



TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2010
(UNAUDITED)

Beginning of the financial year	1 January 2010
End of reporting period	31 December 2010
Name of the company	TEO LT, AB (hereinafter – TEO or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Code of enterprise	121215434
Name of Register of Legal Entities	State Enterprise Centre of Registers
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	www.teo.lt
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

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

MANAGEMENT REPORT

Management's comment on financial results for the twelve months of 2010:

"TEO achieved a good result in the declining telecommunications market in 2010. The Company's revenue dropped by 5.2 per cent compared to the overall market drop of over 11 per cent. TEO experienced a significant increase in revenue from TV and Contact Centre services. New acquisitions in 2009 and 2010 allowed to bolster revenue from IT services. Good cost control (costs decreased by 4.5 per cent) allowed TEO to keep the Company's high profitability and an EBITDA margin of over 40 percent.

2010 was the year when the Company reached 100 thousand customers for its next generation fiber Internet service and for the first time introduced bundled voice and Internet services with the mobile operator. Although revenue from Internet services declined somewhat in 2010, customer uptake, especially in Q4, was significant, prompting recovery of the economy and good prospects for TEO in 2011."

Key figures of TEO Group

Financial figures	January – December		Change (%)
	2010	2009	
Revenue (LTL thousand)	773,423	815,551	(5.2)
EBITDA (LTL thousand)	310,477	338,087	(8.2)
EBITDA margin (%)	40.1	41.5	
Operating profit (LTL thousand)	178,775	196,047	(8.8)
Operating profit margin (%)	23.1	24.0	
Profit before income tax (LTL thousand)	180,025	197,930	(9.0)
Profit before income tax margin (%)	23.3	24.3	
Profit for the period (LTL thousand)	162,935	169,072	(3.6)
Profit for the period margin (%)	21.1	20.7	
Earnings per share (LTL)	0.210	0.218	
Number of shares excluding treasury stocks (thousand)	776,818	776,818	
Financial ratios	31 December 2010	31 December 2009	
Return on capital employed (%)	17.8	19.5	
Return on average assets (%)	16.1	17.6	
Return on shareholders' equity (%)	16.4	16.9	
Gearing ratio (%)	(24.8)	(29.3)	
Debt to equity ratio (%)	0.5	0.6	
Current ratio (%)	310.7	410.8	
Rate of turnover of assets (%)	69.7	73.4	
Equity to assets ratio (%)	87.1	89.2	
Operating figures	31 December 2010	31 December 2009	Change (%)
Number of fixed telephone lines in service	689,012	721,953	(4.6)
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other)	345,862	313,449	10.3
Number of IP TV customers	67,909	55,915	21.5
Number of DVB-T customers	63,279	46,454	36.2
Number of personnel (head-counts) at the end of period	3,486	3,060	13.9
Number of full-time employees at the end of the period	3,018	2,713	11.2

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

Breakdown of TEO Group revenue

	October – December			January – December		
	2010	2009	Change (%)	2010	2009	Change (%)
Voice telephony services	99,308	109,130	(9.0)	415,561	461,180	(9.9)
Internet and data communication services	63,344	66,517	(4.8)	256,844	275,339	(6.7)
TV services	10,474	7,937	32.0	37,738	27,598	36.7
IT services	11,467	7,621	50.5	36,067	24,866	45.0
Other services	7,948	6,716	18.4	27,213	26,568	2.4
Total	192,541	197,921	(2.7)	773,423	815,551	(5.2)

Revenue

The total consolidated TEO Group's revenue for the twelve months of 2010 was LTL 773 million, a decrease by 5.2 per cent over the total revenue of LTL 816 million for the twelve months of 2009. The total revenue for the fourth quarter of 2010 was almost on the same level as for the third quarter of 2010 and amounted to LTL 193 million.

Revenue from TV and IT services continued to grow and partially offset the decline in revenue from voice telephony, and Internet and data communication services.

Share of revenue from voice telephony services from total amount of revenue amounted to 53.7 per cent, Internet and data communications services – 33.2 per cent, television services – 4.9 per cent, IT services – 4.7 per cent and other services – 3.5 per cent of total revenue for the twelve months of 2010.

Lower usage and decreased number of telephone lines in service had a negative effect on revenue from voice telephony services. Taking into consideration the current economic situation in the country, the Company, in order to retain its existing voice services customers and attract new ones, has to offer various discounts and subsequently to reduce its average revenue per user (ARPU).

During October-December 2010, the total number of main telephone lines in service decreased by 7.4 thousand lines, while over the whole year – by 33 thousand lines. Over the year 25.7 thousand of new telephone lines were installed while 58.7 thousand were disconnected.

