



TEO LT, AB

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

FOR THE YEAR ENDED 31 DECEMBER 2010

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Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.

Independent Auditor's Report

To the shareholders of TEO LT, AB

Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of TEO LT, AB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 5–55 which comprise the stand alone and consolidated balance sheet as of 31 December 2010 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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.

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Opinion

In our opinion, the accompanying Financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2010 set out on pages 56- 103 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 2010.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in black ink, appearing to read 'C. Butler', written in a cursive style.

Christopher C. Butler
Director

Vilnius, Republic of Lithuania
4 April 2011

A handwritten signature in black ink, appearing to read 'Rimvydas Jogėla', written in a cursive style.

Rimvydas Jogėla
Auditor's Certificate No.000457

STATEMENT OF COMPREHENSIVE INCOME

Approved by the Annual General Meeting of Shareholders as at 28 April 2011

	Note	Year ended 31 December			
		GROUP		COMPANY	
		2010	2009	2010	2009
Revenue	5	773,423	815,551	732,850	786,813
Other income	6	1,303	8,085	9,774	12,768
Employee related expenses		(157,647)	(178,029)	(116,621)	(140,083)
Interconnection expenses		(118,073)	(114,663)	(118,073)	(114,663)
Other operating expenses	7	(189,248)	(194,009)	(208,777)	(220,177)
Depreciation, amortisation and impairment of fixed assets	13	(131,702)	(142,040)	(124,055)	(133,651)
Other gain/ (loss) - net	8	719	1,152	606	13,219
Impairment of investments in subsidiaries	16	-	-	518	(16,868)
Operating profit		178,775	196,047	176,222	187,358
Finance income		1,617	2,909	1,579	2,885
Finance costs		(367)	(1,026)	(353)	(1,006)
Finance income/ costs - net	9	1,250	1,883	1,226	1,879
Profit before income tax		180,025	197,930	177,448	189,237
Income tax	10	(17,090)	(28,858)	(15,640)	(27,870)
Profit for the year		162,935	169,072	161,808	161,367
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		162,935	169,072	161,808	161,367
Profit and comprehensive income attributable to:					
Owners of the Parent		162,935	169,072	161,808	161,367
Minority interests		-	-	-	-
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)	11	0.21	0.22	0.21	0.21

The notes on pages 10 to 55 form an integral part of these financial statements.

The financial statements on pages 5 to 55 have been approved for issue by the Board of Directors as at 25 March 2011 and signed on their behalf by the General Manager and the Chief Financial Officer:

Arūnas Šikšta
General Manager



Giedrius Vegys
Chief Financial Officer



BALANCE SHEET

Approved by the Annual General Meeting of Shareholders as at 28 April 2011

		Year ended 31 December				
		GROUP		COMPANY		
Note		2010	2009	2010	2009	
ASSETS						
Non-current assets						
	Property, plant and equipment	13	706,430	651,712	669,898	613,423
	Intangible assets	14	49,341	37,076	31,144	27,043
	Investment property	15	10,794	10,794	-	-
	Investments in subsidiaries	16	-	-	43,527	41,259
	Trade and other receivables	18	1,820	7,343	1,820	7,343
	Deferred tax assets	26	711	-	-	-
			769,096	706,925	746,389	689,068
Current assets						
	Inventories		6,091	5,528	5,997	5,460
	Trade and other receivables	18	124,724	111,230	128,138	117,898
	Current income tax receivable		18,946	19,792	18,648	19,253
	Held-to-maturity investments	19	40,184	100,561	38,689	100,561
	Loans to banks	20	-	24,738	-	20,862
	Cash and cash equivalents	21	219,526	181,943	205,696	165,968
			409,471	443,792	397,168	430,002
	Total assets		1,178,567	1,150,717	1,143,557	1,119,070
EQUITY						
Capital and reserves attributable to equity holders of the Company						
	Share capital	22	776,818	814,913	776,818	814,913
	Treasury shares	22	-	(120,000)	-	(58,514)
	Legal reserve	23	81,499	81,499	81,499	81,499
	Retained earnings		168,121	250,222	144,333	166,075
	Total equity		1,026,438	1,026,634	1,002,650	1,003,973
LIABILITIES						
Non-current liabilities						
	Borrowings	25	4,233	5,121	4,199	5,103
	Deferred tax liabilities	26	10,290	6,551	6,932	3,190
	Grants	27	-	560	-	560
	Deferred revenue and accrued liabilities	24	5,814	3,828	5,439	3,359
			20,337	16,060	16,570	12,212
Current liabilities						
	Trade, other payables and accrued liabilities	24	130,564	100,854	123,433	96,166
	Current income tax liabilities		39	277	-	-
	Borrowings	25	1,189	1,042	904	869
	Provisions	28	-	5,850	-	5,850
			131,792	108,023	124,337	102,885
	Total liabilities		152,129	124,083	140,907	115,097
	Total equity and liabilities		1,178,567	1,150,717	1,143,557	1,119,070

The notes on pages 10 to 55 form an integral part of these financial statements.

Arūnas Šikšta
General Manager



Giedrius Vegys
Chief Financial Officer



STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at 28 April 2011

GROUP	Note	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 comprehensive income for the 2009		-	-	-	169,072	169,072
Dividends paid for 2008	12	-	-	-	(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 2010		-	-	-	162,935	162,935
Dividends paid for 2009	12	-	-	-	(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

COMPANY	Note	Share capital	Treasury shares	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2009		814,913	(58,514)	81,499	183,376	1,021,274
Net profit		-	-	-	161,367	161,367
Total comprehensive income for the 2009		-	-	-	161,367	161,367
Dividends paid for 2008	12	-	-	-	(178,668)	(178,668)
Balance at 31 December 2009		814,913	(58,514)	81,499	166,075	1,003,973
Balance at 1 January 2010		814,913	(58,514)	81,499	166,075	1,003,973
Net profit		-	-	-	161,808	161,808
Total comprehensive income for the 2010		-	-	-	161,808	161,808
Dividends paid for 2009	12	-	-	-	(163,131)	(163,131)
Cancellation of treasury shares and reduction of share capital		(38,095)	58,514	-	(20,419)	-
Balance at 31 December 2010		776,818	-	81,499	144,333	1,002,650

The notes on pages 10 to 55 form an integral part of these financial statements.

Arūnas Šikšta
General Manager



Giedrius Vegys
Chief Financial Officer



STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at 28 April 2011

	Notes	Year ended 31 December			
		GROUP		COMPANY	
		2010	2009	2010	2009
Profit for the year		162,935	169,072	161,808	161,367
Income tax	10	17,090	28,858	15,640	27,870
Depreciation, amortisation and impairment charge	13	131,702	142,040	124,055	133,651
Dividends received from subsidiaries	6	-	-	(8,200)	(4,000)
Other gains and losses	8	(719)	(1,152)	(606)	(13,219)
Write off of property, plant and equipment and intangible assets		668	1,278	663	1,259
Impairment of investments in subsidiaries	16	-	-	(518)	16,868
Interest income		(2,919)	(10,994)	(3,153)	(11,653)
Interest expenses		245	301	236	287
Other non-cash transactions		410	652	117	67
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(559)	3,361	(537)	3,327
Trade and other receivables		(7,628)	6,448	(6,284)	9,513
Trade, other payables and accrued liabilities		(2,085)	(4,402)	(3,504)	(4,871)
Cash generated from operations		299,140	335,462	279,717	320,466
Interest paid		(245)	(301)	(236)	(287)
Interest received		3,434	2,909	3,737	2,918
Tax paid		(14,367)	(44,397)	(12,842)	(43,243)
Net cash from operating activities		287,962	293,673	270,376	279,854

STATEMENT OF CASH FLOW (CONTINUED)

		Year ended 31 December				
		GROUP		COMPANY		
Notes		2010	2009	2010	2009	
Investing activities						
	Purchase of property, plant and equipment (PPE) and intangible assets	(162,342)	(134,791)	(157,697)	(133,585)	
	Proceeds from disposal of PPE and intangible assets	954	1,319	883	1,170	
	Acquisition of held-to-maturity investments, amounts loaned to banks	(227,549)	(474,356)	(218,061)	(460,716)	
	Disposal of held-to-maturity investments, repayment of amounts loaned to banks	312,149	529,028	300,277	519,168	
	Acquisition of subsidiaries	31	(9,217)	-	-	
	Loans granted	-	-	(7,100)	(8,870)	
	Loans repaid	-	-	6,850	3,000	
	Dividends received	6	-	8,200	4,000	
	Net cash used in investing activities	(86,005)	(82,062)	(66,648)	(75,833)	
Financing activities						
	Repayment of borrowings	(1,243)	(898)	(869)	(836)	
	Dividends paid to shareholders of the Company	12	(163,131)	(163,131)	(178,668)	
	Net cash used in financing activities	(164,374)	(179,566)	(164,000)	(179,504)	
	Increase (decrease) in cash and cash equivalents	37,583	32,045	39,728	24,517	
Movement in cash and cash equivalents						
	At the beginning of the year	181,943	149,898	165,968	141,451	
	Increase (decrease) in cash and cash equivalents	37,583	32,045	39,728	24,517	
	At the end of the year	21	219,526	181,943	205,696	165,968

The notes on pages 10 to 55 form an integral part of these financial statements.

Arūnas Šikšta
General Manager



Giedrius Vegys
Chief Financial Officer



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. On 27 October 2010 the address of its registered office was changed from Savanorių Ave. 28, LT-03501 Vilnius, Lithuania, to Lvovo str. 25, LT-03501, Vilnius, Lithuania.

The Company's shares are traded on NASDAQ OMX Vilnius stock exchange as from 16 June 2000.

Following the Board's decision the Company terminated its Global Depository Receipts (GDR), representing Company's shares, programme as of 1 July 2010, and discontinued trading in TEO GDRs on the London Stock Exchange as of 30 June 2010. GDRs programme was run and GDRs were quoted on the London Stock Exchange since June 2000.

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. The purpose of reduction of the Company's authorised capital was cancellation of the Company's treasury stocks. Reduced share capital was registered at the Register of Legal Entities on 3 September 2010 and treasury stocks were cancelled on 9 September 2010.

The shareholders' structure of the Company as at 31 December 2010 was as follows:

	Number of shares	%
Amber Teleholding A/S (subsidiary of TeliaSonera AB (publ))	488,947,656	62.94
TeliaSonera AB (publ)	39,895,616	5.14
East Capital Asset Management AB	52,786,800	6.80
Republic of Lithuania represented by State Property Fund	3,075,315	0.39
Republic of Lithuania represented by State Tax Inspectorate	362,630	0.05
Other shareholders	191,749,501	24.68
	776,817,518	100.00

Pursuant to the Law of the Republic of Lithuania on the Restoration of the Rights of Ownership of Citizens of the Republic of Lithuania to Existing Real Estate and the Lithuanian Government's Resolution dated 12 July 2002 On Compensation to Citizens for the existing Real Estate bought out by the State by way of securities owned by the State, shares owned by the State Property Fund are used to compensate citizens for expropriated real estate.

The Company's principal activity is the provision of fixed voice, internet access, data communication, digital television and IT services to both business and residential customers in the Republic of Lithuania.

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) on 15 telecommunications markets. The Company and UAB Omnitel as members of TeliaSonera Group are regarded as related entities in Lithuania, therefore the Company is considered as SMP on the market of voice call termination at public mobile network of UAB Omnitel.

The number of full time staff employed by the Group at the end of 2010 amounted to 3,018 (2009: 2,713). The number of full time staff employed by the Company at the end of 2010 amounted to 1,954 (2009: 1,956).

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

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

Subsidiary/ associate	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.
UAB Hosting	Lithuania	100%	100%	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%	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.

The shareholders of the Company have a statutory right to approve these financial statements or not to approve it and to require preparation of another set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting 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) New and emended standards and interpretations adopted by the Group

The Group has adopted the following new and amended IFRSs and IFRIC interpretations as of 1 January 2010:

IFRS 3, Business Combinations, revised in January 2008 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group has applied the revised standard prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The amendment did not have any effect on the Group's financial statements.

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008 (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a

parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The amendment did not have any effect on the Group's financial statements.

Improvements to International Financial Reporting Standards, issued in April 2009 (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The amendments did not have any effect on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:

IFRIC 12, Service Concession Arrangements. The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. Application of IFRIC 12 will not have any impact on the Group's financial statements because it is not subject to any service concession arrangements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any effect on the Group's financial statements..

Embedded Derivatives – Amendments to IFRIC 19 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have any effect on the Group's financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The interpretation did not have any effect on the Group's financial statements. .

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets is recognised in profit or loss for the year when the entity settles the dividend payable. The interpretation did not have any effect on the Group's financial statements.

IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The interpretation did not have any effect on the Group's financial statements.

Eligible Hedged Items – Amendment to IAS 39 (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have any effect on the Group's financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008 (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have any effect on the Group's financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendment did not have any effect on the Group's financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1 (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU). The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendment did not have any effect on the Group's financial statements.

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

Classification of Rights Issues – Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment will not have any impact on the Group's financial statements.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This amendment will not have any impact on the Group's financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Group does not expect this standard to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. This interpretation will not have any impact on the Group's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment will not have any impact on the Group's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. This amendment will not have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial

assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect the amendments to have any material effect on its financial statements.

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The Group does not expect the amendments to have any material effect on its financial statements.

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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.

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the functional currency of the Company and the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gain/ (loss) – net'.

2.4 Property, plant and equipment

Property, plant and equipment is carried at its historical cost less any accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful life, as follows:

Buildings	10 – 50 years
Plant and machinery	5 – 10 years
Switches, lines and related telecommunication equipment	3 – 30 years
Computers and computer network	3 – 20 years
Motor vehicles	2 – 10 years
Other tangible fixed assets	5 – 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included within 'Other gain/ (loss) - net' in the statement of comprehensive income.

2.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets

Intangible assets expected to provide economic benefit to the Group and the Company in future periods have finite useful life and are valued at acquisition cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line method to allocate the cost of intangible asset over estimated benefit period as follows:

Licences	3 - 10 years
Computer software	3 – 5 years
Other intangible fixed assets	5 years

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date.

