalinė Skaitmeninė Televizija, which has two licences for re-broadcasting of television channels over digital terrestrial television (DVB-T) networks. This is a long-term and strategic investment of TEO that confirms the Company's objective to actively contribute to digital TV development in Lithuania and to ensure a smooth transition to digital TV and the 'switch off' of analogue TV broadcasting by 2012.

In March 2008, TEO LT, AB Group of companies offered digital terrestrial television services to residents of Lithuania. At the end of 2007, the network of digital terrestrial television transmitters covered more than 76 per cent of the Lithuanian population.

Upon the launch of digital terrestrial television services, the Internet technologies-based (IPTV) digital television service is called Interactive GALA (*Interaktyvioji GALA*), while the digital terrestrial television (DVB-T) service – Digital GALA (*Skaitmeninė GALA*).



### Interactive GALA –

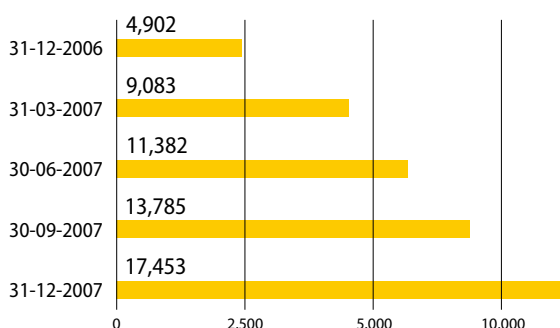
more than 70 of the world's most popular TV programmes re-broadcasted over the Internet network of TEO and intended for customers who want more interactivity and additional services – Video-On-Demand, e-mail or Internet on a TV screen.



### Digital GALA –

more than 10 free-to-air and 20 encoded television programmes re-broadcasted over the digital terrestrial television (DVB-T) transmitter networks of TEO and the Lithuanian Radio and Television Centre. This television is available to more than 76 per cent of Lithuanian residents.

#### Number of Interactive GALA TV service users



The TEO-owned **www.zebra.lt** Internet portal was the first of Lithuania's largest news Internet portals to offer a novelty in April 2007 – the possibility to post personal videos online for free. This is another step in seeking that users create the portal's content by themselves.

## NEW MEANS OF INTERNET ACCESS

In 2007, TEO commenced the installation of a new-generation fiber-optic (FTTH – Fiber to the Home) access network and offered residential customers new Internet payment plans with a symmetrical speed of up to 10 Mbps within Lithuania and of up to 6 Mbps abroad. The new-generation fiber-optic network provides users with the possibility to enjoy the extremely high quality of different services through a single Internet access line: to make telephone calls, to watch digital TV, to browse the Internet and to send video records simultaneously. Residents of the five biggest cities of Lithuania and business customers were the first ones to start using the advantages provided by the fiber-optic network.

From March 2007 the Company introduced charges for using the Internet access services at WiFi hot-spots. For non-TEO cus-

tomers, the monthly fee for the ZEBRA Wireless Internet is LTL 50 or LTL 5 per hour, while for residential users of the ZEBRA Internet – LTL 9.99, for TEO business customers – from LTL 9.99 up to LTL 25.

From July 2007, TEO entered into cooperation with the Dutch company Trustive and provided the ZEBRA Wireless Internet users with the possibility to use the wireless Internet at more than 10 thousand WiFi Internet hot-spots in 27 countries of the world. Correspondingly, customers who use the services provided by Trustive's partners can also use the ZEBRA Wireless Internet services in Lithuania.

At the end of 2007, the Internet access speed at 3,182 ZEBRA WiFi Internet hot-spots in Lithuania was 10 Mbps and more.

	31-12-2007	31-12-2006	Change
Number of DSL Internet connections sold to retail customers	229,145	176,147	52,998
Number of wireless Internet connections via the WiFi network	19,612	--	19,612
Number of Internet connections via local area networks (LAN)	5,778	2,472	3,306
Number of Internet connections via the fiber-optic network (FTTH)	1,654	--	1,654
Number of DSL Internet connections sold to wholesale customers	2,363	2,155	208
<b>Number of broadband Internet connections in total:</b>	<b>258,552</b>	<b>180,774</b>	<b>77,778</b>
Number of dial-up Internet access users	5,094	10,539	(5,445)
Number of wireless Internet (WiFi) hot-spots	3,182	804	2,378
Number of the VoIP service users	1,813	1,135	678

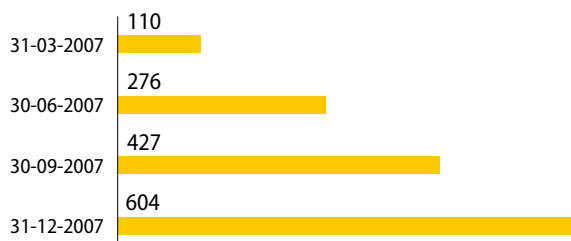
## IT SERVICE INNOVATIONS

In 2007, TEO brought several IT innovations to the market. At present, the Company offers business customers to use the following services: computer rent and sale, local network installation, computer maintenance, online backup and other IT services.

Wishing to demonstrate the advantages of its IT services, in September-October 2007 the Company presented the quality and professionally provided IT services, without which efficient business would not exist in the modern technology world, to business customers in Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys regions. Seminars were held in unusual places – different aeroclubs and airplane hangars.

The selection of such unconventional meeting places was not by chance – the work of airport and IT specialists has similarities. The efficiency and success of both aviation and IT industries depends on the work of professional teams and the professional team of TEO specialists, who presented new service, offers and guarantees the most safe and highest-quality partnership.

### Number of IT service users



## VOICE TELEPHONY

By actively offering Internet services and new payment plans, in 2007 we managed not only to sustain, but also to increase the number of lines used by residential customers, while the traffic generated by residential customers remained the same as in 2006. At the end of 2007, 99 per cent of the Company's residential customers used different plans. The most popular payments plans – *Lietuvoje (In Lithuania)* and *Nemokami skambučiai į pasirinktą numerį (Free Calls to a Selected Number)*.

During 2007, the number of telephone lines used by business customers also increased, while the payment plans intended for business customers were used by about 35 per cent of business customers.

Taking into consideration the fast-paced development of broadband Internet in Lithuania and abroad as well as the needs of customers to communicate with their family members and business partners abroad, in 2007 we developed a new payment plan *Artimas* for residential customers and offered the *ZEBRA VoIP calls* service to business customers.

The **Artimas** payment plan is intended for unlimited communication with family members abroad. For the monthly fee of LTL 25, TEO customers can make or receive calls to their home telephone number, while persons abroad use their personal computers for telephone calls.

**ZEBRA VoIP calls** is the service intended for TEO customers who go abroad frequently. A special software application allows to cheaply and conveniently make calls from a computer abroad to any telephone number in Lithuania and to receive calls to a computer anywhere in the world where Internet access is available.

	31-12-2007	31-12-2006	Change
Number of lines used by residential customers	608,460	605,732	2,728
Number of lines used by business customers	178,046	175,651	2,395
Number of payphones	2,440	3,575	(1,135)
<b>In total:</b>	<b>788,946</b>	<b>784,958</b>	<b>3,988</b>

## INQUIRY SERVICE 118

Inquiry Service 118, provided by UAB Lintel, a subsidiary of TEO, retains its leading positions (according to the data of UAB Baltijos Tyrimai, the market share held by Inquiry Service 118 is 87 per cent). This service continues to improve and searches for new forms of activity. In 2007, Lintel created a WAP site with the engine for searching private customers and implemented the Fast-Changing Information Service, which allows business customers to additionally provide information about ongoing sales promotion, discount and loyalty campaigns, menus, price-lists, repertoires or programmes, and service users – to get such information.

## CONTACT CENTER SERVICES

In 2007, in addition to telemarketing and telesales services, UAB Lintel started offering customers new value-added services: packing and delivery of postal items and dispatch of letters.

**IT Help Desk Service 1518** was launched by UAB Lintel in August 2006. In 2007, the additionally installed service capabilities allowed offering users a whole range of IT problem resolution and consulting services. Starting from March 2007, Lintel consultants help residential customers resolve problems related to computer or Internet usage not only over the phone, but also by remotely connecting to the customer's computer. The pilot project of on-site support, which was started in September 2007 in cooperation with partner company BMS Megapolis, proved successful and in February 2008 it started as a new service.

## ■ WHOLESALE INTERNET SERVICES

Due to the growth in demand for international Internet connectivity in Lithuania, TEO, the wholesale Internet services of which are used by more than a half of national Internet service providers (ISPs), has increased the speed of its direct international Internet channels from 5.4 Gbps up to 11.6 Gbps. The Company has 4 independent international Internet channels.

TEO makes perfect use of its geographical position – it has become a “bridge” of voice, Internet and data communication services between Eastern and Western Europe countries. During 2007, there was a rapid growth in the sales of all international wholesale services – voice, Internet and data communication. In October 2007, the Company installed the second optical connection with the networks of Belarus telecommunications operator Beltelecom. The speed rate of data transmission via optical lines has increased up to 5.5 Gbps.



## ■ TEO – ONE OF THE BEST BRANDS IN LITHUANIA

TEO was presented as one of Lithuania's strongest brands in the album of the best Lithuanian brands “Lithuania Superbrands 2007” that was released in November 2007.

On 28 November 2007, during the World Communication Awards 2007, an awards' ceremony organised every year by Total Telecom, the re-branding campaign of TEO implemented in 2006 was *Highly Commended*.

## CHANGES IN CUSTOMER CARE

Darius Gudačiauskas,  
Chief Sales Officer:

**“FOR TEO CUSTOMERS –  
ONLY QUALIFIED AND  
UNIVERSAL SERVICE”.**



In 2007, the Company completed the implementation of the project Aitvaras (Kite), which allowed to make the sales process more flexible by granting more authority as well as more responsibility to sales staff. Another step – to provide more authority and responsibility to the front-office employees (working directly with customers), i.e. service installation and maintenance specialists, and to supplement their activities with the sales function. In order to reach that target, a project called Šuolis (Jump) was started at the end of 2007. In implementing the project, the first steps were the merging of regional sales and service installation units and the liquidation of the chain of residential customer sales managers. Now, the same customer care specialist will be responsible both for the quality preparation of all access elements for the service provision and for the service installation and fault elimination. Also, definite customer care territories have been established within which the groups of customer care employees should feel like real

masters in charge of the situation, solve technical issues in a qualified manner, maintain close relations with customers and offer them the most useful services that meet their expectations. Therefore, it is very important to increase the competence of engineers and telecommunications specialists, to promote their knowledge of service installation in all access elements.

### ■ TARGET – HIGH-QUALITY CUSTOMER CARE

The goal of all reforms in the organisation of sales is to improve the quality of customer care, to increase the customers' loyalty and satisfaction. The main quality measurement criterion should be the customer's satisfaction. In spite of the facts that during the year 2007 changes were implemented in the organisation of sales and the number of customer applications, orders and visits continued to grow, the researches show that the high level of customer care was sustained.



According to the “mystery shopping” research, carried out by TNS Gallup in 2007, TEO stands high among the telecommunications companies carrying out such researches. Direct customer service at Customer Care Centres was evaluated at 9.0 points, whereas average evaluation of the telecommunication sector – 8.5. As the conducted researches reveal, the level of customer service by phone in all telecommunications companies, including TEO, is higher than the general average of companies participating in the researches. TEO customer service by phone was evaluated at 9.3 points, while the general evaluation of companies of all business areas – 8.8, the average of the telecommunications sector – 9.0.

## ■ ONLINE CUSTOMER SELF-SERVICE SYSTEM

In May 2007, an upgraded online customer self-service system of TEO [www.manoteo.lt](http://www.manoteo.lt) (My TEO) was started. By providing its customers with the possibility to use the online self-service system, TEO, as a socially responsible company, is determined to make a relevant contribution to environmental protection – to seek elimination of paper bills sent by mail and to expand the channel for the presentation of bills electronically. 197 thousand of TEO customers have chosen to receive bills electronically.

The system **My TEO**, which operates 24 hours a day, allows placing online orders of new services, managing already ordered ones and paying for the services provided by the Company, reviewing the spreadsheets of telephone calls and statistics on the usage of other services, exchanging the accumulated points of the “Bičiuliai” (Friends) Loyalty Program for services or prizes, and getting special offers.

## ■ RENOVATION OF CUSTOMER CARE CENTRES

In 2007, a new concept of customer care centres was created. The renovation of customer care centres is a part of the consistent re-branding project and represents the next step in implementing comprehensive upgrade and improvement of TEO customer care.

In October 2007, the first renovated customer care centre opened its doors in Kaunas. At the beginning of 2008, the Company completed the renovation of its customer care centres in Klaipėda, Panevėžys, Alytus, Marijampolė, Utena and Mažeikiai.

The renovated customer care centres are more functional and

convenient. Customers at these centres are provided services and information faster. It is possible to get consultations or pay for services at special fast-service or self-service points.

Customers willing to test TEO services and to make sure of their quality have the possibility to do that at special demonstration stands of the digital television GALA and ZEBRA Internet. A conference hall for presentations and new comfortable spaces has been designed for business customers to meet with sales managers.

## ■ CUSTOMER CARE BY PHONE

In 2007, the further continued development of self-service by phone allowed to simplify customer care by leaving one main residential customer care phone number 1817 and the self-service number 117. The IT Help Desk Service 1518 was further successfully developed. Now specialists provide consultations not only over the phone, but also, in case of more serious problems, can remotely connect to the user's computer.

TEO customers can sell TEO services as well. If they recommend that their friends and acquaintances order the installation of the services provided by TEO, they can get even one month's free usage of the services they already use.

## ■ THE PROJECT OF THE YEAR

TEO subsidiary UAB Baltic Data Center, together with the world's leading IT solution company Hewlett-Packard (HP), has signed a contract with DnB NORD finance group on the implementation and management of a new IT infrastructure, which will interconnect the group's banks operating in six countries.

The bank's IT infrastructure, which is going to be the most modern one in Eastern Europe, will enable DnB NORD group to provide seamless banking services to customers in Denmark, Finland, Poland, Estonia, Latvia and Lithuania. The communication between banking institutions operating in different countries and the central IT system will be provided by TEO. This, probably the biggest in Lithuania finance sector's IT infrastructure project, will employ the most up-to-date technologies and solutions that will be implemented together with Baltic Data Center's partners – HP and Oracle. The value of the contract is LTL 38 million.

Baltic Data Center will install an underground data center facility in Vilnius that will ensure compliance with the highest security requirements, including also protection against electromagnetic pulse. The company will employ new high qualified IT specialists to maintain the infrastructure and will invest in its employees' training.

This contract is an extremely high evaluation of the competences of TEO Group's specialists and of its capabilities.

## INSTALLATION OF THE NEW-GENERATION NETWORK

Darius Didžgalvis,  
Chief Technology Officer:



"AS A RESULT OF EVOLVING TECHNOLOGIES AND CHANGING INFORMATION CONTENT, THE DATA TRAFFIC OF INTERNET USERS INCREASED DRAMATICALLY, THEREFORE WE INEVITABLY HAD TO IMPLEMENT AN ESSENTIAL UPGRADING OF TEO NETWORK".

In October 2007, TEO completed the installation of the New-generation network, which will enable to provide higher quality services to customers. The infrastructure of the new-generation network consists of data centres, backbone network and user access. The upgrading of all of these components will considerably improve the reliability of services provided and reduce the number of possible faults by more than two times.

Upon completion of the upgrading works of the backbone network of TEO, it has become more reliable as it is structured according to different customer needs and, in addition, the network nodes are duplicated. Services are formed on this basis of a regional principle, therefore possible local faults will no longer have any effect on the general operation of the network.

A part of the new-generation network – fiber-optic user access – in future will allow increasing the speed of Internet access provided to end users up to 1 Gbps. The fiber-optic network will provide users with the possibility to enjoy the extremely

high quality of different services through a single Internet access line: to make telephone calls, to watch digital TV, to browse the Internet and to send video records simultaneously.

### ■ ACCESS NETWORK DEVELOPMENT

In 2007, technical possibilities for fiber-optic access, based on the FTTH (Fiber To The Home) technology, were installed in more than 2 thousand houses. The copper broadband access network was expanded as well. The number of new DSL (Digital Subscriber Line) lines installed during 2007 was 78 thousand. At the end of the year DSL access nodes were installed in 1,014 locations.

During 2007, 2,378 wireless broadband Internet access points were installed in different places of Lithuania. At the end of the year 2007, TEO had 3,182 wireless Internet WiFi technology-based access points.

## ■ BACKBONE DATA COMMUNICATION NETWORK

After TEO launched the provision of Internet television (IPTV), Internet telephony (VoIP), new-generation optic access services, requirements for the backbone data communication network have been amended. Qualitative requirements have been especially increased. The network is to ensure high transmission capacity and be reliable. Due to that, in 2007 it was decided to implement a radical upgrade of the network – to increase its transmission capacity by installing new-generation IP/MPLS and Metro Ethernet networks, and its reliability – by duplicating the main elements of the backbone network and fragmenting them according to different customer needs.

In order to ensure the reliability of international Internet, in 2007 different international Internet access points were expanded. At the end of the year, the total speed of international Internet connection was about 12 Gbps.

### THE MAIN PRINCIPLES OF THE NEW-GENERATION NETWORK ARE AS FOLLOWS:

- Strict structure
- The main elements are duplicated
- Services are separated at a level of aggregation
- The network topology is as simple as possible
- Typical configuration on the main nodes
- The network is easily expandable

## ■ TELEVISION

During 2007 the Company continued to develop Internet television (IPTV) and to expand the network of digital terrestrial television transmitters.

In 2007, the following technical possibilities were created for new interactive IPTV services: a virtual cinema theatre (NVOD – Near Video On Demand) and interactive games became operational from the beginning of the year, and a virtual film rental (VOD – Video On Demand) – from November. IPTV users have the possibility to watch more than 70 TV channels, rent more than 170 films, play 20 games and use other interactive services.

At the end of 2007 the network of digital terrestrial television (DVB-T) transmitters worked already in the five biggest cities

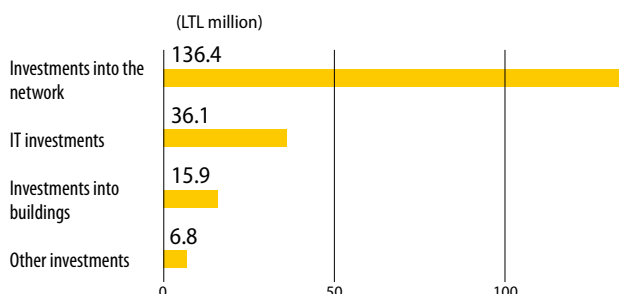
and their suburbs and the DVB-T signal was available to 76 per cent of residents of Lithuania. In 2008, the DVB-T network will be further expanded and by the end of the year 95 per cent of residents will have the possibility to watch digital broadcasts.

## ■ TELEPHONY

In 2007, much attention was paid to increasing the reliability of telephony services provided on the basis of the VoIP (Voice Over IP) technology and well as to assuring their quality. In 2007, the VoIP services development platform was implemented and adjusted. On the basis of the platform, a terminal equipment management system was created to allow eliminating manual configuration which, due to improving equipment, became complicated and required high qualifications and diligence of staff.

In 2007, capital investments of TEO Group amounted to LTL 195.2 million.

