

## CONSOLIDATED ANNUAL REPORT

Approved by the Board  
as at 13 March 2013

### I. GENERAL INFORMATION

#### Reporting period

Year ended 31 December 2012

#### Issuer and its contact details

Name of the Issuer	<b>TEO LT, AB</b> (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
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 enables 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.

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) 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 (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location;
- 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 (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 2012, **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), subsidiaries of TEO LT, AB and subsidiaries of UAB Baltic Data Center (UAB Hostex, UAB Interdata, UAB Hosting and Baltic Data Center SIA).

The following companies are **subsidiaries** of TEO LT, AB:

<b>Name of the company</b>	<b>Date of registration, code, name of Register of Legal Entities</b>	<b>Contact details</b>	<b>TEO share in the share capital of the company (%)</b>	<b>TEO share of votes (%)</b>
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 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 fax. +370 37 424 344 www.rysiumuziejus.lt	-	100.00

TEO LT, AB, the **parent company** of the Group, offers to residential and business customers in Lithuania fixed voice telephony, Internet access, data communication, digital television, IT and telecommunications network services.

**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 15 million contacts per year. For residential customers Lintel provides Directory Inquiry Service 118, and for business customers – telemarketing and remote customer care services. In 2012, UAB Lintel paid to the Company LTL 4.8 million in dividends for the year 2011.

**UAB Baltic Data Center** is a leading provider of data center and information system management services in the Baltic States. Baltic Data Center provides professional data centre, computer workstation and business management system support and development services. UAB Baltic Data Center has a subsidiary, UAB Hostex, that provides web hosting and data center services to residential customers and small companies as well as to Internet portals. In Latvia, Baltic Data Center owns a dormant subsidiary – Baltic Data Center SIA.

**UAB Hostex** has a subsidiary, UAB Interdata, which will be merged into UAB Hostex following the Reorganisation Conditions announced in December 2012. After the reorganization UAB Interdata will cease its activities as a legal entity and UAB Hostex shall take over all the assets and liabilities as well as the rights and obligations of UAB Interdata. UAB Interdata owns a dormant subsidiary – UAB Hosting.

**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.

TEO LT, AB is a sole founder and owner of a not-for-profit organisation, **VšĮ Ryšių Istorijos Muziejus**, which manages the Company's Communications History Museum in Kaunas.

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. NASDAQ OMX Vilnius stock exchange is a home market for TEO shares.

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 liabilities companies and are 100 per cent owned by the Company.

## II. FINANCIAL INFORMATION

With the Lithuanian telecommunications market struggling to revert to growth (the market decreased by 4.5 per cent during the nine months of 2012), TEO Group increased its revenue in 2012 by 1.4 per cent achieving total revenue of LTL 760 million. With cost increase of 1.3 per cent, the Group registered a 1.6 per cent higher EBITDA than a year ago. Net profit exceeded profit of 2011 by 3 per cent.

TEO continued its commitment for provision of the most advanced telecommunications services available in the market today. During 2012 investments into a next-generation network made up more than a half of total capital investment of LTL 151 million. The Company completed its network overhaul, enabling it to provide a stunning Internet speed of up to, but not limited to, 300 Mbps. TEO upgraded its Interactive GALA TV service with new features that literally converted regular television to an entertainment hub.

Despite the falling telecommunications market, TEO increased its Internet customer base by 3.7 per cent – the number of customers exceeding 385 thousand. The number of TV service users increased by 12 per cent. Revenue from the well-accepted in the market IT services provided by TEO grew by more than 30 per cent for the third year in a row.

In 2013, with Lithuania's economy shifting towards growth, while increasing competition, TEO will be committed to its customers' need for further improvement of the quality of services.

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

### Key figures of TEO Group

Financial figures	2012	2011	Change (%)
Revenue (LTL thousand)	760,174	749,784	1.4
EBITDA (LTL thousand)	307,080	302,288	1.6
EBITDA margin (%)	40.4	40.3	
Operating profit (LTL thousand)	176,519	169,834	3.9
Operating profit margin (%)	23.2	22.7	
Profit before income tax (LTL thousand)	177,302	172,013	3.1
Profit before income tax margin (%)	23.3	22.9	
Profit for the period (LTL thousand)	159,067	154,486	3.0
Profit for the period margin (%)	20.9	20.6	
Earnings per share (LTL)	0.205	0.199	
Number of shares (thousand)	776,818	776,818	-

<b>Financial ratios</b>	<b>31-12-2012</b>	<b>31-12-2011</b>	
Return on capital employed (%)	17.6	17.2	
Return on average assets (%)	15.8	15.3	
Return on shareholders' equity (%)	15.7	15.4	
Gearing ratio (%)	(22.2)	(20.6)	
Debt to equity ratio (%)	0.3	0.4	
Current ratio (%)	386.8	459.6	
Rate of turnover of assets (%)	67.9	67.3	
Equity to assets ratio (%)	90.1	91.5	

  

<b>Operating figures</b>	<b>31-12-2012</b>	<b>31-12-2011</b>	<b>Change (%)</b>
Number of fixed telephone lines in service	605,424	647,524	(6.5)
Number of broadband Internet connections (DSL, FTTB, FTTH, WiFi and other)	385,863	372,212	3.7
Number of TV services customers	169,285	151,175	12.0
Number of personnel (head-counts) at the end of period	3,257	3,303	(1.4)
Number of full-time employees at the end of the period	2,875	2,928	(1.8)

## Revenue

The **total revenue** in 2012 was LTL 760 million, an increase of 1.4 per cent over the total revenue of LTL 750 million in 2011. The growth of revenue, excluding the special projects in 2011 implemented and other one-off revenue, was 2.6 per cent.

