TEO LT, AB

FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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Pages

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

Independent Auditor's Report

To the shareholders of TEO LT, AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of TEO LT, AB ("the Company") and its subsidiaries ("the Group") set out on pages 5 to 50, which comprise the stand-alone and consolidated balance sheets as of 31 December 2012 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2012 set out on pages 51 to 97 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2012.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
21 March 2013

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

STATEMENT OF COMPREHENSIVE INCOME

Approved by the Annual General Meeting of Shareholders as at 25 April 2013

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2012	2011	2012	2011
Revenue	5	**760,174**	**749,784**	**696,919**	**702,710**
Cost of goods and services	6	(201,572)	(200,961)	(177,991)	(183,287)
Employee related expenses		(170,465)	(156,809)	(124,213)	(114,800)
Other operating expenses	8	(83,216)	(91,458)	(112,933)	(122,042)
Other income	7	994	881	6,375	8,178
Other gain/ (loss) - net	9	1,166	850	1,054	750
Depreciation, amortisation and impairment of fixed assets	14	(130,562)	(132,453)	(118,564)	(124,920)
Operating profit		**176,519**	**169,834**	**170,647**	**166,589**
Finance income		1,317	2,218	1,289	2,196
Finance costs		(534)	(39)	(469)	(16)
Finance income/ costs - net	10	783	2,179	820	2,180
Profit before income tax		**177,302**	**172,013**	**171,467**	**168,769**
Income tax	11	(18,235)	(17,527)	(16,598)	(15,929)
Profit for the year		**159,067**	**154,486**	**154,869**	**152,840**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**159,067**	**154,486**	**154,869**	**152,840**
Profit and comprehensive income attributable to:					
Owners of the Parent		**159,067**	**154,486**	**154,869**	**152,840**
Minority interests		-	-	-	-
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)	12	0.205	0.199	0.199	0.197

The notes on pages 10 to 50 form an integral part of these financial statements.

The financial statements on pages 5 to 50 have been approved for issue by the Board of Directors as at 13 March 2013 and signed on their behalf by the General Manager and the Chief Financial Officer:

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

BALANCE SHEET

Approved by the Annual General Meeting of Shareholders as at 25 April 2013

		As at 31 December			
		GROUP		COMPANY	
	Note	2012	2011	2012	2011
ASSETS					
Non-current assets					
Property, plant and equipment	14	755,137	734,926	715,547	699,126
Intangible assets	15	41,797	42,922	26,085	26,210
Investment property	16	10,794	10,794	-	-
Investments in subsidiaries	17	-	-	43,527	43,527
Trade and other receivables	19	2,322	6,407	6,784	10,877
Deferred tax assets	26	364	583	-	-
		810,414	**795,632**	**791,943**	**779,740**
Current assets					
Inventories		4,073	3,353	4,044	3,300
Trade and other receivables	19	109,160	111,834	100,612	103,319
Current income tax receivable		52	8,096	-	7,873
Held-to-maturity investments	20	60,045	30,186	60,045	30,186
Cash and cash equivalents	21	175,598	188,589	159,736	176,791
		348,928	**342,058**	**324,437**	**321,469**
Total assets		**1,159,342**	**1,137,690**	**1,116,380**	**1,101,209**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	776,818	776,818	776,818	776,818
Legal reserve	23	77,682	77,682	77,682	77,682
Retained earnings		190,300	186,597	160,668	161,163
Total equity		**1,044,800**	**1,041,097**	**1,015,168**	**1,015,663**
LIABILITIES					
Non-current liabilities					
Borrowings	25	2,282	3,259	2,282	3,259
Deferred tax liabilities	26	18,581	13,993	15,333	10,686
Deferred revenue and accrued liabilities	24	3,463	3,628	3,275	3,347
		24,326	**20,880**	**20,890**	**17,292**
Current liabilities					
Trade, other payables and accrued liabilities	24	88,647	74,739	79,167	67,314
Current income tax liabilities		592	-	178	-
Borrowings	25	977	974	977	940
		90,216	**75,713**	**80,322**	**68,254**
Total liabilities		**114,542**	**96,593**	**101,212**	**85,546**
Total equity and liabilities		**1,159,342**	**1,137,690**	**1,116,380**	**1,101,209**

The notes on pages 10 to 50 form an integral part of these financial statements.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at 25 April 2013