### Breakdown of capital investments in 2007





## THE ORGANIZATION AND PEOPLE

Edis Kasperavičius,  
Director of Human Resources Unit:

**"IN 2007, THERE WERE FURTHER SIGNIFICANT CHANGES IN THE GROUP'S STRUCTURE, MANAGEMENT, CORPORATE CULTURE, QUALITY OF SERVICES AND CUSTOMER CARE".**

In addition to the intensive development of services, one of the main targets in 2007 was to assure the quality of services; therefore the entire chain of customer care processes, starting from sales and ending with installation and maintenance, is concentrated in one division.

### ■ NEW ORGANISATIONAL STRUCTURE OF TEO

Employees from regional service installation and maintenance sectors have been transferred to new Sales and Customer Care Division. The strategy of service sales to residential customers and the channels of residential customer care have been changed. Service sales have been also included in the functions of engineers and telecommunications specialists. This will enable not only to better know and service the Company's customers in specific geographical territories, but also eventually reach the level when specialists with universal competencies will both sell and install all services.

For the same purpose, Process and Quality Management Department has been transferred to this Division: the former's

functions are closely related with service sales, installation and maintenance processes. Its specialists intensively cooperate with sales, installation and maintenance specialists, therefore their presence in one and the same organizational unit should provide better conditions for their cooperation and assure better quality of services.

New Network Technology Division focuses its activities on the management and development of the backbone network, and also network operation and construction. These tasks are reflected in the name of this Division as well as Departments within its structure: Network Development and Management Department and Network Maintenance Department. Information Technology Department and some regional units have also remained within its structure.

After having concentrated all sales and customer care processes in one Division, regional centres have become the units of Sales and Customer Care Division. As they took over all the functions of residential and small and medium-size business customer care, Business Customers Department can pay all its attention to the care provided to the biggest as well as VIP customers, to provide them complex solutions of our services.

This is reflected in the new name of this Department – Business Solutions Department.

IT Business Development Unit ceased to exist within the structure of the parent company: all its activities, related to the provision of IT services to small and medium-size companies, were transferred to TEO subsidiary Baltic Data Center. Having combined the IT service areas of all business company segments, Baltic Data Center has become an IT company, capable of offering continuing IT services. At the same time, this will allow paying more attention to the development of specific competencies of its employees and to better manage business processes.

There are even more changes in the new organizational structure – the names of some structural units have been specified: Service Development and Marketing Division (formerly Marketing Division), Corporate Administration and Legal Affairs Unit (formerly separate Administration Unit and Corporate and Legal Affairs Unit).

## ■ EMPLOYEES – THE MOST IMPORTANT INVESTMENT

As usually, a lot of attention was paid to the development of professional and managerial competences. In 2007, more than 2,300 (75 per cent) employees of the Group participated in different training programmes, including the project training programmes supported by the Republic and Lithuania and co-financed by the European Union Social Fund. The Management Training Programme was continued and more than 230 managers participated in different training programmes. The Company traditionally continued to support its employees' studies for Master's degree in different universities of Lithuania and abroad. In 2007, TEO allocated, on the average, 23 hours of training per employee (in 2006 – 12 hours). More than LTL 4.3 million, including financial support from the European Union Social Fund, were allocated for the development of employee competencies and increasing their competitiveness.

Seeking to ensure the continuity of the organization's activities and its competitive advantage, maintaining and developing the main competences of the Company, the procedure for the identification, development and motivation of key employees was implemented. The procedure served as a basis to identify the employees of key importance to the Company's business. The employees were covered by investment life and additional health insurance, their reserve was formed, business leadership coaching and excellence training programmes were prepared and trainings were conducted.

The Company paid much attention to improve the attractiveness of its image as an employer: human resources specialists further developed relations with Lithuanian universities, actively participated in career events, cooperated with university career centers. The number of undergraduates alone who performed internship at the Group's companies was more than 100 and some of them remained to work there. The total num-

ber of new employees employed during 2007 was 582.

Traditionally, cooperation among the Group's companies and units was promoted and evaluated. The 2007 survey involved evaluation of the activities of 70 units and 3 subsidiaries, stressing the importance of cooperation, openness, responsibility and proactiveness in mutual relations. 215 managers and specialists of the Company took part in the survey. The survey results confirmed the continuously improving cooperation among the Company's units.

The Company's subsidiary Competence Development Center, having even more expanded the scopes of high technologies, project management and management training, successfully provided services to external customers as well as the companies of TEO Group.

## ■ NEW COLLECTIVE BARGAINING AGREEMENT

Developing long-term experience in cooperation with social partners, in 2007 the Collective Bargaining Agreement was updated and signed. The Agreement defines general organizational principles in the areas of ensuring safe and healthy working conditions, material liability, work remuneration, working and rest time, and employee training, and also expands guarantees and benefits, which help ensure the social security of employees. The parties who signed the Agreement shall be responsible for fulfilment of their obligations, exchange information, and base their relations on mutual trust, understanding and goodwill.

## ■ PLANS FOR THE FUTURE

In 2008, we will further seek enhance the Company's management efficiency, strengthen the responsibility and loyalty of managers and employees, develop professional competences of our employees, especially in priority areas of business development, improve performance quality as well as the employee motivation system.

At the end of 2007, the total number of employees (headcount) in TEO Group was 3,177 (in December 2006 – 3,064).

### Breakdown of employees by companies:

Company name	Number of employees (headcount)
TEO LT, AB	2,274
UAB Lintel	738
UAB Baltic Data Center	136
UAB Kompetencijos Ugdyimo Centras	22
VšĮ TEO Sportas	7

## SPONSORSHIP AND SOCIAL RESPONSIBILITY

Valdas Kaminskas,  
Director of Corporate Communication Unit:

**"IN 2007, TEO ALLOCATED CONSIDERABLE RESOURCES TO THE IMPLEMENTATION OF VARIOUS SOCIAL AND CULTURAL PROJECTS AND PROMOTED THE SOCIAL DEVELOPMENT AND WELFARE OF SOCIETY, STRENGTHENED AND FOSTERED PHILANTHROPIC TRADITIONS IN LITHUANIA".**



### ■ THE PROGRESS OF SOCIETY

The Company remained one of the biggest sponsorship providers in Lithuania and in 2007 allocated LTL 4.6 million to support public, educational, cultural, sports and social projects.

In 2007, TEO started developing a new direction of support – promoting voluntarism among people. The diffusion of the ideas of voluntarism was started from the Company's employees, by providing them with information and knowledge about voluntarism and the benefits of voluntary activities to the society.

Together with public institution Volunteers' Centre (VšĮ Savanorių Centras), a memo "How to become a volunteer?" was published and distributed among TEO employees. The memo was the first publication to provide information about a big number of Lithuanian public organisations inviting volunteers to join them in their work. This memo was distributed to the Company's employees in the beginning of December 2007 – on the eve of the International Volunteer Day.

In 2007, TEO and VšĮ Savanorių Centras, together with their partners: the Lithuanian Free Market Institute and the public poll

and market research company TNS Gallup, launched another voluntarism-related project – a systematic research of voluntarism, which is aimed to explore Lithuanian citizens' opinion on voluntarism, legal environment, experience of foreign countries. The research will be completed and presented to the public in autumn 2008.

Promoting the progress of society and wishing to join efforts towards the creation of such future in which we would like to live and work, where increasing resources would be allocated for material and spiritual creation, in 2007, TEO supported a new project – the survey of civil spirit of the Lithuanian society.

The first such survey in Lithuania was initiated by the Civil Society Institute. It was conducted in order to assess the status of the society and its trends, seeking to draw the attention of citizens and politicians to problems in the development of the civil society and, accordingly, of democracy in Lithuania, because both the quality of democracy and general welfare of the political society depends, to a great extent, on the civil powers possessed by the society. Since now, the Civil Power Index will be determined and announced every year.

The first survey conducted in late 2007 shows that the development of the civil society in Lithuania faces certain difficulties. In 2007 the Lithuanian **Civil Power Index** was **33.9** points out of 100 possible.

The survey showed that the civic participation of Lithuanians is oriented at community activities and social solidarity:

- 45 per cent of residents stated that in the last year they donated money, items or otherwise supported persons or non-governmental organisations;
- 31 per cent of residents took part in environment cleaning undertakings;
- 17 per cent – local community activities;
- 11 per cent of Lithuanian citizens applied to the state institutions to report on breaches of law;
- other civic actions (activities of non-governmental organisations, demonstrations, strikes, etc.) were attended by less than 1 of 10 residents;
- as many as 40 per cent of Lithuanian citizens were not involved in any civic activities in recent years.

## ■ EDUCATION, INFORMATION SOCIETY, DEVELOPMENT OF FUTURE LEADERS

In 2007, already for the fourth year in a row, TEO sponsored the Information Technology contest for school pupils, "Beaver", initiated by the Ministry of Education and Science of the Republic of Lithuania, the Centre of Information Technologies of Education and the Institute of Mathematics and Informatics.

Every year, more and more participants take interest in the contest "Beaver". As compared with the first contest arranged in 2004, last year the contest attracted a two times bigger number of participants. 7,000 pupils from 324 schools took part in the contest arranged in 2007.

During the Information Technology contest "Beaver", through solving original tasks, pupils of grades 5-12 can get familiar with the advantages of IT and children are encouraged to use computers and reveal the advantages provided by modern technologies. More than 100 tasks for the least year's contest were created by IT enthusiasts from 9 countries.

In 2007, TEO granted support to public institution National Student Academy (VšĮ Nacionalinė Moksleivių Akademija) developing children with exceptional abilities.

The National Student Academy (NMA) is a unique and the only organisation in Lithuania for gifted children uniting the most gifted children in various fields from all over Lithuania. The NMA focuses its attention not only on specific knowledge but also on personality development. The NMA was founded in 2004 on the initiative of Lithuanian businessmen. Every year, three children having extremely high achievements in science and five – in music spheres receive individual support from the Mstislav Rostropovich Charity and Support Foundation.

In October 2007, the international conference "Gifted Children: Challenges and Possibilities", organized by the National Student Academy, was held in Kaunas. The conference was devoted to psychological and pedagogical education of extremely gifted children and youth. The conference was attended by the internationally recognized experts in gifted children research and the representatives of the countries developing policies for the education of gifted children who presented their reports during plenary meetings of the conference. TEO became the sponsor of the above-mentioned conference.

In 2007, for the second time TEO supported the yearly schoolchildren's competition organised by the national committee for the Joint World's Colleges for a scholarship for studies in colleges abroad. Advanced eleventh form pupils are invited to take part in the competition; upon completion of studies, pupils are issued international baccalaureate certificate which is adequate to general certificate.

Study and living expenses of students are covered by colleges, but a part of expenses must be paid by students, their parents and the national committee of the Joint World's Colleges. Therefore, TEO granted three scholarships to free competition laureates from any financial problems preventing them from studies. These scholarships will provide assistance to gifted children who are deprived from financial support of their families to study. TEO also granted funds to cover administration expenses of the project.

The international youth entrepreneurship competition Profas (Ace), organised by public institution PROFAT and Lithuanian business leaders for the third year, is becoming a more and more popular form of communication between business representatives and students. In 2007, TEO joined this initiative for the second time – granted financial support to this unique project. Furthermore, the Company's representatives were invited to join the youth's business ideas assessment commission.



## CULTURE

In 2007, TEO further supported some big cultural festivals and events. For the fifth year in sequence, the Company granted its support to the International Modern Dance Festival organised by Kaunas Dance Theatre AURA. Recently, this festival gained immense international recognition – world's premieres are introduced at the festival. In 2007, the Company sponsored one of the biggest cultural events in summer – festival Palanga Summer. Its events were visited by over 100,000 Lithuanian citizens and guests. The Vilnius Small Theatre, supported by TEO, proceeded with further development of children plays programme.

In September 2007, the team of Lithuanian designers organised an original action "Designers for Ecology" in Vilnius. During the action, everyone who brought 20 plastic bags could exchange them into the bags created by famous Lithuanian designers and made from environmentally-friendly materials, such as recycled paper, cotton, linen.

The action was aimed to show the citizens into which dumpsites our cities can turn, if we are not concerned about damage caused to environment. TEO approved of this idea by joining the action and supporting this initiative – the logo of ZEBRA (Internet services provided by TEO) was placed on the original bags created by the designers.

In February 2007, projection of the film "Whisper of Sin", authors of which are Algimantas Puipa and writer Jurga Ivanauskaitė, was launched in the cinema theatres of Lithuania. The scenario of the film is based on the "bestseller" of J. Ivanauskaitė "The Witch and The Rain", interwoven with motifs of other novels by the national award laureate – "Placebo" and "Gone With The Dreams". The film "Whisper of Sin" – an important event for Lithuanian cinema. Production of this film was supported by TEO.

A new GALA Film Festival that started in November 2007 was sponsored by TEO. The name of the service – the digital television GALA – provided by TEO became a part of the project's name. According to the festival organisers, the digital television GALA and the new festival are interrelated by the quality contents and focus on cinema lovers.

In January 2008, Pravda, a free culture publication, awarded the prizes to the best newcomers of the last year for the third time. The GALA Festival, having outrivalled 6 nominees, won in the category the "Best Newcomer in Cinema 2007". In the awards organised by the Pravda, almost 65,000 people cast their votes this year.

On 29 August 2007, a sculpture dedicated for the Lithuanian basketball was solemnly unveiled in Vilnius. The sculpture was created within the framework of the project "To Those We Are Proud Of", one of the sponsors of which was TEO.

The sculpture of impressive size symbolizing a hand holding a basketball ball, created by famous Lithuanian sculptor and painter Tadas Gutasukas, has the names of the 37 most distinguished Lithuanian basketball players and their coaches engraved on it.

Every citizen of Lithuania had the possibility to elect and vote online for the most distinguished Lithuanian basketball players, thus contributing to the creation of the sculpture and becoming its co-author. The names of the elected ones – 24 men basketball players, 8 women basketball players and 5 coaches – were eternalized on the columns of the sculpture. Every four years, new names of basketball players and events significant for the history of the Lithuanian basketball will be engraved on the sculpture, therefore it will never lose its relevance in the future.

In 2007, TEO allocated about LTL 300 thousand to the Communications Development Museum in Kaunas for its maintenance and for renewing its collection of exhibits. The museum contains collections of post, radio, telegraph, telephone and informatics exhibits revealing the development of communications in Lithuania and all over the world since the 16th century, documentary materials on the history of communications means. These exhibits are important not only for Lithuania, but also for all Eastern Europe.

## SOCIAL PROJECTS

The friendship between TEO and the Children Support Centre (VšĮ Paramos Vaikams Centras) has continued for three years now. The Children Support Centre in Lithuania organises a programme having deep traditions in the world "Big Brothers Big Sisters" inviting adults in their free time to communicate with children suffering from psychological crisis and hardships, to help them to overcome their problems and to understand how strong the power of friendship is.

TEO support enables to invite more children to take part in the programme Big Brothers Big Sisters, to organise various events and festivals, camps, as well as to draw public attention to the programme and assistance offered by it to a child in trouble. In 2007, TEO employees donated LTL 30 thousand to the Children Support Centre.

In 2007, different ideas of "Stop Bullying", a child abuse prevention campaign, were implemented on the initiative of the Child Line, providing support by telephone and Internet.

The "Stop Bullying" campaign, implemented by the Child Line, received attention from diplomats residing in Lithuania as well as from public figures. On 27 January 2007, Robertas Povilaitis, Head of the Child Line, was presented a Man of Tolerance 2006 award from the Sugihara Foundation – Diplomats for Life.

During 2007 the volunteers of the Youth Line in Vilnius, Kaunas and Klaipėda answered almost 100,000 calls from all over Lithuania. The volunteers often have to help persons who consider committing suicide – every day they receive several such calls.

In 2007, the Internet counselling program "Letters to a Friend" of the Youth Line was renewed and its activities were expanded substantially. From now on, all letters are answered within 12 hours on the average. More than 150 letters are received per month. One girl left the following message in the Response column: "It seems that you are writing such nonsense and it will not be interesting to anybody, because my troubles are not theirs, but it is the only place where I get help, which others can't offer".

In 2007, the Company continued to support the publishing of books in Braille. With support from TEO, VšĮ Brailio Knyga ("Braille Book") published another book from the popular book series about Harry Potter – "Harry Potter and the Goblet of Fire", and also started publishing the book "Harry Potter and the Half-Blood Prince". So visually handicapped children will have the possibility to enjoy all the books by J. K. Rowling about Harry Potter, a young sorcerer, that have been translated so far into Lithuanian. With the Company's support, the following books have been also published in Braille: "Best Friend" by Vytautas Račickas and "Lost Vilnius" by Vidas Drėma.

## ■ SUPPORT TO COMMUNITIES

By actively participating in community life, TEO creates relations with residents of local communities. In 2007, the Company supported 60 cultural projects in communities, festivals in cities and towns, other initiatives of communities. Especially big attention was given to festivals with unique traditions, reflecting the cultural or historical oneness of towns.

In cooperation with town municipalities, TEO started implementing the children and youth engagement project, during which outdoor basketball courts in 21 towns were renovated – ground covers, stands were changed or renovated, backboards and basket hoops were installed.

In October 2007, schoolchildren already received an opportunity to play on renovated basketball courts in Panevėžys, Anykščiai, Kelmė, Tauragė, Klaipėda,

Druskininkai, Joniškis and Marijampolė. The Company, through implementing the project of basketball courts renovation, seeks to contribute to the promotion of local communities' lives, active and healthy lifestyles and especially engagement of children. The locations of outdoor basketball courts have been selected in such way as to maximize their effective use – on most of them schoolchildren play during daytime and people from surrounding houses – during after-school hours.

It is interesting that the ground covers of basketball courts are made of acrylic material, which is manufactured using rubber granules, derived from recycled used car tyres.

## ■ SPORTS AND HEALTHY LIFESTYLE PROMOTION

In 2007, TEO was the biggest supporter of the Vilnius women's basketball team TEO.

TEO – the strongest women basketball team in the Baltic region and one of the most powerful ones in Europe. In 2007, the team became the champion of the Lithuanian Women's Basketball League for the tenth time, and also took the 1st place at the Baltic Women's Basketball League for the eighth season in succession. It is the only Lithuanian team fighting in the Europe's most prestigious women's basketball tournament – EuroLeague.

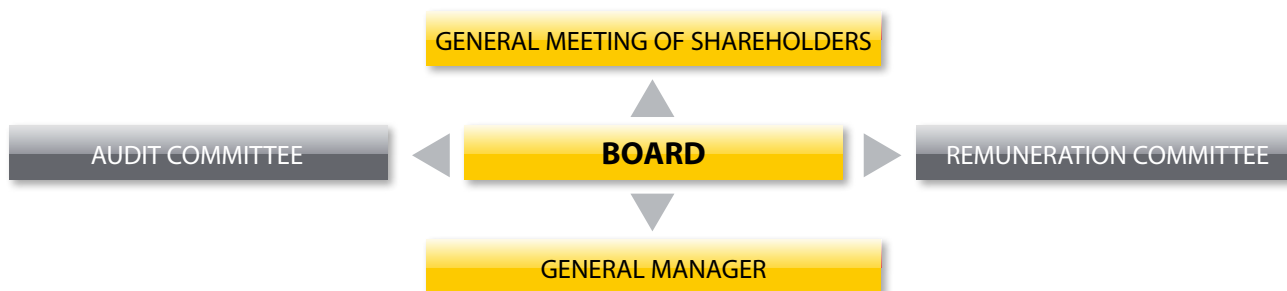
Seeking to encourage the holidaymakers of the most popular Lithuanian resort to spend their leisure and holiday time actively and purposefully, already for the second year in a row, in summer 2007 the Company opened a ZEBRA Club on the beach in Palanga that became an active leisure zone.