Contractual customer relationships acquired in the business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using straight-line method over the expected life of the customer relationship

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- There is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable cost that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.6 Investment property

Properties that are held for undetermined use, and that are not occupied by the entities in the consolidated Group, are classified as investment properties. Investment properties comprise construction in progress.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost can be measured reliably. Subsequent expenditure is included in the asset's carrying amount 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. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Investment properties of the Group are stated at cost less accumulated depreciation and any accumulated impairment losses. Transaction costs are included on initial measurement. The fair values of investment properties are disclosed in the Note 15. These are assessed using method of residual value.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not yet available for use, 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, available-for-sale, held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the current period the Group and the Company did not hold any investments in available-for-sale and at fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's and the Company's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'loans to banks' in the balance sheet.

Held to maturity investments

Held to maturity classification includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Company has both the intention and ability to hold to maturity.

Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group or the Company fails to keep these investments to maturity other than for certain specific circumstances – for example, selling more than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. 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. 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.

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.

2.9 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. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

When subsidiary is legally merged into the Company, subsidiary's results are shown as if both entities (subsidiary and Company) had always been combined. Consequently, the Company's stand-alone financial statements reflect both entities' full year's results, even though the legal merger may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

2.10 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.

2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or service performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets.

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 statement of comprehensive income within 'other operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the statement of comprehensive income.

Interconnection receivables and payables to the same counterparty are stated net.

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Where the Company or its subsidiaries purchase the Company's equity share capital (treasury shares), in the Company's and the Group's financial statements the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction cost and the related income tax effects, is included in equity attributable to the company's equity holders.

2.14 Trade payables

Trade payable are obligations to pay for goods or services that have been acquired in ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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 statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

2.16 Accounting for leases – where the Group or the Company is the lessee

Finance lease

Where the Group or the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group or the Company is classified as finance lease. The assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the statement of comprehensive income 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 statement of comprehensive income 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 received under operating leases (net of any incentives provided to the lessee) are credited to the statement of comprehensive income on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

2.18 Income tax

The tax expenses for the period comprise current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to item recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Profit for 2010 is taxable at a rate of 15% (2009: 20%) in accordance with Lithuanian regulatory legislation on taxation.

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 only to the extent that is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised.

According to Lithuanian legislation, tax losses accumulated as of 31 December 2010 are carried forward indefinitely.

Deferred tax assets and liabilities are offset only where International Accounting Standard No. 12 allows this treatment.

2.19 Grants relating to expenses and purchase of property, plant and equipment

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group or the Company will comply with all attached conditions.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the statement of comprehensive income 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 statement of comprehensive income on basis to match the appropriate expenses.

2.20 Provisions

Provisions are recognised when the Group or the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where the Group and the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Restructuring provisions are recognised in the period in which the Group or the Company becomes legally or constructively committed to payment. Restructuring provisions comprise employee termination payments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Sales of services and goods

Revenue is recognised as earned. Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly related to the sales. Other revenues are recognised when products are delivered or services are rendered to customers. At the end of each accounting period a revenue accrual is performed to record amounts not yet billed.

Revenue from interconnection is accrued at the end of each accounting period based on the actual traffic of incoming calls from different carriers. Accrued revenue is adjusted to actual after reconciliation with the carrier is performed.

Service activation fees are recognised as income and related costs are expensed at the moment of activating the service.

Under the Company's customer loyalty programmes, customers are entitled to certain discounts relating to the Company's services and goods supplied by third parties. The volume of the customer's accumulated discount for the period depends on invoice amount paid by the customer and other certain customer actions. Accumulated customer's discounts are valid for the two years period. At the end of each reporting period the Company estimates the fair value of the services and goods that can be granted in exchange of accumulated discounts, considering also the proportion of discounts that are not expected to be used by customers, based on the historical statistical usage of discounts. This amount is recognised as deferred income. In the statement of comprehensive income these deferred income are treated as a deduction from revenues.

Multiple element arrangements

The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered goods or services free of charge or at a price significantly below market price of these goods or services. When such multiple element agreements exits, the amount recognised as revenue upon the sale of the goods is the fair value of the offered goods in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement, is recognised over service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately. When there is no objective and reliable evidence of the fair value(s) of the delivered item(s), the Company uses the residual value method. Under this method, the Company determines the fair value of the delivered element by deducting the fair value of the undelivered element from the contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such manner as to reflect fair value of the elements.

Arrangements of discounts

The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered discount for the services for a certain period. When such discount exits, such discount is allocated over defined period of servicing.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Interest income on held-to-maturity investments and loans granted are classified into 'other income', while interest income on cash and cash equivalents are classified into 'finance income'.

2.23 Dividend income

Dividend income is recognised when the right to receive payment is established.

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 amounting to LTL 40.3 million for the Group and LTL 26.8 million for the Company (2009: LTL 41.2 million for the Group and LTL 32.2 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date per mutual agreement or employers will. The Group and the Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of mutual agreement. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Bonus plans

The Group and the Company recognises a liability and an expense for bonuses and profit-sharing based on predefined targets. The Group and the Company recognises related liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Supplementary health insurance

The Company pays supplementary health insurance contributions to the insurance company on behalf of its employees. Supplementary health insurance for employees is the possibility to get health care and health improvement services in a selected health care institution. The supplementary health insurance contributions are recognized as expenses when incurred.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the company's shareholders.

Withholding tax on dividends paid to legal entities amounts to 15% (2009: 20%). According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

2.26 Segment information

The Company's management considers the business from Group 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 operating 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 subsidiaries are combined and disclosed in the 'other segment' column. The profile of each subsidiary is described in Note 1.

	Broadband segment		Other segment		Eliminations		Total Group	
	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
Depreciation and amortisation	(124,055)	(133,651)	(7,719)	(8,303)	72	(86)	(131,702)	(142,040)
Impairment of investments in subsidiaries	518	(16,868)	-	-	(518)	16,868	-	-
Income tax	(15,639)	(27,870)	(1)	(988)	-	-	(17,090)	(28,858)
Profit for the year	<u>161,808</u>	<u>161,367</u>	<u>10,280</u>	<u>(6,503)</u>	<u>(9,153)</u>	<u>14,208</u>	<u>162,935</u>	<u>169,072</u>
Total Assets	<u>1,167,324</u>	<u>1,119,070</u>	<u>98,014</u>	<u>89,492</u>	<u>(86,771)</u>	<u>(57,876)</u>	<u>1,178,567</u>	<u>1,150,717</u>

The Group is domiciled in Lithuania. The result of its revenue from external customers in the Lithuania is LTL 615.8 million (2009: LTL 672.2 million), and the total of revenue from external customers from other countries is LTL 157.6 million (2009: LTL 143.4 million).

For the Group's and the Company's revenue specification by products see Note 5.

2.27 Sale and repurchase agreements

Securities purchased from banks under agreements to resell ('repos') are recorded as loans to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3 Financial risk management

The Group's and the Company's activities expose it to financial risks: market risk (including foreign exchange risk, and fair value interest rate risk), credit risk, liquidity risk. The Group's Policy for Treasury Management putting the main guidelines for financial risk management and seeks to minimise potential adverse effects of the financial performance of the Group.

Financial risk management is carried out by a 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.

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro (EUR), US Dollar (USD) and Special Drawing Rights (XDR). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Substantially all the Group's trade payables and trade receivables are short-term and in addition revenues and expenses in foreign currencies are insignificant as compared to those in Lithuanian Litas. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 18, 19, 20, 21 and 24.

From February 2002 the exchange rate of Lithuanian Litas has been pegged to the EURO at a rate of Lithuanian Litas 3.4528 = EURO 1.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Held-to-maturity investments and loans to banks carry fixed interest rates, therefore they are not subject to cash flow or fair value interest rate risk.

The most significant interest bearing asset is bonds issued by the Lithuanian banks amounting to LTL 40,184 thousand for the Group and LTL 38,689 thousand for the Company (2009: EUR 29,124 thousand (LTL 100,561 thousand) for the Group and the same amount for the Company). For further information on held-to-maturity investments see Note 19. There no loans to banks accounted by the Group and the Company in 2010 (2009: EUR 7,165 thousand (LTL 24,738 thousand) for the Group and EUR 6,042 thousand (LTL 20,862 thousand) for the Company), see further information in Note 20.

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 consists of a number of various reminders regarding bill payment term expiration, and consequently services are limited after 10-15 days since the last reminder for all indebted customers, and after further 30-35 days provision of services is fully terminated. After sending additional reminding letters bad debts are handed over to external bad debt collection agencies for debt recovery.

Impairment provision for trade receivables is calculated on a monthly basis according to the Group's internal policy for trade receivable impairment. Estimation of impairment provision is based on classification of trade receivables into categories according to the payment overdue period and application of certain impairment rates to each category. The impairment rates and the Group's internal policy for trade receivable impairment estimation are updated on half yearly basis.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group generates positive cash flows and its short-term assets significantly exceed short term liabilities and therefore liquidity risk is considered to be very low. Accordingly the Group's management did not implement formal procedures for liquidity risk management.

The analysis of the undiscounted cash flows of the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 25.

Capital risk management

The group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares. Capital is calculated as 'Equity' as shown in the balance sheet.

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 2010 all Group companies, except UAB Hosting (2009: UAB Kompetencijos Ugdymo Centras, UAB Verslo Investicijos and UAB Hosting), 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 2010 and 2009.

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.

Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

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

5 Revenue

	GROUP		COMPANY	
	2010	2009	2010	2009
Fixed voice services	415,561	461,180	413,739	459,180
Internet and data services	256,844	275,339	258,505	277,038
IT services	36,067	24,866	7,203	7,707
TV services	37,738	27,598	37,740	27,598
Other revenues	27,213	26,568	15,663	15,290
Total revenue	773,423	815,551	732,850	786,813

6 Other income

	GROUP		COMPANY	
	2010	2009	2010	2009
Interests income on held –to – maturity investments	1,303	8,085	1,574	8,768
Income from dividends	-	-	8,200	4,000
	1,303	8,085	9,774	12,768

7 Other operating expenses

	GROUP		COMPANY	
	2010	2009	2010	2009
Materials, maintenance and services costs	111,689	106,888	132,948	135,121
Energy, premises and transport costs	45,126	42,086	45,545	43,469
Marketing expenses	13,063	15,017	12,338	14,100
Impairment of accounts receivable	4,127	9,883	4,127	9,878
Other expenses	15,243	20,135	13,819	17,609
	189,248	194,009	208,777	220,177

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

8 Other gain/loss – net

	GROUP		COMPANY	
	2010	2009	2010	2009
Gain on sales of property, plant and equipment	1,097	1,154	984	13,167
Loss on sales of property, plant and equipment	(254)	(101)	(254)	(51)
Other gain (loss)	(124)	99	(124)	103
	719	1,152	606	13,219

9 Finance income and costs

	GROUP		COMPANY	
	2010	2009	2010	2009
Interest income on cash and cash equivalents	1,067	2,371	1,030	2,347
Other finance income	550	538	549	538
Finance income	1,617	2,909	1,579	2,885
Interest expenses	(222)	(251)	(217)	(250)
Foreign exchange gain (loss) on financing activities	87	(543)	93	(534)
Other finance costs	(232)	(232)	(229)	(222)
Finance costs	(367)	(1,026)	(353)	(1,006)
Finance income/costs– net	1,250	1,883	1,226	1,879

10 Income tax

	GROUP		COMPANY	
	2010	2009	2010	2009
Current tax	13,432	28,065	11,898	25,750
Deferred tax	3,658	2,976	3,742	3,184
Impact of change in tax rate, net	-	(2,183)	-	(1,064)
Total deferred tax (Note 26)	3,658	793	3,742	2,120
Income tax expense	17,090	28,858	15,640	27,870

As of 1 January 2009 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 amounts to LTL 10.6 million (2009: 13 million).

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.

10 Income tax (continued)

The tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
Profit before tax and share of result of associates	180,025	197,930	177,448	189,237
Tax calculated at a tax rate of 15% (2009: 20%)	27,004	39,586	26,617	37,847
Deferred tax asset not recognised on tax losses	8	403	-	-
Non-taxable dividends received	-	-	(1,230)	(800)
Income not subject to tax and expenses not deductible for tax purposes	(380)	4,332	(459)	5,203
Tax relief	(10,801)	(13,000)	(10,600)	(13,000)
Income tax on dividends	-	(1)	-	(1)
Impact of change in tax rate for temporary differences	-	(2,183)	-	(1,064)
Other	1,259	(279)	1,312	(315)
Tax charge	17,090	28,858	15,640	27,870

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.

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.

	GROUP		COMPANY	
	2010	2009	2010	2009
Net profit	162,935	169,072	161,808	161,367
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
Basic earnings per share (LTL)	0.21	0.22	0.21	0.21

12 Dividends per share

The dividends per share, excluding treasury shares, declared in respect of 2009 and 2008 and paid in 2010 and 2009 were LTL 0.21 and LTL 0.23 respectively. As at the date of approval of these financial statements dividends amounting to LTL 139,827 thousand are proposed in respect of 2010.

13 Property, plant and equipment

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

	GROUP		COMPANY	
	2010	2009	2010	2009
Depreciation of property, plant and equipment	121,801	131,668	116,460	125,715
Amortisation of intangible assets (Note 14)	10,461	11,173	8,155	8,737
Amortisation of grants received (Note 27)	(560)	(801)	(560)	(801)
	131,702	142,040	124,055	133,651

In 2010 the Company revised the useful lives of its property, plant and equipment. After the above revision the depreciation charge for 2010 increased by LTL 0.2 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was revised in 2010, the amortisation charge for intangible assets increased by LTL 0.2 million.