In 2012, revenue from Internet, TV and IT services continued to grow, while revenue from voice telephony, data communication and network capacity, and other services went down.

Share of revenue from voice telephony services from the total amount of revenue continued to shrink and amounted to 46.7 per cent of the total revenue in 2012 (49.9 per cent in 2011). Share of revenue from Internet services increased and was 22.6 per cent, IT services – 8.5 per cent and television services – 7.5 per cent, while share of revenue from data communication and network capacity services declined and amounted to 11.5 per cent and other services – 3.2 per cent.

Revenue from **voice telephony services** during 2012 went down by 5.2 per cent due to lower number of telephone lines in service. Revenue from voice transit services, though higher than in 2011, did not off-set a decline.

In August 2012, TEO offered its residential customers new additional flat fee payment plans, enabling them to make calls to Lithuanian mobile network subscribers for no extra charges. The payment plan for calls to all Lithuanian mobile networks costs LTL 9.90 per month, for calls to selected networks of Omnitel, Bitė Lietuva or Tele2 – LTL 5.90 per month.

During 2012 the total number of main telephone lines in service decreased by 42.1 thousand. Lower number of voice telephony service users resulted in a decrease of revenue from subscription fees in 2012 by 16.9 per cent compared with a year ago.

Reduced national networks' interconnection fees and new payment plans for calls to mobile networks resulted in increased volumes of both residential and business customers' calls to mobile operator networks by 20.2 and 0.7 per cent, respectively, during 2012 compared with a year ago. However, total traffic volume generated by residential and business customers decreased by 11 and 12.7 per cent, respectively.

During 2012 revenue from networks' interconnection services increased by 3.1 per cent due to higher volume of voice transit traffic.

In May 2012, TEO offered residential customers to use bundled Internet, digital television and voice telephony services "Namai 1" ("Home 1") for 79.90 litas, "Namai 2" ("Home 2") for 99.90 litas and "Namai 3" ("Home 3") for 119.90 litas. Users of bundled services are also able to use some other services at no additional charge. Attractive bundled services facilitated an intake of new customers.

During January-December 2012 the total number of **broadband Internet access** connections increased by 13.7 thousand.

Number of Internet connections over the next-generation fiber-optic network using FTTH (Fiber To The Home) and FTTB

(Fiber To The Building) technologies continued to grow and by the end of 2012, 42 per cent of the total number of TEO broadband Internet access users had fiber-optic access.

Also continued switchover from copper to fiber-optic Internet access: over the year the number of FTTH and FTTB connections increased by 15.5 per cent, while the number of copper DSL connections went down by 7.1 per cent.

At the end of December 2012 out of total 385.8 thousand broadband connections, 162 thousand were fiber-optic connections, 183.4 thousand – copper DSL connections and 40.4 thousand – wireless connections via WiFi network.

From the 1st of March, TEO increased the speed of its Internet plans "Startas" ("Start") from 1 up to 2 Mbps and "Bazinis šviesolaidis" ("Basic FTTH") – from 40 up to 50 Mbps, and consequently increased monthly fees for the Internet plans "Start", "Basic Plus" and "Basic FTTH" by 3 litas.

In March, the Company offered two new additional services. The Internet service "Saugykla" ("Storage"), an online data storage service, enables storing up to 300 GB of data on a highly secure server. The service "Laiko kontrolė" ("Time Control") helps Internet users plan their children's leisure time – to limit the time they can spend on the Internet.

In June, TEO also offered the service "Saugykla verslui" ("Storage for Business") for small and medium-sized businesses. It enables business customers to store up to 1 terabyte of data in a secure data center, and to access documents from everywhere where Internet access is available.

During 2012 the total number of **television service** customers increased by 18.1 thousand. Over the year the number of IPTV service users went up by 14.7 thousand and by the end of December 2012 amounted to 94.7 thousand. As of 31 December 2012, the number of digital terrestrial television (DVB-T) users amounted to 74.6 thousand.

In 2012, IPTV service users were offered an opportunity to watch the year's most important sporting and music events: Semi-Finals and the Grand Final of the Eurovision Song Contest, the crucial matches of the European Football Championship and the London Summer Olympic Games in High Definition (HD) format.

In August, users of IPTV services were offered a new additional service, "Žiūrėti nuo pradžių" ("Startover"), allowing rewind, pause or fast forward of already running shows or movies, and a new package of TV channels in Russian. In September packages of Viasat sports and movie channels were offered, too.

In August, the Company launched a new service for residential customers by offering them TV sets for a monthly fee. Customers can choose from three Samsung TV set models.

On 29 October 2012 analogue TV broadcasting was shutdown in Lithuania.

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

In January, TEO launched long-term computer and office equipment rental services for businesses and organizations. Customers are able to rent the equipment presented on the website [www.iranga.teo.lt](http://www.iranga.teo.lt), which contains several hundreds of laptops, tablets and desktops, servers, printers, monitors and other computer accessories, for 2 or 3 years, and later rent or purchase new equipment.

TEO Group revenue from **other services** consists of the following non-telecommunication services: Contact Center services of UAB Lintel, lease of premises, advertising, discounts' refund to the Company and other.

In March 2012, TEO signed an agreement on the transfer of its entertainment news Internet portal Zebra.lt to UAB "15 min", owned by the media group Schibsted ASA. According to the agreement, "15 min" took over the news portal and its management from TEO and will use the brand name and the Internet domain Zebra.lt. The portal is one of the most popular entertainment news portals in Lithuania, with particular emphasis on celebrity life and entertainment news. The portal has on average 450 thousand unique visitors per month.