Every morning, ZEBRA Sport instructors invited holidaymakers to start their day with ZEBRA exercise, afternoons – by joining a ZEBRA fiesta and playing active beach games: small football, beach volleyball and various relay races.

The high-speed wireless Internet access was available at the ZEBRA Club. The Club's visitors had the possibility to check their e-mail, browse the Internet and read the hottest news free of charge.

## MANAGEMENT AND CORPORATE GOVERNANCE

According to the By-Laws of TEO LT, AB the managing bodies of the Company are the General Meeting, the Board and the General Manager. The Company does not have a Supervisory Council.



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

The members of the Board serving on the Board of the Company are acting jointly as a governing body of the Company. The Board consists of seven members of the Board. 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 of the Republic of Lithuania on Companies. 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 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 Annual General Meeting of TEO LT, AB shareholders on 26 April 2007 decided to recall from the Board of the Company all members of the Board: Erik Hallberg, Morgan Ekberg, Matti Hyyrynen, Brita Hanberger, Gert Tiivas, Gintautas Žintelis and Valdo Kalm.

Shareholders elected to the Board of the Company for new term of the Board (for 2 years) nominees proposed by Amber Teleholding A/S: Jörgen Latte, Anders Gylder, Ove Alm, Joakim Sundström, Björn Lindegren, Matti Hyyrynen (proposed to Amber Teleholding A/S by East Capital) and Gert Tiivas (proposed to Amber Teleholding A/S by East Capital).

Gert Tiivas resigned from the Board as of 28 April 2008.

## ■ BOARD

(as of 31 December 2007)



### 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.

CFO of TeliaSonera AB Business Area Broadband Services (Sweden).

Chairman of the Supervisory Board of Elion Ettevõtte AS (Estonia); Deputy Chairman of the Supervisory Board of Lattelecom (Latvia); member of the Supervisory Board and Audit Committee of Eesti Telekom (Estonia); Chairman of the Board of Infonet Svenska AB (Sweden), TeliaSonera Sverige Net Fastigheter AB (Sweden), TeliaSonera Skanova Access AB (Sweden), Telia Electronic Commerce AB (Sweden), Telia Lithuania AB (Sweden), Adminson AB (Sweden), Amber Teleholding A/S (Denmark) and Tilts Communications A/S (Denmark); member of the Board of Telia Pensionfund (Sweden), TeliaSonera International Carrier AB (Sweden), TeliaSonera Försäkring AB, Stofa A/S (Denmark) and NextGenTel Holding ASA (Norway); a deputy member of the Board of Avnos AB (Sweden).

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.

Executive Vice President at TeliaSonera AB Business Area Broadband Services (Sweden). From 1 January 2008 CEO of TeliaSonera Skanova Access AB (Sweden).

A member of the Supervisory Board and the Remuneration and Nomination Committee of Eesti Telekom (Estonia); member of the Supervisory Board of Elion Ettevõtte AS (Estonia).

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).

Head of Product and Production at TeliaSonera AB Business Area Broadband Services (Sweden).

A member of the Supervisory Board of Lattelecom (Latvia), member of the Board Telia Stofa A/S (Denmark) and NextGenTel Holding ASA (Norway).

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.

Vice President of Business Control at TeliaSonera AB Business Area Broadband Services (Sweden).

A member of the Supervisory Board and the Audit Committee of Lattelecom (Latvia); member of the Board of Sergel Kredittjanster AB (Sweden).

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.

General Counsel at TeliaSonera AB Business Area Broadband Services (Sweden).

A member of the Supervisory Board of Lattelecom (Latvia); member of the Board of TeliaSonera Network Sales AB, TeliaSonera International Carrier AB, TeliaSonera Sverige Asset Finance AB, TeliaSonera Skanova Access AB, TeliaSonera Net Fastigheter AB, Telia Electronic Commerce AB and Telia Lithuania AB; member of the Board and managing director of Amber Teleholding A/S (Denmark).

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 Hyryrynen

(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.

Head of the Vilnius Representative Office of European Bank for Reconstruction and Development and responsible for the bank's business in the three Baltic countries.

As of 31 December 2007 East Capital (Sweden), a company that nominated Matti Hyryrynen to the Board of TEO LT, AB, held 18,601,390 shares and 1,398,965 GDRs of TEO LT, AB that accounts to 4 per cent of the share capital and gives 4.20 per cent of votes.

Matti Hyryrynen 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.



### Gert Tiivas

(born in 1973) – a member of the Board of TEO LT, AB since 24 April 2006 (re-elected for the two-year term on 26 April 2007; nominated by East Capital through Amber Teleholding A/S), member of the Audit Committee of the Board of TEO LT, AB.

Managing director of East Capital Explorer (Sweden).

Member of the Board of Baltika AS (Estonia), AVEC Asset Management AS (Estonia), Cantik Enterprises Ltd. (Ukraine), Pervomayskaya Zarya Ltd. (Russian Federation), JSC Open Investments (Russian Federation), RURIC AB (Sweden), Explorer Property Fund – Baltic States AB (Sweden), AVEC Baltic Property

Fund AB (Sweden), Henryland Ltd. (Ukraine), East Capital Explorer Investments (Sweden) and East Capital Power Utilities Fund (Sweden)

As of 31 December 2007 East Capital (Sweden), a company that nominated Gert Tiivas to the Board of TEO LT, AB and is affiliated with East Capital Explorer, held 18,601,390 shares and 1,398,965 GDRs of TEO LT, AB that accounts to 4 per cent of the share capital and gives 4.20 per cent of votes.

Gert Tiivas has no direct interest in the share capital of TEO LT, AB. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

## ■ MANAGEMENT

(as of 31 December 2007)

### General Manager (CEO)



#### **Arūnas Šikšta**

(born in 1968) from 2 January 2004 took the office of General Manager (CEO) of the Company.

He has a degree in Management from Natural Science Faculty of Klaipėda University (1995). From 2007 he studies at Vienna University of Economics and Business Administration, PMBA.

Chairman of the Board of UAB Voicecom, a subsidiary of TEO LT, AB; Deputy Chairman of the Board of AAS Gjensidige Baltic, a subsidiary of Norwegian non-life insurance company Gjensidige Forsikring BA; a member of the Council of the International Business School at Vilnius University; a member of the Board of Big Brothers Big Sisters International, Philadelphia, U.S.A.

He 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.

### Chief Sales Officer and Deputy General Manager



#### **Darius Gudačiauskas**

(born in 1975) from 1 March 2006 took the office of Chief Sales Officer and Deputy General Manager of the Company.

He has a Bachelor degree of Business Administration (1997), Master of Business Administration (1999) and Doctor of Social Sciences, Economics (2004), at Vilnius Gediminas Technical University.

Chairman of UAB Lintel, a subsidiary of TEO LT, AB.

He 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.

### Chief Marketing Officer and Deputy General Manager



#### **Nerijus Ivanauskas**

(born in 1970) from 1 March 2006 took the Office of Chief Marketing Officer and Deputy General Manager of the Company.

He has Bachelor of Econometrics from Vilnius University (1993), Candidate Master of Business Administration at International Management School, Budapest, Hungary (1995), and Master of Business Administration at Emory University, Atlanta, U.S.A. (1996).

From 4 January 2008 member of the Board and General Manager of UAB Nacionalinė Skaitmeninė Televizija, a subsidiary of TEO LT, AB.

He 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.

## Chief Technology Officer and Deputy General Manager



### **Darius Didžgalvis**

(born in 1969) from 9 February 2005 holds an office of Chief Technology Officer and Deputy General Manager of the Company.

He is engineer in radio electronics (1993), MSc in Telecommunication Engineering (2001) and International Executive MBA (2003).

Chairman of the Board of UAB Nacionalinė Skaitmeninė Televizija; member of the Board of UAB Voicecom. Both companies are subsidiaries of TEO LT, AB.

He 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.

## Chief Financial Officer and Deputy General Manager



### **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.

In 1967, he graduated from Uppsala University as BA in Management, Managerial Economy, Political Economy and Statistics.

Member of the Board of UAB Lintel and UAB Voicecom. Both companies are subsidiaries of TEO LT, AB. Member of the Board of Swedish Chamber of Commerce in Lithuania.

He 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.

## ■ MAIN UNITS



**Kastytis Kmitas,**  
Director of Internal Audit Unit



**Giedrius Vegys,**  
Director of Risk Management Unit



**Edis Kasperavičius,**  
Director of Human Resources Unit



**Eglė Gudelytė-Harvey,**  
Director of Corporate Administration  
and Legal Affairs Unit



**Vytautas Valionis,**  
Director of Strategic Development  
and Research Unit



**Valdas Kaminskas,**  
Director of Corporate  
Communication Unit

## ■ ADVISOR TO GENERAL MANAGER



**Ugnius Trumpa,**  
Corporate Strategy Advisor

## ■ SALES AND CUSTOMER CARE DIVISION



**Aleksandr Samuchov,**  
Director of Business Solutions  
Department



**Vytautas Bučinskas,**  
Director of Sales Development  
Department



**Arnoldas Žukauskas,**  
Director of Carrier Business  
Department



**Renaldas Radvila,**  
Director of Process and Quality  
Management Department



**Raimondas Geleževičius,**  
Director of Vilnius Regional Center



**Loreta Ivašauskienė,**  
Director of Kaunas Regional Center



**Larijus Lapinskas,**  
Director of Klaipėda Regional  
Center



**Arvydas Murza,**  
Director of Šiauliai Regional Center



**Rimantas Misevičius,**  
Director of Panevėžys Regional  
Center



## ■ SERVICE DEVELOPMENT AND MARKETING DIVISION



**Nerilė Mažeikienė,**  
Director of Service  
Development Department



**Andrius Danilaitis,**  
Director of Market  
Segmentation Department



**Daiva Jakštienė,**  
Acting Director of Advertising  
Department



**Mantas Katinas,**  
Director of Internet Content  
Development Department

## ■ NETWORK TECHNOLOGY DIVISION



**Aleksas Naudžiūnas,**  
Director of Network Development  
and Management Department



**Haroldas Šulčinskas,**  
Director of Network  
Maintenance Department



**Gintaras Monkevičius,**  
Director of Information  
Technology Department

## ■ FINANCE DIVISION



**Aldona Galdikaitė,**  
Director of Economics Department,  
Director of UAB Voicecom



**Dzintra Tamulienė,**  
Director of Accounting Department

## ■ SUBSIDIARIES



**Remigijus Šeris,**  
Director of UAB Lintel



**Saulius Markūnas,**  
Director of UAB Baltic Data  
Center



**Vygintas Jasiulis,**  
Director of UAB Kompetencijos  
Ugdymo Centras



**Arvydas Tamašauskas,**  
Director of VšĮ TEO Sportas

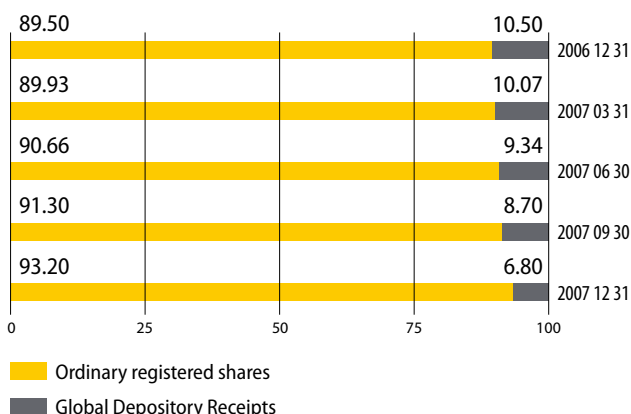
## TEO SHARES AND SHAREHOLDERS

The share capital of TEO LT, AB consists of 814,912,760 ordinary registered shares of LTL 1 nominal value 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.

From 2000 the Company runs a Global Depository Receipt (GDR) program. According to the program, one GDR represents 10 ordinary registered shares of the Company. 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.

### Structure of TEO LT, AB capital (%)



## SHAREHOLDERS

The main shareholder of TEO is TeliaSonera AB, a Nordic and Baltic telecommunications leader, that indirectly through its subsidiary Amber Teleholding A/S controls 60 per cent of the Company's shares.

In September 2007, TEO took over treasury stocks from its subsidiary UAB Lintel. The treasury stocks were acquired during the Initial Public Offering in the year 2000. At the end of 2007, TEO LT, AB held 12,698,412 ordinary registered shares and 2,539,683 GDRs, i.e. 4.67 per cent of the Company's share capital.

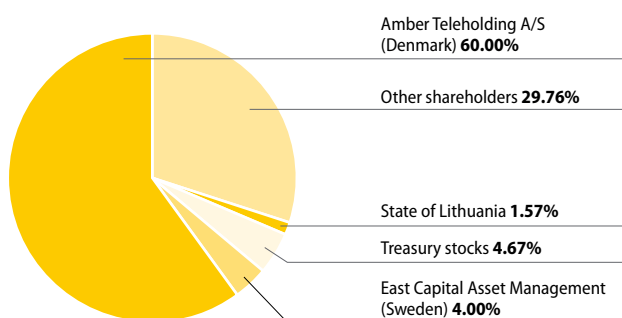
In 2007, the State of Lithuania continued to give up shares of the Company as compensation to Lithuanian citizens for realty redeemable by the State of Lithuania, so its shareholding went down from 1.66 per cent (31 Dec. 2006) to 1.57 per cent (31 Dec. 2007).

Swedish investment fund East Capital also reduced its stake in the Company's share capital from 5.57 per cent at the beginning of 2007 to 4 per cent at the end of 2007.

Other more than 14 thousand shareholders of the Company held 29.76 per cent of shares.

In 2007, a record dividend of LTL 202 million or LTL 0.26 per share were paid.

### Shareholders of TEO LT, AB as of 31 December 2007



### Breakdown of TEO LT, AB shareholders by the country of residence as of 31 December 2007

Country	Number of shareholders	Number of shares	Share TEO share capital (%)
Denmark	1	488,947,656	60.00%
Lithuania	13,987	129,869,881	15.94%
Estonia	10	73,463,497	9.01%
U.S.A. (a)	33	65,873,870	8.08%
Sweden	13	43,773,672	5.37%
United Kingdom	12	4,004,763	0.49%
Iceland	3	2,554,138	0.31%
South Korea	2	2,115,100	0.26%
Latvia	11	1,919,022	0.24%
Finland	8	690,507	0.08%
Germany	5	689,241	0.08%
France	2	593,100	0.07%
Cayman Islands	1	162,352	0.02%
Norway	2	51,646	0.01%
Slovenia	1	34,500	0.00%
Italy	4	32,388	0.00%
Switzerland	2	28,029	0.00%
Russia	3	25,401	0.00%
Greece	4	18,670	0.00%
The Netherlands	1	18,000	0.00%
Republic of Belarus	2	14,400	0.00%
Australia	1	12,500	0.00%
Luxemburg	1	7,610	0.00%
China	1	5,250	0.00%
Ireland	4	3,850	0.00%
Poland	1	3,000	0.00%
Austria	1	430	0.00%
Argentina	1	287	0.00%
<b>Total</b>	<b>14,117</b>	<b>814,912,760</b>	<b>100.00%</b>

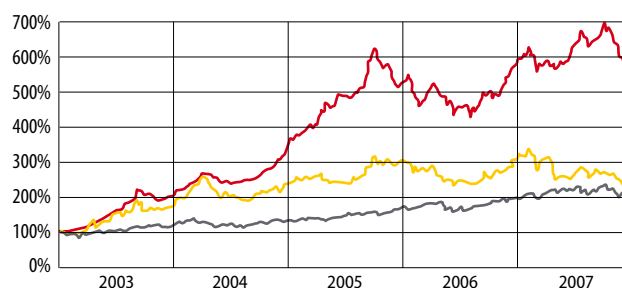
NOTE: (a) The Depository Bank of the Global Depository Receipts program is registered in U.S.A.



### Breakdown of TEO LT, AB shareholders registered in Lithuania as of 31 December 2007

	Number of shareholders	Number of shares	Share of TEO share capital (%)
Private individuals	13,837	80,671,699	9.90%
Legal entities	101	16,143,450	1.98%
Banks and financial institutions	11	13,351,575	1.64%
State of Lithuania. represented by State Property Fund	1	12,442,855	1.53%
Insurance companies	16	3,445,183	0.42%
Investment funds	9	3,161,938	0.39%
State of Lithuania. represented by State Tax Authorities	3	362,630	0.04%
Financial brokerage companies	9	290,551	0.04%
	<b>13,987</b>	<b>129,869,881</b>	<b>15.94%</b>

### TEO LT, AB share price and Vilnius Stock Exchange indexes development during 2003-2007



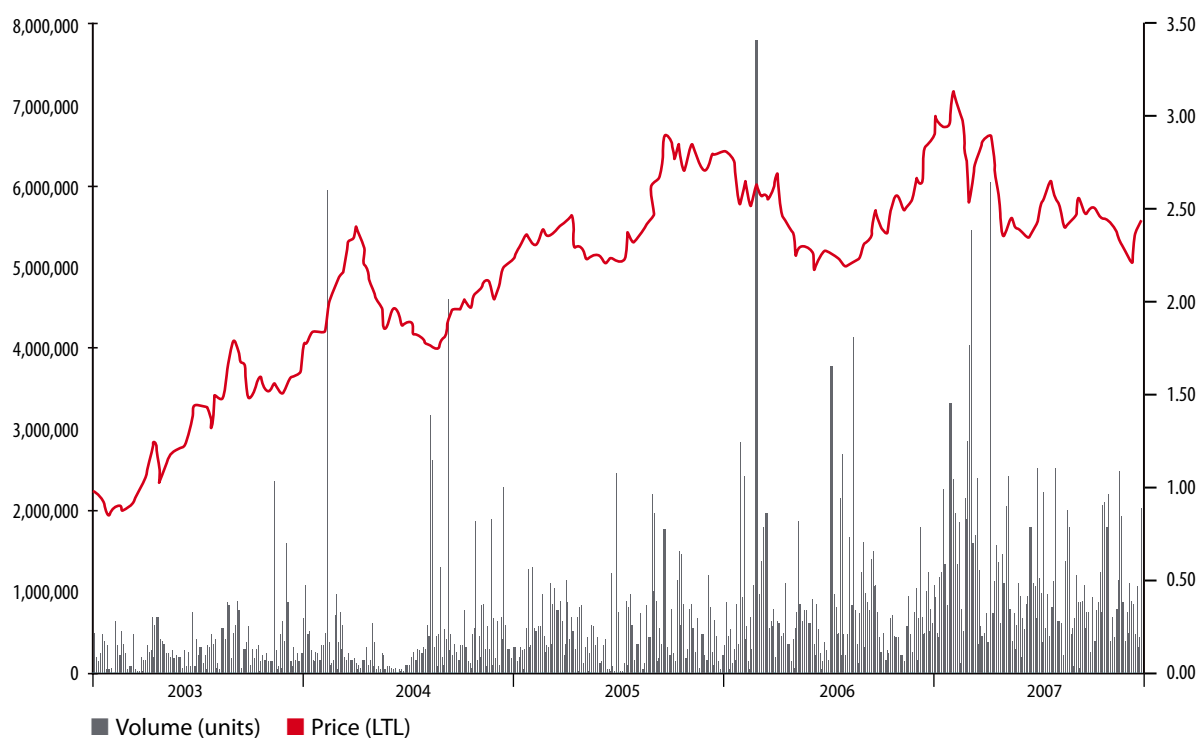
	2003-01-01	2007-12-31	Change (%)
■ OMX Vilnius Index	84.78	514.23	506.55
■ OMX Nordic 40 Index	633.37	1,264.78	99.69
■ TEO LT, AB share price	0.95 LTL	2.37 LTL	149.47

### ■ TRADING IN TEO SHARES

Shares of the Company are listed on the Baltic Main List of the Vilnius Stock Exchange (VSE) (trading code: TEO1L) and TEO GDRs are traded on the London Stock Exchange (LSE) (trading code: TEOL).