GROUP	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
At 31 December 2008					
Cost	112,360	2,436,298	80,518	27,805	2,656,981
Accumulated depreciation	(40,341)	(1,894,082)	(53,145)	-	(1,987,568)
Net book amount	72,019	542,216	27,373	27,805	669,413
Year ended 31 December 2009					
Opening net book amount	72,019	542,216	27,373	27,805	669,413
Additions	-	242	64	113,290	113,596
Acquisition of subsidiaries (Note 31)	-	564	92	-	656
Reclassifications 1	1,948	(685)	(33)	-	1,230
Disposals and retirements	(9)	(1,382)	(124)	-	(1,515)
Transfers from construction in progress	8,725	112,378	3,757	(124,860)	-
Depreciation charge	(4,752)	(118,740)	(8,176)	-	(131,668)
Closing net book amount	77,931	534,593	22,953	16,235	651,712

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

13 Property, plant and equipment (continued)

At 31 December 2009

Cost	121,765	2,510,613	79,539	16,235	2,728,152
Accumulated depreciation	(43,834)	(1,976,020)	(56,586)	-	(2,076,440)

Net book amount	77,931	534,593	22,953	16,235	651,712
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Year ended 31 December 2010

Opening net book amount	77,931	534,593	22,953	16,235	651,712
Additions	-	1,574	573	175,833	177,980
Acquisition of subsidiaries (Note 31)	-	696	1,021	-	1,717
Reclassifications ¹	(408)	(637)	12	(1,733)	(2,766)
Disposals and retirements	(29)	(879)	(64)	-	(972)
Transfers from construction in progress	1,394	144,576	2,989	(148,959)	-
Depreciation charge	(4,559)	(109,493)	(7,189)	-	(121,241)

Closing net book amount	74,329	570,430	20,295	41,376	706,430
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At 31 December 2010

Cost	122,506	2,580,512	80,962	41,376	2,825,356
Accumulated depreciation	(48,177)	(2,010,082)	(60,667)	-	(2,118,926)

Net book amount	74,329	570,430	20,295	41,376	706,430
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COMPANY	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
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At 31 December 2008

Cost	77,853	2,406,398	72,462	27,805	2,584,518
Accumulated depreciation	(33,704)	(1,876,872)	(46,477)	-	(1,957,053)

Net book amount	44,149	529,526	25,985	27,805	627,465
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Year ended 31 December 2009

Opening net book amount	44,149	529,526	25,985	27,805	627,465
Additions	-	-	80	113,339	113,419
Disposals and write-offs	(9)	(1,328)	(24)	-	(1,361)
Reclassifications ¹	(383)	3	(5)	-	(385)
Transfers from construction in progress	8,725	112,378	3,757	(124,860)	-
Depreciation charge	(3,797)	(114,216)	(7,702)	-	(125,715)

Closing net book amount	48,685	526,363	22,091	16,284	613,423
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At 31 December 2009

Cost	84,926	2,482,615	71,714	16,284	2,655,539
Accumulated depreciation	(36,241)	(1,956,252)	(49,623)	-	(2,042,116)

Net book amount	48,685	526,363	22,091	16,284	613,423
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13 Property, plant and equipment (continued)

	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2010					
Opening net book amount	48,685	526,363	22,091	16,284	613,423
Additions	-	-	91	175,833	175,924
Disposals and write-offs	(29)	(871)	(15)	-	(915)
Reclassifications ¹	(407)	(430)	(15)	(1,782)	(2,634)
Transfers from construction in progress	1,394	144,576	2,989	(148,959)	-
Depreciation charge	(3,607)	(105,671)	(6,622)	-	(115,900)
Closing net book amount	46,036	563,967	18,519	41,376	669,898
At 31 December 2010					
Cost	85,668	2,549,635	70,888	41,376	2,747,567
Accumulated depreciation	(39,632)	(1,985,668)	(52,369)	-	(2,077,669)
Net book amount	46,036	563,967	18,519	41,376	669,898

¹ Reclassifications in 2009 was done because of one building from assets held for sale was moved back to property, plant and equipment and reclassifications in 2010 was done because of part of construction in progress was moved to intangible assets in the course of construction.

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

	As at 31 December			
	GROUP		COMPANY	
	2010	2009	2010	2009
Cost	24,007	21,705	24,007	21,705
Accumulated depreciation at 1 January	(3,625)	(1,932)	(3,625)	(1,932)
Depreciation charge for the year	(4,086)	(3,468)	(4,086)	(3,468)
Net book amount	16,296	16,305	16,296	16,305

14 Intangible assets

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
At 31 December 2008						
Cost	17,843	202,960	2,658	11,666	1,202	236,329
Accumulated amortisation	(1,784)	(181,970)	-	(10,783)	-	(194,537)
Net book amount	16,059	20,990	2,658	883	1,202	41,792

14 Intangible assets (continued)

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
Year ended 31 December 2009						
Opening net book amount	16,059	20,990	2,658	883	1,202	41,792
Additions	-	892	-	5	2,935	3,832
Acquisition subsidiaries (Note 31)	-	-	2,538	-	-	2,538
Disposals and write-offs	-	(3)	-	-	-	(3)
Reclassification	-	82	-	8	-	90
Reclassification from other accounts	-	3,213	-	-	(3,213)	-
Amortisation charge	(1,771)	(8,967)	-	(435)	-	(11,173)
Closing net book amount	14,288	16,207	5,196	461	924	37,076
At 31 December 2009						
Cost	17,843	176,151	5,196	10,925	924	211,039
Accumulated amortisation	(3,555)	(159,944)	-	(10,464)	-	(173,963)
Net book amount	14,288	16,207	5,196	461	924	37,076
Year ended 31 December 2010						
Opening net book amount	14,288	16,207	5,196	461	924	37,076
Additions	-	2,589	-	-	10,482	13,071
Acquisition subsidiaries (Note 31)	-	29	7,920	98	-	8,047
Disposals and write-offs	-	-	-	-	-	-
Reclassification	-	(130)	-	-	1,738	1,608
Reclassification from other accounts	-	5,371	-	-	(5,371)	-
Amortisation charge	(1,771)	(8,393)	-	(297)	-	(10,461)
Closing net book amount	12,517	15,673	13,116	262	7,773	49,341
At 31 December 2010						
Cost	17,843	183,937	13,116	11,308	7,773	233,977
Accumulated amortisation	(5,326)	(168,264)	-	(11,046)	-	(184,636)
Net book amount	12,517	15,673	13,116	262	7,773	49,341

Goodwill was tested for impairment at 31 December 2010 and 2009 and based on the results of the test no impairment loss is needed. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). As of 31 December 2010, there were 3 cash generating units identified (with the goodwill amount allocated to them): UAB Baltic Data Center (LTL 2,658 thousand), UAB Interdata (LTL 3,741 thousand), and UAB Hostex (LTL 4,434 thousand). Recoverable amount of all CGUs has been determined based on fair value less cost to sell calculations. EBITDA exit multiples of transactions in computer services industry sector in the Central and Eastern Europe as well as in EU over the last 12 months have been compared to EBITDA multiple of each CGU, and based on analysis performed, no impairment loss is needed. In addition, UAB Interdata and UAB Hostex have been acquired in 2009 and 2010, respectively (Note 31). There have been no significant changes in the telecommunications market during the period from the date of each acquisition until 31 December 2010, and management is confident that consideration paid reflects fair value of the businesses acquired as of 31 December 2010.

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

14 Intangible assets (continued)

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
At 31 December 2008					
Cost	17,843	180,739	11,274	1,202	211,058
Accumulated amortisation	(1,784)	(165,639)	(10,740)	-	(178,163)
Net book amount	16,059	15,100	534	1,202	32,895
Year ended 31 December 2009					
Opening net book amount	16,059	15,100	534	1,202	32,895
Additions	-	-	-	2,803	2,803
Reclassifications	-	3,295	-	(3,213)	82
Amortisation charge	(1,771)	(6,679)	(287)	-	(8,737)
Closing net book amount	14,288	11,716	247	792	27,043
At 31 December 2009					
Cost	17,843	163,672	10,529	792	192,836
Accumulated amortisation	(3,555)	(151,956)	(10,282)	-	(165,793)
Net book amount	14,288	11,716	247	792	27,043
Year ended 31 December 2010					
Opening net book amount	14,288	11,716	247	792	27,043
Additions	-	-	-	10,483	10,483
Reclassifications	-	(9)	-	1,782	1,773
Reclassification from other accounts	-	5,371	-	(5,371)	-
Amortisation charge	(1,767)	(6,141)	(247)	-	(8,155)
Closing net book amount	12,521	10,937	-	7,686	31,144
At 31 December 2009					
Cost	17,843	154,766	3,579	7,686	183,874
Accumulated amortisation	(5,322)	(143,829)	(3,579)	-	(152,730)
Net book amount	12,521	10,937	-	7,686	31,144

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

15 Investment property

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

The investment properties were externally valued as at 28 December 2010 by Re&Solution. The fair values of investment properties are measured using method of residual value, and approximate to their carrying values.

Management applied judgment in determining the classification of the construction in progress as investment property and, based on past experience, considered that, since the future use of the asset is undetermined, it is appropriate to classify it as investment property. Possible outcomes of the future use are selling the asset or completing it and using it by the Group as an office building.

16 Investments in subsidiaries

	GROUP		COMPANY	
	2010	2009	2010	2009
At the beginning of year	-	-	41,259	30,251
Contribution to cover losses of subsidiary	-	-	1,750	2,610
Contribution to increase share capital of subsidiary	-	-	-	25,248
Impairment of investments	-	-	518	(16,868)
Reclassifications	-	-	-	18
At end of year	-	-	43,527	41,259

The Company recorded or reversed an impairment provision for the following investments accounted under Investments in subsidiaries:

	Year ended 31 December	
	2010	2009
UAB Kompetencijos Ugdymo Centras	100	2,610
UAB Verslo Investicijos	(618)	14,258
	(518)	16,868

Recoverable amount of the investments in UAB Kompetencijos Ugdymo Centras was determined as value-in-use, as a result impairment was recognized for the full amount of cost of investment. Recoverable amount of the investments in UAB Verslo Investicijos was determined as fair value less cost to sell.

17 Financial instruments by category

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

GROUP	Loans and receivables	Held-to-maturity investments	Total
31 December 2010			
Assets as per balance sheet			
Trade and other receivables	108,242	-	108,242
Held-to-maturity investment	-	40,184	40,184
Cash and cash equivalents	219,526	-	219,526
Total	327,768	40,184	367,952
	Loans and receivables	Held-to-maturity investments	Total
31 December 2009			
Assets as per balance sheet			
Trade and other receivables	112,716	-	112,716
Held-to-maturity investment	-	100,561	100,561
Loans to banks	24,738	-	24,738
Cash and cash equivalents	181,943	-	181,943
Total	319,397	100,561	419,958
	Loans and receivables	Held-to-maturity investments	Total
COMPANY			
31 December 2010			
Assets as per balance sheet			
Trade and other receivables	113,486	-	113,486
Held-to-maturity investment	-	38,689	38,689
Loans to banks	-	-	-
Cash and cash equivalents	205,696	-	205,696
Total	319,182	38,689	357,871
	Loans and receivables	Held-to-maturity investments	Total
31 December 2009			
Assets as per balance sheet			
Trade and other receivables	121,059	-	121,059
Held-to-maturity investment	-	100,561	100,561
Loans to banks	20,862	-	20,862
Cash and cash equivalents	165,968	-	165,968
Total	307,889	100,561	408,450

All financial liabilities of the Group amounting to LTL 102,442 thousand (2009: LTL 66,000 thousand) and of the Company amounting to LTL 103,028 thousand (2009: LTL 68,486 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

18 Trade and other receivables

	GROUP		COMPANY	
	2010	2009	2010	2009
Trade receivables from business customers and residents	109,456	115,217	103,135	109,909
Trade receivables from other operators	17,745	15,770	17,745	16,472
Total trade receivables	127,201	130,987	120,880	126,381
Less: provision for impairment of receivables	(24,083)	(24,301)	(23,864)	(24,173)
Trade receivables - net	103,118	106,686	97,016	102,208
Receivables from companies collecting payments for telecommunication services	753	1,092	753	1,092
Prepaid expenses and other receivables	17,491	5,870	16,473	4,183
Receivables from related parties (Note 33)	5,182	4,925	4,190	4,665
Loans to related parties (Note 33)	-	-	11,526	13,093
	126,544	118,573	129,958	125,241
Less non-current portion	(1,820)	(7,343)	(1,820)	(7,343)
Current portion	124,724	111,230	128,138	117,898

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

The fair values of trade and other receivables are approximate to their carrying values.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables mentioned above. The group does not hold any collateral as security.

Trade receivables that are not overdue are considered as fully performing.

Trade receivable that are less than three months past due are not considered impaired. As of 31 December 2010, the Group's trade receivables of LTL 10,476 thousand (2009: LTL 9,026 thousand) and the Company's trade receivables of LTL 10,451 thousand (2009: LTL 8,726 thousand) were past due but not impaired.

As of 31 December 2010, the Group's trade receivables of LTL 24,623 thousand (2009: LTL 24,321 thousand) and the Company's trade receivable of LTL 24,401 thousand (2009: LTL 24,256 thousand) were impaired and provided for. The amount of the Group's provision was LTL 24,083 thousand as of 31 December 2010 (2009: LTL 24,301 thousand) and the amount of the Company's provision was LTL 23,864 thousand as of 31 December 2010 (2009: LTL 24,173 thousand).

18 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
Trade receivable total	127,201	130,987	120,880	126,381
Of which not overdue	92,102	97,640	86,028	93,399
Overdue up to 3 months	10,476	9,026	10,451	8,726
4 to 6 months	2,160	3,494	2,151	3,429
7 to 12 months	3,474	6,139	3,454	6,139
Over 12 months	18,989	14,688	18,796	14,688

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

	GROUP		COMPANY	
	2010	2009	2010	2009
Currency				
LTL	99,572	106,530	106,731	112,016
EUR	26,907	11,960	23,166	13,146
XDR	59	64	59	64
Other currency	6	19	2	15
	126,544	118,573	129,958	125,241

Movements of impairment losses for trade receivables are as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
At the beginning of year	24,301	17,010	24,173	16,810
Acquisition of subsidiary (Note 31)	123	-	-	-
Receivables written off during the year as uncollectible	(4,539)	(2,527)	(4,526)	(2,527)
Provision for receivables impairment/ Unused amount reversed (-)	4,198	9,818	4,217	9,890
At the end of year	24,083	24,301	23,864	24,173

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

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

19 Held-to-maturity investments

Held-to-maturity investments accounted by the Group and the Company consist of short-term bonds issued by the Lithuanian commercial banks with Fitch long-term credit rating A, denominated in LTL (2009: in EUR). The effective interest rate on the bonds was 1.55% (2009: 1.74%). As of 31 December 2010, average maturity of bonds is 78 days (2009: 51 days). Fair value of bonds approximate to their carrying values.