In May, Lintel offered 118, an application for smartphones. It differs from other information search solutions in that it not only finds business and residential contacts, but also can determine the user's location and provide information that is relevant to a person located at that particular point. The application 118 uses the business and residential contact database, from which information is provided by phone 118 and on the website [www.118.lt](http://www.118.lt).

During 2012 revenue from other non-core business services declined by 11.6 per cent, as there were no such one-off special projects as those implemented in 2011 and contributed LTL 2 million of revenue. Revenue from Contact Center

services over the year decreased by 8 per cent.

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

### Market information

According to the Reports of the Communications Regulatory Authority (CRA), during the nine months of 2012 the Lithuanian electronic communications market amounted to LTL 1,709 million, a decrease by 4.5 per cent over the nine months of 2011.

	TEO market share (%)			
	in terms of customers		in terms of revenue	
	Q3 2012	Q3 2011	Q3 2012	Q3 2011
Fixed voice telephony services	89.8	90.6	93.9	92.9
Fixed Internet access services	50.0	51.1	54.5	52.3
Internet access services (total)	36.7	38.3	43.3	39.6
Digital pay-TV services	43.1	46.3	44.1	43.9
Pay-TV services (total)	23.8	22.6	29.7	27.1
Network interconnection services	n/a	n/a	35.3	24.4
Data communication services	n/a	n/a	58.2	62.3
Leased line services	n/a	n/a	67.5	63.9

On 30 September 2012 broadband Internet penetration per 100 residents of Lithuania was 34.6 per cent (29.8 per cent a year ago), while the penetration of broadband Internet using fixed connection was 25.4 per cent (22.4 per cent a year ago). Digital pay-TV penetration per 100 households was 30.2 per cent (23.8 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 22.4 per cent (22.1 per cent a year ago).

### Operating expenses

In 2012, the Company changed the grouping of operating expenses for reporting purposes: direct services expenses and network capacity costs were moved from other expenses and together with former separate interconnection expenses formed a new group of cost of goods and services. Employee-related expenses remained unchanged as well as total operating expenses for the previously reported periods.

**Total operating expenses** of the Group in 2012 were by 1.3 per cent higher than total operating expenses a year ago due to higher cost of goods sold and employee-related expenses.

During 2012 **cost of goods and services** was higher by 0.3 per cent than in 2011 due to one-off sales of IT equipment by Baltic Data Center during the first quarter of 2012 and increased international transit volumes.

**Employee-related expenses** went up by 8.7 per cent mainly due to paid bonuses during the first quarter of 2012. Over the year the net total number of employees in TEO Group decreased by 46 (mainly in TEO, while in Lintel and BDC – increased) from 3,303 to 3,257. In terms of full-time employees, the net total number of employees in TEO Group during January-December 2012 decreased by 52 from 2,928 to 2,875.

**Other expenses** decreased by 9 per cent due to lower expenses for marketing, bad debts and IT cost, and continuous cost saving policy.

### Earnings

**EBITDA** in 2012 increased by 1.6 per cent to LTL 307 million over LTL 302 million for the same period year ago. EBITDA margin amounted to 40.4 per cent (40.3 per cent in 2011).

**Depreciation and amortisation charges** went down by 1.4 per cent and in 2012 amounted to 17.1 per cent of total revenue (17.7 a year ago).

**Operating profit (EBIT)** for the year 2012 increased by 3.9 per cent. Operating profit margin was 23.2 per cent (22.7 per cent in 2011).

**Net financial income** for the year 2012 was by 64.1 per cent lower than a year ago.

**Profit before income tax** in 2012 was up by 3.1 per cent and amounted to LTL 177 million (LTL 172 million a year ago). Since 1 January 2010 the profit tax rate in Lithuania is 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 in 2012 amounted to LTL 10.9 million (LTL 10.3 million in 2011). **Income tax expenses** in 2012 were by 4 per cent higher than a year ago.

**Profit for the period** in January-December 2012 amounted to LTL 159 million, an increase by 3 per cent over the profit of LTL 154 million for the same period year ago. The profit margin was 20.9 per cent (20.6 per cent a year ago).

### **Balance sheet and cash flow**

During January-December 2012 **total assets** of TEO Group increased by 1.9 per cent.

Total **non-current assets** increased by 1.9 per cent due to increased property, plant and equipment, and amounted to 69.9 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 24 April 2012, dividend of the total amount of LTL 155 million or LTL 0.20 per share for the year 2011 were paid to the shareholders of the Company. Nevertheless, during the year total **current assets** increased by 2 per cent and amounted to 30.1 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 20.3 per cent of total assets.

During 2012 **shareholders' equity** slightly increased by 0.4 per cent and amounted to 90.1 per cent of the total assets.

As of 31 December 2012 consolidated **retained earnings** of TEO Group amounted to LTL 190 million, while retained earnings of the Parent company amounted to LTL 161 million or LTL 0.207 per share. 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 **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 December 2012 total amount of **borrowings** included mainly financial liabilities related to financial leasing of premises and amounted to LTL 3.3 million (LTL 4.2 million in 2011). Net debt was negative and amounted to LTL 232 million. The net debt to equity ratio was negative and amounted to 22.2 per cent.

Net **cash flow from operating activities** in 2012 was by 3.3 per cent higher than a year ago.

During 2012 **capital investments** amounted to LTL 151 million (LTL 156 million a year ago). The majority of capital investments (78 per cent or LTL 120 million) went to expansion of the core network and development of the next-generation fiber-optic access network. The remaining part was invested into IT systems (LTL 25 million), transportation (LTL 3 million) and renovation of premises (LTL 2 million).

As a result by the end of 2012, TEO had 764 thousand households (705 thousand at the end of 2011), or 64 per cent of the country's households, passed by the FTTH network.