Lower number of voice telephony service users resulted in a decrease of revenue from subscription fees in 2010 by 8.9 per cent compared with a year ago.

In February 2010, TEO offered lower prices for calls to mobile and other fixed networks of Lithuania for residential and business customers of the Company using flat-fee payment plans, and from June calls to mobile network of Omnitel for flat-fee payment plan subscribers are free of charge.

Favourable conditions of different flat-fee payment plans resulted in increased (by 5.5 per cent) volumes of international traffic in both business and residential segments over the last twelve months, and in an increase (by 5.6 per cent) in traffic volumes of residential customers' calls to mobile operator networks as well as domestic long-distance calls (by 1.5 per cent).

However, total traffic volume generated by residential and business customers decreased by 1.5 and 14.8 per cent, respectively. As a result, over the year revenue from traffic charges went down by 24.1 per cent.

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

Over the year revenue from networks' interconnection services increased by 5 per cent due to increased traffic volumes of international transit.

According to the Report of the Communications Regulatory Authority (CRA) for the third quarter of 2010, TEO market share of the fixed-line telephony market in terms of customers amounted to 91.5 per cent and in terms of revenue – to 93.9 per cent. In terms of revenue TEO had 23.3 per cent of the network interconnection market.

During October-December 2010, the total number of broadband Internet access users increased by 11.1 thousand, while over the last twelve months – by 32.4 thousand.

Internet connections over the next generation fiber optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies continued to substitute connections over copper lines (DSL technology). By the end of 2010, almost 30 per cent of the total number of TEO broadband Internet access users had fiber optic access and the number of such connections exceeded 100 thousand.

Over the year the number of FTTH and FTTB connections increased by 65.3 per cent to 104 thousand, while the number of copper DSL connections used by retail customers went down by 6.5 per cent.

At the end of 2010 out of total 346 thousand broadband connections, 212 thousand were copper DSL connections sold to retail customers, 104 thousand – fiber optic connections, 29 thousand – wireless connections via WiFi network and 1 thousand DSL connections were the ones sold to wholesale customers.

In spring, the Company increased the Internet speed for residential customers. From October 2010 the Internet speed for business customers was increased by up to 4 times, too. From now on, TEO will offer business customers 4 Internet plans as well as the opportunity to try out additional services for free.

In November, TEO and Omnitel, a mobile telecommunications company, presented a joint offer of ZEBRA high-speed Internet and "Omni Connect" mobile Internet. Both services cost 49.90 litas per month – almost twice less than purchasing them separately.

Compared with the twelve months of 2009, revenue from Internet services for the twelve months of 2010 went down by 5.6 per cent and revenue from data communication services decreased by 8.5 per cent due to price pressure.

According to the CRA Report, the Company's market share of the total Internet providers market in terms of revenue during the third quarter of 2010 amounted to 39.1 per cent while its share of the market of broadband Internet using fixed connection was 51.3 per cent. On 30 September 2010 Internet penetration per 100 residents of Lithuania was 26.2 per cent, while the penetration of broadband Internet using fixed connection was 20.4 per cent. In terms of revenue TEO had 63.1 per cent of the leased lines market and 63.4 per cent of the data communication market.

During 2010 the total number of TV service customers increased by 28.8 thousand: number of digital terrestrial television (DVB-T) service *Digital GALA* users increased by 16.8 thousand and number of IPTV service *Interactive GALA* increased by 12 thousand.

In December 2010, TEO started to re-broadcast three high-definition (HDTV) channels over digital terrestrial (DVB-T) transmitters in Kaunas region. In Vilnius region HDTV channels over DVB-T network are re-broadcasted since November 2009.

According to the CRA Report, at the end of September 2010 TEO market share of the digital television service market in terms of customers amounted to 46.8 per cent and in terms of revenue – 40.5 per cent. TEO market share of the total pay-TV services market in terms of customers was 19.5 per cent. On 30 September 2010 digital pay-TV penetration per 100 households of Lithuania was 18.8 per cent.

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Consolidated TEO Group revenue from IT services was mainly generated by the Company's subsidiary UAB Baltic Data Center that provides data center and information system management services to local and multinational enterprises.

In September 2010, Baltic Data Center acquired UAB Hostex, one of the leading providers of web hosting and data center services to residential and small companies as well as Internet portals in Lithuania.

TEO Group revenue from other services consists of the following non-telecommunication services: lease of premises, fines for termination of agreements, Contact Center services of UAB Lintel and other.

In autumn last year, Lintel opened two new Contact Centres in Vilnius and Klaipėda, where it employed more than 400 customer care specialists.