As of the date of approval of these financial statements all held-to-maturity investments have been redeemed, except Company's held-to-maturity investments amounting to LTL 8.5 million, which will be redeemed in 2011 after the date of approval of these financial statements.

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

20 Loans to banks

As at 31 December 2010 no Loans to bank were accounted by the Group and the Company.

As at 31 December 2009 the Group and the Company accounted as Loans to banks repurchase receivables from SEB Bank AB with Fitch long-term credit rating A+, denominated in EUR according to securities' repurchase agreements. Effective interest rate on these loans was 1.63%, and average maturity as of 31 December 2009 was 57 days. Fair value of the loans approximated to their carrying values.

21 Cash and cash equivalents

	GROUP		COMPANY	
	2010	2009	2010	2009
Cash in hand and at bank	50,263	56,470	36,433	41,756
Short term bank deposits	169,263	125,473	169,263	124,212
	219,526	181,943	205,696	165,968

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

Currency	GROUP		COMPANY	
	2010	2009	2010	2009
LTL	144,245	83,878	133,114	69,083
EUR	70,684	96,955	68,089	95,867
USD	4,517	1,047	4,493	1,018
Other currencies	80	63	-	-
	219,526	181,943	205,696	165,968

The effective interest rate on the Group's and the Company's short-term bank deposits held with Lithuanian banks was 1.36% (2009: 1.4%).

21 Cash and cash equivalents (continued)

The credit quality of cash in hand and at bank can be assessed by reference to Fitch long-term credit ratings:

	GROUP		COMPANY	
	2010	2009	2010	2009
AA-	57,331	51,998	57,249	50,737
A+	91,148	73,969	78,437	59,666
A	70,797	55,752	69,816	55,355
Other	250	224	194	210
	219,526	181,943	205,696	165,968

As of the date of approval of these financial statements all deposits have matured and repaid to the Company.

The maximum exposure to credit risk at the reporting date is the fair value of cash and cash equivalents classified as cash and cash equivalents.

22 Share capital and treasury shares

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 one litas each. It was reduced from 814,912,760 litas to 776,817,518 litas by cancelling 38,095,242 treasury shares 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. 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 deducted them from shareholders' equity in the Company's balance sheet at their purchase cost of LTL 58.5 million (Group's balance sheet: LTL 120 million) as at 31 December 2009.

On 26 April 2010, the Annual General Meeting of Shareholders decided to cancel 38,095,242 treasury shares and to reduce the Company's authorised share capital by 38,095,242 litas from 814,912,760 litas to 776,817,518 litas. Treasury shares were cancelled on 9 September 2010.

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. The amount of the legal reserve surplus which exceeds the size of legal reserve required by the legislation can be added to retaining earnings for the profit distributing purpose.

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2010	2009	2010	2009
Trade payables	76,710	42,898	71,458	40,540
Trade payables to operators	1,924	4,326	1,924	4,591
Taxes, salaries and social security payable	30,995	38,410	23,500	31,164
Accruals to operators	7,186	5,528	7,186	5,528
Accrued liabilities	5,463	5,680	4,600	5,145
Other payables and deferred revenue	8,692	6,670	7,757	6,043
Amounts payable to related parties (Note 33)	5,408	1,170	12,447	6,514
	136,378	104,682	128,872	99,525
Less non-current portion	(5,814)	(3,828)	(5,439)	(3,359)
Current portion	130,564	100,854	123,433	96,166

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

Currency	GROUP		COMPANY	
	2010	2009	2010	2009
LTL	109,221	91,387	102,895	86,232
EUR	24,800	11,432	23,638	11,432
XDR	416	411	416	411
Other currency	1,941	1,452	1,923	1,450
	136,378	104,682	128,872	99,525

25 Borrowings

	GROUP		COMPANY	
	2010	2009	2010	2009
Current				
Bank borrowings	208	-	-	-
Finance lease liabilities	981	1,042	904	869
	1,189	1,042	904	869
Non-current				
Bank borrowings	34	-	-	-
Finance lease liabilities	4,199	5,121	4,199	5,103
	4,233	5,121	4,199	5,103
Total borrowings	5,422	6,163	5,103	5,972

Fair value of borrowings approximate to their carrying values.

25 Borrowings (continued)

In 2005 the Company concluded an agreement with a third party for sales and leaseback of certain technical and administrative premises. Leaseback of three administrative premises in substance qualified as a finance lease, whereas leaseback of other premises is accounted for as operating lease. All technical premises rented for 10 year period, at end of which all mentioned contracts could be renewed for an additional 10 years at agreed rent fee. If agreements are cancelled before the end of rent as stated in agreements, the forfeit should be paid.

The remaining finance lease agreements concluded relate to the lease of passenger cars.

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

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2009	1,264	4,365	1,297	6,926
Less future finance charges	(222)	(510)	(31)	(763)
Present value of minimum lease payments at 31 December 2009	1,042	3,855	1,266	6,163
Minimum lease payments at 31 December 2010	1,166	4,346	210	5,722
Less future finance charges	(185)	(357)	-	(542)
Present value of minimum lease payments at 31 December 2010	981	3,989	210	5,180

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

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2009	1,086	4,346	1,298	6,730
Less future finance charges	(217)	(510)	(31)	(758)
Present value of minimum lease payments at 31 December 2009	869	3,836	1,267	5,972
Minimum lease payments at 31 December 2010	1,086	4,346	210	5,642
Less future finance charges	(182)	(357)	-	(539)
Present value of minimum lease payments at 31 December 2010	904	3,989	210	5,103

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

	As at 31 December			
	GROUP		COMPANY	
	2010	2009	2010	2009
Premises	4,669	5,568	4,669	5,568
Passenger car	443	465	-	-
IT equipment	291	-	-	-
	5,403	6,033	4,669	5,568

26 Deferred income taxes

The gross movement on the deferred income tax liabilities and deferred tax assets accounts is as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
Deferred tax liabilities				
At the beginning of year	6,551	5,757	3,190	1,069
Charged/ (credited) to statement of comprehensive income (Note 10)	3,739	794	3,742	2,121
At the end of year	10,290	6,551	6,932	3,190
	GROUP		COMPANY	
	2010	2009	2010	2009
Deferred tax assets				
At the beginning of year	-	-	-	-
Acquisition of subsidiary (Note 31)	(630)	-	-	-
Charged/ (credited) to statement of comprehensive income (Note 10)	(81)	-	-	-
At the end of year	(711)	-	-	-

The analysis of deferred tax assets and deferred tax liabilities is as the follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
Deferred tax liabilities				
Deferred income tax liability to be recovered after more than 12 months	11,892	7,200	8,575	3,812
Deferred income tax liability to be recovered / liability settled (-) within 12 months	(1,602)	(649)	(1,643)	(622)
	10,290	6,551	6,932	3,190
	GROUP		COMPANY	
	2010	2009	2010	2009
Deferred tax assets				
Deferred income tax asset to be recovered after more than 12 months	(383)	-	-	-
Deferred income tax asset to be recovered / liability settled (-) within 12 months	(328)	-	-	-
	(711)	-	-	-

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.

26 Deferred income taxes (continued)

The movement in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the period is as follows:

GROUP- deferred tax liabilities	Investment relief¹	Other	Total
At 31 December 2009	34,350	2,882	37,232
Charged/ (credited) to statement of comprehensive income	(5,265)	(554)	(5,819)
At 31 December 2010	29,085	2,328	31,413

GROUP – deferred tax assets	Difference in useful lives²	Tax losses	Other	Total
At 31 December 2009	(28,039)	-	(2,642)	(30,681)
Acquisition of subsidiary (Note 31)	-	(630)	-	(630)
Charged/ (credited) to statement of comprehensive income	8,814	38	625	9,477
At 31 December 2010	(19,225)	(592)	(2,017)	(21,834)

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 50 thousand (2009: 2.0 million) that can be carried forward without expiry against future taxable income.

The movement in deferred tax assets and liabilities of the Company (prior to offsetting of balances) during the period is as follows:

COMPANY – deferred tax liabilities	Investment relief¹	Other	Total
At 31 December 2009	31,120	2,575	33,695
Charged/ (credited) to statement of comprehensive income	(5,115)	(609)	(5,724)
At 31 December 2010	26,005	1,966	27,971

COMPANY – deferred tax assets	Difference in useful lives²	Tax losses	Other	Total
At 31 December 2009	(28,039)	-	(2,466)	(30,505)
Charged/ (credited) to statement of comprehensive income	8,814	-	652	9,466
At 31 December 2010	(19,225)	-	(1,814)	(21,039)

¹ under investments relief applied till year 2001, value of assets invested was deducted for income tax purpose in the year of investment. Further depreciation expenses of these assets are not tax-deductable therefore deferred tax liability was created. It will be fully utilized during useful lives of these assets.

² depreciation is accelerated for accounting purposes, as useful lives set by tax laws are longer than normal wear-and-tear rates.

26 Deferred income taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	As at 31 December			
	GROUP		COMPANY	
	2010	2009	2010	2009
Deferred tax assets	(21,834)	(30,681)	(21,039)	(30,505)
Deferred tax liabilities	31,413	37,232	27,971	33,695
	9,579	6,551	6,932	3,190

27 Grants

Movement of the grants may be summarised as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
At the beginning of year	560	1,361	560	1,361
Amortization of deferred income to match related depreciation	(560)	(801)	(560)	(801)
At the end of year	-	560	-	560

28 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. The remaining unused amount of provision was reversed.

29 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2010 the aggregate of bank guarantees (tender, agreement performance) provided by SEB Bank AB on behalf of the Company and the Group amounts to LTL 3.89 million (2009: LTL 2.87 million).

Minimum lease payments receivable

The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2010	2009	2010	2009
Not later than 1 year	23,741	22,501	23,741	22,501
Later than 1 year but not later than 5 years	12,892	22,845	12,892	22,845
Later than 5 years	-	-	-	-
	36,633	45,346	36,633	45,346

29 Contingent liabilities and contingent assets (continued)

Minimum lease payments recognised in the statement of comprehensive income during 2010 were LTL 23,747 thousand (2009: LTL 11,113 thousand).

The Company lease terminal telecommunication equipment under various agreements which terminate in 2013.

30 Commitments

Capital commitments

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

	GROUP		COMPANY	
	2010	2009	2010	2009
Property, plant and equipment	3,285	1,868	3,285	1,868
	3,285	1,868	3,285	1,868

Operating lease commitments – where the Group is the lessee

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

As discussed in Note 25, the Company leases technical premises under operating lease agreements for 10 years. In addition, the Company in 2008 prolonged rent of administrative premises in one location for 8 years. In November 2010 the rent of administrative premises at Savanorių ave. 28 and Palangos st. 4/Vilniaus st. 33 was terminated.

In addition, the Group rents other premises. A new rent contract for the customer care centre for mid-term was signed in 2009, and in 2010 a new contract for the rent of the head office premises in Lvovo st. 25, Vilnius, was signed. The Group has prolonged certain rent agreements for short and mid-term that expired in 2009 and 2010.

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

	GROUP		COMPANY	
	2010	2009	2010	2009
Minimum lease payments	19,081	17,342	11,409	12,925

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

	GROUP		COMPANY	
	2010	2009	2010	2009
Not later than 1 year	7,937	9,466	7,668	9,248
Later than 1 year but not later than 5 years	20,459	12,832	20,060	12,599
Later than 5 years	3,327	5,640	3,327	5,640
	31,723	27,938	31,055	27,487

31 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 2,372 thousand and net profit LTL 208 thousand to the Group for the period from 6 September 2010 to 31 December 2010. If the acquisition had occurred on 1 January 2010, Group revenue additional would have been increased by LTL 3,763 thousand, and net profit additional would have been increased by LTL 133 thousand. There no contingent consideration regarding UAB Hostex acquisition.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	8,450
Fair value of net assets acquired	4,016
Goodwill	<u>4,434</u>

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

The assets, including Intangible assets (contractual customer base) identified through the business combination, and liabilities arising from the acquisition as at the date of acquisition are as follows:

	<u>Fair value</u>	<u>Acquiree's carrying amount</u>
Cash and cash equivalents	436	436
Property, plant and equipment	1,717	1,717
Intangible assets	2,410	127
Deferred tax assets	630	630
Inventories	4	4
Receivables	342	342
Payables	(1,022)	(1,022)
Borrowings	(501)	(501)
Net assets acquired	<u>4,016</u>	<u>1,733</u>

Purchase consideration settled in cash	8,450
Cash and cash equivalents in subsidiaries acquired	<u>(436)</u>

Cash outflow on acquisition **8,014**

On 30 November 2009, the Group acquired 100% stake in UAB Interdata, a webhosting service provider in order to strengthen Group positions providing web hosting and other IT services. UAB Interdata owns a 100% stake in UAB Hosting. The acquired business contributed revenues of LTL 265 thousand and net loss LTL 82 thousand to the Group for the period from 30 November to 31 December 2009. If the acquisition had occurred on 1 January 2009, Group revenue would have been increased by LTL 2,203 thousand, and loss would have been decreased by LTL 73 thousand.

In July the conditions of contingent consideration regarding UAB Interdata acquisition was fulfilled, and additional purchase consideration amounting to LTL 1,203 thousand was paid. Due to additional purchase consideration paid acquisition value of UAB Interdata was revised.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	3,269
Additional purchase consideration paid in 2010	1,203
Fair value of net assets acquired	<u>(731)</u>
Goodwill	<u>3,741</u>

31 Business combination (continued)

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

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	7	7
Property, plant and equipment	656	656
Intangible assets	-	-
Inventories	1	1
Receivables	400	400
Payables	(80)	(80)
Borrowings	(253)	(253)
Net assets acquired	731	731
Purchase consideration settled in cash		3,269
Purchase consideration settled in cash during 2010		1,203
Cash and cash equivalents in subsidiaries acquired		(7)
Cash outflow on acquisition		4,465

32 Disposals

In July 2010 VšĮ Sporto klubas was disposed (2009: no disposals). During 2010 the disposed business contributed revenue of LTL 1,228 thousand and costs of LTL 1,232 thousand.