GROUP	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2011		**776,818**	**81,499**	**168,121**	**1,026,438**
Net profit		-	-	154,486	154,486
Total comprehensive income for the 2011		**-**	**-**	**154,486**	**154,486**
Dividends paid for 2010	13	-	-	(139,827)	(139,827)
Reduction of legal reserve		-	(3,817)	3,817	-
Balance at 31 December 2011		**776,818**	**77,682**	**186,597**	**1,041,097**
Balance at 1 January 2012		**776,818**	**77,682**	**186,597**	**1,041,097**
Net profit		-	-	159,067	159,067
Total comprehensive income for the 2012		**-**	**-**	**159,067**	**159,067**
Dividends paid for 2011	13	-	-	(155,364)	(155,364)
Balance at 31 December 2012		**776,818**	**77,682**	**190,300**	**1,044,800**

COMPANY	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2011		**776,818**	**81,499**	**144,333**	**1,002,650**
Net profit		-	-	152,840	152,840
Total comprehensive income for the 2011		**-**	**-**	**152,840**	**152,840**
Dividends paid for 2010	13	-	-	(139,827)	(139,827)
Reduction of legal reserve		-	(3,817)	3,817	-
Balance at 31 December 2011		**776,818**	**77,682**	**161,163**	**1,015,663**
Balance at 1 January 2012		**776,818**	**77,682**	**161,163**	**1,015,663**
Net profit		-	-	154,869	154,869
Total comprehensive income for the 2012		**-**	**-**	**154,869**	**154,869**
Dividends paid for 2011	13	-	-	(155,364)	(155,364)
Balance at 31 December 2012		**776,818**	**77,682**	**160,668**	**1,015,168**

The notes on pages 10 to 50 form an integral part of these financial statements.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at 25 April 2013

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2012	2011	2012	2011
Operating activities					
Profit for the year		159,067	154,486	154,869	152,840
Income tax	11	18,235	17,527	16,598	15,929
Depreciation, amortisation and impairment charge	14	130,562	132,453	118,564	124,920
Dividends received from subsidiaries	7	-	-	(4,800)	(7,000)
Other gains and losses	9	(1,166)	(850)	(1,054)	(750)
Write off of property, plant and equipment and intangible assets		643	538	633	542
Interest income	7,10	(2,311)	(3,099)	(2,864)	(3,374)
Interest expenses		206	195	155	170
Other non-cash transactions		539	707	406	527
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(720)	2,738	(744)	2,697
Trade and other receivables		2,043	13,017	4,085	15,447
Trade, other payables and accrued liabilities		4,141	(19,152)	1,978	(19,352)
Cash generated from operations		311,239	298,560	287,826	282,596
Interest paid		(206)	(195)	(155)	(170)
Interest received		2,447	3,099	3,003	3,378
Tax paid		(4,991)	(2,897)	(3,900)	(1,400)
Net cash from operating activities		**308,489**	**298,567**	**286,774**	**284,404**

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

STATEMENT OF CASH FLOW (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2012	2011	2012	2011
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(136,213)	(199,771)	(121,330)	(194,393)
Proceeds from disposal of PPE and intangible assets		1,071	1,288	1,005	1,286
Acquisition of held-to-maturity investments		(196,068)	(100,000)	(194,569)	(100,000)
Disposal of held-to-maturity investments		166,068	109,995	164,569	108,499
Loans granted	29	-	-	(12,000)	(4,470)
Loans repaid	29	-	-	10,000	9,500
Dividends received	7	-	-	4,800	7,000
Net cash used in investing activities		**(165,142)**	**(188,488)**	**(147,525)**	**(172,578)**
Financing activities					
Repayment of borrowings		(974)	(1,189)	(940)	(904)
Dividends paid to shareholders of the Company	13	(155,364)	(139,827)	(155,364)	(139,827)
Net cash used in financing activities		**(156,338)**	**(141,016)**	**(156,304)**	**(140,731)**
Increase (decrease) in cash and cash equivalents		**(12,991)**	**(30,937)**	**(17,055)**	**(28,905)**
Movement in cash and cash equivalents					
At the beginning of the year		188,589	219,526	176,791	205,696
Increase (decrease) in cash and cash equivalents		(12,991)	(30,937)	(17,055)	(28,905)
At the end of the year	21	**175,598**	**188,589**	**159,736**	**176,791**

The notes on pages 10 to 50 form an integral part of these financial statements.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

TEO LT, AB (hereinafter 'the Company') is a joint stock company incorporated as at 16 June 1997. On 5 May 2006 former company name AB Lietuvos Telekomas was changed to TEO LT, AB. The Company is domiciled in Vilnius, the capital of Lithuania. Address of its registered office is Lvovo str. 25, LT-03501, Vilnius, Lithuania.