Over the year revenue from Contact Center services increased by 20.2 per cent, while revenue from other non-core business services decreased by 13.6 per cent.

TEO Group's other income consists of interest income from investments held to maturity and loans. Gain or loss from sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as other gain (loss).

Operating expenses

In 2010, the Company's operating expenses are affected by increasing number of Internet and TV customers, and developing IT business, while other costs are under control. As a result, total operating expenses of the Group for the fourth quarter of 2010 were by 12.6 per cent lower than for the same period a year ago. Total operating expenses for the year 2010 were by 4.5 per cent lower than in 2009.

Over the year employee-related expenses decreased by 11.4 per cent. During 2010 the total number of employees (headcount) in TEO Group increased by 426 (mainly in Lintel due to expanding Contact Center activities) from 3,060 to 3,486. In terms of full-time employees, the total number of employees in TEO Group during 2010 increased by 305. During the fourth quarter of 2010 the number of employees (headcount) and full-time employees decreased by 59 and 27, respectively.

Interconnection expenses increased by 3 per cent due to higher international transit traffic volumes, while national interconnection fees went down.

Other expenses decreased by 2.5 per cent in spite of rapid development of television and IT services. With the growing number of television service users the Company is spending more for acquisition of TV content and customer end equipment, while the expansion of the DVB-T network caused higher expenses for TV program broadcasting over the DVB-T network.

Earnings

EBITDA in 2010 went down by 8.2 per cent to LTL 310 million over LTL 338 million in 2009. Nevertheless, EBITDA margin stood above 40 per cent and amounted to 40.1 per cent (41.5 per cent in 2009).

Depreciation and amortisation charges decreased by 7.3 per cent and in 2010 amounted to 17 per cent of total revenue (17.4 a year ago). Operating profit was by 8.8 per cent lower than a year ago, while the operating profit margin was 23.1 per cent (24 per cent in 2009).

As a result, profit before income tax in 2010 was down by 9 per cent and amounted to LTL 180 million (LTL 198 million a year ago).

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

From 1 January 2009 the profit tax rate in Lithuania was increased from 15 to 20 per cent and from 1 January 2010 it was reduced back to 15 per cent.

Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the year 2010 amounted to LTL 10.6 million (LTL 13 million in 2009).

Profit for the period amounted to LTL 163 million, while a year ago it was LTL 169 million, a decrease by 3.6 per cent. The profit margin reached 21.2 per cent (20.7 per cent a year ago).

Balance sheet and cash flow

During 2010 total assets of TEO Group increased by 2.4 per cent mainly due to higher capital investments.

The total non-current assets increased by 8.8 per cent and amounted to 65.3 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 26 April 2010, dividend of the total amount of LTL 163 million or LTL 0.21 per share for the year 2009 were paid to the shareholders of the Company. Therefore, total current assets decreased by 7.7 per cent and amounted to 34.7 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 22 per cent of the total assets.

Shareholders' equity at the end of 2010 was on the same level as a year ago and amounted to 87 per cent of the total assets.

In September 2010, following the decision of the Annual General Meeting of shareholders, the Company's treasury stocks (38,095,242 shares of 1 litas nominal value each with total consolidated balance sheet value of LTL 120 million) were cancelled. Consequently, the Company's share capital was reduced by LTL 38.1 million and an amount of LTL 81.9 million (the difference between the consolidated balance sheet and nominal values of treasury stocks) was deducted from consolidated retained earnings. The treasury stock cancellation and the consequent reduction of the share capital had no effect on total amount of consolidated shareholders' equity.

Treasury stocks at Parent company, TEO LT, AB, were recorded at the balance sheet value of LTL 58.5 million. After the treasury stock cancellation, the Parent company's share capital was reduced by LTL 38.1 million and retained earnings – by LTL 20.4 million.

As of 31 December 2010 consolidated retained earnings of TEO Group amounted to LTL 168 million and retained earnings of the Parent company amounted to LTL 144 million. 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.

At the end of 2010 the total amount of borrowings included mainly financial liabilities related to financial leasing of premises and amounted to LTL 5.4 million. Net debt was negative and amounted to LTL 254 million. The net debt to equity ratio was negative and amounted to 24.8 per cent.

During 2010 capital investments amounted to LTL 191 million (LTL 100 million during the fourth quarter of 2010 alone). The majority of capital investments (83 per cent or LTL 158 million) went to expansion of the core network and development of the next generation fiber-optic access network. The remaining part was invested into IT systems (LTL 19 million), renovation of premises (LTL 5 million), transportation and other. In September 2010, TEO subsidiary, Baltic Data Center, acquired a 100 per cent stake in UAB Hostex.