33 Related party transactions

The Group is controlled by TeliaSonera AB (publ) which directly owns 5.14% and indirectly through its subsidiary Amber Teleholding A/S 62.94% of the Company's shares. In total, TeliaSonera AB (publ) owns 68.08% of the Company's shares and votes. Majority shareholders of TeliaSonera AB (publ) are Governments of Sweden and Finland. The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2010	2009	2010	2009
TeliaSonera AB (publ) and its subsidiaries	41,109	44,386	34,023	39,302
Subsidiaries of the Company	-	-	10,710	10,861
Total sales of telecommunication and other services	41,109	44,386	44,733	50,163

Sales of property to:

	GROUP		COMPANY	
	2010	2009	2010	2009
Subsidiary of the Company UAB Verslo investicijos				
Transaction price	-	-	-	25,258
Transaction profit	-	-	-	12,132

33 Related party transactions (continued)

Purchases of assets and services:

	GROUP		COMPANY	
	2010	2009	2010	2009
<i>Purchases of assets from:</i>				
TeliaSonera AB (publ) and its subsidiaries	7,319	10	7,319	-
Subsidiaries of the Company	-	-	501	689
	7,319	10	7,820	689

	GROUP		COMPANY	
	2010	2009	2010	2009
<i>Purchases of services from:</i>				
TeliaSonera AB (publ) and its subsidiaries	29,366	31,502	20,615	27,183
Subsidiaries of the Company	-	-	44,843	44,715
	29,366	31,502	65,458	71,898
Total purchases of assets and services	36,685	31,512	73,278	72,587

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

Total receivables and accrued revenue from related parties

	GROUP		COMPANY	
	2010	2009	2010	2009
<i>Receivables from related parties:</i>				
TeliaSonera AB (publ) and its subsidiaries	2,804	2,397	1,025	1,202
Subsidiaries of the Company	-	-	1,736	1,633
	2,804	2,397	2,761	2,835

	GROUP		COMPANY	
	2010	2009	2010	2009
<i>Accrued revenue from related parties:</i>				
TeliaSonera AB (publ) and its subsidiaries	2,378	2,528	1,429	1,830
	2,378	2,528	1,429	1,830
Total receivables and accrued revenue from related parties	5,182	4,925	4,190	4,665

Payables and accrued expenses to related parties

	GROUP		COMPANY	
	2010	2009	2010	2009
<i>Payables to related parties:</i>				
TeliaSonera AB (publ) and its subsidiaries	5,408	987	4,924	722
Subsidiaries of the Company	-	-	7,523	5,609
	5,408	987	12,447	6,331

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

33 Related party transactions (continued)

	GROUP		COMPANY	
	2010	2009	2010	2009
Accrued expenses to related parties:				
TeliaSonera AB (publ) and its subsidiaries	-	183	-	183
	-	183	-	183
Total payables and accrued expenses to related parties:	5,408	1,170	12,447	6,514

Loans to related parties:

	GROUP		COMPANY	
	2010	2009	2010	2009
Beginning of the year	-	-	13,093	9,569
Loans advanced during year	-	-	7,000	8,870
Loan repayments received (in cash and non-cash)	-	-	(8,500)	(5,370)
Interest charged (including VAT)	-	-	457	963
Interest received (including VAT)	-	-	(524)	(939)
End of the year	-	-	11,526	13,093

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

Name of the related party	Date of agreement	Original currency of agreement	Balance	Maturity	Interest rate
			outstanding as at 31 December 2010		
UAB Baltic Data Center	20 July 2007	LTL	11,500	due on 21 Jun 2011	2,03%

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

During 2010 dividends paid out to Amber Teleholding A/S amounting to LTL 102,679 thousand (2009: LTL 112,458 thousand), and dividends paid out to TeliaSonera AB (publ) amounting to LTL 7,121 thousand (2009: not paid).

Remuneration of the Group's and the Company's key management

	2010	2009
Remuneration of key management personnel	11,083	12,958
Social security contributions on remuneration	3,434	4,014
Total remuneration	14,517	16,972

Key management includes General Manager, Chief Officers, and Directors of main units, departments and regional centers. The total number of top management personnel employed as of 31 December 2010 was 27 (as of 31 December 2009: 28).

The total amount of annual compensations (tantiems) paid to the seven members of the Board of the Company during 2010 amounted to LTL 378 thousand (2009: LTL 378 thousand).

34 Events after balance sheet day

TeliaSonera AB (publ) plans to take over from its subsidiary, Amber Teleholding A/S, controlling interest (62.94 per cent) of the Company. After the transaction TeliaSonera AB (publ), together with the Company's shares held before the transaction, will have 528,843,272 ordinary shares of the Company that accounts to 68.08 per cent of the Company's total number of shares and votes.

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 Giedrius Vegys, Chief Financial Officer 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 2010 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

A handwritten signature in black ink, appearing to be 'Arūnas Šikšta', written over a faint, stylized graphic element.

Giedrius Vegys
Chief Financial Officer

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

CONSOLIDATED ANNUAL REPORT

I. GENERAL INFORMATION

Reporting period

Year ended 31 December 2010

Issuer and its contact details

Name of the Issuer	TEO LT, AB (hereinafter – TEO or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Name of Register of Legal Entities	State Enterprise Centre of Registers
Code of enterprise	121215434
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania (till 27 October 2010 was Savanorių ave. 28, LT-03501 Vilnius, Lithuania)
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	www.teo.lt

Main activities of the Group

TEO LT, AB Group is the largest integrated telecommunication, IT and television services provider to residential and business customers in Lithuania. TEO Group is a part of TeliaSonera Group, a telecommunication services provider in the Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain.

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, television and IT services.

Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in Lithuania on the following markets of:

- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- publicly available local and/or national telephone services provided at a fixed location for residential customers;
- publicly available international telephone services provided at a fixed location for residential customers;
- publicly available local and/or national telephone services provided at a fixed location for non-residential customers;
- publicly available international telephone services provided at a fixed location for non-residential customers;
- minimum set of leased lines;
- calls origination on public telephone network provided at a fixed location;
- calls termination on public telephone network provided at a fixed location;
- national transit in fixed public telephone network;
- international transit in fixed public telephone network;
- wholesale broadband access;
- wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services;
- wholesale terminating segments and trunk segments of leased lines;
- digital terrestrial television (DVB-T) broadcasting transmission services for end-users of content provision services using radio frequencies (channels) assigned to TEO.

As TeliaSonera AB (publ) (Sweden) 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 2010, 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: Lvovo str. 25, LT-03501 Vilnius tel.: +370 5 262 1511; fax. +370 5 212 6665; internet address: www.teo.lt) and its subsidiaries:

Name of the company	Date of registration, code, name of Register of Legal Entities	Contact details	TEO share in the share capital of the company (%)	TEO share of votes (%)
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 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 5 236 7214, fax. +370 5 231 3444	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Jogailos str. 9A / A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613	100.00	100.00
VšĮ Ryšių Istorijos Muziejus	13 July 2010, code 302528309, State Enterprise Center of Registers	Rotušės sq. 19, LT- 44279 Kaunas, Lithuania tel. +370 37 321 131 f ax. +370 37 424 344 www.teo.lt	--	100.00

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

UAB Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. It handles around 16 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118 and consultations to computer users by phone 1518 as well as telemarketing and remote customer care services to business customers. In 2010, UAB Lintel paid to the Company LTL 8.2 million in dividends for the year 2009.

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. On 6 September 2010, UAB Baltic Data Center acquired a 100 per cent stake in UAB Hostex, a web hosting and data center services provider. Baltic Data Center also has a 100 per cent owned subsidiary UAB Interdata, which has a subsidiary, UAB Hosting. Both entities provide web hosting services. In Latvia Baltic Data Center owns a dormant subsidiary – Baltic Data Center SIA.

UAB Kompetencijos Ugdymo Centras is a dormant company which till June 2009 was providing consultancy and training services.

UAB Verslo Investicijos was acquired in 2008 for the implementation of an investment project.

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 2010, following the Board's decision the Company transferred owners' rights of VšĮ TEO Sportas, a not-for-profit organisation that supported women basketball team TEO and which was established and solely owned by the Company, to a not-for-profit organisation VšĮ Vici Sport. The Company's decision to no longer support the women's basketball team from the season starting Autumn 2010 was communicated in February 2010.

TEO LT, AB has no branches and representative offices.

Agreements with intermediaries of public trading in securities

Since 1 December 2000 the Company and AB SEB Bankas (code 112021238), Gedimino ave. 12, LT-01103 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

Data about securities traded on regulated market

The following securities of TEO LT, AB are included into the Main List of NASDAQ OMX Vilnius stock exchange (symbol: TEO1L):

Type of shares	Number of shares	Nominal value (in LTL)	Total nominal value (in LTL)	Issue Code
Ordinary registered shares	776,817,518	1	776,817,518	LT0000123911

On 3 September 2010, following the decision of the Annual General Meeting of Shareholders held on 26 April 2010, the share capital of the Company was reduced from 814,912,760 litas to 776,817,518 litas and, accordingly, the number of the Company's shares included into Main List of NASDAQ OMX Vilnius stock exchange was reduced from 814,912,760 to 776,817,518.

Till 30 June 2010, 32,596,510 TEO Global Depository Receipts (1 GDR represented 10 ORS) were admitted to the Official List of the UK Listing Authority and were traded on the Main Market of the London Stock Exchange (symbol: TEOL).

On 25 March 2010 the Board of the Company decided to terminate the Global Depository Receipts (GDR) programme, including delisting of GDRs from the London Stock Exchange. TEO 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.

Following the Board's decision the Company 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 (ticker: TEOL) as of 30 June 2010.

TEO GDRs have been included into the trading lists of the Frankfurt Stock Exchange's (Deutsche Börse) Open Market (Freiverkehr) and of the Munich Stock Exchange's third segment.

In January 2011, TEO ordinary shares were included into the trading lists of the Berlin Stock Exchange (Berlin Open Market called Freiverkehr), the Frankfurt Stock Exchange (Open Market (Freiverkehr)), the Munich Stock Exchange and the Stuttgart Stock Exchange. TEO share's symbol on German stock exchanges is ZWS.

Securities of the Company's subsidiaries are not traded publicly as subsidiaries are limited companies and are 100 per cent owned by the Company.

II. FINANCIAL INFORMATION

In 2010, TEO achieved a good result in the declining Lithuanian telecommunications market. The consolidated revenue of TEO Group dropped by 5.2 per cent compared to the overall market drop of 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. In 2010, TEO attracted 29 thousand new television and 32 thousand broadband Internet service customers, whereas the number of fixed-line voice service users declined at a slower pace than in 2009. Over the year the Company increased its share of the pay-TV market in terms of both customers and revenue, and maintained its leading position on the Internet access, fixed voice telephony, data communication and leased lines services markets. Good cost control (costs decreased by 4.5 per cent) allowed TEO Group to keep the Company's high profitability. The Company's continuous investments, which in 2010 were 1.6 times higher than in 2009, into the development of the next-generation fiber-optic network led to Lithuania's leadership in deployment of fiber-optic Internet technology in Europe and contributed to the recovery of the country's economy. 2010 was the year when the Company reached 100 thousand customers for its next-generation fiber-optic Internet service and for the first time introduced bundled voice and Internet services with mobile operators.

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

Key figures of TEO Group

Financial figures	2010	2009	Change (%)
Revenue (LTL thousand)	773,423	815,551	(5.2)
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	31-12-2010	31-12-2009	
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	31-12-2010	31-12-2009	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)	345,865	313,449	10.3
Number of IPTV 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

Revenue

The total consolidated TEO Group's revenue for the year 2010 was LTL 773 million, a decrease by 5.2 per cent over the total revenue of LTL 816 million for the year 2009.

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.

In 2010, 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 year 2010.

Lower usage and decreased number of telephone lines in service resulted in a decline of revenue from voice telephony services by 9.9 per cent. 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, had to offer various discounts and subsequently reduce its average revenue per user (ARPU).

During 2010, the total number of main telephone lines in service decreased by 33 thousand: 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 year, 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.

In 2010, revenue from networks' interconnection services increased by 5 per cent due to increased traffic volumes of international transit. From 1 January 2010 prices for call termination on fixed networks during peak hours were reduced from 6 cents to 5.42 cents (excluding VAT) and during off-peak hours – from 3.6 cents to 2.79 cents (excluding VAT) per minute.

TEO maintains its leading position on the voice telephony market. According to the Report of the Communications Regulatory Authority (CRA) for the fourth 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 93.3 per cent. In terms of revenue TEO had 23.3 per cent of the network interconnection market.

In 2010, the Company continued a rapid expansion of its next-generation fiber-optic Internet access network using FTTH (Fiber to the Home) and FTTB (Fiber to the Building) technologies. By the end of 2010 almost 30 per cent of the total number of TEO broadband Internet access users had fiber-optic access.

During 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. During 2010, the total number of broadband Internet access users increased by 32.4 thousand.

In spring, the Company increased the Internet speed for residential customers and introduced the new FTTH Internet payment plan of 200 Mbps. From October 2010 the Internet speed for business customers was increased by up to 4 times, too.

In November, TEO and Omnitel, a mobile telecommunications company, presented a bundled offer of high-speed fixed and mobile Internet.

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

In 2010, the Company sustained its share of the Internet service market. According to the CRA Report, the Company's market share of the total Internet providers market in terms of revenue during the fourth quarter of 2010 amounted to 38.5 per cent, while its share of the market of broadband Internet using fixed connection was 51.7 per cent. On 31 December 2010 Internet penetration per 100 residents of Lithuania was 27.1 per cent, while the penetration of broadband Internet using fixed connection was 21.1 per cent. In terms of revenue TEO had 63.8 per cent of the leased lines market and 64.1 per cent of the data communication market.

