

TEO LT, AB

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

10-02-2009 No. 02- 46

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Jan-Erik Elsėrius, Chief Financial Officer and Deputy General Manager of TEO LT, AB, hereby confirm that, to the best of our knowledge, the attached not audited TEO LT, AB Interim Consolidated Financial Statements for the twelve months of 2008, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of TEO LT, AB and the Group of undertakings.

ENCLOSURE: TEO LT, AB Interim Consolidated Financial Statements of for the twelve months of 2008 (19 pages)

General Manager

Arūnas Šikšta

Chief Financial Officer and
Deputy General Manager

Jan-Erik Elsėrius

Two handwritten signatures are present. The first is a black ink signature, likely of Arūnas Šikšta, consisting of several overlapping loops and a vertical line. The second is a blue ink signature, likely of Jan-Erik Elsėrius, written in a cursive script.

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TEO LT, AB

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS OF 2008

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

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

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

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

TEO Group financial statements for the twelve months of 2008 are not audited. TEO Group financial statements for the year ended 31 December 2007 are audited by the external auditors.

CONSOLIDATED BALANCE SHEET OF TEO GROUP (LTL thousand)

ASSETS	2008-12-31	2007-12-31
Non-current assets		
Property, plant and equipment	669,413	657,962
Intangible assets	41,792	29,643
Trade and other receivables	5,563	3,166
	716,768	690,771
Current assets		
Inventories	8,888	4,943
Trade and other receivables	123,077	121,691
Current income tax receivable	3,159	5,749
Held-to-maturity investments	172,295	116,726
Trading investments	-	34,561
Cash and cash equivalents	149,898	229,350
Assets held for sale	8,538	1,851
	465,855	514,871
TOTAL ASSETS	1,182,623	1,205,642

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

EQUITY	2008-12-31	2007-12-31
Shareholders' equity		
Share capital	814,913	814,913
Treasury shares	(120,000)	(120,000)
Legal reserve	81,499	81,499
Retained earnings	259,818	294,167
	1,036,230	1,070,579
Minority interest	-	-
Total equity	1,036,230	1,070,579
LIABILITIES		
Non-current liabilities		
Borrowings	5,972	6,809
Deferred tax liabilities	5,757	9,530
Grants	1,361	2,768
Deferred revenue	1,605	1,900
	14,695	21,007
Current liabilities		
Trade, other payables and accrued liabilities	129,268	112,047
Current income tax liabilities	-	104
Borrowings	836	805
Provisions	1,594	1,100
	131,698	114,056
Total liabilities	146,393	135,063
TOTAL EQUITY AND LIABILITIES	1,182,623	1,205,642

CONSOLIDATED INCOME STATEMENT OF TEO GROUP (LTL thousand)

	October-December 2008	October-December 2007	January – December 2008	January – December 2007
Revenue	213,067	211,120	826,267	793,450
Other income	2,843	1,558	7,980	4,056
Employee related expenses	(54,124)	(46,464)	(183,382)	(160,564)
Network interconnection expenses	(29,315)	(31,216)	(119,997)	(119,460)
Other operating expenses	(54,345)	(48,756)	(183,697)	(171,638)
Depreciation, amortisation and impairment charge	(38,974)	(41,219)	(166,833)	(166,696)
Other gain (loss), net	143	538	1,900	6,318
Operating profit	39,295	45,561	182,238	185,466
Finance income	(1,156)	2,862	7,557	11,463
Finance costs	(46)	(168)	(295)	(782)
Finance income (costs), net	(1,202)	2,694	7,262	10,681
Profit before income tax	38,093	48,255	189,500	196,147
Income tax	(7,661)	(7,952)	(29,592)	(33,317)
Profit for the period from continuing operations	30,432	40,303	159,908	162,830
Discontinued operations:				
Profit (loss) for the period from discontinued operations	-	-	-	-
Profit for the period	30,432	40,303	159,908	162,830
Attributable to:				
Equity holders of the Company	30,432	40,303	159,908	162,830
Minority interest	-	-	-	-
	30,432	40,303	159,908	162,830
Earnings per share for profit attributable to the equity holders of the Company (in litas)	0.04	0.05	0.21	0.21