Due to capital investments and dividend payment, **cash and cash equivalents** during January-December 2012 decreased by LTL 13 million.

During 2012 TEO LT, AB paid LTL 94.4 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 28.6 million was contributed to the State Social Insurance Fund and a total of LTL 65.8 million was paid to the State Tax Inspectorate.

### **Information about related party transactions**

Information about related party transactions is provided in Note 29 of TEO LT, AB Financial Statements for the year ended 31 December 2012.

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 loans to its subsidiaries UAB Baltic Data Center and UAB Hostex. The Company's

subsidiaries have no interest in the share capital of TEO LT, AB.

TEO and TEO Group through its largest shareholder, TeliaSonera AB, are related to TeliaSonera Group that provides telecommunication services in Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain. The main buyers and providers of telecommunications services to TEO Group are UAB Omnitel (Lithuania), TeliaSonera International Carrier (Sweden), Elion Ettevotted AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland).

#### **Other material information**

On 4 May 2012, Saulius Markūnas, Director of UAB Baltic Data Center, a subsidiary of TEO LT, AB, left this position, and a new Director of UAB Baltic Data Center – Aleksandras Samuchovas, who used to work as Director of Business Solutions Department of TEO, was appointed on 11 June 2012.

From 9 July 2012, Arūnas Šikšta, General Manager of TEO LT, AB, resigned from the Board of AB Žemaitijos Pienas, and on 2 July 2012, by the decree of the Prime Minister of the Republic of Lithuania, he was appointed as the Chairman of the Commission for implementation of the reform of state-owned enterprises.

On 16 August 2012, Remigijus Šeris, Director of UAB Lintel, a subsidiary of TEO LT, AB, left this position, and a new Director of UAB Lintel – Laurynas Šeškevičius, who used to work as Director of Sales Planning and Control Department of TEO, was appointed on 17 September 2012.

#### **Recent events**

On 29 January 2013, the Board of the Company approved that the Company's administration upon receipt of invitation from Kaunas Municipality shall enter into negotiations regarding sale of premises of the Communications History Museum.

On 29 January 2013, the Board of the Company decided to appoint Edis Kasperavičius, who used to work as Director of Human Resources Unit of the Company, to the position of Chief Sales Officer from 14 February 2013. Darius Gudačiauskas left the position of Chief Sales Officer from 1 February 2013.

As of 22 February 2013 Arūnas Šikšta, General Manager of the Company, has resigned. The Board accepted his resignation and appointed Giedrius Vegys, Chief Financial Officer of the Company, as acting General Manager. Antanas Poška, Director of Accounting Department, was temporarily appointed to the position of Chief Financial Officer.

#### **Research and development activities**

There were no major research and development projects undertaken during 2012, except the on-going 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 2012, the Company reduced consumption of electricity by 9.7 per cent, water – by 6 per cent and office paper usage – by 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, 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 2012 the total amount of finance lease of TEO Group amounted to LTL 3.3 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 2012.

### **Plans and forecasts**

The investment over the last few years reaching nearly one billion litas, successfully developed technologies and new services have created good prospects for our business. The year 2013 will be the year of new experiences for TEO customers. We will work and invest in further improvement of the quality of our services and customer care.

## **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 in September 2010 by cancelling 38,095,242 treasury stocks. The number of TEO shares that provide voting rights during the General Meeting is 776,817,518.

776,817,518 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L). NASDAQ OMX Vilnius stock exchange is a home market for TEO shares.

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

### **Shareholders**

The number of shareholders on the shareholders registration day (17 April 2012) for the Annual General Meeting of Shareholders, which was held on 24 April 2012, was 14,317.

In June 2011, TeliaSonera AB took over from its subsidiary Amber Teleholding A/S the controlling interest in TEO (62.94 per cent of shares and votes). Before the transaction TeliaSonera AB directly held 5.14 per cent of the Company's shares and votes. During the third quarter of 2011 TeliaSonera AB additionally acquired 1,661,566 shares (0.21 per cent of the

total number of share) and increased its holding up to 68.29 per cent.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2012:

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 (%)
TeliaSonera AB, Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	684,791,575	88.15	88.15	-
Other shareholders	92,025,943	11.85	11.85	-
<b>TOTAL:</b>	<b>776,817,518</b>	<b>100.00</b>	<b>100.00</b>	<b>-</b>

On 10 May 2012, TeliaSonera AB acquired from the funds managed by East Capital Asset Management AB and East Capital AB, and Coneglen Limited in total 61,129,044 shares of TEO (i.e. 7.87 per cent of all the shares of the Company) paying EUR 0.637 (equivalent in LTL 2.20) per share and crossed the threshold of 75 per cent of votes at General Meeting of TEO shareholders.

In connection to that acquisition, TeliaSonera AB announced its intension to launch the voluntary takeover bid to buy up the remaining shares of the Company for the price of EUR 0.637 per share. TeliaSonera AB also placed an order to NASDAQ OMX Vilnius stock exchange to buy shares of the Company for the price of EUR 0.637 per share.

On 30 May 2012 the Bank of Lithuania approved TeliaSonera's circular of the non-competitive voluntary takeover bid to buy up the remaining shares of the Company for the price of EUR 0.637 per share. The implementation of the takeover bid commenced on 5 June 2012 and terminated on 29 June 2012.

During the takeover bid sell orders for 12,719,908 shares of the Company were placed. In addition, TeliaSonera during the period from 8 May to 29 June 2012 acquired 80,437,785 shares of the Company in the open market.