During 2010 the number of television services users continued to grow: number of digital terrestrial television (DVB-T) service users increased by 16.8 thousand or by 36.2 per cent, and number of IPTV service users increased by 12 thousand or by 21.5 per cent. In total, during 2010 the Company attracted 28.8 thousand of new television services users, an increase by 28.2 per cent.

From May, IPTV service users were offered the possibility to record and replay programs and movies of 77 TV channels. In December, TEO started to re-broadcast three high-definition channels over DVB-T transmitters in Kaunas region.

Revenue from television services for the year 2010, compared with the revenue a year ago, increased by 36.7 per cent.

In 2010, TEO continued to increase its market share on the pay-TV market. According to the CRA Report, at the end of December 2010 TEO market share of the digital television service market in terms of customers amounted to 47.1 per cent and in terms of revenue – 42.1 per cent. TEO market share of the total pay-TV services market in terms of customers was 20.6 per cent. On 31 December 2010 digital pay-TV penetration per 100 households of Lithuania was 20.6 per cent.

Revenue from IT services increased by 45 per cent and was mainly generated by the Company's subsidiary UAB Baltic Data Center that provides data center and IT 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, 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.

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 from currency exchange is recorded at net value as other gain (loss).

Operating expenses

In 2010, the Company's operating expenses were affected by increasing number of Internet and TV customers, and developing IT business, while other costs were under control. As a result, total operating expenses of the Group 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.

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

Depreciation and amortisation charges decreased by 7.3 per cent and in 2010 amounted to 17 per cent of total revenue (17.4 per cent 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).

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, dividends of LTL 163 million for the year 2009 were paid to the shareholders of the Company. The 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 still 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.

From 1 January 2010 dividends paid to legal entities (residents and non-residents) are subject to reduced withholding Corporate income tax of 15 per cent, unless otherwise provided for by the laws. Dividends paid to natural persons (residents and non-residents) are subject to withholding Personal income tax of 20 per cent.

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.

Net cash flow from operating activities in 2010 was by 1.9 per cent lower than a year ago.

During 2010 capital investments amounted to LTL 191 million (LTL 117 million in 2009). 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. 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. 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.

Financial activities in the statement of cash flow mainly consist of dividend payment. Dividends paid to the shareholders in 2010 for the year 2009 amounted to LTL 163 million while dividends for the year 2008 paid in 2009 amounted to LTL 179 million.

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

During 2010 TEO LT, AB paid more than LTL 94.9 million of taxes and contributions, not including taxes and contributions that the Company withheld and paid on behalf of other persons. An amount of LTL 30.3 million was contributed to the State Social Insurance Fund and a total of LTL 64.6 million was paid to the State Tax Inspectorate.

Information about related party transactions

Information about related party transactions is provided in Note 33 of TEO LT, AB Financial Statements for the year ended 31 December 2010.

Following the International Financial Reporting Standards as adopted by the EU, the parties related to the Company are the Company's subsidiaries, companies that belong to TeliaSonera Group and top management of the Company. Companies that belong to TeliaSonera Group and top management of the Company are regarded as related parties to TEO Group. Transactions with related parties are carried out based on the arm's length principle.

The Company and its subsidiaries are providing to each other telecommunications, Call Center, IT and other services. The Company has extended a loan to its subsidiary UAB Baltic Data Center. The Company's subsidiaries have no interest in the share capital of TEO LT, AB.

TEO and TEO Group directly and indirectly through its largest shareholder, Amber Teleholding A/S, a subsidiary of TeliaSonera AB (publ), are related to TeliaSonera Group that provides telecommunication services in 20 countries. The main buyers and providers of telecommunications services to TEO Group are UAB Omnitel (Lithuania), TeliaSonera International Carrier (Sweden), Elion Etevotted AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland).

Other material information

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 Savanorių ave. 28 to Lvovo str. 25. On 27 October 2010, the Register of Legal Persons registered a new registered office address of TEO LT, AB – Lvovo str. 25, Vilnius.

Recent events

TeliaSonera AB (publ) plans to take over from its subsidiary, Amber Teleholding A/S, a controlling interest (62.94 per cent) in TEO LT, AB. After the transaction, TeliaSonera AB (publ), together with TEO shares held before the transaction, will have a total of 528,843,272 ordinary shares of TEO that accounts to 68.08 per cent of the total number of shares issued by the Company and gives the same number of votes at the General Meeting of Shareholders, i.e. the same number of shares as held by TeliaSonera AB (publ) directly and indirectly through Amber Teleholding A/S before the transaction.

Research and development activities

There were no major research and development projects undertaken during 2010, except the ongoing development and improvement of the Company's services.

Environmental protection

In its activities, TEO uses only the most innovative means and the most modern technological processes that meet all ecological standards and help reduce the negative impact on the environment. In 2010, the Company reduced its office paper usage by 30 per cent, fuel – 8.9 per cent and water consumption per employee – 11 per cent. More information about the Company's activities in environmental protection as well as other corporate social responsibility activities is provided in annually issued TEO Corporate Social Responsibility Reports.

The main features of the Group's internal control and risk management systems related to preparation of consolidated financial statements

TEO Group prepares its consolidated financial statements according to the International Financial Reporting Standards (IFRS) as adopted by the EU.

In collaboration with TeliaSonera AB (publ), the Company implemented a process of internal controls. It was implemented following the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

The process of the Company's internal controls implies control of business processes related to provision of services and revenue assurance (customers' settlements and accounting, development and management of services, services provision), performance of IT systems (customer care and billing, infrastructure, network information, financial accounting, salary accounting, networks' interconnection) and the process of preparation of financial reports.

The Company's Procedure for Preparation of Financial Statements provides that financial statements shall be prepared in a correct and timely manner. The annex to the Procedure for Preparation of Financial Statements describes potential risks, methods, types and frequencies of risks control, proves of control, employees responsible for and employees executing control related to preparation of financial statements.

Risk management

The main risk factors associated with the activities of the Company 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.
- Currency exchange rates fluctuations.
- 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 2010 the total amount of borrowings of TEO Group amounted to LTL 5.4 million.

The Group's and the Company's activities expose it to the following financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk, liquidity risk. The Group's Policy for Treasury Management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

The Company's financial risk management is carried out by the Group's Treasury unit under policies approved by the Board of Directors. This unit 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.

Information about the Company's financial risk management is provided in Note 3 of TEO LT, AB Financial Statements for the year ended 31 December 2010.

Plans and forecasts

In 2011, the Company will further continue investments into its FTTH network based on the best interest of TEO service users and shareholders.

III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS

Share capital

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.

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

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. GDRs till 30 June 2010 were traded on the London Stock Exchange (LSE) (symbol: 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, while as of 31 December 2009 there were 30,516,660 ordinary shares of the Company (3.74% of the total share capital) represented by 3,051,666 GDRs.

Shareholders

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
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, Vilniaus 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	0.04	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).

Treasury stocks

On 12 June 2000, during the Initial Public Offering UAB Lintkom, the then subsidiary of UAB Lintel, which is a subsidiary of the Company, acquired 12,698,412 ordinary registered shares of the Company (1 share price was LTL 3.15) and 2,539,683 Global Depository Receipts of the Company (1 GDR price was USD 7.875) (1 GDR represents 10 ordinary registered shares of the Company). Overall, UAB Lintkom held 4.67 per cent of the Company's share capital.

In September 2002, the Company acquired all shares of UAB Lintkom from UAB Lintel. In December 2003, the Company transferred all UAB Lintkom shares back to UAB Lintel. In May 2004, after reorganisation of Lintel and Lintkom by merger of UAB Lintkom into UAB Lintel, the treasury stocks were transferred to UAB Lintel.

In July 2007, the Board of TEO LT, AB decided to acquire from UAB Lintel treasury stocks. In September 2007, the Company took over the treasury stocks from UAB Lintel.

Since September 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.

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.

In May 2010, following the Company's Board decision to terminate the Global Depository Receipts (GDR) programme of TEO, the Company converted its 2,539,683 treasury GDRs into 25,396,830 ordinary registered shares. On 9 September 2010, all TEO treasury stocks (in total 38,095,242 shares) were cancelled.

The Company has never acquired any shares from the management of the Company.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. Treasury stocks, which were cancelled in September 2010, had no rights to exercise any property and non-property rights provided by the Lithuanian Law on Companies. Therefore, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders before and after treasury stocks' cancellation was and is the same, and amounts to 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.

Information about trading in the Company's securities

During 2010 TEO share price on NASDAQ OMX Vilnius stock exchange increased by 35.3 per cent, while the shares' turnover, compared to the year 2009, decreased by 65.4 per cent.

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in 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 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	0.719	0.717	0.646	62,892,242	40,639,111

There was no trading in TEO Global Depository Receipts on the London Stock Exchange since September 2008. As of 1 January 2010 the number of outstanding GDRs, as a percentage of the total share capital of the Company, amounted to 3.74 per cent. 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 of 31 December 2010 was LTL 1,923 million (LTL 1,491 million in 2009).

Dividends

In 2010, the Company paid out to the shareholders LTL 163 million of dividends or 0.21 litas per share for the year 2009. Following the Law, dividends were paid to the shareholders who at the end of the tenth business day following the Annual General Meeting that adopted a decision on dividend payment, i.e. on 10 May 2010 were shareholders of TEO LT, AB. On 25 May 2010 dividends to all share and GDR holders were paid in cash.

IV. PERSONNEL

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

	2010	2009
Number of personnel (head-counts)	3,486	3,060
Number of full-time employees	3,018	2,713

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

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

Name of the company	31-12-2010	31-12-2009	Change
TEO LT, AB	2,034	2,031	3
UAB Lintel	1,218	824	394
UAB Baltic Data Center	184	180	4
UAB Interdata	13	13	0
UAB Hosting	4	2	2
VšĮ TEO Sportas	-	7	(7)
UAB Kompetencijos Ugdymo Centras	3	3	0
UAB Hostex	25	-	25
VšĮ Ryšių Istorijos Muziejus	5	-	5
	3,486	3,060	426

The breakdown of employee related expenses (LTL thousand) by the companies:

Name of the company	2010	2009	Change (%)
TEO LT, AB	116,621	140,083	(16.7)
UAB Lintel	25,435	22,217	14.5
UAB Baltic Data Center and its subsidiaries	15,534	14,854	4.6
Other TEO LT, AB subsidiaries	57	875	(93.5)
	157,647	178,029	(11.4)

Information about employees of TEO LT, AB as of 31 December 2010:

Group of employees	Number of employees	Education		
		University	College	High school
Leading Managers	27	27	0	0
Operation Level Managers	218	185	19	14
Leading Specialist	82	73	8	1
Specialists	1,640	855	366	419
Technicians	67	35	18	14
	2,034	1,175	411	448

Collective Bargaining Agreement

Latest amendments to the 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 from 1 June 2009 and were valid till 31 December 2010.

This Collective Bargaining Agreement applies only to employees of TEO LT, AB. If provisions of the Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of the Agreement shall apply. If provisions of the Agreement are more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement shall apply.

The Collective Bargaining Agreement of the Company grants a number of additional social guarantees to employees of TEO LT, AB:

- Information about vacant and new work places shall be publicly available within the Company and employees of the Company shall have priority to get the place, if their qualifications and other records fulfil requirements for that place.
- Taking into considering the type of activities and business conditions, and not violating interest of the employees, by order, regulation or command of the Employer, a flexible working time regime can be set in certain units: the beginning of the business day could range from 7 to 11 a.m. and the end of the business day could range from 4 p.m. to 8 p.m., respectively, but not exceeding the length of the business week of 40 hours established in the Company and not violating the length of non-interrupted rest time during 24 hours set by the Labour Code of the Republic of Lithuania. The business day can be split in two parts (each part shall not be shorter than 3 hours), but not exceeding 8 hours of daily and 40 hours of weekly business time.
- In case when a public holiday is Tuesday or Thursday, the Employer has a right without separate consent of the trade unions to move a business day that goes before or after a public holiday to another holiday or set it as an additional holiday (this condition is not applied to the list, set by the Employer, of employees that are involved in customer care or are on duty and have to ensure non-interrupted provision of services and care).
- On the day of the annual corporate event dedicated to improve corporate culture and communication as well as relations with very important customers and partners, employees can be granted with an additional holiday by the order of General Manager.