CONSOLIDATED CASH FLOW STATEMENT OF TEO GROUP (LTL thousand)

	January – December 2008	January – December 2007
Operating activities		
Profit for the period from continuing operations	159,908	162,830
Income tax	29,592	33,317
Depreciation, amortisation and impairment charge	166,833	166,696
Other gain and losses	(1,900)	(6,318)
Write off of property, plant and equipment	108	901
Interest income	(15,495)	(15,440)
Interest expenses	289	320
Other non-cash transactions	-	153
Changes in working capital:		
Inventories	(3,865)	3,211
Trade and other receivables	(8,505)	(14,503)
Trade, other payables and accrued liabilities	12,655	7,621
Cash generated from operations	339,620	338,788
Interest paid	(289)	(350)
Interest received	7,515	12,726
Income tax paid	(30,882)	(57,330)
Net cash from operating activities	315,964	293,834

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

Investing activities	January – December 2008	January – December 2007
Purchase of property, plant and equipment (PPE) and intangible assets	(175,964)	(182,175)
Proceeds from disposal of PPE, intangible assets and assets held for sale	1,633	11,974
Acquisition/disposal of held-to-maturity investments, net	(47,584)	(73,040)
Disposal of trading investments	35,411	-
Acquisition of subsidiaries	(16,078)	-
Disposal of subsidiaries	2,175	1,714
Loans granted	-	(2,597)
Loans repaid	-	150,000
Net cash used in investing activities	(200,407)	(94,124)
Financing activities		
Repayment of borrowings	(805)	(968)
Dividends paid to the shareholders of the Company	(194,204)	(201,973)
Net cash used in financing activities	(195,009)	(202,941)
Increase (decrease) in cash and cash equivalents	(79,452)	(3,231)
Movement in cash and cash equivalents		
At beginning of the period	229,350	232,581
Increase (decrease) during the period	(79,452)	(3,231)
At end of the period	149,898	229,350

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

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share Capital	Treasury Shares	Legal reserves	Translation differences	Retained earnings		
Balance at 1 January 2007	814,913	(120,000)	81,499	(1)	333,301	-	1,109,712
Dividends paid for the year 2006	-	-	-	-	(201,973)	-	(201,973)
Net profit					162,830		162,830
Currency translation differences	-	-	-	1	9	-	10
Balance at 31 December 2007	814,913	(120,000)	81,499	-	294,167	-	1,070,579
Balance at 1 January 2008	814,913	(120,000)	81,499	-	294,167	-	1,070,579
Dividends paid for the year 2007	-	-	-	-	(194,204)	-	(194,204)
Net profit	-	-	-	-	159,908	-	159,908
Other changes	-	-	-	-	(53)	-	(53)
Balance at 31 December 2008	814,913	(120,000)	81,499	-	259,818	-	1,036,230

EXPLANATORY LETTER

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

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

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

Shares of TEO LT, AB are listed on the Main List of the NASDAQ OMX Vilnius stock exchange (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.

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

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

The number of shareholders on the day of the last General Meeting of Shareholders, which was held on 25 November 2008, was 15,625. As on 31 December 2008, total number of the Company's shareholders was 15,721.

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

Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder	Share of the share capital (%)	Share of votes given by the shares owned by the right of ownership (%)	Share of votes held together with persons acting in concert (%)
Amber Teleholding A/S (a), c/o „TeliaSonera Danmark A/S“, Holmbladsgade 139, DK-2300 Copenhagen S, Denmark, code 20758694	488,947,656	60.00	62.94	-
TEO LT, AB, Savanorių pr. 28, LT-03501 Vilnius, Lithuania, code 121215434 (Treasury stocks)	38,095,242 (b)	4.67	-	-
State of Lithuania (c)	10,2530,993 (c)	1,26	1,32	-
Other shareholders	277,618,869	34,07	35,74	-
Total:	814,912,760	100,00	100,00	-

NOTE: (a) Amber Teleholding A/S is a fully owned subsidiary of Swedish TeliaSonera AB.
(b) 12,698,412 ordinary registered shares and 2,539,683 Global Depository Receipts.
(c) The State Property Fund (9,888,363 shares) and the State Tax Authorities (362,630 shares).