As a result by the end of December, TEO had 556 thousand households passed (366 thousand a year ago), about a half of the country's households, by the FTTH network. In 2011, the Company will further continue its investments into FTTH network based on the best interest of TEO services' users and shareholders.

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

Cash and cash equivalents during 2010 increased by LTL 38 million.

Share capital and shareholders

The share capital of the Company amounts to 776,817,518 litas and consists of 776,817,518 ordinary registered shares with a nominal value of 1 litas each. It was reduced from 814,912,760 litas to 776,817,518 litas and registered at the Register of Legal Entities on 3 September 2010 following the decision of the Annual General Meeting of Shareholders, held on 26 April 2010.

The Annual General Meeting of Shareholders decided to cancel 38,095,242 treasury stocks and to reduce the Company's authorised share capital by 38,095,242 litas from 814,912,760 litas to 776,817,518 litas, and accordingly amend the By-laws of the Company. The purpose of reduction of the Company's authorised capital was cancellation of the Company's treasury stocks. The Company's authorised capital was reduced by way of annulment of the Company's treasury stocks. Treasury stocks were cancelled on 9 September 2010.

Treasury stocks that amounted to 4.67 per cent of the total number of the Company shares were acquired during the Initial Public Offering (IPO) in year 2000 and they had 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 shares that provide voting rights during the General Meeting remains unchanged and is 776,817,518.

Following the Board's decision of 25 March 2010 the Company terminated its Global Depository Receipts (GDR) programme, based on the Deposit Agreement dated 15 June 2000 between the then AB Lietuvos Telekomas (now – TEO LT, AB) and the then Bankers Trust Company (now – Deutsche Bank Trust Company Americas), as of 1 July 2010, and delisted TEO Regulation S GDRs (ISIN US88074Q2075) and Rule 144A GDRs (ISIN US88074Q1085) from the Official List of the UK Listing Authorities and discontinued trading in TEO GDRs type Reg S (ISIN US88074Q2075) on the London Stock Exchange as of 30 June 2010.

The Company's Global Depository Receipts (GDR) programme was run since June 2000. According to the programme, one GDR represented 10 ordinary registered shares of the Company. Shares were held by the depository bank, Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A. Till 30 June 2010 GDRs were traded on the London Stock Exchange (LSE) (code: TEOL).

Following the Global Depository Receipts programme's conditions, upon closure of the GDR programme all outstanding GDRs were sold by the depository bank and the proceeds distributed to GDR holders. As of 31 December 2010, there were no ordinary shares of the Company represented by GDRs.

Ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L).

The number of shareholders on the shareholders registration day for the Annual General Meeting of Shareholders, which was held on 26 April 2010, was 13,874.

Shareholders of TEO LT, AB as on 31 December 2010:

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	62.94	62.94	68.08

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

TeliaSonera AB (publ) (a), Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	39,895,616	5.14	5.14	68.08
East Capital Asset Management AB, Kungsgatan 33, Stockholm, SE- 111 93, Sweden, code 556564-5370	52,786,800	6.80	6.80	-
Republic of Lithuania, represented by State Enterprise State Property Fund, Vilnius g. 16, LT-01507, Vilnius, Lithuania, code 110073154	3,075,315	0.39	0.39	-
Republic of Lithuania, represented by State Tax Inspectorate, Vasario 16-osios g. 15, LT-01514 Vilnius, Lithuania, code 188659752	362,630	0.05	0.05	-
Other shareholders	191,749,501	24.68	24.68	-
TOTAL:	776,817,518	100.00	100.00	-

NOTES: (a) Amber Teleholding A/S is a fully owned subsidiary of TeliaSonera AB (publ).

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in January-December of 2010 in litas:

Opening price (LTL)	Lowest price (LTL)	Highest price (LTL)	Last price (LTL)	Average price (LTL)	Turnover (units)	Turnover (LTL)
1.860	1.840	2.483	2.476	2.231	62,892,242	140,318,723

NASDAQ OMX Vilnius stock exchange changed its trading and clearing currency for shares on its regulated market from litas to euro as of 22 November 2010. Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in January-December of 2010 in euros:

Opening price (EUR)	Lowest price (EUR)	Highest price (EUR)	Last price (EUR)	Average price (EUR)	Turnover (units)	Turnover (EUR)
0.539	0.533	0.716	0.717	0.646	62,892,242	40,639,111

Information about trading in TEO GDRs on the London Stock Exchange from 1 January 2010 to 30 June 2010 (the last day of trading on LSE):

Opening price (USD)	Lowest price (USD)	Highest price (USD)	Last price (USD)	Average price (USD)	Turnover (units)	Turnover (USD)
7.78	6.75	9.91	7.24	8.33	0	0

TEO market capitalisation as on 31 December 2010 was LTL 1,923 million.