The Company's shares are traded on NASDAQ OMX Vilnius stock exchange as from 16 June 2000. NASDAQ OMX Vilnius stock exchange is a home market for the Company's shares. From January 2011, TEO shares are included into the trading lists of the Berlin Stock Exchange, the Frankfurt Stock Exchange, the Munich Stock Exchange and the Stuttgart Stock Exchange.

The shareholders' structure of the Company as at 31 December 2012 was as follows:

	Number of shares	**%**
TeliaSonera AB (Sweden)	684,791,575	88.15
Other shareholders	92,025,943	11.85
	776,817,518	**100.00**

In June 2011 TeliaSonera AB took over from its subsidiary Amber Teleholding A/S the controlling interest in the Company (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. Also TeliaSonera AB additionally acquired 0.21 per cent of the total number of share and increased its holding up to 68.29 per cent.

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 one 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 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.

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

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

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

The number of full time staff employed by the Group at the end of 2012 amounted to 2,875 (2011: 2,928). The number of full time staff employed by the Company at the end of 2012 amounted to 1,881 (2011: 1,983).

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

		Ownership interest in %		
Subsidiary/ associate	**Country of incorporation**	**31 December 2012**	**31 December 2011**	**Profile**
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Hostex	Lithuania	100%	100%	The web hosting and data center services providing subsidiary of UAB Baltic Data Center.
UAB Interdata	Lithuania	100%	100%	The web hosting services providing subsidiary of UAB Hostex to be merged into UAB Hostex
UAB Hosting	Lithuania	100%	100%	Webhosting services providing dormant subsidiary of UAB Interdata.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary that used to provide training and consultancy services.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A not for profit organisation established by the Company for management of the Company's Communications History Museum.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

(a) New and emended standards and interpretations adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) Standards, amendments and interpretations to existing standards effective in 2012 but not relevant to the Group:

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. This amendment did not have any impact on the Group's financial statements.

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

IFRS 10, Consolidated Financial Statements *(effective for annual periods beginning on or after 1 January 2014)*, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 11, Joint Arrangements, *(effective for annual periods beginning on or after 1 January 2014)*, replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect this standard to have any material effect on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, *(effective for annual periods beginning on or after 1 January 2014)*, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair value measurement, *(effective for annual periods beginning on or after 1 January 2013),* aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

IAS 27, Separate Financial Statements, *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).* The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).* The standard was revised following the issue of IFRS 11 and it now includes the requirements for joint ventures, as well as associates, to be equity accounted. The Group does not expect this standard to have any material effect on its financial statements.

Amended IAS 19, Employee Benefits, *(effective for annual periods beginning on or after 1 January 2013)* makes significant changes (i) to the recognition and measurement of defined benefit pension expense and termination benefits, and (ii) to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the standard on its financial statements.

Presentation of Items of Other Comprehensive Income, amendments to IAS 1, *(effective for annual periods beginning on or after 1 July 2012).* The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Recovery of Underlying Assets – Amendment to IAS 12 *(effective for annual periods beginning on or after 1 January 2013)*. The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 *(effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect the amendments to have any material effect on its financial statements.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 *(effective for annual periods beginning on or after 1 January 2013)*. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group

2.2 Group accounting

Subsidiaries

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

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

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

Inter-company transactions, balances, income and expenses on transaction between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities as well as the consolidated financial statements are presented in Lithuanian Litas (LTL), which is the functional currency of Company and all subsidiaries.

Transactions and balances

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

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

2.4 Property, plant and equipment

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

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

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

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

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

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

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

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

2.5 Intangible assets

Goodwill

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

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

Other intangible assets

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

Licences	3 - 10 years
Software	3 – 5 years
Other intangible fixed assets	5 years

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

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

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- There is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

2.6 Investment property

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

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

Investment properties of the Group are stated at cost less accumulated depreciation and any accumulated impairment losses. Transaction costs are included on initial measurement. The fair values of investment properties are disclosed in the Note 16. These are assessed using method of residual value.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

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

Loans and receivables

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

Held to maturity investments

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

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

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group or the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. Held to maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

2.8.3 Impairment of financial assets

The Group and the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the loans and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'other operating expenses'. When a loans and receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the statement of comprehensive income.

2.9 Investments in subsidiaries and associates in the separate financial statements of the Company

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted at cost less impairment provision. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. Net realisable value is the estimate of the selling price in the ordinary course of business, less the applicable selling expenses. All inventories held by the Group attribute to the materials category.

2.11 Trade receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Interconnection receivables and payables to the same counterparty are stated net, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade payables

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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

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

Finance lease

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term if the Group or the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

If sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term. The deferred amount is carried as deferred income included in line 'Deferred revenue and accrued liabilities' in the balance sheet.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

2.17 Accounting for leases – where the Group or the Company is the lessor

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments received under operating leases (net of any incentives provided to the lessee) are credited to the statement of comprehensive income on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

2.18 Income tax

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

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

Profit for 2012 is taxable at a rate of 15% (2011: 15%) in accordance with Lithuanian regulatory legislation on taxation.