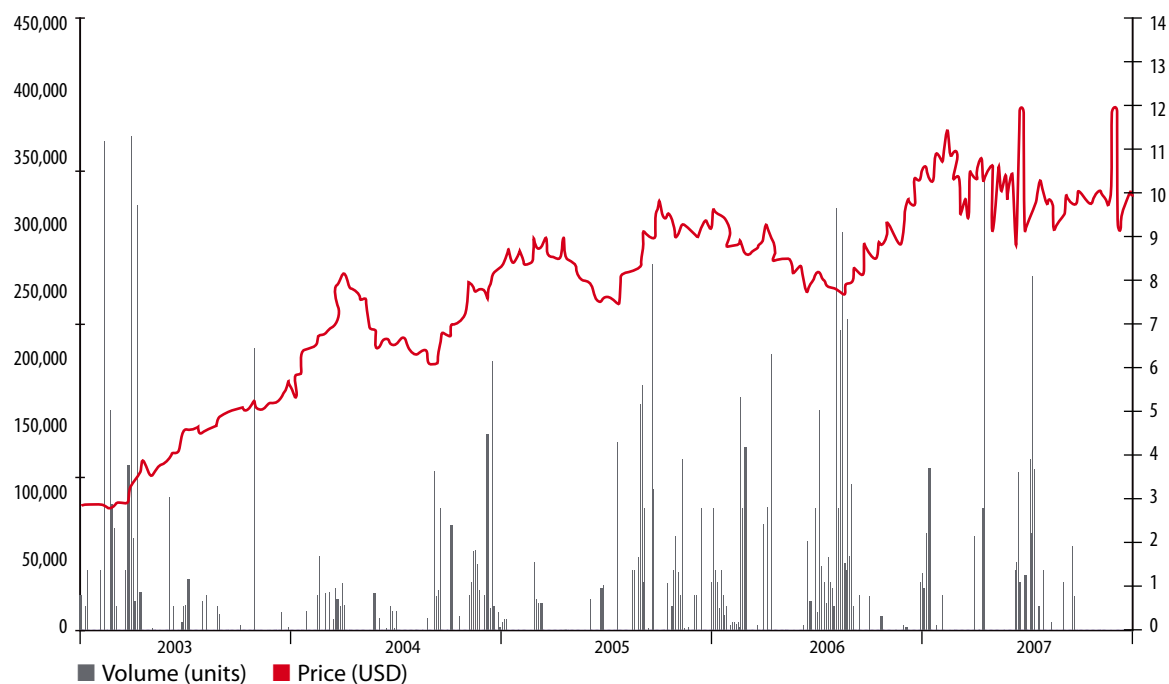
In 2007, trading in TEO shares was very volatile and strongly influence by trends on global equity markets.

### Trading in the Company's shares on the Vilnius Stock Exchange during 2003-2007



**Trading in TEO shares on the Vilnius Stock Exchange**

	2007	2006	2005	2004	2003
Opening price (LTL)	2.77	2.71	-	-	0.91
Highest price (LTL)	3.08	2.80	2.85	2.36	1.74
Lowest price (LTL)	2.16	2.10	2.15	1.56	0.83
Average price (LTL)	2.54	2.40	2.41	1.91	1.32
Closing price (LTL)	2.37	2.76	2.71	2.15	1.57
Volume (units)	197,630,335	132,841,063	83,526,590	71,877,806	46,444,633
Turnover (LTL million)	502.85	318.32	201.68	136.34	61.41
Capitalisation (LTL million)	1,931.34	2,249.16	2,208.41	1,752.06	1,279.41

**Trading in the Company's Global Depository Receipts on the London Stock Exchange during 2003-2007**

Trading in TEO Global Depository Receipts on London Stock Exchange was not as active in 2007 as in 2006 because more GDR are converted into ordinary shares and traded on Vilnius Stock Exchange.

**Trading in TEO Global Depository Receipts on the London Stock Exchange**

	2007	2006	2005	2004	2003
Highest price (USD)	12.00	10.60	9.82	8.50	5.50
Lowest price (USD)	8.83	7.70	7.45	5.26	2.65
Closing price (USD)	10.04	10.60	9.30	8.50	5.50
Volume (units)	2,590,357	4,203,108	2,226,190	1,940,320	2,892,798
Turnover (GBP million)	13.02	19.09	17.56	7.82	6.10

## INFORMATION TO INVESTORS

### ■ ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of TEO LT, AB will be held at the head-office of TEO LT, AB at Savanorių ave. 28, Vilnius, Lithuania, at 1 p.m. on Tuesday, 29 April 2008.

Shareholders who at the end of the shareholders' meeting record day, 22 April 2008, will be on the Shareholders' List of the Company have the right to participate and vote in the Annual General Meeting.

One ordinary registered share (ORS) of TEO LT, AB gives one vote in the General Meeting of Shareholders. Share capital of the Company consists of 814,912,760 ordinary registered shares of one litas nominal value 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.

According to the TEO LT, AB Global Depository Receipt (GDR) program, one GDR represents 10 ordinary registered shares. Depository bank - Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A.

### ■ DIVIDENDS

Dividends will be paid to the shareholders who on the dividend record day, 29 April 2008, i.e. the day of the Annual General Meeting of Shareholders, will be on the Shareholders' List of the Company.

The Trading Rules of the Vilnius Stock Exchange stipulate that the right of ownership of securities transferred via transactions on the central market is to be passed on the day of settlement for the transaction on the central market, i.e. the third business day after conclusion of the transaction. Trading in TEO shares on the central market of the Vilnius Stock Exchange will be stopped on 29 April 2008 from 1 p.m., i.e. during the Annual General Meeting of Shareholders.

In 2007, the Company paid out to the shareholders LTL 201,973 thousand of dividends or 0.26 litas per share for the year 2006. Following the Law dividends were paid to the shareholders who on the dividend record day, 26 April 2007, i.e. the day of the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. On 23 May 2007 dividends to all share and GDR holders were paid in cash.

The Law of the Republic of Lithuania on Companies provides that dividends are to be paid within one month from the day of making a decision on profit distribution. Following the Lithuanian legislation, dividends for the year 2007 are subject to

the withholding tax of 15 per cent, if the law does not provide exceptions.

### ■ FINANCIAL REPORTS

The Annual Report of TEO LT, AB for the year 2007 in the English and Lithuanian languages as well as other Company's financial reports and press releases are available online at [www.teo.lt](http://www.teo.lt).

In 2008, TEO Group financial results will be released on the following dates:

- Consolidated Financial Statements for the first 3 months of 2008: April 17
- Consolidated Financial Statements for the first 6 months of 2008: July 21
- Consolidated Financial Statements for the first 9 months of 2008: October 15.

### ■ EQUITY RESEARCH

The following banks and securities brokerage houses analyzed the value of the Company's share in 2007:

DnB NORD Tel. +370 5 239 3776	Hansabank Markets Tel. +370 5 268 4395
Orion Securities Tel. +370 5 239 2158	EVLI Group Tel. +372 640 5700
SEB Enskilda Tel. +370 5 268 1237	Žabolis ir Partneriai Tel. +370 5 266 1259

### ■ INVESTOR RELATIONS

#### **Darius Džiaugys,**

Head of Information Sector,  
Corporate Communication Unit,  
Tel + 370 5 236 78 78  
Fax + 370 5 231 38 60  
e-mail: [darius.dziaugys@teo.lt](mailto:darius.dziaugys@teo.lt)

### ■ BEST INVESTOR RELATIONS IN LITHUANIA

In October, for the fourth time international IR Magazine recognised TEO as the Lithuanian company maintaining the best relations with its investors.

During the second Baltic Market Awards arranged by OMX's exchanges in Vilnius, Tallinn and Riga for recognizing the best practices in investor relations, TEO LT, AB for the second time received the main award. The Lithuanian telecommunications company was awarded for the Best Investor Relations in the Baltic Countries and for the second time TEO was elected as the Best Investor Relations of Vilnius Stock Exchange.

## CONTACT INFORMATION

**TEO LT, AB**

Savanorių ave. 28  
LT-03501 Vilnius, Lithuania  
Tel. 1511, + 370 5 262 1511  
Fax + 370 5 212 6665  
[www.teo.lt](http://www.teo.lt)

**UAB Lintel**

J. Galvydžio str. 7/Žygio str. 97  
LT-08222 Vilnius, Lithuania  
Tel. 1808, + 370 5 236 8301  
Fax + 370 5 278 3322  
[www.lintel.lt](http://www.lintel.lt)

**UAB Baltic Data Center**

Žirmūnų str. 141  
LT-09128 Vilnius, Lithuania  
Tel. + 370 5 274 8360  
Fax + 370 5 278 3399  
[www.bdc.lt](http://www.bdc.lt)

**UAB Kompetencijos Ugdymo Centras**

Palangos str. 4, 3rd Floor  
LT-01117 Vilnius, Lithuania  
Tel. + 370 5 274 8477  
Fax + 370 5 212 1569  
[www.kuc.lt](http://www.kuc.lt)

**UAB Voicecom**

Savanorių ave. 28  
LT-03501 Vilnius, Lithuania  
Tel. + 370 5 236 7209  
Fax + 370 5 231 3860

**VšĮ TEO Sportas**

Savanorių ave. 28  
LT-03116 Vilnius, Lithuania  
Tel. + 370 5 276 8790  
Fax + 370 5 271 3650  
[www.teobasket.lt](http://www.teobasket.lt)

## MAIN FIGURES OF TEO GROUP

FINANCIAL FIGURES	2007	2006	2005	2004	2003
Revenue (LTL million )	793	735	730	721	808
EBITDA (LTL million)	352	352	354	336	386
EBITDA margin (%)	44.4	47.9	48.5	46.6	47.8
Operating profit (LTL million)	185	158	106	45	(11)
Operating profit margin (%)	23.4	21.6	14.5	6.2	(1.4)
Profit (loss) before income tax (LTL million)	196	162	109	41	(38)
Net profit (loss) (LTL million)	163	131	84	34	(35)
Net profit margin (%)	20.5	17.8	11.5	4.7	(4.3)
Total assets (LTL million)	1,206	1,249	1,259	1,280	1,542
Shareholders' equity (LTL million)	1,071	1,110	1,104	1,121	1,136
Capital investments (LTL million)	195	116	73	75	51
Number of shares, excluding treasury stocks (thousand)	776,818	776,818	776,818	776,818	776,818
Earnings per share (LTL)	0.21	0.17	0.11	0.04	(0.05)
Paid out dividend per share (LTL)	0.25 (a)	0.26	0.16	0.13	0.06
Share price at the end of period (LTL)	2.37	2.76	2.71	2.15	1.57
RATIOS					
Return on capital employed (%)	18.4	14.4	9.6	3.7	(0.8)
Average return on assets (%)	15.7	12.6	8.3	3.3	(0.7)
Return on shareholders' equity (%)	15.3	11.8	7.5	2.9	(3.1)
Gearing ratio (%)	(34.8)	(26.9)	(25.8)	(8.7)	7.5
Debt to equity ratio (%)	0.7	0.8	1.7	1.8	17.9
Current ratio (%)	443.6	536.5	519.0	306.0	93.3
Rate of turnover of assets (%)	67.0	58.6	57.5	51.2	47.3
Equity to assets ratio (%)	88.8	88.8	87.7	87.6	73.7
Dividend payout ratio (%)	119.3 (a)	154.9	149.5	313.7	(134.6)
Price to earnings ratio	11.3	16.2	24.6	53.8	(31.4)
OPERATING FIGURES					
Number of fixed telephone lines in service	788,946	784,958	798,617	819,147	828,318
Penetration of lines per 100 residents	23.4	23.2	23.5	23.9	24.0
Digitalisation rate (%)	94.0	93.9	93.5	92.7	91.2
Number of broadband Internet connections (DSL, LAN, FTTH, WiFi)	258,552	180,774	104,798	50,199	25,085
Number of wireless Internet (WiFi) hot-spots	3,182	804	287	-	-
Number of IP TV customers	17,453	4,902	-	-	-
Number of personnel at the end of period	3,177	3,098	3,005	3,120	3,586

NOTE. (a) On 13 March 2008 the Board of the Company proposed to the Annual General Meeting of Shareholders that will take place on 29 April 2008 to pay a dividend of LTL 0.25 per share for the year 2007.

**TEO LT, AB**

**FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT  
AUDITOR'S REPORTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>CONTENTS</b>	Pages
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>3 - 4</b>
<b>FINANCIAL STATEMENTS</b>	<b>5 - 51</b>
INCOME STATEMENT	5
BALANCE SHEET	6
STATEMENT OF CHANGES IN EQUITY	7
CASH FLOW STATEMENT	8 - 9
NOTES TO THE FINANCIAL STATEMENTS	10 - 51
<b>CONSOLIDATED ANNUAL REPORT</b>	<b>52 – 102</b>

**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 - 51 which comprise the balance sheet as of 31 December 2007 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 the EU. 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*

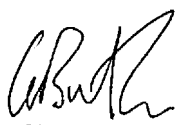
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2007 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.



**Report on other legal and regulatory requirements**

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2007 set out on pages 52 – 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 2007.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
21 March 2008



Ona Armalienė  
Auditor's Certificate No.000008

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

Approved by the Annual General Meeting of  
Shareholders as at \_\_ April 2008

**INCOME STATEMENT**

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2007	2006	2007	2006
<b>Continuing operations</b>					
<b>Revenue</b>	<b>5</b>	<b>793,450</b>	<b>734,811</b>	<b>771,527</b>	<b>717,035</b>
Other income	6	4,056	4,367	35,231	44,783
Employee related expenses		(160,564)	(127,208)	(132,235)	(105,225)
Interconnection expenses		(119,460)	(105,329)	(119,460)	(105,329)
Other operating expenses	7	(171,638)	(158,951)	(192,196)	(175,799)
Depreciation, amortisation and impairment of fixed assets	13	(166,696)	(193,500)	(159,559)	(182,949)
Other gain/ (loss) - net	8	6,318	4,271	6,109	414
Impairment of investments in subsidiaries	21	-	-	-	(1,015)
<b>Operating profit</b>		<b>185,466</b>	<b>158,461</b>	<b>209,417</b>	<b>191,915</b>
Finance income		11,463	5,038	11,351	4,816
Finance costs		(782)	(1,448)	(768)	(1,437)
Finance costs - net	9	10,681	3,590	10,583	3,379
Share of result of associates	15	-	41	-	-
<b>Profit before income tax</b>		<b>196,147</b>	<b>162,092</b>	<b>220,000</b>	<b>195,294</b>
Income tax	10	(33,317)	(30,291)	(31,833)	(28,385)
<b>Profit for the year from continuing operations</b>		<b>162,830</b>	<b>131,801</b>	<b>188,167</b>	<b>166,909</b>
<b>Discontinued operations</b>					
Profit (loss) for the period from discontinued operations	21	-	(1,252)	-	-
<b>Profit for the year</b>		<b>162,830</b>	<b>130,549</b>	<b>188,167</b>	<b>166,909</b>
Attributable to:					
Equity holders of the Company		162,830	130,421	188,167	166,909
Minority interest		-	128	-	-
		162,830	130,549	188,167	166,909
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)</b>	<b>11</b>	<b>0.21</b>	<b>0.17</b>	<b>0.24</b>	<b>0.21</b>

The notes on pages 10 to 51 form an integral part of these financial statements.

The financial statements on pages 5 to 51 have been approved for issue by the Board of Directors as at 13 March 2008 and signed on their behalf by the General Manager and the Chief Financial Officer:

Arūnas Šikšta  
General Manager




Jan-Erik Elsérius  
Chief Financial Officer

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

Approved by the Annual General Meeting of  
Shareholders as at \_\_ April 2008

**BALANCE SHEET**

		As at 31 December			
		GROUP		COMPANY	
Note		2007	2006	2007	2006
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	657,962	637,930	617,172	599,988
Intangible assets	14	29,643	33,538	21,569	27,846
Investments in subsidiaries and associates	15	-	-	31,739	31,739
Trade and other receivables	17	3,166	4,951	3,166	10,951
		<b>690,771</b>	<b>676,419</b>	<b>673,646</b>	<b>670,524</b>
<b>Current assets</b>					
Inventories		4,943	8,154	4,879	8,056
Trade and other receivables	17	121,691	254,953	124,776	251,044
Current income tax receivable		5,749	723	2,000	-
Held-to-maturity investments	18	116,726	40,419	101,492	40,419
Trading investments	19	34,561	34,287	34,561	34,287
Cash and cash equivalents	20	229,350	232,581	220,117	224,939
Assets held for sale	21	1,851	1,515	108	267
		<b>514,871</b>	<b>572,632</b>	<b>487,933</b>	<b>559,012</b>
<b>Total assets</b>		<b>1,205,642</b>	<b>1,249,051</b>	<b>1,161,579</b>	<b>1,229,536</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	22	814,913	814,913	814,913	814,913
Treasury shares	22	(120,000)	(120,000)	(58,514)	-
Legal reserve	23	81,499	81,499	81,499	81,499
Translation differences		-	(1)	-	-
Retained earnings		294,167	333,301	197,298	211,104
		<b>1,070,579</b>	<b>1,109,712</b>	<b>1,035,196</b>	<b>1,107,516</b>
<b>Minority interest</b>		-	-	-	-
<b>Total equity</b>		<b>1,070,579</b>	<b>1,109,712</b>	<b>1,035,196</b>	<b>1,107,516</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	25	6,809	7,764	6,809	7,764
Deferred tax liabilities	26	9,530	17,481	6,064	13,635
Grants	27	2,768	4,727	2,768	4,727
Deferred revenue	24	1,900	2,634	1,244	1,885
		<b>21,007</b>	<b>32,606</b>	<b>16,885</b>	<b>28,011</b>
<b>Current liabilities</b>					
Trade, other payables and accrued liabilities	24	112,047	94,690	107,593	89,512
Current income tax liabilities		104	11,140	-	3,683
Borrowings	25	805	818	805	814
Provisions	28	1,100	-	1,100	-
Liabilities related to assets held for sale	21	-	85	-	-
		<b>114,056</b>	<b>106,733</b>	<b>109,498</b>	<b>94,009</b>
<b>Total liabilities</b>		<b>135,063</b>	<b>139,339</b>	<b>126,383</b>	<b>122,020</b>
<b>Total equity and liabilities</b>		<b>1,205,642</b>	<b>1,249,051</b>	<b>1,161,579</b>	<b>1,229,536</b>

The notes on pages 10 to 51 form an integral part of these financial statements.