Other material information

On 24 February 2010, the Lithuanian Communications Regulatory Authority (CRA) recognised TEO having significant market power on the market of digital terrestrial television (DVB-T) broadcasting transmission services for end-users of content provision services using radio frequencies (channels) assigned to TEO. The Company operates two national digital terrestrial television transmission networks. There are four national networks of DVB-T transmitters. One network transmits 10 television programs.

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

In March 2010, Håkan Dahlström, the Chairman of the Board of TEO LT, AB, was elected as a member of the Board of UAB Omnitel (Lithuania). UAB Omnitel is 100 per cent owned by TeliaSonera AB (publ).

In April 2010, TEO signed an agreement with UAB Nekilnojamojo Turto Gama regarding the lease of premises in Vilnius, at Lvovo str. 25, and by the end of October 2010 the Company's head-office was moved from Savanoriu ave. 28 to Lvovo str. 25.

On 26 April 2010 the Annual General Meeting of Shareholders decided to approve the audited annual financial statements of the Company for the year 2009; to allocate from the Company's distributable profit LTL 163,132 thousand for the dividend payment for the year 2009 (LTL 0.21 dividend per share); to allocate LTL 378 thousand for annual payments (tantiemes) to seven members of the Board for the year 2009; to elect UAB PricewaterhouseCoopers as the Company's audit enterprise; to cancel 38,095,242 treasury shares and reduce the Company's authorised share capital from 814,912,760 litas to 776,817,518 litas as well as amend the By-laws of the Company accordingly; to elect Malin Frenning to the Board of the Company for the current term of the Board instead of Anders Gylder who resigned from the Board as of 26 April 2010.

In June 2010, the Board decided to elect to the Remuneration Committee of the Company for the one-year term the following members of the Board: Hakan Dahlstrom, Malin Frenning and Lars Ohnemus.

On 13 July 2010, following the Board's decision to establish a non-profit organisation for management of the Company's Communications History Museum in Kaunas, a non-profit organisation VšĮ Ryšių Istorijos Muziejus (The Communications History Museum), which is solely founded and owned by TEO LT, AB, was registered at the Register of Legal Entities.

In July, following the Board's decision the Company transferred owners' rights of VšĮ TEO Sportas, a non-profit organisation that supported women basketball team TEO and which was established and solely owned by the Company, to a non-profit organisation VšĮ Vici Sport. The Company's decision to no longer support the women's basketball team from the next season starting Autumn 2010 was communicated in February 2010.

On 6 September 2010, UAB Baltic Data Center, a subsidiary of TEO LT, AB, acquired a 100 per cent stake in UAB Hostex from AS Martinson Trigon (Estonia). UAB Hostex provides web hosting and data center services to residential and small companies as well as Internet portals. The acquired company was established in 1995 and has 20 employees.

On 27 October 2010, the Register of Legal Persons registered a new registered office address of TEO LT, AB – Lvovo str. 25, Vilnius.

In December 2010, the Company announced that the total amount of planned investments in 2011 will be over LTL 150 million.

Members of the managing bodies

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.

Members of the Board as of 31 December 2010:

Name, surname	Position in the Board	Employment	Ownership of TEO shares
Håkan Dahlström	Chairman of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), President of Business Area Mobility Services	-

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

Malin Frenning	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Deputy Head (since 1 January 2011 – President) of Business Area Broadband Services	-
Ove Alm	Member of the Board	TeliaSonera AB (Sweden), Business Area Broadband Services, Head of Networks	-
Joakim Sundström	Member of the Board, Chairman of the Audit Committee	TeliaSonera AB (Sweden), Business Area Broadband Services, Vice President of Business Control	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera Finland Oyj (Finland), General Counsel for Broadband Services and Vice President for Real Estates and Property Planning in Finland	-
Lars Ohnemus	Member of the Board, member of the Remuneration Committee	Baltic Property Trust Partner Services A/S (Denmark), Chief Executive Officer; Baltic Management Institute (Lithuania) and Copenhagen Business School (Denmark), Visiting Assoc. Professor	-
Martynas Česnavičius	Member of the Board, member of the Audit Committee	Investment funds Amber Trust I and Amber Trust II (Luxemburg), Advisors	UAB Profinance, a 50 per cent owned company, holds 45,000 shares of TEO LT, AB

Following provisions of The Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange, all members of the Board are regarded as non-executive members of the Board, and Lars Ohnemus and Martynas Česnavičius are regarded as independent members of the Board. Information about other Board assignments of the members of the Company's Board is provided at the Company's webpage www.teo.lt.