- Christmas Eve (December 24) is a holiday at the Company and it is not paid for.
- Additional 30 calendar days of unpaid vacation can be granted because of family circumstances, sanatorium treatment, or for other important reasons in case business conditions are favourable. Upon an employee's request for personal competence training abroad and if it is related to the interest of the Company, Director of Human Resources Unit could grant additional unpaid vacations.
- In case of death of the employee's father, mother, wife, husband, child, brother or sister, or birth of a child, the employee gets additional 3 calendar days of paid vacations.
- Vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference.
- Being on duty at home is organised following the order set by Labour Code. During the duty employees are equipped with mobile phones.
- TEO employee's remuneration consists of regularly paid wage which consist of two parts: (1) fixed part – main salary, paid according to the employee's position and possessed competence, and (2) variable part – bonus which can be of two types: bonus for quarterly (monthly) results or bonus for achievement of annual goals. In exceptional cases, one-time bonus could be paid. The list of positions for which quarterly (monthly) or annual bonuses can be paid, bonus descriptions, amounts and payment conditions are set by a separate rules and procedures.
- During the validity of this Collective Bargaining Agreement, the minimal average salary for a full-time employee with a permanent employment contract for the fully worked month is 1,100 litas.
- TEO LT, AB employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00).
- TEO LT, AB employees are paid 2 employee's hourly wage (basic salary) amount for working during weekends and public holidays.
- At the end of financial year employees can be paid bonuses for the Company's yearly results from the wage fund following the rules set by the Company.
- If the employee falls ill, the Employer for first two days of illness pays 90 per cent of the employee's average remuneration.
- Development of the Company's employee's competence and payment for it is executed following the annual competence development plans set after the evaluation of agreements reached by unit managers and employees in respect of training needs and with regards to the Company's development directions and financial abilities.
- The Employer, following valid documentation regulating support for employees' studies, could make a written agreement with the employee regarding payment for his/her university level studies that are in line with his/her individual competence development needs, and pay for such studies on agreed terms.
- The Employer shall provide information about professional training in towns and districts organised by labour exchange to the employees, who have been notified about their intended dismissal.
- The Employer may provide conditions for the employees to be dismissed to attend professional training courses arranged by labour exchanges and, upon mutual agreement between the parties, to pay for them without exceeding the limit of 500 litas including VAT.
- The employee, who has been notified about his/her intended dismissal, during the period of notification, at his/her request, shall be entitled to unpaid educational leave and may be granted by the Employer up to 50 per cent of time off from work (the employee shall retain his/her average wage for this time) to seek for a new job or to retrain.
- The Employer commits itself to additionally insure the Company employees against accidents at work and on the way to/from work with its own funds; with the Company's funds to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in a timely manner and free of charge.
- The Company has established a Social Needs Fund. Its purpose is to improve the organisation's culture and to meet the social needs of the employees in accordance with the regulations of the Fund. The Fund shall be managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.
- In case of death of the employee's father, mother, wife, husband or child, he/she shall be paid an allowance amounting to 10 Minimum Standard of Living (MSL) from the Social Needs Fund; in case of death of the Company employee, his/her family members shall be paid all funeral expenses, excluding a funeral dinner, and his/her spouse or children maintained by him/her shall be paid a relief amounting to 12 MSL.
- The Fund also commits itself to buy Christmas presents to the employees' children (under 10 years of age), to allocate a bonus amounting to 10 MSL on the occasion of 20, 30 and 40 years of continuous record of service in telecommunications and on the occasion of 50 and 60 years birthday anniversary.
- The Fund may grant an allowance if, due to difficult financial situation of the employee or his/her family, the employee or his/her family has incurred substantial material loss.
- The Fund shall allocate funds to improve health of the employees: rent of sports premises and grounds, support of sports and culture events arranged on the Company level. The Fund shall organize and finance a culture and sports event of the Company's employees.

In 2010, the Social Needs Fund allocated LTL 670 thousand for the above mentioned purposes.

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 Board of the Company represents the shareholders and performs supervision and control functions.

The decisions of the General Meeting made regarding the matters of competence of the 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 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. 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 accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The Board elects and recalls the General Manager, sets his/her remuneration and other conditions of the employment agreement, approves his/her office regulations, induces and applies penalties to him/her. The General Manager is the Head of the Company. The Head of the Company is a one-man management body of the Company and, within his scope of authority, organizes the day-to-day operation of the Company. The Work regulations of the Administration that are approved by the General Manager define the duties and authority of the General Manager and his/her Deputies as well as other officers of the Company in more details.

Procedure for amending the Company's By-laws

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.

The Board Activities

Instead of Anders Gylder, a member of the Board, who resigned from the Board as of 26 April 2010, a new member – Malin Frenning – was elected for the current term of the Board during the Annual General Meeting of Shareholders on 26 April 2010.

During 2010 nine meetings of the Board were held. All meetings were convened according to the preliminary approved schedule of the Board meetings. During all Board meetings in 2010 there was quorum prescribed by legal acts. The Board approved financial statements for the 12 months of 2009 and the 3, 6 and 9 months of 2010, financial statements and the consolidated annual report for the year ended 31 December 2009, convoked the Annual General Meetings of Shareholders, proposed to the Annual General Meeting a profit allocation for the year 2009, the Company's audit enterprise, two alternative proposals regarding treasury stocks and amendments of the By-laws of the Company, decided to terminate the GDRs programme of TEO and delist TEO GDRs from the London Stock Exchange, approved the lease of premises for the Company's head-office, transfer of owners' right of VŠĮ TEO Sportas and establishment of a non-profit organization for management of the Company's Communications History Museum in Kaunas, approved acquisition of UAB Hostex, elected members of the Remuneration Committee, continuously followed up implementation of the business and investment plan for the year 2010, and approved the business and investment plans for the year 2011.

In June 2010, the Board elected Håkan Dahlström, Malin Frenning and Lars Ohnemus (an independent member of the Board) as members of the Remuneration Committee for the one-year term.

During 2010 one meeting of the Remuneration Committee was held on 10 September 2010 for overview and discussion of the TEO remuneration system. All members of the Committee attended the meeting and the meeting was chaired by the Chairman of the Board who was elected to chair the meeting.

Three meetings of the Audit Committee for discussions of financial results, assets valuation, internal audit plan and its implementation, list of risks and their management, and fraud cases were held in 2010. Two meetings were attended by all members of the Committee and one member of the Committee was missing during one meeting. All meetings were chaired by the Chairman of the Audit Committee.

Following The Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange all seven members are non-executive directors. Five members of the Board represent TeliaSonera Group and two members of the Board – Lars Ohnemus and Martynas Česnavičius who represent minority interest – are regarded as independent members of the Board.

On 26 April 2010, the Annual General Meeting of TEO LT, AB shareholders resolved to assign LTL 378 thousand for the payment of annual payments (tantiemes) for the year 2009 to seven members of the Board, i.e. LTL 54 thousand per one member of the Board. The annual payments (tantiemes) for the year 2009 to all members of the Board were paid in 2010.

Members of the Board as of 31 December 2010

Håkan Dahlström (born in 1962) – Chairman of the Board of TEO LT, AB, as member of the Board for the two-year term elected on 28 April 2009 (nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board. Education: Linköping University (Sweden), Master of Engineering in Computer Technology, and Heriot Watt University (Scotland), Master of Science in Digital Technology. Employment: TeliaSonera AB (publ) (Sweden), President of Business Area Mobility Services. Current Board assignments: TeliaSonera Mobile Networks AB (Sweden), Chairman of the Board; Telia Nättjänster Norden AB (Sweden), Chairman of the Board; Latvijas Mobilais Telefons SIA (Latvia), Chairman of the Board; UAB Omnitel (Lithuania), Chairman of the Board; TeliaSonera Denmark A/S (Denmark), Chairman of the Board; Netcom AS (Norway), Chairman of the Board; Netcom ASA (Norway), Chairman of the Board; Telia Netcom Holding AS (Norway), Chairman of the Board; Xfera Móviles S.A. (Spain), Member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Håkan Dahlström to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and votes. Håkan Dahlström 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.

Malin Frenning (born in 1967) – a member of the Board of TEO LT, AB since 26 April 2010 (nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board. Education: Luleå University of Technology (Sweden), Master of Science in Mechanical Engineering. Employment: TeliaSonera AB (publ) (Sweden), President of Business Area Broadband Services (since 1 January 2011). Current Board assignments: TeliaSonera Network Sales AB (Sweden), Chairwoman of the Board; TeliaSonera International Carrier AB (Sweden), Chairwoman of the Board; ESRI S-Group AB (Sweden), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Malin Frenning to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and votes. Malin Frenning has no direct interest in the share capital of TEO LT, AB. She 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, since 26 April 2007, re-elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S). Education: University of Uppsala (Sweden), Master of Business Administration, International Business; Royal Institute of Technology (KTH), Stockholm (Sweden), Master of Science, Engineering Physics. Employment: TeliaSonera AB (publ) (Sweden) Business Area Broadband Services, Head of Networks. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Council; NextGenTel Holding ASA (Norway), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Ove Alm to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and 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 since 26 April 2007, re-elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S), Chairman of the Audit Committee of the Board. Education: Stockholm University (Sweden), Bachelor of Business Administration. Employment: TeliaSonera AB (publ) (Sweden) Business Area Broadband Services, Vice President of Business Control. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Council, member of the Audit Committee, and member of the Business Planning and Finance Committee; TeliaSonera Network Sales AB (Sweden), member of the Board; TeliaSonera Skanova Access Sales AB (Sweden), deputy member of the Board; Tilts Communications A/S (Denmark), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Joakim Sundström to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and 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.

Tiia Tuovinen (born in 1964) – a member of the Board of TEO LT, AB, elected for the two-year term on 28 April 2009 (nominated by Amber Teleholding A/S), member of the Audit Committee of the Board. Education: University College London (United Kingdom), Master of Laws, and University of Helsinki (Finland), Master of Laws. Employment: TeliaSonera Finland Oyj (Finland), General Counsel for Broadband Services, and Vice President for Real Estates and Property Planning in Finland. Current Board assignments: Lattelecom SIA (Latvia), member of the Supervisory Council; TeliaSonera Finland Oyj (Finland), member of the Board; TeliaSonera International Carrier AB (Sweden), member of the Board; Tilts Communications A/S (Denmark), member of the Board and Managing Director; Tectia Oyj (Finland), member of the Board; member of the Board of several real estate companies in Helsinki, Finland. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Tiia Tuovinen to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and votes. Tiia Tuovinen has no direct interest in the share capital of TEO LT, AB. She is not involved in the business of other Lithuanian companies and does not have interest in the share capital of Lithuanian companies.

Lars Ohnemus (born in 1962) – a member of the Board of TEO LT, AB, elected for the two-year term on 28 April 2009 (nominated as independent candidate by Amber Teleholding A/S), member of the Remuneration Committee of the Board. Education: Copenhagen Business School (Denmark), Bachelor degree in Finance & Administration, Master degree in Corporate Finance and Marketing, and Doctor of Philosophy (PhD). Employment: Baltic Property Trust Partner Services A/S (Denmark), Chief Executive Officer, and Baltic Management Institute (Lithuania) and Copenhagen Business School (Denmark), Visiting Assoc. Professor. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board; RetNemt.dk (Denmark), member of the Board; Baltic Property Trust Asset Management (Denmark), member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Lars Ohnemus as independent candidate to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and votes. Lars Ohnemus has no direct interest in the share capital of TEO LT, AB. He does not have interest in the share capital of Lithuanian companies.

Martynas Česnavičius (born in 1972) – a member of the Board of the Company since 9 February 2009, re-elected for the two-year term of the Board on 28 April 2009 (nominated as independent candidate by Amber Teleholding A/S), member of the Audit Committee of the Board. Education: Vilnius University (Lithuania), Diploma in Banking and Finance. Employment: Investment funds Amber Trust I and Amber Trust II (Luxemburg), Advisor. Current Board assignments: AB Snaigė, Chairman of the Board; UAB Malsena Plius, Chairman of the Board; AB Amilina, member of the Board; AB Kauno Pieno Centras, member of the Board; AB Sanitas, member of the Board; UAB Atradimų Studija, member of the Board; UAB Laisvas Nepriklausomas Kanalas, member of the Board; UAB Litagros Prekyba, member of the Board; UAB Meditus, member of the Board. TeliaSonera AB (Sweden) directly and indirectly, through its subsidiary Amber Teleholding A/S (Denmark), which nominated Martynas Česnavičius as independent candidate to the Board of TEO LT, AB, has 528,843,272 shares of TEO LT, AB that accounts to 68.08 per cent of the share capital and votes. UAB Profinance, a company where Martynas Česnavičius has a 50 per cent stake, holds 45,000 shares of TEO LT, AB that accounts to 0.0058 per cent of the share capital and votes. Also he has a 31 per cent stake in UAB Atradimų Studija. Martynas Česnavičius has no direct interest in the share capital of TEO LT, AB.

Members of the Company's Administration as of 31 December 2010

Arūnas Šikšta (born in 1968) from 2 January 2004 took the office of General Manager (CEO) of the Company. Education: Klaipėda University (Lithuania), Natural Science Faculty, Degree in Management (1995), and Vienna University of Economics and Business (Austria), Master of Business Administration (2009). Current Board assignments: International Business School at Vilnius University (Lithuania), member of the Council and lector; Big Brothers Big Sisters International (Philadelphia, U.S.A.), member of the Board. Arūnas Šikšta has no interest in the share capital of TEO LT, AB, and is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Darius Gudačiauskas (born in 1975) from 1 March 2006 took the office of Chief Sales Officer and Deputy General Manager of the Company. Education: Vilnius Gediminas Technical University (Lithuania), Bachelor degree of Business Administration (1997), Master of Business Administration (1999), Doctor of Social Sciences, Economics (2005). Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board. Darius Gudačiauskas has no 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 in other Lithuanian companies.

Nerijus Ivanauskas (born in 1970) from 1 March 2006 took the Office of Chief Marketing Officer and Deputy General Manager of the Company. Education: Vilnius University (Lithuania), Bachelor of Econometrics (1993); International Management School, Budapest (Hungary), Candidate Master of Business Administration (1995); Emory University, Atlanta (U.S.A.), Master of Business Administration (1996). Nerijus Ivanauskas has no interest in the share capital of TEO LT, AB, and is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Darius Didžgalvis (born in 1969) from 9 February 2005 holds an office of Chief Technology Officer and Deputy General Manager of the Company. Education: Kaunas University of Technology (Lithuania), Engineer in radio electronics (1993), MSc in Telecommunication Engineering (2001), International Executive MBA (2003). Current Board assignments: UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board; 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. Darius Didžgalvis has no 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 in other Lithuanian companies.

Giedrius Vegys (born in 1959) from 1 April 2009 took the office Chief Financial Officer of the Company. Education: Vilnius University (Lithuania), Faculty of Economic Cybernetics and Finance (1982), and Helsinki School of Economics (Finland), Executive MBA (2001). Current Board assignments: UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board. Giedrius Vegys has no 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 in other Lithuanian companies.

Information about remuneration of key management personnel is provided in Note 33 of TEO LT, AB Financial Statements for the year ended 31 December 2010. The total amount of TEO dividends for the year 2009 paid in 2010 to key management personnel amounted to 3,634 litas.

In 2010, 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 employees of the Company for being members of their managing bodies.

Information about agreements of the Company and the members of its management bodies, or the employee providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the Company

All TEO LT, AB employment agreements with the employees, including management, of the Company are concluded following requirements of the Labour Code of the Republic of Lithuania. Employees are employed and laid off following requirements of the Labour Code.