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

- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- publicly available local and/or national telephone services provided at a fixed location for residential customers;
- publicly available international telephone services provided at a fixed location for residential customers;
- publicly available local and/or national telephone services provided at a fixed location for non-residential customers;
- publicly available international telephone services provided at a fixed location for non-residential customers;
- minimum set of leased lines;
- calls origination on public telephone network provided at a fixed location;
- calls termination on public telephone network provided at a fixed location;
- national transit in fixed public telephone network;
- international transit in fixed public telephone network;
- wholesale broadband access;
- wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services;
- wholesale terminating segments and trunk segments of leased lines.

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

As on 31 December 2008, TEO Group consisted of the parent company, TEO LT, AB, (Savanorių ave. 28, LT-03501 Vilnius, www.teo.lt) and its daughter companies:

Name of the company	Activities of the company	Legal address	TEO part in the share capital of the company (%)	Part of TEO votes (%)
UAB Lintel	Information, telemarketing and remote customer care services	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, www.lintel.lt	100.00	100.00
UAB Baltic Data Center	Data center and information system management services	Žirmūnų str. 141, LT-09128 Vilnius, www.bdc.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	Training and consultancy	Palangos str. 4, LT-01117 Vilnius, www.kuc.lt	100.00	100.00
UAB Verslo Investicijos	-	Jogailos str. 9A / A.Smetonos str. 1, LT-01116, Vilnius	100.00	100.00
VšĮ TEO Sportas	Women's basketball team	Savanorių ave. 28, LT-03116 Vilnius, www.teobasket.lt	-(a)	100.00

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

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

UAB Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. It handles around 16 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118 and consultations to computer users by phone 1518 as well as telemarketing and remote customer care services to business customers.

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

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

On 3 January 2008, TEO acquired 100 per cent stake in UAB Nacionalinė Skaitmeninė Televizija (Savanorių pr. 125, LT-44146 Kaunas). The company had two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks and from March 2008 started provision of digital terrestrial television services *Skaitmeninė GALA (Digital GALA)*.

On 15 July 2008, Extraordinary General Meeting of TEO LT, AB approved preparation of the draft reorganisation conditions for merging Nacionalinė Skaitmeninė Televizija into TEO LT, AB.

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

On 15 October 2008, the Board of TEO LT, AB and the Board of AB Nacionalinė Skaitmeninė Televizija approved reorganization conditions for merging AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB. On the basis of the Reorganization Conditions, TEO LT, AB and AB Nacionalinė Skaitmeninė Televizija shall be reorganized in accordance with the Part 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by way of merger, by merging AB Nacionalinė Skaitmeninė Televizija that, after the reorganization, will cease its activities as a legal entity, into TEO LT, AB, that will continue its activities after the reorganization.

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

On 31 December 2008, the Register of Legal Entities registered the new edition of the By-laws of TEO LT, AB and thus reorganisation of TEO LT, AB and AB Nacionalinė Skaitmeninė Televizija by merger of AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB is finalised.

Following the Deed of Transfer-Acceptance signed on 31 December 2008, TEO LT, AB took over the assets, rights and obligations of AB Nacionalinė Skaitmeninė Televizija. From the moment of signing the Deed of Transfer-Acceptance the assets, rights and obligations of AB Nacionalinė Skaitmeninė Televizija are deemed to be the assets, rights and obligations of TEO LT, AB. The transactions, entered into till the moment of signing the Deed of Transfer-Acceptance by AB Nacionalinė Skaitmeninė Televizija, from the moment of signing the Deed of Transfer-Acceptance are deemed as the transactions entered into by TEO LT, AB and are included into the accounting of TEO LT, AB.

On 31 December 2008 TEO LT, AB sold its 100 per cent stake in subsidiary UAB Voicecom to the company not related to TEO Group. UAB Voicecom has the licence to use the national network of mobile analogue cellular radio communication of the NMT-450 standard. Permission is extended till the end of April 2009.