Members of Administration:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Arūnas Šikšta	General Manager (CEO)	International Business School at Vilnius University, member of the Council and lector; Big Brothers Big Sisters International, Philadelphia, U.S.A., member of the Board	-
Darius Gudačiauskas	Chief Sales Officer and Deputy General Manager	UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board	-
Nerijus Ivanauskas	Chief Marketing Officer and Deputy General Manager	-	-
Darius Didžgalvis	Chief Technology Officer and Deputy General Manager	UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board; UAB Interdata, a subsidiary of UAB Baltic Data Center, Chairman of the Board; UAB Hostex, a subsidiary of UAB Baltic Data Center, Chairman of the Board	-
Giedrius Vegys	Chief Financial Officer	UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board	-

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	October - December		January - December	
		2010	2009	2010	2009
Revenue		192,541	197,921	773,423	815,551
Other income		320	603	1,303	8,085
Employee related expenses		(42,691)	(53,134)	(157,647)	(178,029)
Interconnection expenses		(28,466)	(27,358)	(118,073)	(114,663)
Other operating expenses		(51,206)	(59,465)	(189,248)	(194,009)
Depreciation, amortisation and impairment of fixed assets	3	(33,324)	(34,587)	(131,702)	(142,040)
Other gain/ (loss) - net		363	191	719	1,152
Operating profit		37,538	24,171	178,775	196,047
Finance income		450	637	1,617	2,909
Finance costs		27	1,263	(367)	(1,026)
Finance income/ costs - net		477	1,900	1,250	1,883
Profit before income tax		38,014	26,071	180,025	197,930
Income tax	8	(233)	8,759	(17,090)	(28,858)
Profit for the period		37,781	34,830	162,935	169,072
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		37,781	34,830	162,935	169,072
Profit and comprehensive income attributable to:					
Owners of the Parent		37,781	34,830	162,935	169,072
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	9	0.049	0.045	0.210	0.218

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

CONSOLIDATED BALANCE SHEET

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	3	706,430	651,712
Intangible assets	3	49,341	37,076
Investment property	4	10,794	10,794
Trade and other receivables		1,820	7,343
Deferred tax assets		711	-
		769,096	706,925
Current assets			
Inventories		6,091	5,528
Trade and other receivables		124,724	111,230
Current income tax receivable		18,946	19,792
Held-to-maturity investments		40,184	100,561
Loans to banks		-	24,738
Cash and cash equivalents		219,526	181,943
		409,471	443,792
Total assets		1,178,567	1,150,717
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	6	776,818	814,913
Treasury shares		-	(120,000)
Legal reserve		81,499	81,499
Retained earnings		168,121	250,222
Total equity		1,026,438	1,026,634
LIABILITIES			
Non-current liabilities			
Borrowings		4,233	5,121
Deferred tax liabilities		10,290	6,551
Grants		-	560
Deferred revenue and accrued liabilities		5,814	3,828
		20,337	16,060
Current liabilities			
Trade, other payables and accrued liabilities		130,564	100,854
Current income tax liabilities		39	277
Borrowings		1,189	1,042
Provisions	7	-	5,850
		131,792	108,023
Total liabilities		124,083	124,083
Total equity and liabilities		1,178,567	1,150,717

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Treasury shares	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2009	814,913	(120,000)	81,499	259,818	1,036,230
Net profit	-	-	-	169,072	169,072
Total recognised income and expenses	-	-	-	169,072	169,072
Dividends paid for 2008	-	-	-	(178,668)	(178,668)
Balance at 31 December 2009	814,913	(120,000)	81,499	250,222	1,026,634
Balance at 1 January 2010	814,913	(120,000)	81,499	250,222	1,026,634
Net profit	-	-	-	162,935	162,935
Total comprehensive income for the period	-	-	-	162,935	162,935
Dividends paid for 2009	-	-	-	(163,131)	(163,131)
Cancellation of treasury shares and reduction of share capital	(38,095)	120,000	-	(81,905)	-
Balance at 31 December 2010	776,818	-	81,499	168,121	1,026,438