Arūnas Šikšta  
General Manager



*Jan-Erik Elsérius*  
Jan-Erik Elsérius  
Chief Financial Officer

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

Approved by the Annual General Meeting of  
Shareholders as at \_\_ April 2008

**STATEMENT OF CHANGES IN EQUITY**

GROUP	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Total		
<b>Balance at 1 January 2006</b>		<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>(21)</b>	<b>327,171</b>	<b>1,103,562</b>	<b>2,329</b>	<b>1,105,891</b>
Currency translation differences		-	-	-	20	-	20	-	20
Net profit		-	-	-	-	130,421	130,421	128	130,549
<b>Total recognised income and expenses for 2006</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>130,421</b>	<b>130,441</b>	<b>128</b>	<b>130,569</b>
Dividends paid for 2005	12	-	-	-	-	(124,291)	(124,291)	-	(124,291)
Minority interest acquired	31	-	-	-	-	-	-	(2,457)	(2,457)
		-	-	-	-	(124,291)	(124,291)	(2,457)	(126,748)
<b>Balance at 31 December 2006</b>		<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>(1)</b>	<b>333,301</b>	<b>1,109,712</b>	<b>-</b>	<b>1,109,712</b>
<b>Balance at 1 January 2007</b>		<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>(1)</b>	<b>333,301</b>	<b>1,109,712</b>	<b>-</b>	<b>1,109,712</b>
Currency translation differences		-	-	-	1	9	10	-	10
Net profit		-	-	-	-	162,830	162,830	-	162,830
<b>Total recognised income and expenses for 2007</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>162,839</b>	<b>162,840</b>	<b>-</b>	<b>162,840</b>
Dividends paid for 2006	12	-	-	-	-	(201,973)	(201,973)	-	(201,973)
Minority interest acquired	31	-	-	-	-	-	-	-	-
		-	-	-	-	(201,973)	(201,973)	-	(201,973)
<b>Balance at 31 December 2007</b>		<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>-</b>	<b>294,167</b>	<b>1,070,579</b>	<b>-</b>	<b>1,070,579</b>

COMPANY	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Total		
<b>Balance at 1 January 2006</b>		<b>814,913</b>	<b>-</b>	<b>81,499</b>	<b>-</b>	<b>168,486</b>	<b>1,064,898</b>	<b>-</b>	<b>1,064,898</b>
Dividends paid for 2005	12	-	-	-	-	(124,291)	(124,291)	-	(124,291)
Net profit		-	-	-	-	166,909	166,909	-	166,909
<b>Balance at 31 December 2006</b>		<b>814,913</b>	<b>-</b>	<b>81,499</b>	<b>-</b>	<b>211,104</b>	<b>1,107,516</b>	<b>-</b>	<b>1,107,516</b>
<b>Balance at 1 January 2007</b>		<b>814,913</b>	<b>-</b>	<b>81,499</b>	<b>-</b>	<b>211,104</b>	<b>1,107,516</b>	<b>-</b>	<b>1,107,516</b>
Dividends paid for 2006	12	-	-	-	-	(201,973)	(201,973)	-	(201,973)
Net profit		-	-	-	-	188,167	188,167	-	188,167
Treasury shares		-	(58,514)	-	-	-	(58,514)	-	(58,514)
<b>Balance at 31 December 2007</b>		<b>814,913</b>	<b>(58,514)</b>	<b>81,499</b>	<b>-</b>	<b>197,298</b>	<b>1,035,196</b>	<b>-</b>	<b>1,035,196</b>

The notes on pages 10 to 51 form an integral part of these financial statements.

Arūnas Šikšta  
General Manager




Jan-Erik Elsérius  
Chief Financial Officer

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

Approved by the Annual General Meeting of  
Shareholders as at \_\_ April 2008

**CASH FLOW STATEMENT**

	Notes	Year ended 31 December			
		GROUP		COMPANY	
		2007	2006	2007	2006
<b>Operating activities</b>					
Profit for the year from continuing operations		162,830	131,801	188,167	166,909
Income tax	10	33,317	30,291	31,833	28,385
Depreciation, amortisation and impairment charge	13	166,696	193,500	159,559	182,949
Dividends received from subsidiaries	6	-	-	(30,800)	(40,047)
Share of results of associates	15	-	(41)	-	-
Other gains and losses	8	(6,318)	(4,271)	(6,109)	(414)
Write off of property, plant and equipment and intangible assets		901	-	59	-
Impairment of investments in subsidiaries and assets held for sale	21	-	-	-	1,015
Interest income		(15,440)	(8,777)	(15,703)	(8,948)
Interest expenses	9	320	583	320	581
Other non-cash transactions		153	59	135	51
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		3,211	(4,418)	3,177	(4,325)
Trade and other receivables		(14,503)	(17,076)	(13,413)	(15,048)
Trade, other payables and accrued liabilities		7,621	3,085	8,381	4,981
Cash generated from operations		338,788	324,736	325,606	316,089
Interest paid		(350)	(576)	(349)	(593)
Interest received		12,726	5,845	13,223	6,186
Tax paid		(57,330)	(41,393)	(45,089)	(33,476)
Net cash from operating activities		293,834	288,612	293,391	288,206

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**CASH FLOW STATEMENT (CONTINUED)**

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2007	2006	2007	2006
<b>Investing activities</b>					
Purchase of property, plant and equipment (PPE) and intangible assets		(182,175)	(91,692)	(167,985)	(91,370)
Proceeds from disposal of PPE and intangible assets		9,958	9 647	11,257	9,610
Proceeds from disposal of assets held for sale		2,016	71 842	5	-
Acquisition of held-to-maturity investments		(260,000)	(164,387)	(245,000)	(164,387)
Disposal of held-to-maturity investments		186,960	246,503	186,960	246,503
Acquisition of subsidiaries and minority interest		-	(5,062)	-	(5,465)
Disposal of assets held for sale and shares		1,714	12,420	1,714	12,420
Loans granted		(2,597)	(150,000)	(10,597)	(150,700)
Loans repaid		150,000	-	156,084	41,416
Dividends received		-	47	30,800	40,047
Net cash used in investing activities		<b>(94,124)</b>	<b>(70,682)</b>	<b>(36,762)</b>	<b>(61,926)</b>
<b>Financing activities</b>					
Repayment of borrowings		(968)	(10,659)	(964)	(10,440)
Dividends paid shareholders of the Company	12	(201,973)	(124,291)	(201,973)	(124,291)
Treasury shares repurchased		-	-	(58,514)	-
Net cash used in financing activities		<b>(202,941)</b>	<b>(134,950)</b>	<b>(261,451)</b>	<b>(134,731)</b>
Increase (decrease) in cash and cash equivalents		<b>(3,231)</b>	<b>82,980</b>	<b>(4,822)</b>	<b>91,549</b>
<b>Movement in cash and cash equivalents</b>					
At beginning of year		232,581	149,601	224,939	133,390
Increase (decrease) in cash and cash equivalents		(3,231)	82,980	(4,822)	91,549
At end of year	20	<b>229,350</b>	<b>232,581</b>	<b>220,117</b>	<b>224,939</b>

The notes on pages 10 to 51 form an integral part of these financial statements.

Arūnas Šikšta  
General Manager



  
Jan-Erik Elsérius  
Chief Financial Officer



**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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 the 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 2007 was as follows:

	<b>Number of shares</b>	<b>%</b>
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
East Capital Asset Management AB	32,591,040	4.00
Republic of Lithuania represented by State Property Fund	12,442,855	1.53
Republic of Lithuania represented by State Tax Inspectorate	362,630	0.04
Other shareholders (including GDR holders)	242,473,337	29.76
	<b>814,912,760</b>	<b>100.00</b>

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 subsidiaries included in the Group's consolidated financial statements and associated entities are indicated below:

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

Subsidiary/ associate	Country of incorporation	Ownership interest in %		Profile
		31 December 2007	31 December 2006	
UAB Lintel	Lithuania	100%	100%	Provider of Directory Inquiry Service 118 and Contact Center services. Till 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%	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 2007, NMT-450 licence was prolonged till 31 October 2008
VšĮ TEO Sportas	Lithuania	100%	100%	Non profit organisation supports a women's basketball team and till June 2007 operated a fitness center at P. Lukšio str., in Vilnius.
OOO Comliet-Kaliningrad	Russian Federation, Kaliningrad Region	-	100%	In January 2006 the Company acquired and on 15 February 2007 sold to the third party 100% stakes in the subsidiary OOO Comliet-Kaliningrad (see Note 32).
UAB Comliet	Lithuania	-	-	In January 2006 UAB Comliet and its wholly owned subsidiary UAB Comliet Sprendimai sold their respective holdings of 95% and 5% in OOO Comliet-Kaliningrad (Russian Federation, Kaliningrad Region) to the Company (see above). On 28 February 2006 the Company sold its 100% stake in UAB Comliet that specialized in construction of external wide area, indoor telecommunications and engineering networks. The transaction also incorporated the sale of wholly owned subsidiary of UAB Comliet - UAB Comliet Sprendimai (Lithuania) (see Note 32).
UAB MicroLink Lietuva	Lithuania	-	-	In November 2005 the Company acquired a 100% stake in information technology service provider UAB MicroLink Lietuva. In March 2006 the Company sold all shares of UAB MicroLink Lietuva.
UAB Baltijos Kompiuterių Akademija	Lithuania	-	-	In November 2005, the Company acquired a 100% stake in IT training company UAB Baltijos Kompiuterių Akademija. In March 2006 the Company sold all shares of UAB Baltijos Kompiuterių Akademija.
UAB Verslo Portlas	Lithuania	-	-	In March 2006 this associated entity was liquidated.
UAB TietoEnator Consulting	Lithuania	-	-	In April 2006 the Company sold its 26% stake in UAB TietoEnator Consulting. The associate provided professional information technology consultancy services to the Group and third parties.

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

## **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). The financial statements have been prepared under the historical cost convention.

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

#### *(a) Standards, amendment and interpretations effective in 2007*

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation does not have any impact on the group's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the group's financial statements.

#### *(b) Interpretation early adopted by the Group*

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) Standards, amendments and interpretations effective in 2007 but not relevant*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance contracts';

---

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the group has not early adopted them:

- 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.
- 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.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

*(e) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective from 1 March 2007). IFRIC 11 provides 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 transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

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.

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

## **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.

### *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% 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.

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

## **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.

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. 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.

### *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## **2.4 Property, plant and equipment**

Property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment loss.

Land is not depreciated. Depreciation is calculated on the straight-line method to write off the cost of assets to their residual values over their estimated useful life as follows:

Buildings	10 – 50 years
-----------	---------------



---

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

Plant and machinery	3 – 10 years
Switches, lines and related telecommunication equipment	3 – 30 years
Computers	3 – 10 years
Motor vehicles	5 – 10 years
Other tangible fixed assets	3 – 10 years

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 in the income statement.

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 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 in the period incurred.

## **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 are valued at acquisition cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line method over estimated benefit period as follows:

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

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. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group and the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

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

## **2.6 Impairment of non-financial assets**

Assets that have an indefinite useful life 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**

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 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 classified 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.

### *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.

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.

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

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 (losses)/gains – net, in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group and the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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.

## **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.

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

#### **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. 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 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 Treasury shares**

Where the Company or its subsidiaries purchase the Company's own share capital, in the Company's and the Group's financial statements the consideration 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.

#### **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.

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

## **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, 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**

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 is taxable at a rate of 15% (2006: 15%) in accordance with Lithuanian regulatory legislation on taxation.

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

In addition, temporary social tax on profit of 4% and 3% is applicable for the years 2006 and 2007 respectively. 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 are carried forward for five years.

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 a reliable estimate of the amount can be made. 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.



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

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 exists, the amount recognised as revenue upon the sale of the goods is the fair value of the computer 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.

### **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.

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

#### *Termination benefits*

Termination benefits are payable whenever an employee's 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 terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide 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.

### **2.25 Dividend distribution**

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

Withholding tax on dividends amounts to 15%. According to statutory law, participation exemption (i.e. no withholding tax on dividends) applies 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 and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a 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.

## **3 Financial risk management**

The Group's and the Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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. The Group uses derivative financial instruments to hedge certain risk exposures.

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.

---

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

Market risk

*Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US Dollar (USD) and Special Drawing Rights (SDR). 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 EURO and Lithuanian Litas. Therefore the foreign exchange risk is considered immaterial with respect to Group's operations and the Group's management do not have any formal procedures to manage foreign exchange risk.

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*

The Group is 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 through profit or loss. The Group is not exposed to commodity price risk. For further information on this trading investment see Note 19.

*Cash flow and fair value interest rate risk*

The Group's income, except for interest income on held-to-maturity investments, and operating cash flows are substantially independent of changes in market interest rates.

The most significant interest bearing asset is bonds issued by the Lithuanian banks amounting to LTL 116,726 thousand for the Group and LTL 101,492 thousand for the Company (2006: loan granted to TeliaSonera AB amounting to LTL 150,583 thousand and bonds issued by Lithuanian banks amounting to LTL 40,419 thousand for the Group and for the Company). For further information on held-to-maturity investments see Note 18. In 2006, interest rate charged for loan to TeliaSonera AB was 3.50%.

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.

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

#### 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 analyse 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.

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 2007 and 31 December 2006, Group companies 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 2007 and 2006.

#### 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.

## **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.

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

*Impairment provision for investments in subsidiaries*

The Company follows the guidance of IAS 36 on determining impairment provision for investments in subsidiaries carried at cost. This determination requires significant judgement. The recoverable amount of subsidiary and associate is determined as the higher of fair value less cost to sell or its value-in-use.

The value-in-use calculation is based on financial budgets approved by management for up to 5 years. Cash flows beyond management approved budgets are extrapolated using an estimated growth rate of 3% that is consistent with expected growth of the market. A pre-tax discount rate of 12% was applied in discounting cash flow projections and it is the same as used for the impairment tests with respect to other assets of the Company. Pre-tax discount rate was derived as weighted average cost of capital assuming that pre tax expected return of the market is 12%.

The fair value of subsidiary is determined based on the price in the binding sale agreement of a subsidiary in an arm's length transaction, adjusted for incremental costs that would be attributable to the disposal of the assets. The same principle is used for determination of fair value less cost to sell for assets or disposal groups held for sale.

Had discount rate been increased or growth rate decreased by 3 percentage points, there would be no impairment provision to be charged with respect to subsidiaries.

*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.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**5 Revenue**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Fixed voice services	528,326	524,571	526,574	523,179
Internet and data services	214,027	181,348	214,991	181,950
IT services	14,050	9,892	3,431	1,553
TV services	8,368	708	8,368	708
Construction services	-	1,651	-	-
Other revenues	28,679	16,641	18,163	9,645
<b>Total revenue</b>	<b>793,450</b>	<b>734,811</b>	<b>771,527</b>	<b>717,035</b>

**6 Other income**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interests income on held –to – maturity investments and loans	4,056	4,367	4,431	4,736
Income from dividends	-	-	30,800	40,047
	<b>4,056</b>	<b>4,367</b>	<b>35,231</b>	<b>44,783</b>

**7 Other operating expenses**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Materials, maintenance and services costs	94,372	79,194	120,598	100,766
Energy, premises and transport costs	34,014	31,332	33,270	34,389
Marketing expenses	17,610	20,740	16,395	19,481
Impairment of accounts receivable	(302)	(1,129)	(307)	(1,188)
Construction services expenses (excluding employees related expenses)	-	889	-	-
Other expenses	25,944	27,925	22,240	22,351
	<b>171,638</b>	<b>158,951</b>	<b>192,196</b>	<b>175,799</b>

The number of full time staff employed by the Group at the end of 2007 amounted to 2,907 (2006: 2,896). The number of full time staff employed by the Company at the end of 2007 amounted to 2,213 (2006: 2,224).



**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**8 Other gain/loss - net**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Gain on sales of property, plant and equipment	6,316	4,974	5,836	1,013
Gain (loss) on sale of investments	19	795	(3)	879
Fair value gain (loss) on trading investment	274	(482)	274	(482)
Loss on sales of property, plant and equipment	(325)	(1,016)	(31)	(996)
Other gain (loss)	34	-	33	-
	<b>6,318</b>	<b>4,271</b>	<b>6,109</b>	<b>414</b>

**9 Finance income and costs**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest income on cash and cash equivalents	9,952	4,410	9,840	4,212
Other finance income	1,511	628	1,511	604
Finance income	11,463	5,038	11,351	4,816
Interest expenses	(320)	(583)	(320)	(581)
Foreign exchange gain (loss) on financing activities	(296)	(427)	(284)	(418)
Other finance costs	(166)	(438)	(164)	(438)
Finance costs	(782)	(1,448)	(768)	(1,437)
Finance costs – net	<b>10,681</b>	<b>3,590</b>	<b>10,583</b>	<b>3,379</b>

**10 Income tax**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Current tax	41,268	54,114	39,404	41,548
Deferred tax (Note 26)	(7,951)	(23,823)	(7,571)	(13,163)
	<b>33,317</b>	<b>30,291</b>	<b>31,833</b>	<b>28,385</b>

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.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

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:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Profit before tax and share of result of associates	<b>196,147</b>	<b>162,051</b>	<b>220,000</b>	<b>195,294</b>
Tax calculated at a tax rate of 18% (2006: 19%)	35,306	30,790	39,600	37,106
Deferred tax asset not recognised on tax losses	286	73	-	-
Non taxable dividends received	-	-	(5,400)	(7,609)
Income tax on reduction of share capital of subsidiary	-	-	(144)	-
Income not subject to tax and expenses not deductible for tax purposes	(1,262)	(83)	(1,219)	(132)
Income tax on dividends	(1,189)	(808)	(1,189)	(808)
Other	176	319	185	(172)
Tax charge	<b>33,317</b>	<b>30,291</b>	<b>31,833</b>	<b>28,385</b>

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 rates were set at 4% for 2006 and 3% for 2007. Temporary differences recognised as at 31 December 2007 which will be realised in 2008 and subsequent years according to enacted legislation will be subject to income tax at a rate of 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.

Weighted average number of shares in issue (thousands) for year ended 31 December 2007 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 2006 was the same – 776,818.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Net profit attributable to shareholders</b>				
Profit from continuing operations before minority interest	162,830	131,801	188,167	166,909
Minority interest	-	(128)	-	-
Net profit from continuing operations attributable to equity holders	162,830	131,673	188,167	166,909
Net profit (loss) from discontinuing operations attributable to equity holders	-	(1,252)	-	-
Net profit attributable to equity holders	<b>162,830</b>	<b>130,421</b>	<b>188,167</b>	<b>166,909</b>
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
<b>Basic earnings per share (LTL)</b>				
From continuing operations	0.21	0.17	0.24	0.21
From discontinuing operations	-	(0.002)	-	-
Basic earnings per share (LTL)	0.21	0.17	0.24	0.21

## 12 Dividends per share

The dividends per share, excluding treasury shares, declared in respect of 2006 and 2005 and paid in 2007 and 2006, were LTL 0.26 and LTL 0.16, respectively. There were no dividends proposed or declared in respect of 2007 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:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Depreciation of property, plant and equipment	156,164	173,302	148,643	164,072
Amortisation of intangible assets (Note 14)	12,492	22,547	10,916	21,226
Amortisation of grants received (Note 27)	(1,960)	(2,349)	(1,960)	(2,349)
	<b>166,696</b>	<b>193,500</b>	<b>157,599</b>	<b>182,949</b>

As at 31 December 2007 property, plant and equipment includes items (ducts and other real estate items) that are not formally registered with the Cadastre and Register of Land and Other Immovable Property. Such registration is formally required to confirm the legal ownership of such property. The carrying value of these assets amounted to LTL 97.3 million as at 31 December 2007 (2006: LTL 103.9 million). There were no practical procedures to estimate the future cost of registration of these assets, if any. The Company uses these assets in its operations and pays real estate tax on these assets. The Company's management has no doubts as to the legal title to these assets. Currently the draft of amendment of Law on Electronic Communications of Republic

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

of Lithuania is under consideration. In the event of this amendment being approved, the ducts would be defined as movable assets, therefore no formal registration of the ducts would be required.