Income tax expense is calculated and accrued for in the financial statements on the basis of information available at the moment of the preparation of the financial statements, and estimates of income tax performed by the management in accordance with Lithuanian regulatory legislation on taxation.

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

According to Lithuanian legislation, tax losses accumulated as of 31 December 2012 are carried forward indefinitely.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

2.19 Revenue recognition

Sales of services and goods

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

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

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

The Company used customer loyalty programme till December 2011. Under the Company's customer loyalty programmes, customers were entitled to certain discounts relating to the Company's services and goods supplied by third parties. The volume of the customer's accumulated discount for the period depended on invoice amount paid by the customer and other certain customer actions. Accumulated customer's discounts were valid for the two years period. At the end of each reporting period the Company estimated the fair value of the services and goods that can be granted in exchange of accumulated discounts, considering also the proportion of discounts that are not expected to be used by customers, based on the historical statistical usage of discounts. This amount was recognised as deferred income. In the statement of comprehensive income these deferred income were treated as a deduction from revenues. The Company's Loyalty program was terminated as of December 2011. The fair value of accumulated and not used customer's discounts was recognised as revenue in the statement of comprehensive income in 2011.

Multiple element arrangements

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

Arrangements of discounts

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

2.20 Interest income

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

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

2.21 Dividend income

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

2.22 Employee benefits

Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions amounting to LTL 39.1 million for the Group and LTL 28.6 million for the Company (2011: LTL 37.6 million for the Group and LTL 27.8 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits

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

Bonus plans

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

Supplementary health insurance

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

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

2.23 Dividend distribution

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

Withholding tax on dividends paid to legal entities amounts to 15% (2011: 15%). According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

2.24 Segment information

The Company's TOP management consisting of General Manager and 5 Chief Officers considers the business from Group perspective and considers the performance of the company and each subsidiary separately. The management assesses the performance of the company and its subsidiaries based on measure of Net profit, which is measured using the same accounting policies than used in preparation of these consolidated financial statements.

The Company's activity is the operating segment that meets the quantitative thresholds required by IFRS 8 and it is reported as Broadband segment. This segment uses the national fixed telecommunications network to provide voice telephony, data communication and network capacity, internet, IT and TV services and other services.

The Company's subsidiaries do not meet the quantitative thresholds required by IFRS 8. The results of subsidiaries are combined and disclosed in the 'other segment' column. The profile of each subsidiary is described in Note 1.

	Broadband segment		**Other segment**		**Eliminations**		**Total Group**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Segment revenue	696,919	702,710	110,196	96,818	(46,941)	(49,744)	760,174	749,784
Inter-segment revenue	(10,933)	(10,498)	(36,008)	(39,246)	46,941	49,744	-	-
Revenue from external customers	**685,986**	**692,212**	**74,188**	**57,572**	**-**	**-**	**760,174**	**749,784**
Depreciation and amortisation	(118,564)	(124,920)	(12,045)	(7,485)	47	(48)	(130,562)	(132,453)
Income tax	(16,598)	(15,929)	(1,637)	(1,598)	-	-	(18,235)	(17,527)
Profit for the year	154,869	152,840	8,998	8,609	(4,800)	(6,963)	159,067	154,486

The Group is domiciled in Lithuania. The result of its revenue from external customers in the Lithuania is LTL 598.7 million (2011: LTL 604.1 million), and the total of revenue from external customers from other countries is LTL 161.5 million (2011: LTL 145.7 million).

Eliminations between segments comprise related party transactions, carried out at arm's length and other adjustments relating to consolidation.

All non-current assets are located in the Group's country of domicile.

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

3 Financial risk management

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

Financial risk management is carried out by a Group Treasury under policies approved by the Board of Directors. Group Treasury identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

Market risk

Foreign exchange risk

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

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

Cash flow and fair value interest rate risk

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

The most significant interest bearing asset is bonds issued by the Lithuanian banks amounting to LTL 60,045 thousand for the Group and the same amount for the Company (2011: LTL 30,186 thousand for the Group and the same amount for the Company). For further information on held-to-maturity investments see Note 20.

Credit risk

The financial assets exposed to credit risk represent cash deposits and held-to-maturity investments with banks and trade receivables. The Group has no significant concentrations of credit risk, except that as at 31 December 2012 all held-to-maturity investments are held in the one Lithuanian commercial bank (Note 20). These held-to-maturity investments are made within the frames of TEO Group Treasury policy, approved by the Board of directors. Credit risks or the risks of counter-parties defaulting, are controlled by the application of credit terms and monitoring procedures.