### Treasury stocks

Since September 2010 the Company has had no treasury stocks. 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 2012 TEO share price on NASDAQ OMX Vilnius stock exchange increased by 27.8 per cent and the shares' turnover, compared to the year 2011, increased by 2.4 times.

TEO market capitalisation as on 31 December 2012 was LTL 2,060 million (LTL 1,730 million in 2011).

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in 2012:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.075	2.659	2.061	2.652	2.209	98,430,559	217,439,730
EUR	0.601	0.770	0.597	0.768	0.640	98,430,559	62,974,899

## Dividends

On 23 May 2012, the Company paid out to the shareholders LTL 155,364 thousand of dividends or 0.20 litas per share for the year 2011. Following the Law, dividends were paid to the shareholders who on the dividend record day, 9 May 2012, i.e. the tenth business day after the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. Dividends to all shareholders were paid in cash.

## IV. PERSONNEL

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

	<u>2012</u>	<u>2011</u>
Number of personnel (head-counts)	3,257	3,303
Number of full-time employees	2,875	2,928

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	<u>31-12-2012</u>	<u>31-12-2011</u>	<u>Change</u>
TEO LT, AB	1,958	2,056	(98)
UAB Lintel	1,039	1,010	29
UAB Baltic Data Center	211	187	24
UAB Hostex	39	38	1
UAB Interdata	2	3	(1)
UAB Hosting	1	1	0
UAB Kompetencijos Ugdymo Centras	2	3	(1)
VšĮ Ryšių Istorijos Muziejus	5	5	0
	<b>3,257</b>	<b>3,303</b>	<b>(46)</b>

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

Name of the company	<u>2012</u>	<u>2011</u>	<u>Change (%)</u>
TEO LT, AB	124,214	114,800	8.2
UAB Lintel	24,500	25,673	(4.6)
UAB Baltic Data Center and its subsidiaries	21,508	16,133	33.3
Other TEO LT, AB subsidiaries	243	203	19.7
	<b>170,465</b>	<b>156,809</b>	<b>8.7</b>

Information about employees of TEO LT, AB as of 31 December 2012:

Group of employees	Number of employees	<u>Education</u>			Average monthly salary (in LTL)
		University	College	High school	
Leading Managers	29	29	-	-	21,951
Operation Level Managers	209	179	19	11	5,163
Leading Specialist	89	76	10	3	4,283
Specialists	1,552	851	306	395	2,631
Technicians	79	37	20	22	2,049
	<b>1,958</b>	<b>1,172</b>	<b>355</b>	<b>431</b>	

## Collective Bargaining Agreement

The currently valid 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 25 April 2007.

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.
- 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. If the studies' programs and individual studies' plans are in line with the employee's competence development needs, an average salary could be paid during the studies' vacations.
- 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 2012, the Social Needs Fund allocated LTL 559 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 six Members. The Annual General Meeting of the Shareholders, held on 28 April 2011, decided to reduce the number of the Board members from seven to six. The new wording of the Company's By-laws was registered on 26 May 2011. The members of the Board are elected for a term of two years. The Chairman/Chairwoman 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**

During 2012 eight ordinary and two extraordinary meetings of the Board were held. Eight ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, and two extraordinary meetings were related to TeliaSonera's voluntary takeover bid. During all Board meetings in 2012 there was the quorum prescribed by legal acts. The Board approved financial statements for the 12 months of 2011 and the 3, 6 and 9 months of 2012,

financial statements and the consolidated annual report for the year ended 31 December 2011, convoked the Annual General Meetings of Shareholders, proposed to the Annual General Meeting a profit allocation for the year 2011, formulated the opinion of the Board regarding the tender offer by TeliaSonera AB in respect of the Company's shares, re-elected members of the Remuneration Committee, followed up implementation of the business and investment plan for the year 2012, and approved the business and investment plans for the year 2013.

During 2012 one meeting of the Remuneration Committee was held in October 2012 for overview and discussion of the TEO remuneration system. All members of the Committee attended the meeting and the meeting was chaired by the Chairwoman of the Board who was elected to chair the meeting.

Four meetings of the Audit Committee for discussions of annual and interim financial results, internal audit plan and its implementation as well as risk management issues were held in 2012. During all meetings there was the required quorum present, three meetings were chaired by the Chairman of the Audit Committee and one – by a member of the Committee.

On 24 April 2012, the Annual General Meeting of TEO LT, AB shareholders resolved to assign LTL 324 thousand for the payment of annual payments (tantiemes) for the year 2011 to six members of the Board, i.e. LTL 54 thousand per member of the Board. Tantiemes for the year 2011 were paid to all members of the Board during 2012. As of 31 December 2012 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid to one member of the Board who had not provided written requests to the Company.

Following The Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange all six members of the Board are non-executive directors. Four members of the Board represent TeliaSonera Group and two members of the Board – Inga Skisaker and Jonas Pilkauskas who represent minority interest – are regarded as independent members of the Board.

#### **Members of the Board as of 31 December 2012**

**Malin Frenning** (born in 1967) – Chairwoman of the Board, member of the Board since 26 April 2010, re-elected for the two-year term on 28 April 2011 (nominated by Amber Teleholding A/S, the then subsidiary of TeliaSonera AB), member of the Remuneration Committee of the Board. Education: Luleå University of Technology (Sweden), Master of Science in Mechanical Engineering. Employment: TeliaSonera AB (Sweden), President of Business Area Broadband Services. Current Board assignments: TeliaSonera Network Sales AB (Sweden), Chairwoman of the Board; TeliaSonera International Carrier AB (Sweden), Chairwoman of the Board; TeliaSonera Skanova Access AB (Sweden), Chairwoman of the Board; NextGenTel AS (Norway), Chairwoman of the Board (till 1 February 2013); Elion Ettevõtte AS (Estonia), Chairwoman of the Supervisory Council; ESRI S-Group AB (Sweden), member of the Board; Cygate Group AB (Sweden), member of the Board. TeliaSonera AB (Sweden) that through the then subsidiary Amber Teleholding A/S (Denmark) nominated Malin Frenning to the Board of TEO LT, AB, as of 31 December 2012 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 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.