Members of the Company's Board are elected for a two-year term by the shareholders without any employment agreements as they represent shareholders and are not employees of the Company. The Annual General Meeting of Shareholders while adopting decision on profit allocation shall pass a decision on granting annual payments (tantiemes) to members of the Board for their activities. Members of the Board shall have a right to resign from the Board prior to the termination of the term of the Board upon written notification to the Company submitted not later than 14 calendar days. The Work Regulations of the Board does not provide any compensations or payouts in case any member of the Board resigns prior to the termination of the term of the Board.

Conditions of employment agreements of the General Manager (CEO), Deputy General Managers and Directors of main units of the Company shall be considered at the Remuneration Committee of the Board and then approved by the Board. The Remuneration Committee shall have a right to propose to the Board to include into employment agreements of the top managers additional conditions that provide compensations in case of their resignation and similar cases. According to the approved by the Board employment agreement of the General Manager of TEO LT, AB upon fulfilment of certain conditions General Manager in case of his resignation or dismissal could be entitled to the compensation amounting from 6 to 12 monthly salaries.

There are no material agreements to which the Company is a party and which would come into effect, be amended or terminated in case of change in the Company's control.

Auditors

Auditors from UAB PricewaterhouseCoopers audited the balance sheet of the Company and together with its consolidated subsidiaries for the years ended 31 December 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows and a summary of significant accounting policies and other explanatory notes for the years then ended.

On 26 April 2010, the shareholders of the Company during the Annual General Meeting of Shareholders elected UAB PricewaterhouseCoopers as the Company's audit enterprise for two years to make the audit of the Company's financial statements for the year 2010 and 2011 and to make assessment of the Company's Consolidated Annual Reports for the year 2010 and 2011. The Company's General Manager was authorised to conclude the Agreement for audit services, paying for services the price agreed

between the parties but in no case more than 480,000 (four hundred and eighty thousand) litas (VAT excluded) for the audit of the Company's financial statements for the two financial years and assessment of the Company Consolidated Annual Report for the year 2010 and 2011 (i.e. 240,000 (two hundred and forty thousand) litas (VAT excluded) per one year).

Following the Law of the Republic of Lithuania on Audit UAB PricewaterhouseCoopers on 16 November 2010 submitted to the Audit Committee of the Board a letter evidencing UAB PricewaterhouseCoopers' independence from TEO LT, AB. In 2010, UAB PricewaterhouseCoopers organised training for employees of the Company's Finance Division on changes in International Financial Reporting Standards, supervised execution of a lottery organised for customers of the Company and assisted in preparation of documentation regarding the pricing of data communications services provided to related parties.

VI. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

TEO LT, AB essentially follows a recommendatory Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and valid from 1 January 2010. According to the By-Laws 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 TEO LT, AB. The Board of TEO LT, AB consists of seven members who are elected for the term of two years, represents the shareholders, and performs supervision and control functions. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

Following the Governance Code, all members of the Board are considered non-executive directors, whereby two out of seven members are independent members of the Board. Members of the Audit Committee for the two years' term were elected in June 2009 and members of the Remuneration Committee for the one year term were elected in June 2010 by the Board. Two members of the Audit Committee have financial background and one member of this Committee is an independent member of the Board.

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.

Publicly announced information

The By-Laws of TEO LT, AB provide 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 the 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 2010, following the By-Laws of the Company, announcements to the shareholders about convocation of the Annual General Meetings of Shareholders, reduction of the authorised share capital, dividend payment and change of the registered address of the Company were announced in the daily Lietuvos Rytas. These obligatory announcements to the shareholders and all the rest announcements about stock release of TEO LT, AB were submitted to the Lithuanian Securities Commission, NASDAQ OMX Vilnius stock exchange, London Stock Exchange (till 30 June 2010), daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and were posted on the Company's webpage www.teo.lt.

The major regulatory news, except announcement of annual and interim results, during 2010 were related to the cancellation of treasury stocks and consequent reduction of the authorised share capital of the Company, as well as termination of the Global Depository Receipts programme of TEO and delisting from the London Stock Exchange. Also, the Company informed about decisions of the Annual General Meetings; election of a new member of the Board; election of members of the Remuneration Committee; election of the Company's audit enterprise; lease of new premises for the Company's head-office and change of the Company's registered address; assignment of significant market power (SMP) status on the market of digital terrestrial television; disposal of VšĮ TEO Sportas and establishment of VšĮ Ryšių Istorijos Muziejus by the Company; acquisition of UAB Hostex by TEO subsidiary UAB Baltic Data Center; development of the fiber-optic network.

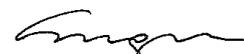
CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the 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, TEO LT, AB Consolidated Annual Report for the year 2010 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

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Giedrius Vegys
Chief Financial Officer

A handwritten signature in black ink, appearing as a series of connected, fluid strokes.

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 2010

TEO LT, AB (hereinafter 'TEO' or 'the Company') following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, discloses its compliance with the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
<p>Principle I: Basic Provisions</p> <p>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</p>		
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company has the Board that represents the shareholders of the Company, is responsible for strategic management of the Company, supervises and controls activities of CEO of the Company, on a regular basis convokes meetings of the Board, where senior management of TEO on a regular basis informs the Board about the Company's performance.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>

Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but minority shareholder as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the senior management of the Company reports on the Company's performance ensures effective supervision and control of the Company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the recommendation are fulfilled by the Board of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Following the By-Laws of the Company, the Board consists of seven Board members elected for a two-year term. All members of the Board are non-executive directors.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	Following the By-Laws of the Company, the Board members are elected for a two-year term, not limiting the number of terms. Thus two members of the Board have been working in the Board since April 2007 and have been re-elected in April 2009. One Board member was elected in February 2009 and re-elected in April 2009. Three members were elected in April 2009 and one in April 2010. The By-Laws of the Company do not provide any possibility to recall a member of the Board. This can be done following the Laws.

<p>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.</p>	<p>Yes</p>	<p>The Chairman of the Board who was elected in 2009 represents the 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 any collegial body.</p>
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<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>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.</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>	Yes	<p>While electing the collegial body, the Company's shareholders well before or during the Annual General Meeting can get acquainted with the detailed information about the nominees.</p> <p>In the Company, there exists the practice that the majority shareholder nominates independent or minority candidates to the collegial body. As a result a newly elected Board contains two out of seven independent members of the Board that were nominated by the majority shareholder. Annual compensations (tantiemes) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last nine years the same amount of annual compensation (tantieme) (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>	Yes	<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 members 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 the Company's interim reports and placed on the webpage of the Company.</p>
<p>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.</p>	Yes	<p>CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence.</p> <p>Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined 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</p>	Yes	<p>There are three members of the Board having the degrees of Masters of Science in Engineering (besides, one has the Master of Business Administration degree) and are working in the telecommunications area; one member having business administration education is working as a Business Controller; two members having financial education are working in the finance area and one with the Master of Law degree is working as a General Counsel.</p>

<p>the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>		<p>Two members of the Audit Committee have financial background and work in the finance area and one member is a lawyer. Two members of the Remuneration Committee occupy positions of senior managers in an enterprise other than the Company and one member is an academic lecturer on corporate strategy.</p>
<p>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.</p>	<p>Yes</p>	<p>Po naujos valdybos išrinkimo 2009 m. balandį, visi valdybos nariai buvo supažindinti su Lietuvos Respublikos teisės aktuose bei Bendrovės įstatuose jiems numatytais teisėmis ir pareigomis. Valdybos nariai apie įmonės veiklą ir jos pokyčius, esminius Bendrovės veiklą reguliuojančių teisės aktų ir kitus Bendrovės veiklai įtakos turinčių aplinkybių pasikeitimus reguliariai informuojami valdybos posėdžiuose ir individualiai, esant poreikiui ar pagal narių pageidavimą.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<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 dependent 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"> 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; 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; 	<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 the interests of the majority shareholder.</p> <p>TEO Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalized independence criteria are taken into account.</p>

<p>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);</p> <p>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);</p> <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>Yes</p>	

<p>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.</p>	<p>Yes</p>	<p>When electing a new Board in April 2009 it was disclosed that two members of the Board are regarded as independent members of the Board.</p>
<p>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.</p>	<p>Yes</p>	<p>In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.</p>
<p>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.</p>	<p>Yes</p>	<p>Annual compensations (tantiemes) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last nine years the same amount of annual compensation (tantieme) (LTL 54 thousand) was allocated to each member of the Board. Following International Financial Reporting Standards annual compensations (tantiemes) to the members of the Board are considered as operating expenses.</p>

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting		
The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Consolidated Annual Report. Also, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the senior management 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 2010 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.

<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>	<p>Yes</p>	<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 fulfilment of their functions (for instance, the Board members 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>

<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 two members of the Board having financial education (one of them is an independent member of the Board) and one member of the Board having lawyer's education.</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 shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.</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 exercise independent judgement and integrity when exercising its functions as well as 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 top management of the Company and their remuneration terms, nominees at first are discussed and approved at the Remuneration Committee.</p>
<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>Yes</p>	<p>Six out of seven member of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executives director (one of them is independent) are elected to 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 Company's periodic reports and on the webpage of the Company. In 2010, one meeting of the Remuneration Committee was held for overview and discussion of the TEO remuneration system. In June 2010, the Board elected members of the Remuneration Committee for a one-year term. Following the Remuneration Committee's work regulations, the secretary of the meetings shall be Director of Human Resources Unit of the Company. In 2010, three meetings of the Audit Committee were held. Two meetings were attended by all members of the Committee and one member of the Committee was missing during one meeting. All meetings were chaired by the Chairman of the Audit Committee. Following the Audit Committee's work regulations, the secretary of the meetings was Chief Financial Officer of the Company.</p>
<p>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.</p>	<p>Yes</p>	<p>Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.</p>	<p>No</p>	<p>In TEO, the function of the Nomination Committee is performed by the Remuneration Committee.</p>

<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>		
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 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; 6) 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); 7) 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>Yes</p>	<p>The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders. 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 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> <p>Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2010.</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> <ol style="list-style-type: none"> 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <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>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<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"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 	<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>

<p>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;</p> <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>		
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<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>		
<p>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.</p>	<p>Yes</p>	<p>Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2010.</p>

Principle V: The working procedure of the company's collegial bodies		
The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company's Board meetings are chaired by the Chairman of the Board. Director of Corporate Administration and Legal Unit of the Company is the Secretary of the Board and assists in organizing activities of the Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The meetings of TEO Board are convoked following the schedule, preliminary agreed and approved by the Board. Not less than two meetings are convoked per quarter. It is publicly announced about the Board meetings that are approving financial statements and then, accordingly, financial statements are made publicly available.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Following the Board's work regulations, information about the meeting convocation, agenda and all materials related to the agenda issues should be provided to each Board member not later than seven days before the meeting. The meeting agenda should not be changed during the meeting, unless all members present at the meeting agree or absentees inform that they agree with the changed agenda.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	TEO could not fulfil this recommendation as only the Board is instituted at the Company.

Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	After cancellation of treasury stocks in September 2010, the share capital of the Company consists of 776,817,518 ordinary registered shares of one litas nominal value each. All shareholders of the Company's shares 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 Company's By-Laws, stipulating 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.	Yes	TEO shareholders' meetings are convened at the headquarters of the Company in Vilnius. The Annual General Meetings are held in the second half of April. The Annual General Meeting in 2010 was convened on 26 April 2010 at 1 p.m.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages 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 Lithuanian, 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	Notice of the AGM as well as draft decisions proposed by the Board to the AGM and accompanied by draft documents were publicly announced and simultaneously placed on the webpage of the Company on 26 March 2010. Accordingly, adopted resolutions (including information about voting for each resolution) and documents approved by the shareholders were placed on the webpage of the Company. All information and documents for investors were presented in Lithuanian and English in stock exchange 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 the transfer of their voting rights 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.

<p>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 by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>No</p>	<p>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.</p>
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Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	

Principle VIII: Company's remuneration policy		
Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential.
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 remuneration paid over the year to the management of the Company is publicly announced in the Company's Consolidated 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) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	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.

<p>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.</p>	<p>No</p>	<p>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.</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> <p>Information about agreements of the Company and the members of its management bodies, or the employee providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the Company is provided in the Consolidated Annual Report.</p>
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<p>8.5. 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 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report 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>No</p>	<p>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.</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> <p>Information about agreements of the Company and the members of its management bodies, or the employee providing for a compensation in case of the resignation or in case they are dismissed without a due reason or their employment is terminated in view of the change of the control of the Company is provided in the Consolidated Annual Report.</p>
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8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	No	Under the Collective Bargaining Agreement of the parent Company, as described in the Consolidated Annual Report, the Company provides minimal salary for its employees and the possibility to get bonuses for the Company's yearly results following the rules set by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	No	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	No	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	No	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	No	
8.12. 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	Key functions of the Company's Remuneration Committee, its formation and composition are described herein in Recommendation 4.13. The names of members of the Remuneration Committee are announced in the Company's periodic reports and on the webpage of the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Yes	

<p>8.18. 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.</p>	<p>No</p>	
<p>8.19. 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.</p>	<p>Not applicable</p>	
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 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. <p>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.</p>		
<p>8.21. 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.</p>		
<p>8.22. Provisions of Articles 8.19 and 8.20 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.</p>		

<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, 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>		
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Principle IX: The role of stakeholders in corporate governance		
The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	<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.</p> <p>The Company prepares the Report on Corporate Social Responsibility which discusses principles and practices in relation to the Company's cooperation with investors, employees, customers 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.		

<p>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 NASDAQ OMX Vilnius stock exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>The Company is submitting information (both in English and Lithuanian) to the information system operated by NASDAQ OMX Vilnius stock exchange which ensures that the information is disseminated simultaneously to all markets. Also, till 30 June 2010 (till the last day of listing on the London Stock Exchange), the Company at the same time was providing information to the London Stock Exchange.</p> <p>TEO always strives to announce information before or after trading hours on NASDAQ OMX 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>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge 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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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 NASDAQ OMX Vilnius stock exchange in both Lithuanian and English.</p>

Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial reports and interim reports 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 the International Financial Reporting Standards as adopted by the EU. This independent audit firm also reviews consolidated 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 Audit Committee together with the audit firm's confirmations of auditors' independence from the Company. This information is presented in the Consolidated Annual Report of the Company.