In 2007 the Company revised the useful lives of its property, plant and equipment. After the above revision the depreciation charge for 2007 increased by LTL 0.34 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was not revised in 2007.

<b>GROUP</b>	<b>Land and buildings</b>	<b>Ducts and tele-communication equipment</b>	<b>Other tangible fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 31 December 2005</b>					
Cost	131,813	2,183,309	70,979	4,418	2,390,519
Accumulated depreciation	(44,377)	(1,571,075)	(52,547)	(44)	(1,668,043)
Net book amount	87,436	612,234	18,432	4,374	722,476
<b>Year ended 31 December 2006</b>					
Opening net book amount	87,436	612,234	18,432	4,374	722,476
Additions	15	3,151	420	88,597	92,183
Reclassifications	4,675	(2,191)	(38)	-	2,446
Disposals and retirements	(5,492)	(277)	(104)	-	(5,873)
Transfers from construction in progress	2,875	76,767	4,205	(83,847)	-
Depreciation charge	(13,982)	(152,819)	(6,501)	-	(173,302)
Closing net book amount	<b>75,527</b>	<b>536,865</b>	<b>16,414</b>	<b>9,124</b>	<b>637,930</b>
<b>At 31 December 2006</b>					
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	<b>75,527</b>	<b>536,865</b>	<b>16,414</b>	<b>9,124</b>	<b>637,930</b>
<b>Year ended 31 December 2007</b>					
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	<b>69,074</b>	<b>541,616</b>	<b>16,947</b>	<b>30,325</b>	<b>657,962</b>
<b>At 31 December 2007</b>					
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	<b>69,074</b>	<b>541,616</b>	<b>16,947</b>	<b>30,325</b>	<b>657,962</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**13 Property, plant and equipment (continued)**

<b>COMPANY</b>	<b>Land and buildings</b>	<b>Ducts and tele-communication equipment</b>	<b>Other tangible fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 31 December 2005</b>					
Cost	93,735	2,155,266	59,016	4,417	2,312,434
Accumulated depreciation	(40,074)	(1,551,240)	(44,891)	(44)	(1,636,249)
Net book amount	<b>53,661</b>	<b>604,026</b>	<b>14,125</b>	<b>4,373</b>	<b>676,185</b>
<b>Year ended 31 December 2006</b>					
Opening net book amount	53,661	604,026	14,125	4,373	676,185
Additions	5,115	34	280	88,598	94,027
Disposals and write-offs	(5,691)	(269)	(84)	-	(6,044)
Reclassifications	639	(747)	-	-	(108)
Transfers from construction in progress	2,875	76,767	4,205	(83,847)	-
Depreciation charge	(9,433)	(149,752)	(4,887)	-	(164,072)
Closing net book amount	<b>47,166</b>	<b>530,059</b>	<b>13,639</b>	<b>9,124</b>	<b>599,988</b>
<b>At 31 December 2006</b>					
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	<b>47,166</b>	<b>530,059</b>	<b>13,639</b>	<b>9,124</b>	<b>599,988</b>
<b>Year ended 31 December 2007</b>					
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	<b>42,829</b>	<b>528,550</b>	<b>15,468</b>	<b>30,325</b>	<b>617,172</b>
<b>At 31 December 2007</b>					
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	<b>42,829</b>	<b>528,550</b>	<b>15,468</b>	<b>30,325</b>	<b>617,172</b>

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

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**13 Property, plant and equipment (continued)**

	As at 31 December			
	GROUP		COMPANY	
	2007	2006	2007	2006
Cost	3,883	-	3,883	-
Accumulated depreciation at 1 January	-	-	-	-
Depreciation charge for the year	432	-	432	-
<b>Net book amount</b>	<b>3,451</b>	<b>-</b>	<b>3,451</b>	<b>-</b>

**14 Intangible assets**

**GROUP**

	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
<b>At 31 December 2005</b>						
Cost	2,575	350,571	18,934	14,835	84	386,999
Accumulated amortisation	(2,096)	(314,006)	(18,934)	(11,267)	-	(346,303)
<b>Net book amount</b>	<b>479</b>	<b>36,565</b>	<b>-</b>	<b>3,568</b>	<b>84</b>	<b>40,696</b>
<b>Year ended 31 December 2006</b>						
Opening net book amount	479	36,565	-	3,568	84	40,696
Additions	-	1,065	2,658	-	11,663	15,386
Disposals and write-offs	-	-	-	(2)	-	(2)
Reclassification	-	10,365	-	608	(10,973)	-
Reclassification from other accounts	-	5	-	-	-	5
Amortisation charge	(261)	(20,470)	-	(1,816)	-	(22,547)
<b>Closing net book amount</b>	<b>218</b>	<b>27,530</b>	<b>2,658</b>	<b>2,358</b>	<b>774</b>	<b>33,538</b>
<b>At 31 December 2006</b>						
Cost	2,575	266,353	2,658	15,276	774	287,636
Accumulated amortisation	(2,357)	(238,823)	-	(12,918)	-	(254,098)
<b>Net book amount</b>	<b>218</b>	<b>27,530</b>	<b>2,658</b>	<b>2,358</b>	<b>774</b>	<b>33,538</b>
<b>Year ended 31 December 2007</b>						
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)
<b>Closing net book amount</b>	<b>-</b>	<b>25,452</b>	<b>2,658</b>	<b>1,028</b>	<b>505</b>	<b>29,643</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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
<b>At 31 December 2007</b>						
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	-	<b>25,453</b>	<b>2,658</b>	<b>1,028</b>	<b>505</b>	<b>29,643</b>

**COMPANY**

	Licences	Software	Other intangible assets	Assets in the course of construction	Total
<b>At 31 December 2005</b>					
Cost	1,691	329,195	14,716	84	345,686
Accumulated amortisation	(1,381)	(295,618)	(11,165)	-	(308,164)
Net book amount	<b>310</b>	<b>33,577</b>	<b>3,551</b>	<b>84</b>	<b>37,522</b>

**Year ended 31 December 2006**

Opening net book amount	310	33,577	3,551	84	37,522
Additions	-	-	-	11,550	11,550
Reclassifications	-	10,365	608	(10,973)	-
Amortisation charge	(169)	(19,249)	(1,808)	-	(21,226)
Closing net book amount	<b>141</b>	<b>24,693</b>	<b>2,351</b>	<b>661</b>	<b>27,846</b>

**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	<b>141</b>	<b>24,693</b>	<b>2,351</b>	<b>661</b>	<b>27,846</b>

**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	-	<b>20,436</b>	<b>1,028</b>	<b>105</b>	<b>21,569</b>

**At 31 December 2007**

Cost	1,691	247,384	11,275	106	260,455
Accumulated amortisation	(1,691)	(226,948)	(10,247)	-	(238,886)
Net book amount	-	<b>20,436</b>	<b>1,028</b>	<b>105</b>	<b>21,569</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**14 Intangible assets (continued)**

In 2005 The Company's subsidiary UAB Voicecom took over from UAB Comliet the licence granted on 31 October 1997 for rights to operate NMT 450 mobile cellular network. The licence was valid until 31 October 2007 but in 2007 it was prolonged till 31 October 2008. The Group uses NMT 450 network to provide wireless local loop (WLL) to customers in remote areas and for intra-group communication needs.

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

**15 Investments in subsidiaries and associates**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
At the beginning of year	-	1,182	31,739	27,093
Share of results of associates	-	41	-	-
Acquisition of minority interest (Note 31)	-	-	-	5,465
Investment reclassified to assets held for sale	-	-	-	(403)
Dividends received	-	(47)	-	-
Associate disposed	-	(1,176)	-	(416)
At end of year	-	-	<b>31,739</b>	<b>31,739</b>

In 2006 the Company reclassified investment in OOO Comliet-Kaliningrad carried at cost to assets held for sale.

**16 Financial instruments by category**

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

<b>GROUP</b>	<b>Loans and receivables</b>	<b>Assets at fair value through the profit and loss</b>	<b>Held-to-maturity investments</b>	<b>Total</b>
<b>31 December 2007</b>				
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
<b>Total</b>	<b>354,029</b>	<b>34,561</b>	<b>116,726</b>	<b>505,316</b>



**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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
<b>31 December 2006</b>				
Assets as per balance sheet				
Trade and other receivables	265,766	-	-	265,766
Held-to-maturity investment	-	-	40,419	40,419
Trading investment	-	34,287	-	34,287
Cash and cash equivalents	232,581	-	-	232,581
<b>Total</b>	<b>498,347</b>	<b>34,287</b>	<b>40,419</b>	<b>573,053</b>

**COMPANY**

	Loans and receivables	Assets at fair value through the profit and loss	Held-to- maturity investments	Total
<b>31 December 2007</b>				
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
<b>Total</b>	<b>349,179</b>	<b>34,561</b>	<b>101,492</b>	<b>485,232</b>

	Loans and receivables	Assets at fair value through the profit and loss	Held-to- maturity investments	Total
<b>31 December 2006</b>				
Assets as per balance sheet				
Trade and other receivables	268,891	-	-	268,891
Held-to-maturity investment	-	-	40,419	40,419
Trading investment	-	34,287	-	34,287
Cash and cash equivalents	224,939	-	-	224,939
<b>Total</b>	<b>493,830</b>	<b>34,287</b>	<b>40,419</b>	<b>568,536</b>

Both in 2007 and 2006 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.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**17 Trade and other receivables**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Trade receivables from business and residents	100,864	96,691	95,890	93,832
Trade receivables from other operators	15,455	13,290	15,455	13,290
Total trade receivables	<b>116,319</b>	<b>109,981</b>	<b>111,345</b>	<b>107,122</b>
Less: provision for impairment of receivables	(15,199)	(18,813)	(15,153)	(19,184)
Trade receivables - net	<b>101,120</b>	<b>91,168</b>	<b>96,192</b>	<b>87,938</b>
Receivables from companies collecting payments for telecommunication services	1,623	3,460	1,623	3,460
Prepaid expenses and other receivables	17,751	12,696	16,363	11,304
Receivables from related parties (Note 33)	4,363	1,997	5,721	2,610
Loans to related parties (Note 33)	-	150,583	8,043	156,683
	<b>124,857</b>	<b>259,904</b>	<b>127,942</b>	<b>261,995</b>
Less non-current portion	(3,166)	(4,951)	(3,166)	(10,951)
Current portion	<b>121,691</b>	<b>254,953</b>	<b>124,776</b>	<b>251,044</b>

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

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Trade receivables from business and residents	100,514	96,433	95,540	93,574
Trade receivables from other operators	15,455	13,290	15,455	13,290
Total trade receivables	<b>115,969</b>	<b>109,723</b>	<b>110,995</b>	<b>106,864</b>
Less: provision for impairment of receivables	(15,199)	(18,813)	(15,153)	(19,184)
Trade receivables - net	<b>100,770</b>	<b>90,910</b>	<b>95,842</b>	<b>87,680</b>
Receivables from companies collecting payments for telecommunication services	1,623	3,460	1,623	3,460
Prepaid expenses and other receivables	17,751	12,696	16,363	11,304
Receivables from related parties	4,363	1,997	5,721	2,610
Loans to related parties	-	150,583	8,043	156,683
	<b>124,507</b>	<b>259,646</b>	<b>127,592</b>	<b>261,737</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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 8.3% (2006: 5.0%). The discount rate equals to VILIBOR plus appropriate credit margin.

The maximum exposure to credit risk at the reporting date is the fair 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 2007, the Group's trade receivables of LTL 12,960 thousand (2006: LTL 9,594 thousand) and the Company's trade receivables of LTL 12,781 thousand (2006: LTL 9,444 thousand) were past due but not impaired.

As of 31 December 2007, the Group's trade receivables of LTL 17,313 thousand (2006: LTL 20,225 thousand) and the Company's trade receivable of LTL 16,733 thousand (2006: LTL 20,175 thousand) were impaired and provided for. The amount of the Group's provision was LTL 15,199 thousand as of 31 December 2007 (2006: LTL 18,813 thousand) and the amount of the Company's provision was LTL 15,153 thousand as of 31 December 2007 (2006: LTL 19,184 thousand).

The ageing of these receivables is as follows:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Trade receivable total</b>	<b>116,319</b>	<b>109,981</b>	<b>111,345</b>	<b>107,122</b>
Of which not overdue	86,045	80,163	81,831	77,504
Overdue up to 3 months	12,960	9,594	12,781	9,444
4 to 6 months	2,354	1,460	1,807	1,442
7 to 12 months	1,121	1,667	1,088	1,650
Over 12 months	13,839	17,097	13,838	17,082

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

<b>Currency</b>	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
LTL	95,712	238,362	100,828	240,747
EUR	27,568	20,585	25,537	20,209
XDR	1,463	918	1,463	918
Other currency	114	39	114	121
	<b>124,857</b>	<b>259,904</b>	<b>127,942</b>	<b>261,995</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
At the beginning of year	18,813	21,882	19,184	21,882
Receivables written off during the year as uncollectible	(3,312)	(1,940)	(3,724)	(1,510)
Provision for receivables impairment/ Unused amount reversed	(302)	(1,129)	(307)	(1,188)
At the end of year	<b>15,199</b>	<b>18,813</b>	<b>15,153</b>	<b>19,184</b>

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 bonds issued by the Lithuanian banks. The effective interest rate on the bonds was 5.34% (2006: 3.15%) and these bonds will mature in 68 days (2006: 22 days) on average. Fair value of bonds approximate to their carrying values.

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 Trading investments**

In December 2005 the Company acquired 87,298 shares of the Deutsche Bank Platinum IV Euro Sovereign Elite Fund for the total amount of EUR 10 million (LTL 34.5 million). The fund's objective is to achieve long-term capital appreciation by providing investors with exposure to Eurozone sovereign issuers that have an AAA-rating constituting the Deutsche Bank Euro Sovereign Elite Index. The index consists of highly liquid bonds selected via structured methodology that offers a transparent and objective strategy. As at 31 December 2007 the investment in the fund was accounted at fair value of EUR 10 million (LTL 34.6 million) (2006: EUR 9.9 million (LTL 34.3 million)). Fair value was determined by the reference to published price quotations.

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

**20 Cash and cash equivalents**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Cash in hand and at bank	83,672	130,512	74,439	122,870
Short term bank deposits	145,678	100,000	145,678	100,000
Restricted cash	-	2,069	-	2,069
	<b>229,350</b>	<b>232,581</b>	<b>220,117</b>	<b>224,939</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**20 Cash and cash equivalents (continued)**

The effective interest rate on the Group's and the Company's short-term bank deposits, held with Lithuanian banks was 6.60% (2006: 3.25%).

Restricted cash in 2006 included short-term deposits in AB Bankas Hansabankas amounting to LTL 0.4 million relating to loans granted by AB Bankas Hansabankas to the Group's employees to finance purchase or reconstruction of private apartments. The effective interest rate on these deposits was 0.26%.

Restricted cash in 2006 also included LTL 1.8 million held in temporary deposit accounts at SEB Vilniaus Bankas AB related to guarantees granted by the bank on behalf of the Company.

**21 Assets held for sale and discontinued operations**

As at 31 December 2007 the Group accounted as assets held for sale group of buildings that will be contracted for sale to a third party (2006: 1 building, assets and liabilities directly relating to OOO Comliet-Kaliningrad). Assets held for sale also include passenger car and scrap.

As at 31 December 2007 the Company accounted as asset held for sale passenger car and scrap (2006: investment in subsidiary OOO Comliet-Kaliningrad).

Major classes of assets classified as held for sale:

	As at 31 December			
	GROUP		COMPANY	
	2007	2006	2007	2006
Property, plant and equipment	1,851	1,354	108	-
Investments in subsidiaries	-	-	-	267
Deferred tax asset	-	44	-	-
Trade and other receivables	-	113	-	-
Cash and cash equivalents	-	4	-	-
<b>Total assets classified as held for sale</b>	<b>1,851</b>	<b>1,515</b>	<b>108</b>	<b>267</b>

No liabilities directly associated with assets classified as held for sale was accounted as at 31 December 2007 (2006: LTL 85 thousand).

In 2007 no remeasurement of disposal groups at fair value less cost to sell was done (2006: Group – LTL 1,879 thousand; Company – LTL 1,015 thousand).

Operations of OOO Comliet-Kaliningrad for period January-February 2007 disclosed under discontinued operations (UAB MicroLink Lietuva, UAB Baltijos Kompiuterių Akademija for period January-February 2006). The results was as follows:

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**21 Assets held for sale and discontinued operations (continued)**

	<b>GROUP</b>	
	<b>2007</b>	<b>2006</b>
Revenue	17	3,647
Expenses	(17)	(2,896)
Operating profit	-	751
Financial activity, net	-	13
Profit from discontinued - before tax	-	764
Income tax expenses	-	(137)
Profit from discontinued operations – after tax	-	627
Pre-tax loss recognised on the remeasurement of assets of disposal group	-	(2,320)
Tax	-	441
Loss recognised on the remeasurement of assets of disposal group – after tax	-	(1,879)
Profit for the year from discontinued operations	-	<b>(1,252)</b>

**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 2007.

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 2007.

**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.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**24 Trade, other payables and accrued liabilities**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Trade payables	63,148	46,356	60,154	41,737
Trade payables to operators	3,990	4,001	4,006	4,086
Taxes, salaries and social security payable	27,573	25,090	23,329	20,834
Accruals to operators	3,654	4,384	3,731	4,384
Accrued liabilities	5,456	3,668	3,627	2,645
Other payables and deferred revenue	8,147	12,124	6,801	10,625
Amounts payable to related parties (Note 33)	1,979	1,701	7,189	7,086
	<b>113,947</b>	<b>97,324</b>	<b>108,837</b>	<b>91,397</b>
Less non-current portion	(1,900)	(2,634)	(1,244)	(1,885)
Current portion	<b>112,047</b>	<b>94,690</b>	<b>107,593</b>	<b>89,512</b>

**25 Borrowings**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Current</b>				
Finance lease liabilities	805	818	805	814
	<b>805</b>	<b>818</b>	<b>805</b>	<b>814</b>
<b>Non-current</b>				
Finance lease liabilities	6,809	7,764	6,809	7,764
	<b>6,809</b>	<b>7,764</b>	<b>6,809</b>	<b>7,764</b>
<b>Total borrowings</b>	<b>7,614</b>	<b>8,582</b>	<b>7,614</b>	<b>8,578</b>

Fair value of borrowings approximate to their carrying values.