**Lars Klasson** (born in 1965) – member of the Board since 28 April 2011 (nominated by Amber Teleholding A/S, the then subsidiary of TeliaSonera AB), member of the Remuneration Committee of the Board. Education: University of Linköping (Sweden), Master of Science in Industrial Engineering and Management. Employment: TeliaSonera AB (Sweden), Business Area Broadband Services, Chief Technology Officer. Current Board assignments: Eesti Telekom AS (Estonia), member of Supervisory Council; NextGenTel AS (Norway), member of the Board (till 1 February 2013). TeliaSonera AB (Sweden) that through the then subsidiary Amber Teleholding A/S (Denmark) nominated Lars Klasson to the Board of TEO LT, AB, as of 31 December 2012 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes. Lars Klasson 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) – member of the Board since 26 April 2007, re-elected for the two-year term on 28 April 2011 (nominated by Amber Teleholding A/S, the then subsidiary of TeliaSonera AB), Chairman of the Audit Committee of the Board. Education: Stockholm University (Sweden), Bachelor of Business Administration. Employment: TeliaSonera AB (Sweden) Business Area Broadband Services, Vice President of Business Control. Current Board assignments: Latttelecom 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 Net Fastigheter 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) that through the then subsidiary Amber Teleholding A/S (Denmark), nominated Joakim Sundström to the Board of TEO LT, AB, as of 31 December 2012 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 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) – member of the Board since 28 April 2009, re-elected for the two-year term on 28 April 2011 (nominated by Amber Teleholding A/S, the then subsidiary of TeliaSonera AB), 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: Latt telecom 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; Kekkilä Oy (Finland), member of the Board; member of the Board of several real estate companies in Helsinki, Finland. TeliaSonera AB (Sweden) that through the then subsidiary Amber Teleholding A/S (Denmark) nominated Tiia Tuovinen to the Board of TEO LT, AB as of 31 December 2012 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 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.

**Inga Skisaker** (born in 1962) – member of the Board, elected for the two-year term on 28 April 2011 (nominated as independent candidate by Amber Teleholding A/S, the then subsidiary of TeliaSonera AB), member of the Audit Committee of the Board. Education: Vilnius University (Lithuania), Master of International Business Administration. Employment: Nordea Bank Finland Plc Lithuania Branch, General Manager. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board; Investors Forum (Lithuania), member of the Board. TeliaSonera AB (Sweden) that through the then subsidiary Amber Teleholding A/S (Denmark) nominated Inga Skisaker as independent candidate to the Board of TEO LT, AB, as of 31 December 2012 had 684,791,575 shares of TEO LT, AB that accounts to 88.15 per cent of the share capital and votes. Inga Skisaker 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.

**Jonas Pilkauskas** (born in 1974) – member of the Board, elected for the two-year term on 28 April 2011 (nominated as independent candidate by East Capital), member of the Remuneration Committee of the Board. Education: Vilnius University (Lithuania), Diploma from Faculty of Law (1997). From 1995 to 1996 studied at the University of Swansea, Wales (United Kingdom) and at John Marshall Law School in Chicago (U.S.A.). Employment: Law firm TARK GRUNTE SUTKIENĖ (Lithuania), of counsel. East Capital Asset Management AB (Sweden) that nominated Jonas Pilkauskas as independent candidate to the Board of TEO LT, AB, as of 31 December 2012 had no shares of TEO LT, AB. Jonas Pilkauskas together with related persons (as this concept is described in Polish laws) holds 19,645,318 shares of Trakcja – Tiltra SA, Poland, that accounts to 8.46 per cent of share capital and votes. Trakcja – Tiltra SA has two subsidiaries in Lithuania – Tiltra Group AB and AB Kauno Tiltai. He also holds a 17.6 per cent stake in UAB PME Capital (Lithuania). Jonas Pilkauskas has no direct interest in the share capital of TEO LT, AB.

#### **Members of the Company's Administration**

**Arūnas Šikšta** (born in 1968) from 2 January 2004 till 22 February 2013 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). Board assignments: Chairman of the Commission for implementation of the reform of state-owned enterprises (Lithuania). Arūnas Šikšta had no direct interest in the share capital of TEO LT, AB. He was not involved in the business of other Lithuanian companies and did not have interest in the share capital in other Lithuanian companies.

**Giedrius Vegys** (born in 1959) from 23 February 2013 is acting General Manager of the Company. From 1 April 2009 till 22 February 2013 he 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 Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board. Giedrius Vegys 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 in other Lithuanian companies.

**Darius Gudačiauskas** (born in 1975) from 1 March 2006 till 1 February 2013 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) and Doctor of Social Sciences, Economics (2005). Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board till 1 February 2013. Darius Gudačiauskas had no direct interest in the share capital of TEO LT, AB. He was not involved in the business of other Lithuanian companies and did not have interest in the share capital in other Lithuanian companies.

**Edis Kasperavičius** (born in 1961) from 14 February 2013 took the office of Chief Sales Officer. Education: Vilnius University (Lithuania), Master of Psychology (1985) and Scholarship in Pedagogics (equivalent of doctorate) (1992), and Baltic Management Institute (Lithuania), Master of International Business Administration (2012). Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Kompetencijos Ugdymo Centras (Competence Development Center), a subsidiary of TEO LT, AB, Chairman and Director; Baltic Management Institute (Lithuania), member of the Board, and Lithuanian HR Association, member of the Board. Edis Kasperavičius 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 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) and Candidate Master of Business Administration (1995); Emory University (Atlanta, U.S.A.), Master of Business Administration (1996). Nerijus Ivanauskas 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 in other Lithuanian companies.