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

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

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

Liquidity risk

Liquidity risk relates to the availability of sufficient funds for debt service, capital expenditure and working capital requirement and dividend payment. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group's short-term assets significantly exceed short term liabilities and therefore liquidity risk is considered to be very low. Accordingly the Group's management implemented formal procedures for liquidity risk management, where minimum required liquidity position (calculated as cash and cash equivalents plus undrawn committed credit facilities) should at any time exceed the level of 2.5% of planned annual turnover.

The Group's and the Company's short term liabilities do not involve any interest and payment of them is due within one year, therefore undiscounted cash flows table was not prepared for them. For the analysis of the undiscounted cash flows of the Group's and the Company's borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 25.

Capital risk management

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

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

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than LTL 100,000, and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2012 and as at 31 December 2011 the Company complied with these requirements.

The Group's operations are financed mostly by the shareholders' capital. The Company did not have any borrowings, except finance lease liabilities during 2012 and 2011.

Fair value estimation

The fair value of financial instruments that are not traded in an active market for the disclosure purpose is estimated by discounting the cash flows from the financial instrument. The fair value of the held-to-maturity investments traded in active market is based on quoted market prices at the balance sheet date.

The carrying value less impairment losses of trade receivables and carrying value of payables are assumed to approximate their fair value.

4 Critical Accounting Estimates

Property, plant and equipment

Estimates concerning useful lives of property, plant and equipment due to constant technology advances – useful lives are disclosed above and depreciation charge for the year is disclosed in Note 14. Increasing an asset's expected useful life or its residual value would result in a reduced depreciation charge. The useful lives of property, plant and equipment are determined by management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Furthermore, network infrastructure cannot be depreciated over a period that extends beyond the expiry of the associated licence under which services are provided.

Impairment provision for accounts receivable

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

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

5 Revenue

	GROUP		COMPANY	
	2012	2011	2012	2011
Voice telephony services	354,880	374,435	351,668	371,674
Internet services	171,836	160,697	172,186	160,923
Data communication and network capacity services	87,424	92,258	89,258	93,934
TV services	57,059	47,503	57,059	47,505
IT services	64,271	47,535	9,332	10,996
Other services	24,704	27,356	17,416	17,678
Total	**760,174**	**749,784**	**696,919**	**702,710**

6 Cost of goods and services

	GROUP		COMPANY	
	2012	2011	2012	2011
Costs of goods and services purchased	48,473	48,177	25,103	30,557
Network's interconnection	112,852	108,620	112,852	108,620
Network capacity costs	40,247	44,164	40,036	44,110
Total	**201,572**	**200,961**	**177,991**	**183,287**

To better reflect the nature of the business, in 2012, the Group and the Company changed the grouping of operating expenses: costs of goods and services purchased and network capacity costs (2011: LTL 92,341 thousand for the Group and LTL 74,667 thousand for the Company) were moved from 'other operating expenses' and together with former separate 'interconnection expenses' formed a new group of 'cost of goods and services'.

7 Other income

	GROUP		COMPANY	
	2012	2011	2012	2011
Interests income on held –to – maturity investments	994	881	1,575	1,178
Income from dividends	-	-	4,800	7,000
	994	**881**	**6,375**	**8,178**

8 Other operating expenses

	GROUP		COMPANY	
	2012	2011	2012	2011
Maintenance and other services	16,755	17,873	48,802	50,627
Energy, premises and transport costs	42,208	42,559	41,094	41,702
Marketing expenses	9,982	13,938	9,626	13,425
Impairment of accounts receivable	1,592	3,440	1,562	3,458
Other expenses	12,679	13,648	11,849	12,830
	83,216	**91,458**	**112,933**	**122,042**

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

9 Other gain/loss – net

	GROUP		COMPANY	
	2012	2011	2012	2011
Gain on sales of property, plant and equipment	1,212	945	1,109	842
Loss on sales of property, plant and equipment	(132)	(78)	(132)	(78)
Other gain (loss)	86	(17)	77	(14)
	1,166	**850**	**1,054**	**750**

10 Finance income and costs

	GROUP		COMPANY	
	2012	2011	2012	2011
Interest income on cash and cash equivalents	853	1,689	827	1,672
Other finance income	464	529	462	524
Finance income	**1,317**	**2,218**	**1,289**	**2,196**
Interest expenses	(147)	(188)	(147)	(182)
Foreign exchange gain (loss) on financing activities	(187)	287	(173)	303
Other finance costs	(200)	(138)	(149)	(137)
Finance costs	**(534)**	**(39)**	**(469)**	**(16)**
Finance income/costs– net	**783**	**2,179**	**820**	**2,180**