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - December	
	2010	2009
Operating activities		
Profit for the period	162,935	169,072
Income tax	17,090	28,858
Depreciation, amortisation and impairment of fixed assets	131,702	142,040
Other gains and losses	(719)	(1,152)
Write-off of property, plant and equipment and intangible assets	668	1,278
Interest income	(2,919)	(10,994)
Interest expenses	245	301
Other non-cash transactions	410	652
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):		
Inventories	(559)	3,361
Trade and other receivables	(7,628)	6,448
Trade, other payables and accrued liabilities	(2,085)	(4,402)
Cash generated from operations	299,140	335,462
Interest paid	(245)	(301)
Interest received	3,434	2,909
Tax paid	(14,367)	(44,397)
Net cash from operating activities	287,962	293,673
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(162,342)	(134,791)
Proceeds from disposal of PPE and intangible assets	954	1,319
Acquisition of held-to-maturity investments, amounts loaned to banks	(227,549)	(474,356)
Disposal of held-to-maturity investments, repayment of amounts loaned to banks	312,149	529,028
Acquisition of subsidiaries	(9,217)	(3,262)
Net cash used in investing activities	(86,005)	(82,062)
Financing activities		
Repayment of borrowings	(1,243)	(898)
Dividends paid to shareholders of the Company	(163,131)	(178,668)
Net cash used in financing activities	(164,374)	(179,566)
Increase (decrease) in cash and cash equivalents	37,583	32,045
Movement in cash and cash equivalents		
At the beginning of the year	181,943	149,898
Increase (decrease) in cash and cash equivalents	37,583	32,045
At the end of the period	219,526	181,943

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The consolidated interim financial statements for the twelve months period ending 31 December 2010 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2009.

The presentation currency is litas. The financial statements are presented in thousands of litas, unless indicated otherwise. The financial statements are prepared under the historical cost convention.

Financial statements for the period ended 31 December 2010 are not audited. Financial statements for the year ended 31 December 2009 are audited by the external auditor UAB PricewaterhouseCoopers.

2 Segment information

The Company's management considers the business from the Group's perspective and considers the performance of the Company and each subsidiary separately. The management assesses the performance of the Company and its subsidiaries based on measure of Net profit.

The Company's activity is the segment that meets the quantitative thresholds required by IFRS 8 and it is reported as Broadband segment. This segment uses the national fixed telecommunications network to provide fixed voice, broadband and data communications, TV broadcasting services and related value-added services.

The Company's subsidiaries do not meet the quantitative thresholds required by IFRS 8. The results of the subsidiaries are combined and disclosed in the 'other segment' column. The profile of each subsidiary is described in Note 5.

	Broadband segment		Other segment		Eliminations		Total Group	
	January-December		January-December		January-December		January-December	
	2010	2009	2010	2009	2010	2009	2010	2009
Segment revenue	732,850	786,813	96,626	84,998	(56,053)	(56,260)	773,423	815,551
Inter-segment revenue	(10,716)	(10,861)	(45,337)	(45,399)	56,053	56,260	-	-
Revenue from external customers	722,134	775,952	51,289	39,599	-	-	773,423	815,551
Profit for the period	161,808	161,367	10,280	(6,503)	(9,153)	(14,208)	162,935	169,072
Total Assets	1,167,324	1,119,070	98,014	89,492	(86,771)	(57,846)	1,178,567	1,150,717

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

3 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Year ended 31 December 2009		
Opening net book amount as at 31 December 2008	669,413	41,792
Additions	113,596	3,840
Acquisition of subsidiaries	656	2,538
Disposals and retirements	1,515	3
Reclassification	429	82
Depreciation and amortisation charge	130,867	11,173
Closing net book amount as at 31 December 2009	651,712	37,076
Year ended 31 December 2010		
Opening net book amount as at 31 December 2009	651,712	37,076
Additions	177,980	20,991
Acquisition of subsidiaries	1,717	127
Disposals and retirements	972	-
Reclassification	(2,766)	1,607
Depreciation and amortisation charge	121,241	10,460
Closing net book amount as at 31 December 2010	706,430	49,341

4 Investment property

As at 31 December 2010 the Group as investment property accounted construction in progress, which was reclassified from assets held for sale in end of 2009.

5 Investments in subsidiaries and associates

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

Subsidiary	Country of incorporation	Ownership interest in %		Profile
		31 December 2010	31 December 2009	
UAB Lintel	Lithuania	100%	100%	Provider of Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Interdata	Lithuania	100%	100%	The webhosting services providing subsidiary of UAB Baltic Data Center.

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

UAB Hosting	Lithuania	100%	100%	The webhosting services providing subsidiary of UAB Interdata.
UAB Hostex	Lithuania	100%	-	The webhosting and data center services providing subsidiary of UAB Baltic Data Center acquired in September 2010.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary that used to provide training and consultancy services.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.
VšĮ TEO Sportas	Lithuania	-	100%	Through this non-profit organisation the Company used to support a women's basketball team. In July 2010 this entity was sold to the third party.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	-	A non-profit organisation established by the Company in July 2010 for management of the Company's Communications History Museum.