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

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

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

TEO Group accounting

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

The 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.

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

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

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

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

Key figures of TEO Group

Financial figures	2008	2007	Change (%)
Revenue (LTL thousand)	826,267	793,450	4,1
EBITDA (LTL thousand)	349,071	352,164	(0,9)
EBITDA margin (%)	42,2	44,4	
Operating profit (LTL thousand)	182,238	185,466	(1,7)
Operating profit margin (%)	22,1	23,4	
Profit before income tax (LTL thousand)	189,500	196,147	(3,4)
Profit for the period (LTL thousand)	159,908	162,830	(1,8)
Profit for the period margin (%)	19,4	20,5	
Earnings per share (LTL)	0,206	0,210	(1,8)
Number of shares excluding treasury stocks (thousand)	776,818	776,818	-
Financial ratios	2008-12-31	2007-12-31	
Return on capital employed (a) (%)	18.5	18.4	
Return on average assets (a) (%)	16.0	15.7	
Return on shareholders' equity (a) (%)	15.7	15.3	
Gearing ratio (%)	(30.4)	(34.8)	
Debt to equity ratio (%)	0.7	0.7	
Current ratio (%)	353.7	451.4	
Rate of turnover of assets (a) (%)	72.6	67.0	
Equity to assets ratio (%)	87.6	88.8	

Revenue

The total consolidated TEO Group's revenue for the twelve months of 2008 was LTL 826 million, an increase by 4.1 per cent over the total revenue of LTL 793 million for the twelve months of 2007. The total revenue for October-December of 2008 was LTL 213 million, an increase by 0.9 per cent over the total revenue of LTL 211 million for October-December of 2007.

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

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

Breakdown of TEO Group revenue (LTL thousand)

	October-December 2008	October-December 2007	Change (%)	January-December 2008	January-December 2007	Change (%)
Voice telephony services	124,873	133,892	(6.7)	508,510	528,326	(3.8)
Internet and data communication services	69,038	59,357	16.3	256,662	214,027	19.9
TV services	5,353	4,179	28.1	16,457	8,368	96.7
IT services	5,371	5,162	4.0	21,282	14,050	51.5
Other revenues	8,432	8,530	(1.1)	23,356	28,679	(18.6)
Total	213,067	211,120	0.9	826,267	793,450	4.1

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

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

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

During October-December 2008, the total number of main telephone lines in service decreased by 4.4 thousand lines while over the whole year by 21.1 thousand lines. During 2008 50.4 thousand new telephone lines were installed, while 71.5 thousand lines were disconnected. From February 2008 the Company terminated provision of temporary disconnected telephone line with incoming calls service. As a result from February number of active lines used by residential customers increased by 35 thousand.

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

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

	2008-12-31	2007-12-31	Change (%)
Number of fixed telephone lines in service	767,805	788,946	(2.7)
Digitalisation rate (%)	94.0	94.0	
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other)	298,080	258,819	15.2
Number of wireless Internet (WiFi) hot-spots	4,203	3,182	32.1
Number of IP TV customers	40,350	17,453	131.2
Number of DVB-T customers	26,327	-	
Number of IT customers	879	604	45.5
Number of personnel (head-counts) at the end of period	3,332	3,177	4.9
Number of full time employees at the end of the period	2,981	2,907	2.5

During October-December 2008, the number of broadband Internet access users increased by 11.4 thousand while over the full year by 39.3 thousand. Out of total 298.1 thousand broadband connections, 248.6 thousand are copper DSL connections sold to retail customers, 23 thousand are wireless connections via the WiFi network, 24.3 thousand are fiber optic connections and 2.3 thousand DSL connections are the connections sold to wholesales customers.

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

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

Compared with the year 2007, revenue from Internet services for the year 2008 went up by 16.8 per cent while revenue from data communication and network capacity sale services increased by 25.3 per cent.