11 Income tax

	GROUP		COMPANY	
	2012	2011	2012	2011
Current tax	13,428	13,696	11,951	12,175
Deferred tax (Note 25)	4,807	3,831	4,647	3,754
Income tax expense	**18,235**	**17,527**	**16,598**	**15,929**

As of 1 January 2009 amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result the Company's calculated profit tax relief amounts to LTL 10.9 million (2011: 10.3 million). Investments in new technologies are capitalised as property, plant and equipment, and their depreciation is deductible for tax purposes, therefore, the tax relief does not create any deferred tax liability.

11 Income tax (continued)

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

	GROUP		COMPANY	
	2012	2011	2012	2011
Profit before income tax	**177,302**	**172,013**	**171,467**	**168,769**
Tax calculated at a tax rate of 15% (2011: 15%)	26,595	25,801	25,720	25,315
Non-taxable dividends received	-	-	(720)	(1,050)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	1,582	266	1,427	201
Tax relief	(10,928)	(10,335)	(10,890)	(10,335)
Other	986	1,795	1,061	1,798
Tax charge	**18,235**	**17,527**	**16,598**	**15,929**

12 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period by the weighted average number of ordinary shares in issue during the period. The Group has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share.

The weighted average number of shares and for the both reporting periods amounted to 776,818.

	GROUP		COMPANY	
	2012	2011	2012	2011
Net profit	**159,067**	**154,486**	**154,869**	**152,840**
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
Basic earnings per share (LTL)	**0.205**	**0.199**	**0.199**	**0.197**

13 Dividends per share

The dividends per share declared in respect of 2011 and 2010 and paid in 2012 and 2011 were LTL 0.20 and LTL 0.18 respectively. As at the date of approval of these financial statements dividends amounting to LTL 155,364 thousand are proposed in respect of 2012.

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

14 Property, plant and equipment

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

	GROUP		COMPANY	
	2012	2011	2012	2011
Depreciation of property, plant and equipment	121,603	122,670	111,837	117,172
Amortisation of intangible assets (Note 15)	8,959	9,783	6,727	7,748
	130,562	**132,453**	**118,564**	**124,920**

In 2012 the Company revised the useful lives of its property, plant and equipment. After the above revision the useful lives of particular items in telecommunication equipment group mostly were prolonged, whereby the depreciation charge for 2012 for the telecommunication equipment group decreased by LTL 1.6 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was also revised in 2012, the amortisation charge for intangible assets decreased by LTL 0.4 million. The effect of the revision of the useful lives will result in the increased depreciation and amortisation charge by LTL 1.8 million in 2013.

GROUP	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2010					
Cost	122,506	2,580,512	80,962	41,376	2,825,356
Accumulated depreciation	(48,177)	(2,010,082)	(60,667)	-	(2,118,926)
Net book amount	**74,329**	**570,430**	**20,295**	**41,376**	**706,430**
Year ended 31 December 2011					
Opening net book amount	**74,329**	**570,430**	**20,295**	**41,376**	**706,430**
Additions	-	4,413	379	148,217	153 009
Reclassifications	(407)	(29)	(395)	(207)	(1,038)
Disposals and retirements	(9)	(657)	(129)	(10)	(805)
Transfers from construction in progress	200	154,541	8,853	(163,594)	-
Depreciation charge	(4,393)	(109,241)	(9,036)	-	(122,670)
Closing net book amount	**69,720**	**619,457**	**19,967**	**25,782**	**734,926**

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

14 Property, plant and equipment (continued)

At 31 December 2011					
Cost	122,484	2,639,113	85,072	25,782	2,872,451
Accumulated depreciation	(52,764)	(2,019,656)	(65,105)	-	(2,137,525)
Net book amount	**69,720**	**619,457**	**19,967**	**25,782**	**734,926**
Year ended 31 December 2012					
Opening net book amount	**69,720**	**619,457**	**19,967**	**25,782**	**734,926**
Additions	-	11,065	746	131,075	142,886
Reclassifications	(405)	49	187	1	(168)
Disposals and retirements	(38)	(850)	(16)	-	(904)
Transfers from construction in progress	3,007	132,205	3,584	(138,796)	-
Depreciation charge	(4,228)	(109,471)	(7,904)	-	(121,603)
Closing net book amount	**68,056**	**652,455**	**16,564**	**18,062**	**755,137**
At 31 December 2012					
Cost	125,276	2,687,391	77,402	18,062	2,908,131
Accumulated depreciation	(57,220)	(2,034,936)	(60,838)	-	(2,152,994)
Net book amount	**68,056**	**652,455**	**16,564**	**18,062**	**755,137**