In 2005 the Company concluded an agreement with a third party for sales and operating leaseback of certain technical premises. Leaseback of three premises in substance qualified as a finance lease. All these premises rented for 10 years period. At the end of all the 10-year agreements the Company has the right to renew the above lease contracts for an additional 10 years at agreed rent fee. If agreements will be cancelled before the end of rent as stated in agreements, the forfeit should be paid. The remaining finance lease agreements in 2006 relate to the lease of passenger cars.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**25 Borrowings (continued)**

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

	<b>Due in 1 year</b>	<b>Due between 2 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
Minimum lease payments at 31 December 2006	1,146	4,524	4,582	10,252
Less future finance charges	(328)	(969)	(373)	(1,670)
Present value of minimum lease payments at 31 December 2006	818	3,555	4,209	8,582
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

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

	<b>Due in 1 year</b>	<b>Due between 2 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
Minimum lease payments at 31 December 2006	1,142	4,524	4,582	10,248
Less future finance charges	(328)	(969)	(373)	(1,670)
Present value of minimum lease payments at 31 December 2006	814	3,555	4,209	8,578
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

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

	<b>As at 31 December</b>			
	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Premises	7,364	8,263	7,364	8,263
Passenger cars	-	130	-	127
	<b>7,364</b>	<b>8,393</b>	<b>7,364</b>	<b>8,390</b>



**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
At the beginning of year	17,481	41,249	13,635	26,798
Income statement credit (Note 10)	(7,951)	(23,823)	(7,571)	(13,163)
Reclassification to assets held for sale	-	55	-	-
At the end of year	<b>9,530</b>	<b>17,481</b>	<b>6,064</b>	<b>13,635</b>
Deferred income tax to be recovered after more than 12 months	4,270	4,742	1,085	5,703
Deferred income tax to be recovered within 12 months	5,260	12,739	4,979	7,932
	<b>9,530</b>	<b>17,481</b>	<b>6,064</b>	<b>13,635</b>

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:

<b>GROUP- deferred tax liabilities</b>	<b>Investment relief</b>	<b>Other</b>	<b>Total</b>
At 31 December 2006	63,673	109	63,782
Charged/ (credited) to net profit	(13,793)	(109)	(13,902)
At 31 December 2007	<b>49,880</b>	<b>-</b>	<b>49,880</b>
<b>GROUP – deferred tax assets</b>	<b>Accelerated depreciation</b>	<b>Other</b>	<b>Total</b>
At 31 December 2006	(44,488)	(1,813)	(46,301)
Charged/ (credited) to net profit	5,906	45	5,951
At 31 December 2007	<b>(38,582)</b>	<b>(1,768)</b>	<b>(40,350)</b>

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 1.6 million (2006: 0.4 million) that can be carried forward against future taxable income and that expire in 2011 – 2012.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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:

<b>COMPANY – deferred tax liabilities</b>	<b>Investment relief</b>	<b>Other</b>	<b>Total</b>
At 31 December 2006	59,666	109	59,775
Charged/ (credited) to net profit	(13,316)	(109)	(13,425)
<b>At 31 December 2007</b>	<b>46,350</b>	<b>-</b>	<b>46,350</b>

<b>COMPANY – deferred tax assets</b>	<b>Accelerated depreciation</b>	<b>Other</b>	<b>Total</b>
At 31 December 2006	(44,488)	(1,652)	(46,140)
Charged/ (credited) to net profit	5,906	(52)	5,854
<b>At 31 December 2007</b>	<b>(38,582)</b>	<b>(1,704)</b>	<b>(40,286)</b>

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:

	<b>As at 31 December</b>			
	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Deferred tax assets	(40,350)	(46,301)	(40,286)	(46,140)
Deferred tax liabilities	49,880	63,782	46,350	59,775
	<b>9,530</b>	<b>17,481</b>	<b>6,064</b>	<b>13,635</b>

**27 Grants**

Movement of the grants may be summarised as follows:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
At the beginning of year	4,727	7,080	4,727	7,080
New grants received	2,457	405	2,457	405
Amortization of deferred income to match related depreciation	(1,960)	(2,349)	(1,960)	(2,349)
Amortization of deferred income to match related expenses	(2,456)	(409)	(2,456)	(409)
At the end of year	<b>2,768</b>	<b>4,727</b>	<b>2,768</b>	<b>4,727</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(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. Provisions for restructuring are expected to be fully utilized during the year 2008.

**29 Contingent liabilities and contingent assets**

Guarantees

As at 31 December 2007 the aggregate of bank guarantees (tender, agreement performance, payment) provided by SEB Bank AB on behalf of the Company amounts to LTL 7.13 million (2006: LTL 6 million).

Investigations

In January 2006, the Communications Regulatory Authority (CRA) designated the Company as an operator with Significant Market Power (SMP) in wholesales broadband access market, and in February 2006 – as an operator with SMP in national and international transit services provided on the fixed public telephone network market. According to these decisions, regulatory obligations to the Company were imposed. The Company has appealed these decisions to the court requesting revocation of the designations of the Company as SMP in wholesales broadband access and national and international transit markets. In case of unfavourable final outcome, the Company may need to invest in additional telecommunication equipment to meet the requirement of CRA relating to SMP. Estimated costs of such equipment are LTL 2.8 million.

*Operating lease payments receivable – where the Group is the lessor*

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Not later than 1 year	2,932	-	2,932	-
Later than 1 year but not later than 5 years	4,884	-	4,884	-
Later than 5 years	-	-	-	-
	<b>7,816</b>	<b>-</b>	<b>7,816</b>	<b>-</b>

Contingent-based rents recognised in the income statement were LTL 979 thousand (2006: LTL 0).

The Company lease terminal equipment under various agreements which terminate in 2010.

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**30 Commitments**

*Capital commitments*

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Property, plant and equipment	70,293	74,269	70,293	74,269
Intangible assets	-	-	-	-
	<b>70,293</b>	<b>74,269</b>	<b>70,293</b>	<b>74,269</b>

Majority of commitments of the Group and the Company relates to the contracts concluded in relation to the construction of new headquarters building.

*Operating lease commitments – where the Group is the lessee*

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

The Company entered into sale and operating leaseback agreements with a third party (not related to the Company) for sales of eight properties in 2005. Ownership of five properties was transferred to the third party in December 2005 and three remaining in June 2006. In 2005 the Company entered into a leaseback agreement for aforementioned premises at four locations for 2 years (lease of three of these locations commenced in July 2006) and leaseback of technical premises at seven different locations for 10 years (lease of three of these locations commenced in July 2006).

Two year lease agreements were concluded in order to rent office space for the period until new headquarters building will be constructed. At the end of all the 2-year agreements the Company has the right but not the obligation to renew the above lease contracts for an additional one year at a time and at agreed rent. New headquarters building is planned to be available for use in the second half of 2009.

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Minimum lease payments	6,197	4,808	5,260	4,040

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Not later than 1 year	4,473	6,337	4,426	5,761
Later than 1 year but not later than 5 years	7,678	9,729	7,657	7,335
Later than 5 years	4,082	5,195	4,082	3,323
	<b>16,233</b>	<b>21,261</b>	<b>16,165</b>	<b>16,419</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**31 Acquisition of minority interest**

No minority interest was acquired in 2007 (2006: LTL 5,062 thousand, including goodwill of LTL 2,658 thousand).

**32 Disposals**

On 15 February 2007 entire holding in OOO Comliet-Kaliningrad was disposed (2006: UAB Comliet was disposed together with its wholly owned subsidiary UAB Comliet Sprendimai). During 2007 the disposed business contributed revenue of LTL 17 thousand (2006: LTL 50 thousand) and costs of LTL 17 thousand (2006: LTL 34 thousand).

The assets and liabilities disposed of above entities are as follows:

	<b>Disposed carrying amounts</b>
Cash and cash equivalents	2
Property, plant and equipment	1
Other non-current assets	49
Receivables, prepayments, and accrued revenue	514
<b>Total assets</b>	<b>566</b>

	<b>Disposed carrying amounts</b>
Equity	221
Trade, other payables and accrued liabilities	345
<b>Total equity and liabilities</b>	<b>566</b>

Disposed consideration settled in cash:

Total disposal consideration	264
Less cash not received	-
<b>Cash inflow from disposal</b>	<b>264</b>

Cash and cash equivalents in subsidiaries disposed were classified as assets held for sale, therefore for cash flow purposes inflow from disposal was not deducted by cash and cash equivalents in the subsidiaries disposed.

**33 Related party transactions**

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

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**33 Related party transactions (continued)**

**Sales of telecommunication and other services to:**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
TeliaSonera AB and its subsidiaries	58,204	50,817	53,629	48,425
Subsidiaries of the Company	-	-	5,978	4,610
Associate of the Company	-	58	-	45
Total sales of telecommunication and other services	<b>58,204</b>	<b>50,875</b>	<b>59,607</b>	<b>53,080</b>

**Purchases of assets and services:**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<i>Purchases of assets from:</i>				
TeliaSonera AB and its subsidiaries	523	483	-	-
Subsidiaries of the Company	-	-	454	7,700
Associate of the Company	-	366	-	366
	<b>523</b>	<b>849</b>	<b>454</b>	<b>8,066</b>

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<i>Purchases of services from:</i>				
TeliaSonera AB and its subsidiaries	49,271	45,751	48,205	45,167
Subsidiaries of the Company	-	-	45,055	39,246
Associate of the Company	-	991	-	960
	49,271	46,742	93,260	85,373
Total purchases of assets and services	<b>49,794</b>	<b>47,591</b>	<b>93,714</b>	<b>93,439</b>

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

**Total receivables and accrued revenue from related parties:**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<i>Receivables from related parties:</i>				
TeliaSonera AB and its subsidiaries	3,049	1,329	1,895	1,054
Subsidiaries of the Company	-	-	2,491	888
Associate of the Company	-	-	-	-
	<b>3,049</b>	<b>1,329</b>	<b>4,386</b>	<b>1,942</b>

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<i>Accrued revenue from related parties:</i>				
TeliaSonera AB and its subsidiaries	1,314	668	1,335	668
Associate of the Company	-	-	-	-
	1,314	668	1,335	668
Total receivables and accrued revenue from related parties	<b>4,363</b>	<b>1,997</b>	<b>5,721</b>	<b>2,610</b>

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**33 Related party transactions (continued)**

Payables and accrued expenses to related parties

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<i>Payables to related parties:</i>				
TeliaSonera AB and its subsidiaries	1,361	1,522	1,345	1,437
Subsidiaries of the Company	-	-	5,303	5,467
Associate of the Company	-	-	-	-
	<b>1,361</b>	<b>1,522</b>	<b>6,648</b>	<b>6,904</b>
	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<i>Accrued expenses to related parties:</i>				
TeliaSonera AB and its subsidiaries	618	179	541	179
Associate of the Company	-	-	-	3
	<b>618</b>	<b>179</b>	<b>541</b>	<b>182</b>
Total payables and accrued expenses to related parties:	<b>1,979</b>	<b>1,701</b>	<b>7,189</b>	<b>7,086</b>

**Loans to related parties:**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Beginning of the year	150,583	-	156,683	46,986
Loans advanced during year	-	150,000	8,250	150,700
Loan repayments received	(150,000)	-	(156,334)	(41,416)
Interest charged	758	2,018	1,477	2,387
Interest received	(1,341)	(1,435)	(2,033)	(1,974)
End of the year	-	150,583	8,043	156,683

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

<b>Name of the related party</b>	<b>Loan granted</b>	<b>Balance outstanding as at 31 December 2007</b>	<b>Maturity</b>	<b>Interest rate</b>
UAB Baltic Data Center	8,000	8,000	due on 21 July 2008	5,42%

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

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

	<b>2007</b>	<b>2006</b>
Remuneration of key management personnel	4,523	3,089

The total amount including remuneration and annual compensations (tantiems) paid to the seven members of the Board of the Company during 2007 amounted to LTL 974 thousand (2006: LTL 808 thousand).

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**34 Events after the balance sheet date**

On 3 January 2008, the Company 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.

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 are as follows:

	<b>Fair value</b>	<b>Acquiree's carrying amount</b>
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)
<b>Net assets acquired</b>	<b>16,472</b>	<b>(1,371)</b>
Purchase consideration settled in cash		16,472
Cash and cash equivalents in subsidiaries acquired		(394)
<b>Cash outflow on acquisition</b>		<b>16,078</b>

**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, TEO LT, AB Financial Statements as of and for the year ended 31 December 2007 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group of undertakings.

Arūnas Šikšta  
General Manager



  
Jan-Erik Elsėrius  
Chief Financial Officer



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

Approved by the Board  
as at 13 March 2008

## **CONSOLIDATED ANNUAL REPORT**

### **I. GENERAL INFORMATION**

#### **Reporting period**

Year ended 31 December 2007

#### **Issuer and its contact details**

Name of the Issuer	<b>TEO LT, AB</b> (hereinafter – TEO or “the Company”) (till 5 May 2006 was named AB Lietuvos Telekomas)
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
E-mail address	info@teo.lt
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 the Nordic and Baltic telecommunications leader TeliaSonera Group.

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;

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

- 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, (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; e-mail address: info@teo.lt; internet address: www.teo.lt) and its subsidiaries:

<b>Name of the company</b>	<b>Date of registration, code, name of Register of Legal Entities</b>	<b>Contact details</b>	<b>TEO share in the share capital of the company (%)</b>	<b>TEO share of votes (%)</b>
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 Voicecom	6 March 2001, code 210860630, State Enterprise Center of Registers	Savanorių ave. 28, LT-03501 Vilnius, Lithuania tel. +370 5 236 7209 fax. +370 5 231 3860	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, IT, data communication and telecommunications networks interconnection services. TEO also operates an Internet portal [www.zebra.lt](http://www.zebra.lt).

---

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

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, consultations to computer users by phone 1518, telemarketing and customer care services. Till September 2007 UAB Lintel held 4.67 per cent of treasury stocks of the Company. In 2007, UAB Lintel paid to the Company LTL 30 million in dividends for the year 2006.

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. In 2007, share capital of UAB Kompetencijos Ugdymo Centras was reduced by LTL 800 thousand (from LTL 1 million to LTL 200 thousand) and free cash was disbursed to the sole owner of the company – TEO LT, AB.

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.

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.

#### **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 Baltic Main List of the Vilnius Stock Exchange (VSE ticker: 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

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

32,596,510 TEO LT, AB Global Depository Receipts (1 GDR represents 10 ORS) are admitted to the Official List of the UK Listing Authority and could be traded on the Main Market of London Stock Exchange. 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 and 100% owned by the Company.

## **II. FINANCIAL INFORMATION**

During the year 2007 the Company achieved its best results over the last four years. Consolidated Group's revenue increased by 8% and net profit by 24.7 per cent. Number of broadband connections increased by 43%, IPTV users by 3.5 times and number of telephone lines by almost 4 thousand. The Company maintained its leadership on fixed voice, internet access, data communications and leased lines markets in Lithuania. The Group is a part of the largest telecommunication corporation in Nordic and Baltic market TeliaSonera AB.

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**

<b>Financial figures</b>	<b>2007</b>	<b>2006</b>	<b>Change (%)</b>
Revenue (LTL thousand)	793,450	734,811	8.0
Operating profit (LTL thousand)	185,466	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)	338,788	324,736	4.3
Cash used for capital investments (LTL thousand)	182,175	91,692	98.7
<b>Financial ratios</b>	<b>31-12-2007</b>	<b>31-12-2006</b>	
Return on capital employed (%)	18.4	14.4	
Return on average assets (%)	15.7	12.6	
Return on shareholders' equity (%)	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 (%)	67.0	58.6	
Equity to assets ratio (%)	88.8	88.8	

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

<b>Operating figures</b>	<b>31-12-2007</b>	<b>31-12-2006</b>	<b>Change (%)</b>
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

**Revenue**

The total consolidated TEO Group's revenue for the year 2007 was LTL 793 million, an increase by 8 per cent over the total revenue of LTL 735 million for the year 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.

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 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 the year 2007.

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 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 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.

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.

From March 2007 the Company introduced charges for usage of wireless broadband Internet access (based on WiFi technology) at TEO hot-spots. 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.

---

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

During 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 Ugdymo Centras, fitness center services operated by TEO Sportas till June 2007.

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

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.

### **Operating expenses**

Total operating expenses of the Group during 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 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.

### **Earnings**

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).

Profit before income tax for year 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.

### **Assets and cash flow**

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 57 per cent of the total assets. Current assets decreased by 31.6 per cent mainly due to the year 2006 dividend payout and amounted to 43 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.

---

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

At the end of 2007 retained earnings of TEO Group amounted to LTL 294 million (LTL 333 million in 2006) and retained earnings of the Parent company of the Group, TEO LT, AB, amounted to LTL 197 million (LTL 211 million in 2006).

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.

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.

### **Investments**

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, LTL 36 million into information technology, LTL 16 million into the upgrading of customer care centers and the construction of a new TEO building in Vilnius and other investments amounted to LTL 7 million.

### **Recent events**

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.

### **Research and development activities**

In December 2006, TEO received support of LTL 2 million from European Union Structural Fund for implementation of research and development project Creation of prototype of IPTV interactive services and content management and provision systems. This project will last until September 2008.

Also since December 2006 TEO together with the partners from Estonian Elion, Kaunas Technology University and UAB VRS Group is participating in the EU financed BP6 program project for Creation of automated digital cross media content production, aggregation and distribution through multimedia system. The project should end by 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 2007 total amount of borrowings of TEO Group amounted to LTL 7.6 million.

The Group's and the Company's activities expose it to a variety of financial risks. Foreign exchange risk arising from various currency exposures primarily with respect to US Dollar (USD) and Special Drawing Rights (SDR) is controlled by hedging the foreign currency exposure of its purchase contracts and debt commitments. The Group has no significant concentrations of credit risk outside TeliaSonera Group. The Group has policies that limit the amount of credit exposure to any one financial institution. Liquidity risk is managed by the Group Treasury, which is required to



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

maintain a minimum required liquidity position as defined in the Group's Treasury policy. The Group's income and operating cash flows are substantially independent of changes in market interest rates. 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. 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.

### **Plans and forecasts**

In 2008 TEO AB, LT is going to be strongly focused on increasing IPTV / DVB -T as well as data communications and broadband internet customer base and retaining existing voice services' customers. The Company will be strongly oriented towards offering integrated IT and telecommunications service packages to the business customers segment.

The revenue growth in 2008 should come from increase in revenue from new areas of activities such as IT and television services as well as higher revenue per users of broadband internet services.

Following the order of Communications Regulatory Authorities of Lithuania of 31 January 2008 on prices for calls initiation, calls termination, national and international transit services on public telephone network of TEO LT, AB at a fixed location that will come into force on 1 April 2008, the Company will have to revise its interconnection prices and that might have a negative impact on the Company's revenue from voice telephony services. The Company is considering an appeal to the court regarding this order.

In 2008 capital investments, excluding construction of the Company's head-quarters, will amount up to LTL 150 million and will be oriented towards improvement of the network, quality of services and development of digital terrestrial TV services that Company plans to offer in the first quarter of 2008.

### **III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS**

In 2007, the share capital of TEO LT, AB remained unchanged and amounted 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 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.

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

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

<b>Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)</b>	<b>Number of ordinary registered shares owned by the shareholder</b>	<b>Share of the share capital (%)</b>	<b>Share of votes given by the shares owned by the right of ownership (%)</b>	<b>Share of votes held together with persons acting in concert (%)</b>
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	32,591,040 (c)	4.00	4.20	--
Republic of Lithuania, represented by State Enterprise State Property Fund, Vilniaus g. 16, LT- 01507, Vilnius, Lithuania, code 110073154	12,442,855	1.53	1.60	--
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	242,473,337	29.76	31.21	--
	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; (c) 18,601,390 ordinary registered shares and 1,398,965 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.