**Darius Didžgalvis** (born in 1969) from 9 February 2005 took the 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 Hostex, a subsidiary of UAB Baltic Data Center, member of the Board; UAB Interdata, a subsidiary of UAB Hostex, member of the Board. Darius Didžgalvis 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 in other Lithuanian companies.

**Eglutė Bivainienė** (born in 1967) from 1 July 2011 took the office of Chief Operational Officer of TEO LT, AB. Education: Vilnius University (Lithuania), Diploma in Economics and Mathematics (1990), and ISM University of Management and Economics (Lithuania), Master of Business Administration studies. Current Board assignments: UAB Lintel, a subsidiary of TEO LT, AB, member of the Board. Eglutė Bivainienė 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 in other Lithuanian companies.

**Antanas Poška** (born in 1967) from 23 February 2013 acting Chief Financial Officer of the Company. From December 2012 he was Director of Accounting Department of the Company. Education: Vilnius University (Lithuania), Diploma in Accounting and analyses (1993). Antanas Poška 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 in other Lithuanian companies.

Information about remuneration of key management personnel is provided in Note 29 of TEO LT, AB Financial Statements for the year ended 31 December 2012. Key management includes General Manager, Chief Officers, and Directors of main units, departments and regional centers. The total amount of TEO dividends for the year 2011 paid in 2012 to key management personnel amounted to 5,562 litas.

In 2012, 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 pay-outs 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 pay-outs 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, 2010, 2011 and 2012, 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 24 April 2012, the shareholders of the Company during the Annual General Meeting of Shareholders elected UAB PricewaterhouseCoopers as the Company's audit enterprise for the period of two years to perform the audit of the annual consolidated financial statements of the Company for the year 2012 and 2013, and to make the assessment of the consolidated annual reports of the Company for the year 2012 and 2013. Shareholders authorized the Company's General Manager to conclude the agreement for audit services, establishing the payment for services as agreed between the parties but in any case not more than 480,000 (four hundred eighty thousand) litas (VAT excluded) for the audit of the Company's annual consolidated financial statements for the two financial years and assessment of the Company's consolidated annual reports (i.e. 240,000 (two hundred forty thousand) litas (VAT excluded) per each financial year).

Following the Law of the Republic of Lithuania on Audit, UAB PricewaterhouseCoopers on 15 November 2012 submitted to the Audit Committee of the Board a letter evidencing UAB PricewaterhouseCoopers' independence from TEO LT, AB. In 2012, UAB PricewaterhouseCoopers organised training for employees of the Company's Finance Division and Internal Audit Unit.

#### **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. Following the decision of the Annual General Meeting of Shareholders, held on 28 April 2011, the Board of TEO LT, AB consists of six members who are elected for the term of two years. The Board 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 six members are independent members of the Board. The new members of the Audit Committee for the two years' term were elected in June 2011 and members of the Remuneration Committee for the one year term were re-elected in October 2012 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 2012, following the By-Laws of the Company, announcements to the shareholders about convocation of the Annual General Meeting of Shareholders, dividend payment, opinion of the Board regarding the tender offer in respect of shares of the Company and statement about the execution of the voluntary non-competing takeover bid 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 Financial Services and Markets Supervision Department of the Bank of Lithuania, NASDAQ OMX Vilnius stock exchange, daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and were posted on the Company's webpage [www.teo.lt](http://www.teo.lt).

The major regulatory news, except announcements of annual and interim results, during 2012 were related to the increase of the holding of the Company's shares by TeliaSonera AB: acquisition of shares from East Capital Asset Management AB, East Capital AB and Coneglen Limited, intention to launch a voluntary takeover bid, placement of an order to NASDAQ OMX Vilnius stock exchange to buy TEO shares, notification on crossing the threshold of 75 per cent of votes, approval of circular of the voluntary takeover bid, opinion of the Board of the Company regarding the tender offer, statement about the execution of the takeover bid. Also the Company informed about convocation of the Annual General Meeting of Shareholders, proposed draft decisions and decisions of the meeting; transfer of the Internet portal [www.zebra.lt](http://www.zebra.lt) and of the rights associated therewith; new Director of Corporate Communication Unit of the Company as well as new Directors of UAB Baltic Data Center and UAB Lintel; resignation of General Manager of TEO from the Board of AB Žemaitijos Pienas and his appointment to chair the Commission for implementation of the reform of state-owned enterprises; election of members of the Remuneration Committee for a new term, and reorganisation of UAB Hostex and UAB Interdata by way of merger.

#### **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, Giedrius Vegys, Acting General Manager of TEO LT, AB, and Antanas Poška, Acting 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 2012 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.