COMPANY	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2010					
Cost	85,668	2,549,635	70,888	41,376	2,747,567
Accumulated depreciation	(39,632)	(1,985,668)	(52,369)	-	(2,077,669)
Net book amount	**46,036**	**563,967**	**18,519**	**41,376**	**669,898**
Year ended 31 December 2011					
Opening net book amount	**46,036**	**563,967**	**18,519**	**41,376**	**669,898**
Additions	-	-	-	148,217	148,217
Disposals and write-offs	(7)	(654)	(104)	(12)	(777)
Reclassifications	(407)	20	(446)	(207)	(1,040)
Transfers from construction in progress	200	154,541	8,854	(163,595)	-
Depreciation charge	(3,437)	(105,271)	(8,464)	-	(117,172)
Closing net book amount	**42,385**	**612,603**	**18,359**	**25,779**	**699,126**
At 31 December 2011					
Cost	85,733	2,607,614	75,066	25,779	2,794,192
Accumulated depreciation	(43,348)	(1,995,011)	(56,707)	-	(2,095,066)
Net book amount	**42,385**	**612,603**	**18,359**	**25,779**	**699,126**

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

14 Property, plant and equipment (continued)

	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction n progress	Total
Year ended 31 December 2012					
Opening net book amount	**42,385**	**612,603**	**18,359**	**25,779**	**699,126**
Additions	-	-	284	128,947	129,231
Disposals and write-offs	(38)	(753)	(16)	-	(807)
Reclassifications	(406)	(5)	230	15	(166)
Transfers from construction in progress	3,007	130,089	3,584	(136,680)	-
Depreciation charge	(3,272)	(101,096)	(7,469)	-	(111,837)
Closing net book amount	**41,676**	**640,838**	**14,972**	**18,061**	**715,547**
At 31 December 2012					
Cost	88,526	2,643,139	67,170	18,061	2,816,896
Accumulated depreciation	(46,850)	(2,002,301)	(52,196)	-	(2,101,349)
Net book amount	**41,676**	**640,838**	**14,972**	**18,061**	**715,547**

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

	As at 31 December			
	GROUP		**COMPANY**	
	2012	**2011**	**2012**	**2011**
Cost	18,857	19,747	18,857	19,747
Accumulated depreciation at 1 January	(2,182)	(2,659)	(2,182)	(2,659)
Depreciation charge for the year	(2,990)	(3,196)	(2,990)	(3,196)
Net book amount	**13,685**	**13,892**	**13,685**	**13,892**

15 Intangible assets

GROUP	**Licences**	**Software**	**Goodwill**	**Other intangible assets**	**Assets in the course of construction***	**Total**
At 31 December 2010						
Cost	17,843	183,937	10,833	13,591	7,773	233,977
Accumulated amortisation	(5,326)	(168,264)	-	(11,046)	-	(184,636)
Net book amount	**12,517**	**15,673**	**10,833**	**2,545**	**7,773**	**49,341**

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

15 Intangible assets (continued)

	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction*	Total
Year ended 31 December 2011						
Opening net book amount	**12,517**	**15,673**	**10,833**	**2,545**	**7,773**	**49,341**
Additions	-	205	-	169	2,814	3,188
Disposals and write-offs	-	(5)	-	-	-	(5)
Reclassification	-	42	-	(39)	178	181
Transfer from assets in the course of construction	-	1,623	-	7,480	(9,103)	-
Amortisation charge	(1,771)	(6,803)	-	(1,209)	-	(9,783)
Closing net book amount	**10,746**	**10,735**	**10,833**	**8,946**	**1,662**	**42,922**
At 31 December 2011						
Cost	17,843	169,819	10,833	20,190	1,662	220,347
Accumulated amortisation	(7,097)	(159,084)	-	(11,244)	-	(177,425)
Net book amount	**10,746**	**10,735**	**10,833**	**8,946**	**1,662**	**42,922**
Year ended 31 December 2012						
Opening net book amount	**10,746**	**10,735**	**10,833**	**8,946**	**1,662**	**42,922**
Additions	-	206	-	44	7,594	7,844
Disposals and write-offs	-	-	-	-	-	-
Reclassification	-	(80)	-	-	70	(10)
Transfer from assets in the course of construction	-	3,377	-	150	(3,527)	-
Amortisation charge	(1,767)	(5,033)	-	(2,159)	-	(8,959)
Closing net book amount	**8,979**	**9,205**	**10,833**	**6,981**	**5,799**	**41,797**
At 31 December 2012						
Cost	17,843	169,145	10,833	18,797	5,799	222,417
Accumulated amortisation	(8,864)	(159,940)	-	(11,816)	-	(180,620)
Net book amount	**8,979**	**9,205**	**10,833**	**6,981**	**5,799**	**41,797**

* Assets in the course of construction comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2013.