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

During October-December 2008 number of digital terrestrial television (DVB-T) service *Digital GALA* users increased by 11.6 thousand or 1.8 times and number of IPTV service *Interactive GALA* increased by 7.6 thousand.

The digital terrestrial television service *Digital GALA* that was introduced to customers in March 2008 is now available almost all over the country and offers up to 40 TV channels in Lithuanian, English, Russian and other languages.

From October *Interactive GALA* and *Digital GALA* customers are the first in the Baltic countries to watch NBA TV and from November users of *Interactive GALA* are offered *GALA Karaoke* service. According to the Company's estimations, TEO Group's market share of the total paid TV services market in terms of customers during the third quarter of 2008 amounted to 9 per cent.

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

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

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

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

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

Operating expenses

Total operating expenses of the Group during 2008 were by 7.8 per cent higher than total operating expenses a year ago. Due to higher number of employees and higher salaries employee related expenses increased during 2008 – by 14.2 per cent.

During 2008 the total number of employees (headcount) in TEO Group went up by 155: in UAB Lintel and UAB Baltic Data Center by 196 and 50 employees, respectively, while in parent company, TEO, number of employees went down by 91.

Number of full-time employees during the year went up from 74. While counting full-time employees number part-time employees are recalculated into full-time employees and the number does not include employees on maternity/paternity leave.

In 2008, networks' interconnection expenses were almost at the same level as a year ago – slight increase by 0.4 per cent, and during October-December 2008, compared with the same period a year ago, were lower by 6.1 per cent. During the year other operating expenses increased by 7 per cent. In the group of other operating expenses, the biggest increase was in network maintenance and expenses related to IT as well as energy, premises and transportation expenses. Also increased provisions for the bad debts. In 2008, expenses for purchase of telecommunication equipment and services, marketing and other expenses were lower than in 2007.

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

Earnings

Operating expenses increased more than revenue and as a result EBITDA for the twelve months of 2008 went down by 0.9 per cent to LTL 349 million over LTL 352 million for the twelve months of 2007. EBITDA margin stood at 42.2 per cent (44.4 per cent in 2007).

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

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

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

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

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

Balance sheet

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

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

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

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

At the end of 2008 retained earnings of TEO Group amounted to LTL 260 million (LTL 294 million in 2007). According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company of the Group. As of 31 December 2008 retained earnings of TEO LT, AB amounted to LTL 185 million (LTL 197 million in 2007).

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

Cash flow

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

Only during October-December 2008 capital investments amounted to LTL 86 million and during the full year to LTL 180 million, and this is more than it was planned. In October 2008, it was planned that capital investments should amount up to LTL 173 million.

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

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

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

Other material information

On 3 January 2008, TEO LT, AB acquired UAB Nacionalinė Skaitmeninė Televizija, which had two licenses for re-broadcasting of television channels through digital terrestrial television (DVB-T) networks.

On 15 July 2008, Extraordinary General Meeting of TEO LT, AB Shareholders approved the preparation of the draft reorganisation conditions for the merger of Nacionalinė Skaitmeninė Televizija into TEO LT, AB.

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

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

On 25 November 2008, Extraordinary General Meeting of TEO LT, AB shareholders decided to reorganize TEO LT, AB and AB Nacionalinė Skaitmeninė Televizija in accordance with the Part 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by merger AB Nacionalinė Skaitmeninė Televizija into TEO LT, AB. General Meeting and approved Reorganization Conditions.

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

On 31 December 2008 TEO LT, AB sold its 100 per cent stake in subsidiary UAB Voicecom to the company not related to TEO Group.

On 23 December 2008 TEO LT, AB acquired 100 percent stake in a newly established and dormant company UAB Verslo Investicijos from UAB Management and Accounting Services.

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

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

Following the order of the Communications Regulatory Authority of the Republic of Lithuania of 31 January 2008 on prices for calls initiation, calls termination, national and international transit services on the public telephone network of TEO LT, AB at a fixed location the Company from August 2008 reduced

by 40 per cent the network interconnection fees for Lithuanian operators whose customers make calls to TEO network and also reduced prices for calls from TEO network to the networks of other Lithuanian fixed-line operators.

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