---

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

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 2007, 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 2007 trading in TEO shares was very volatile and strongly influenced by the trend on global equity markets. At the beginning of 2007 the price of one share of the Company on Vilnius Stock Exchange was 2.77 litas and at the end – 2.37 litas. The lowest share price during the year was 2.16 litas and the highest – 3.08 litas. Shares' turnover on Vilnius Stock Exchange in 2007, compared to the year 2006, increased by 48.8 per cent and amounted to 197.6 million shares. In terms of value, turnover during 2007 was by 58 per cent higher than during 2006 and amounted to LTL 502.9 million. At the end of 2007 TEO market capitalisation amounted to LTL 1,931 million (LTL 2,249 million in 2006).

Trading in TEO Global Depository Receipts on London Stock Exchange was not as active in 2007 as in 2006 because more GDR are converted into ordinary shares and traded on Vilnius Stock Exchange. At the beginning of the year the price of one GDR of the Company was 10.6 US dollar and at the end – 10.4 US dollar. The lowest GDR price during 2007 was 8.83 US dollar and the highest – 12 US dollar. Turnover of Global Depository Receipts amounted to 2.6 million GDRs (4.2 million GDRs in 2006) or GBP 13 million (GBP 19 million in 2006).

In 2007, the Company paid out to the shareholders LTL 201,973 thousand of dividends or 0.26 litas per share for the year 2006. Following the Law dividends were paid to the shareholders who on the dividend record day, 26 April 2007, i.e. the day of the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. On 23 May 2007 dividends to all share and GDR holders were paid in cash.

#### **IV. PERSONNEL**

Number of TEO Group employees (headcounts) at the end of the year:

<b>2007</b>	<b>2006</b>	<b>2005</b>
3,177	3,098	3,005

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

The breakdown of the number of TEO Group employees by the companies:

<b>Name of the company</b>	<b>31 December 2007</b>	<b>31 December 2006</b>	<b>Change</b>
TEO LT, AB	2,274	2,263	11
UAB Lintel	738	690	48
UAB Baltic Data Center	136	92	44
UAB Kompetencijos Ugdymo Centras	22	18	4
VšĮ TEO Sportas	7	35	(28)
	3,177	3,098	79

In June 2007, VšĮ TEO Sportas terminated activities of its fitness center and accordingly reduced number of personnel.

Information about employees of TEO LT, AB as of 31 December 2007:

<b>Group of employees</b>	<b>Number of employees</b>	<b>Education</b>				<b>Average monthly salary (in litas)</b>
		<b>University</b>	<b>College</b>	<b>High school</b>	<b>Not completed high school</b>	
Leading Managers	11	11	0	0	0	27,864
Operation Level Managers	409	332	46	30	1	4,452
Leading Specialist	69	57	8	4	0	3,842
Specialists	1,752	756	444	501	51	2,144
Technicians	33	21	8	4	0	2,051
	2,274	1,177	506	539	52	2,733

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.

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

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 of the Board. 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 defines 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**

The Annual General Meeting of TEO LT, AB shareholders on 26 April 2007 decided to recall from the Board of the Company all members of the Board: Erik Hallberg, Morgan Ekberg, Matti Hyrynen, Brita Hanberger, Gert Tiivas, Gintautas Žintelis and Valdo Kalm.

Shareholders elected to the Board of the Company for new term of the Board (for 2 years) nominees proposed by Amber Teleholding A/S: Jörgen Latte, Anders Gylder, Ove Alm, Joakim Sundström, Björn Lindegren, Matti Hyrynen (proposed to Amber Teleholding A/S by East Capital) and Gert Tiivas (proposed to Amber Teleholding A/S by East Capital).

All seven members of the newly elected Board are non-executive directors and two members of the Board – Matti Hyrynen and Gert Tiivas who represent minority interest – are regarded as independent members of the Board.

On 13 June 2007, the Board elect Jörgen Latte as Chairman of the Board. Anders Gylder, Jörgen Latte and Björn Lindegren were elected as members of the Remuneration Committee and Matti Hyrynen, Joakim Sundström and Gert Tiivas as members of the Audit Committee. During the first meetings of newly elected committees Jörgen Latte was elected as Chairman of the Remuneration Committee and Matti Hyrynen as Chairman of the Audit Committee.

During 2007 ten meetings of the Board were held: nine of them were convened according to preliminary approved schedule of the Board meeting and one was extraordinary. During all Board meetings in 2007 there was quorum prescribed by legal acts. The Board has approved annual and interim financial statements of the Company, convoked the Annual General Meeting of Shareholders, proposed profit allocation for the year 2006, passed a decision on acquisition of treasury stocks from the Company's subsidiary, approved business plan for the year 2008 and followed up implementation of business plan for the year 2007, approved acquisitions of the Company and investment plan and revised the Company's governing structure.

In 2007, only one meeting of Remuneration Committee was held as there was no change in Remuneration policy of the Company and no appointments that should be approved by Remuneration Committee. The Remuneration Committee meeting was attended by all newly elected members of the Committee and chairman of the Committee was elected for the term of the Committee.

In 2007, four Audit Committees' 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.

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

### **Members of the Board as of 31 December 2007**

**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.

CFO of TeliaSonera AB Business Area Broadband Services (Sweden).

Chairman of the Supervisory Board of Elion Ettevõtte AS (Estonia); Deputy Chairman of the Supervisory Board of Lattelecom (Latvia); member of the Supervisory Board and Audit Committee of Eesti Telekom (Estonia); Chairman of the Board of Infonet Svenska AB (Sweden), TeliaSonera Sverige Net Fastigheter AB (Sweden), TeliaSonera Skanova Access AB (Sweden), Telia Electronic Commerce AB (Sweden), Telia Lithuania AB (Sweden), Adminson AB (Sweden), Amber Teleholding A/S (Denmark) and Tilts Communications A/S (Denmark); member of the Board of Telia Pensionfund (Sweden), TeliaSonera International Carrier AB (Sweden), TeliaSonera Försäkring AB, Stofa A/S (Denmark) and NextGenTel Holding ASA (Norway); a deputy member of the Board of Avnos AB (Sweden).

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.

Executive Vice President at TeliaSonera AB Business Area Broadband Services (Sweden). From 1 January 2008 CEO of TeliaSonera Skanova Access AB (Sweden).

A member of the Supervisory Board and Remuneration and Nomination Committee of Eesti Telekom (Estonia); member of the Supervisory Board of Elion Ettevõtte AS (Estonia).

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).

Head of Product and Production at TeliaSonera AB Business Area Broadband Services (Sweden).

A member of the Supervisory Board of Lattelecom (Latvia), member of the Board Telia Stofa A/S (Denmark) and NextGenTel Holding ASA (Norway).

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.

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

**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.

Vice President of Business Control at TeliaSonera AB Business Area Broadband Services (Sweden).

A member of the Supervisory Board and the Audit Committee of Lattelecom (Latvia); member of the Board of Sergel Kredittjanster AB (Sweden).

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.

General Counsel at TeliaSonera AB Business Area Broadband Services (Sweden).

A member of the Supervisory Board of Lattelecom (Latvia); member of the Board of TeliaSonera Network Sales AB, TeliaSonera International Carrier AB, TeliaSonera Sverige Asset Finance AB, TeliaSonera Skanova Access AB, TeliaSonera Net Fastigheter AB, Telia Electronic Commerce AB and Telia Lithuania AB; member of the Board and managing director of Amber Teleholding A/S (Denmark).

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 Hyrynen** (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.

Head of Vilnius of European Bank for Reconstruction and Development and responsible for the bank's business in the three Baltic countries.

As of 31 December 2007 East Capital (Sweden), a company that nominated Matti Hyrynen to the Board of TEO LT, AB, held 18,601,390 shares and 1,398,965 GDRs of TEO LT, AB that accounts to 4 per cent of the share capital and gives 4.20 per cent of votes.

Matti Hyrynen 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.

**Gert Tiivas** (born in 1973) – a member of the Board of TEO LT, AB since 24 April 2006 (re-elected for the two-year term on 26 April 2007; nominated by East Capital through Amber Teleholding A/S), member of the Audit Committee of the Board of TEO LT, AB.

---

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

Managing director of East Capital Explorer (Sweden).

Member of the Board of Baltika AS (Estonia), AVEC Asset Management AS (Estonia), Cantik Enterprises Ltd. (Ukraine), Pervomayskaya Zarya Ltd. (Russian Federation), JSC Open Investments (Russian Federation), RURIC AB (Sweden), Explorer Property Fund – Baltic States AB (Sweden), AVEC Baltic Property Fund AB (Sweden), Henryland Ltd. (Ukraine), East Capital Explorer Investments (Sweden) and East Capital Power Utilities Fund (Sweden)

As of 31 December 2007 East Capital (Sweden), a company that nominated Gert Tiivas to the Board of TEO LT, AB and is affiliated with East Capital Explorer, held 18,601,390 shares and 1,398,965 GDRs of TEO LT, AB that accounts to 4 per cent of the share capital and gives 4.20 per cent of votes.

Gert Tiivas has no direct interest in the share capital of TEO LT, AB. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

**Members of the Company's Administration as of 31 December 2007**

**Arūnas Šikšta** (born in 1968) from 2 January 2004 took the office of General Manager (CEO) of the Company.

He has a degree in Management from Natural Science Faculty of Klaipėda University (1995). From 2007 he studies at Vienna University of Economics and Business Administration, PMBA.

Chairman of the Board of UAB Voicecom, a subsidiary of TEO LT, AB; Deputy Chairman of the Board of AAS Gjensidige Baltic, a subsidiary of Norwegian non-life insurance company Gjensidige Forsikring BA; a member of the Council of the International Business School at Vilnius University, a member of the Board of Big Brothers Big Sisters International, Philadelphia, U.S.A.

He 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.

He has a Bachelor degree of Business Administration (1997), Master of Business Administration (1999) and Doctor of Social Sciences, Economics (2004), at Vilniaus Gedimino Technical University.

Chairman of UAB Lintel, a subsidiary of TEO LT, AB.

He 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.

He has Bachelor of Econometrics from Vilnius University (1993), Candidate Master of Business Administration at International Management School, Budapest, Hungary (1995), and Master of Business Administration at Emory University, Atlanta, U.S.A. (1996).

From 4 January 2008 member of the Board and General Manager of UAB Nacionalinė Skaitmeninė Televizija, a subsidiary of TEO LT, AB.

He 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.



**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**Darius Didžgalvis** (born in 1969) from 9 February 2005 holds an office of Chief Technology Officer and Deputy General Manager of the Company.

He is engineer in radio electronics (1993), MSc in Telecommunication Engineering (2001) and International Executive MBA (2003).

Chairman of the Board of UAB Nacionalinė Skaitmeninė Televizija; member of the Board of UAB Voicecom. Both companies are subsidiaries of TEO LT, AB.

He 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 Elsėrius** (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.

In 1967, he graduated from Uppsala University as BA in Management, Managerial Economy, Political Economy and Statistics.

Member of the Board of UAB Lintel and UAB Voicecom. Both companies are subsidiaries of TEO LT, AB. Member of the Board of Swedish Chamber of Commerce in Lithuania.

He 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 2007:

	Remuneration during 2007 (in litas)	Annual bonus for 2006 paid in 2007 (in litas)	Tantiemes for 2006 paid in 2007 (in litas)	Dividends for 2006 paid in 2007 (in litas)	Total payoff during 2007 (in litas)
On the average per member of the Board (a)	80,555	4,643	54,000	0	139,198
Total amount for all members of the Board (a)	563,887	32,500	378,000	0	974,387
On the average per member of the Administration (b)	502,646	402,000	0	5,636	910,282
Total amount for all members of the Administration (b)	2,513,233	2,010,000	0	28,181	4,551,414

NOTES: (a) The Board consist of seven members. Annual compensation (tantiemes) to the members of the Board for 2006 were paid for those who were the members of the Board on 31 December 2006; (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 2007, 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.

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

## **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 and 2007, and the related statements of income, cash flows and changes in shareholders' equity for the years then ended.

On 24 April 2006, the shareholders of the Company during the Annual General Meeting of Shareholders elected UAB PricewaterhouseCoopers as the Company's audit company for two years for the audit of financial statements for the years 2006 and 2007, and inspection of the Annual Report of the Company for the year 2006 and 2007, and authorized the Company's General Manager to conclude the Agreement for audit services, paying for services the price agreed between the parties but in no case more than 460,000 (four hundred sixty thousand) litas (VAT excluded) for the audit of the Company's financial statements for two years and reports on the activity of the Company (e.g. 230,000 (two hundred thirty thousand) litas (VAT excluded) per one year).

Following the agreement signed on 18 October 2001 UAB PricewaterhouseCoopers reviews interim consolidated financial statements of the Company according to the International Audit Standards and instructions of TeliaSonera Group's auditors. Also following PricewaterhouseCoopers TeamMate Global licence agreement of 1 March 2001 the Company pays to UAB PricewaterhouseCoopers an annual fee for internal audit management system software licence support. Implementation of those two non audit related agreements has no impact on independence of UAB PricewaterhouseCoopers audit of TEO LT, AB financial statements and was approved by Lithuanian Securities Commission.

## **VI. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

TEO LT, AB essentially follows a recommendatory Corporate Governance Code for the Companies Listed on the 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 newly elected Board are considered non-executive directors, whereby two out of seven members represent minority shareholders. In June the Board elected members of Audit and 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 2007, following the By-Laws of the Company announcements to the shareholders about convocation of the Annual General Meeting of Shareholders and dividend payment were announced in daily Lietuvos Rytas. These obligatory announcements to the shareholders and all the rest stock release announcements of TEO LT, AB were submitted to Lithuanian Securities Commission, Vilnius Stock Exchange, London Stock Exchange, daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and are posted on the Company's webpage [www.teo.lt](http://www.teo.lt).

---

**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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

The major regulatory news except announcement of annual and interim results during 2007 was termination and later renewal of negotiations on acquisition of the company that had a licence for re-broadcasting of TV programs over DVB-T network. Also TEO informed about decisions of the Annual General Meeting and election of a new Board and its chairman, election of the Audit and Remuneration Committees, acquisition of treasury stocks from the Company's subsidiary, disposal of a block of shares by second largest shareholder of the Company, disposal of the holdings in the Company by one of the TEO managers and changes in subsidiaries' management.

**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, TEO LT, AB Consolidated Annual Report for the year 2007 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 Elsėrius  
Chief Financial Officer

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007

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 Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
<b>Principle I: Basic Provisions</b>  <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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.

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<b>Principle II: The corporate governance framework</b>  <b>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.</b>		
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. At the end of 2007 TEO Board had seven members and all members of the Board were non-executive directors.

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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 – since 2006, and all the rest – since April 2007. 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.

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>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.</b></p>		
<p>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.</p>	<p>Yes</p>	<p>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.</p> <p>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 six years the same amount of annual compensation (tantiem) (LTL 54 thousand) was allocated to each member of the Board.</p>
<p>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.</p>	<p>Yes</p>	<p>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 acquainted with such information in advance.</p> <p>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 periodic and interim Company's reports, and placed on the webpage of the Company.</p>

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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	In 2007 newly elected board 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 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, in order to ensure proper resolution of conflicts of interest.



DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<p>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:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>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);</li> <li>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);</li> </ol>	<p>Yes</p>	<p>According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body.</p> <p>Other five members of the Board are employees of the majority shareholder and represent interest of the majority shareholder.</p> <p>TEO Board work regulations do not provide criteria for Board members' independence, but in 2007, when electing the Board, the unformalized independence criteria were taken into account.</p>
--	------------	--

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<p>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;</p> <p>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;</p> <p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>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.</p>		
<p>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.</p>	<p>Not applicable</p>	

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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 2007 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 2007 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 six 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.

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>  <b>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.</b>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's 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 2007 there was quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

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	<p>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.</p> <p>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.</p> <p>The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.</p>

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<p>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.</p>	<p>Yes</p>	<p>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.</p> <p>Members of the Audit Committee are members of the Board having financial education and two of them are independent members of the Board.</p> <p>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.</p> <p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p> <p>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.</p>

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<p>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.</p>	<p>No</p>	<p>Six out of seven members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and two of them are independent ones. Three non-executive directors work in the Remuneration Committee.</p>
<p>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.</p>	<p>Yes</p>	<p>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 2007, only one meeting of Remuneration Committee was held as there was no change in Remuneration policy of the Company and no appointments that should be approved by Remuneration Committee. The Remuneration Committee meeting was attended by all newly elected members of the Committee and chairman of the Committee was elected for the term of the Committee. Following the Remuneration Committee work regulation, secretary of the meetings was Director of Human Resources Unit of the Company. In 2007, 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.</p>

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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.
--	-----	--



DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>4) Properly consider issues related to succession planning;</li> <li>5) Review the policy of the management bodies for selection and appointment of senior management.</li> </ol> <p>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.</p>	No	In TEO, the function of the Nomination Committee is performed by the Remuneration Committee.
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> <li>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;</li> </ol>	Yes	<p>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.</p> <p>Twice per year the Committee should present updated information to the Board about the Committee's activities, if any.</p> <p>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</p>

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<p>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;</p> <p>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>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);</p> <p>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.</p> <p>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:</p> <p>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;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>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.</p> <p>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.</p>		<p>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.</p>
--	--	--

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>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);</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>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;</li> </ol>	<p>Yes</p>	<p>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.</p>
--	------------	---

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		
---	--	--

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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 2007.
--	-----	---

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>Principle V: The working procedure of the company's collegial bodies</b>		
<b>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.</b>		
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.

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

---

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-ordinating 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.
--	----	---

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>  <b>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.</b>		
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 AGM in 2007 was convened on 26 April 2007 at 1 p.m. 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.



**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	On 17 April 2007 draft decisions proposed by the Board to the AGM were publicly announced and draft documents were placed on the webpage of the Company. Accordingly, after the AGM documents (financial statements, the Company's activities report, Annual Report, new By-Laws) were approved by the shareholders, they 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.

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>  <b>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.</b>		
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	

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<b>Principle VIII: Company's remuneration policy</b>  <b>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.</b>		
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.

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

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;	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.

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

<p>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;</p> <p>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;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>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:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>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;</p> <p>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;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>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.</p> <p>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.</p>		<p>The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.</p>
---	--	--

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

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.	No	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	

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007**

---

<p>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.</p>	<p>Not applicable</p>	
---	-----------------------	--

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<b>Principle IX: The role of stakeholders in corporate governance</b>  <b>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.</b>		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	<p>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.</p> <p>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 prepared the Report on Social Responsibility which discussed principles and practices in relation to the cooperation with investors, employees, clients and local communities.</p>
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.		



**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.**

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>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.</p>	<p>Yes (except item 4)</p>	<p>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.</p> <p>All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English.</p> <p>TEO Group prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the EU.</p> <p>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.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>The Company's Annual Report is publicly available on the Company's webpage.</p> <p>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.</p>
<p>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</p>	<p>Not applicable</p>	

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
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	<p>Since 2000 the Company has been submitting information (both in English and Lithuanian) to the information system operated by the 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.</p> <p>TEO always strives to announce information before or after trading hours on the Vilnius Stock Exchange and disseminate information to the all markets where the Company's securities are traded at the same time.</p> <p>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.</p>
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 Vilnius Stock Exchange in both Lithuanian and English.

DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2007

<b>Principle XI: The selection of the company's auditor</b>		
<b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
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 is 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. Such information is also presented in the Annual Report of the Company.

TEO LT, AB  
Savanorių Ave. 28  
LT-03501 Vilnius, Lithuania  
[www.teo.lt](http://www.teo.lt)

© 2008