Giedrius Vegys  
Acting General Manager

Antanas Poška  
Acting Chief Financial Officer

## 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 2012

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><b>Principle I: Basic Provisions</b></p> <p><b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b></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 discussed during meetings 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>

<b>Principle II: The corporate governance framework</b>		
<b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but minority shareholder as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the 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 six 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 one member of the Board has been working in the Board since April 2007 and has been re-elected twice – in April 2009 and in April 2011. One Board member was elected in April 2009 and re-elected in April 2011, another – in April 2010 and re-elected in April 2011. Three new members were elected in April 2011. 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 Chairwoman of the Board who was elected in 2011 represents the majority shareholder of the Company and neither involved in any daily activities of the Company, nor has at any time 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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<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>		
<b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</b>		
<p>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 candidates to the collegial body. As a result, the Board contains one independent member of the Board that was nominated by the majority shareholder, and another elected independent member of the Board was proposed by minority shareholders. In total there are two out of six independent members of the Board. Annual compensations (tantiemes) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last eleven 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</p>	Yes	<p>There are three members of the Board having degrees in Business Administration, two are lawyers and one has a degree of Master of Science in Mechanical Engineering. Four out of six are working in the telecommunications company; one – in banking sector and one – as a lawyer.</p>

<p>knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. 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 business administration background: one works in a bank and another – as a business controller. One member of the Audit Committee is a lawyer. Two members of the Remuneration Committee hold the positions of senior managers in an enterprise other than the Company and one member is a lawyer.</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>Upon election in April 2011, all members of the Board were acquainted with their duties and responsibilities set by Lithuanian legislation as well as the By-laws of the Company. Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.</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 none of other shareholders has more than 10 per cent of votes, TEO Board elected in 2011 consists of four members that 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"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for</li> </ol>	<p>Yes</p>	<p>According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body.</p> <p>The other four 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>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 2011 it was disclosed that three out of seven nominees to the Board were 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 eleven years the same amount of annual compensation (tantieme) (LTL 54 thousand) was allocated to each member of the Board. Following the International Financial Reporting Standards, annual compensations (tantiemes) to the members of the Board are considered as operating expenses.</p>

<b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>		
<p><b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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).</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2012 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.</p>
<p>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.</p>	<p>Yes</p>	<p>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>

<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 education in business administration (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>All six members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executive directors (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 2012, one meeting of the Remuneration Committee was held for overview and discussion of the TEO remuneration system. In October 2012, the Board re-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 2012, four meetings of the Audit Committee were held. During all meetings there was a required quorum, three meetings were chaired by the Chairman of the Audit Committee and one – by member of the Committee. In June 2011, the Board elected members of the Audit Committee for a two-year term. 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"> <li>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> <li>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;</li> <li>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;</li> <li>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</li> <li>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;</li> <li>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);</li> <li>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</li> </ol>	<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 2012.</p>

<p>regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> <li>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;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>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.</li> </ol> <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"> <li>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</li> <li>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> </ol>	Yes	<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</p>		
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<p>independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<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>	No	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2012 but no assessment of its activities is provided.

<b>Principle V: The working procedure of the company's collegial bodies</b>		
<b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b>		
<p>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.</p>	Yes	<p>The Company's Board meetings are chaired by the Chairman/Chairwoman 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.</p>
<p>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.</p>	Yes	<p>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.</p>
<p>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.</p>	Yes	<p>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.</p> <p>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.</p>
<p>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.</p>	No	<p>TEO could not fulfil this recommendation as only the Board is instituted at the Company.</p>

<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b>		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The share capital of the Company consists of 776,817,518 ordinary registered shares of one litas nominal value each. Each share gives one vote during the shareholders meeting. All shares of the Company 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 head-quarters of the Company in Vilnius. The Annual General Meetings are held in the second half of April. The Annual General Meeting in 2012 was convened on 24 April 2012 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 22 March 2012. 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 on NASDAQ OMX Vilnius 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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<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>		
<b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b>		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the managing bodies are acting in a manner that voids conflicts of interest; therefore there have not been any such cases in practice.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	

<b>Principle VIII: Company's remuneration policy</b>		
<b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) 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. General information about the remuneration policy, employee-related expenses and the total amount of remuneration paid over the year to the key management of the Company is publicly announced in the Company's Annual Report and Consolidated Financial Statements.
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"> <li>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;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>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;</li> <li>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;</li> <li>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;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> <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"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>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;</li> <li>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;</li> <li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ol> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>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.</li> </ol> <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>In the Consolidated Annual Report and Consolidated Financial Statements the Company discloses information about total employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately.</p> <p>Also the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies.</p> <p>The Consolidated Annual Report is publicly available on the Company's webpage.</p> <p>The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.</p> <p>The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.</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.	Yes	Remuneration of the Company's salespersons consists of non-variable and variable components, depending on sales results. For the rest of personnel there is 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.	Yes	
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.	Yes	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
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>	No	
<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>	Not applicable	
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>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.</li> </ol> <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>		

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.

<b>Principle IX: The role of stakeholders in corporate governance</b>		
<p><b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b></p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<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>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.</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>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</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>

**Principle X: Information disclosure and transparency**

**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	<p>Yes (except item 4)</p> <p>No</p> <p>No</p> <p>Yes</p>	<p>Information about the financial situation, performance and management of the Company and its subsidiaries is disclosed on a regular basis by disseminating press and stock releases, annual and interim reports of the Company, financial statements of the Group, and presentations to the investors.</p> <p>All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English.</p> <p>TEO Group prepares its financial statements in accordance with the International Financial Reporting Standards as adopted by the EU.</p> <p>In the Consolidated Annual Report and Consolidated Financial Statements the Company discloses information about employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately.</p> <p>Also, the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies.</p> <p>The Company's Consolidated Annual Report and Consolidated Financial Statements are publicly available on the Company's webpage.</p> <p>Information about the education, working experience, current employment, participation in activities of other companies, possession of shares of the Company by the members of the Board or the administration of the Company is publicly disclosed in periodic reports and available on the Company's webpage.</p>
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<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. TEO always strives to announce information before or after trading hours on NASDAQ OMX Vilnius stock exchange and simultaneously disseminate information to all the markets where the Company's securities are traded. 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>

<b>Principle XI: The selection of the company's auditor</b> <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial 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.