6 Share capital and treasury shares

Following the decision of the Annual General Meeting of Shareholders, the Company's authorised share capital was reduced from LTL 814,912,760 to LTL 776,817,518 by cancelling 38,095,242 treasury shares. From September 2010, the authorised share capital comprises 776,817,518 ordinary shares of LTL 1 par value each. All shares are fully paid up.

The Group treated the Company's shares held by the Company as treasury shares and directly deducted them from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120 million.

7 Provisions

The Group and the Company established a provision as of 31 December 2009 for restructuring costs. An amount of LTL 1,789 thousand was used in 2010.

8 Income tax

The tax expenses for the period comprise current and deferred tax.

Profit for 2010 is taxable at a rate of 15% in accordance with Lithuanian regulatory legislation on taxation (2009: 20%). A new profit tax rate at 15% was adopted by the Lithuanian Parliament on 28 December of 2009.

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

As of 2009 January 1 amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result the Company's calculated profit tax relief in 2010 amounted to LTL 10.6 million (2009: LTL 13.0 million).

9 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.

For calculation of the weighted average number of shares in issue (thousands) treasury shares (38,095) were always deducted from the number of ordinary shares (814,913), therefore the treasury shares cancellation had no effect on the weighted average number of shares and for the both reporting periods amounted to 776,818.

	January – December	
	2010	2009
Net profit	162,935	169,072
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Earnings per share (LTL)	0.210	0.218

10 Dividends per share

A dividend that relates to the period to 31 December 2009 was approved the Annual General Meeting of Shareholders on 26 April 2010. The total amount of allocated dividend, that was paid off in May 2010 was 163,132 thousand litas or 0.21 litas per ordinary share.

11 Business combination

On 6 September 2010, the Group acquired a 100% stake in UAB Hostex, a webhosting and data center service provider. The acquired business contributed revenues of LTL 466 thousand and net profit LTL 42 thousand to the Group for the period from 6 September 2010 to 30 September 2010. If the acquisition had occurred on 1 January 2010, Group revenue would have been increased by LTL 3,763 thousand, and net profit would have been increased by LTL 133 thousand.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	8,450
Fair value of net assets acquired	1,733
Goodwill	<u>6,717</u>

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

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

The assets and liabilities arising from the acquisition as at the date of acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	436	436
Property, plant and equipment	1,717	1,717
Intangible assets	127	127
Deferred tax assets	630	630
Inventories	4	4
Receivables	342	342
Payables	(1,022)	(1,022)
Borrowings	(501)	(501)
Net assets acquired	1,733	1,733
Purchase consideration settled in cash		8,450
Cash and cash equivalents in subsidiaries acquired		(436)
Cash outflow on acquisition		8,014

12 Related party transactions

The Group is controlled by TeliaSonera AB (publ) which, after the cancellation of treasury shares, directly owns 5.14% and indirectly, through its subsidiary Amber Teleholding A/S, 62.94% of the Company's shares. In total, the ultimate parent of the Group, TeliaSonera AB (publ), owns 68.08% of the Company's shares. The following transactions were carried out with related parties:

Sales and purchases from TeliaSonera AB (publ) and its subsidiaries:

	January - December	
	2010	2009
Sales of telecommunication and other services	41,109	44,386
Total sales of telecommunication and other services	41,109	44,386
Purchases of assets	7,319	10
Purchases of services	29,366	31,502
Total purchases of assets and services	36,685	31,512

Balances arising from sales/purchase of assets/services to/from TeliaSonera AB (publ) and its subsidiaries:

	As at 31 December	
	2010	2009
Receivables from related parties	2,804	2,397
Accrued revenue from related parties	2,378	2,528
Total receivables and accrued revenue from related parties	5,182	4,925
Payables to related parties	5,408	987
Accrued expenses to related parties	-	183
Total payables and accrued expenses to related parties	5,408	1,170

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

TEO Group does not have loans granted/received to/from related parties.

The total amount of annual compensation (tantiemes) paid to the seven members of the Board of the Company during January-December 2010 amounted to LTL 378 thousand (2009: LTL 378 thousand).

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Arūnas Šikšta, General Manager of TEO LT, AB, and Giedrius Vegys, Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Interim Consolidated Financial Statements for the period ended 31 December 2010, 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.

General Manager

A handwritten signature in black ink, appearing to be 'Arūnas Šikšta', written in a cursive style.

Arūnas Šikšta

Chief Financial Officer

A handwritten signature in blue ink, appearing to be 'Giedrius Vegys', written in a cursive style.

Giedrius Vegys

Vilnius, 1 February 2010