Goodwill was tested for impairment at 31 December 2012. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). As of 31 December 2012, there were 2 cash generating units identified (with the goodwill amount allocated to them): UAB Baltic Data Center (LTL 2,658 thousand) and UAB Hostex (LTL 8,175 thousand) which comprise also goodwill from UAB Interdata acquisition, company to be merged into UAB Hostex (2011: 3 cash generating units identified (with the goodwill amount allocated to them): UAB Baltic Data Center (LTL 2,658 thousand), UAB Interdata (LTL 3,741 thousand), and UAB Hostex (LTL 4,434 thousand)). The Recoverable amount of all CGUs has been determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated bellow.

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

15 Intangible assets (continued)

The key assumptions used for value-in-use calculations are as follows for the each CGUs:

	2012	2011
Growth rate in 2013-2017, %	5	5
Growth rate perpetuity, %	2	2
Discount rate, %	12	12

Management determined budgeted profit after tax based on past performance and its expectations of market development. The weighted average growth rates are consistent with the forecasts for IT industry. The discount rates used are post- tax and reflect specific risks relating to the relevant operating segments. Based on analysis performed, the management concluded that no impairment loss is needed as at 31 December 2012 (2011: no impairment loss).

A fall in growth rate by 1 percentage point or a rise in discount rate by 1 percentage point would not result to any impairment for each CGUs.

COMPANY	**Licences**	**Software**	**Other intangible assets**	**Assets in the course of construction**	**Total**
At 31 December 2010					
Cost	17,843	154,766	3,579	7,686	183,874
Accumulated amortisation	(5,322)	(143,829)	(3,579)	-	(152,730)
Net book amount	**12,521**	**10,937**	**-**	**7,686**	**31,144**
Year ended 31 December 2011					
Opening net book amount	**12,521**	**10,937**	**-**	**7,686**	**31,144**
Additions	-	111	-	2,490	2,601
Reclassifications	-	(9)	-	222	213
Transfer from assets in the course of construction	-	1,323	7,480	(8,803)	-
Amortisation charge	(1,767)	(4,859)	(1,122)	-	(7,748)
Closing net book amount	**10,754**	**7,503**	**6,358**	**1,595**	**26,210**
At 31 December 2011					
Cost	17,843	143,162	11,057	1,595	173,657
Accumulated amortisation	(7,089)	(135,659)	(4,699)	-	(147,447)
Net book amount	**10,754**	**7,503**	**6,358**	**1,595**	**26,210**
Year ended 31 December 2012					
Opening net book amount	**10,754**	**7,503**	**6,358**	**1,595**	**26,210**
Additions	-	-	-	6,617	6,617
Reclassifications	-	-	-	(15)	(15)
Transfer from assets in the course of construction	-	2,422	-	(2,422)	-
Amortisation charge	(1,767)	(3,464)	(1,496)	-	(6,727)
Closing net book amount	**8,987**	**6,461**	**4,862**	**5,775**	**26,085**

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

15 Intangible assets (continued)

At 31 December 2012					
Cost	17,843	143,856	11,057	5,775	178,531
Accumulated amortisation	(8,856)	(137,395)	(6,195)	-	(152,446)
Net book amount	**8,987**	**6,461**	**4,862**	**5,775**	**26,085**

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

16 Investment property

As at 31 December 2012 the Group as investment property accounted construction in progress (2011: construction in progress).

At 31 December 2012 and 2011 the fair value of the investment property approximates the carrying value. The investment properties were externally valued as at 30 December 2011 by Re&Solution, by using method of residual value. By Management assessment there have been no significant changes in situation in the market and the economy as a whole during 2012; therefore the fair value of the property has not changed significantly since 31 December 2011. No valuation of the investment property was performed by external valuator at the end of Year 2012.

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

17 Investments in subsidiaries

As at 31 December 2012 the investments accounted by the Company under Investments in subsidiaries amounted to LTL 43,527 thousand (2011: LTL 43,527 thousand). During 2012 there were no movements in balance of the investments accounted under Investments in subsidiaries by the Company.

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

18 Financial instruments by category

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

GROUP	Loans and receivables	Held-to-maturity investments	Total
31 December 2012			
Assets as per balance sheet			
Trade and other receivables	100,434	-	100,434
Held-to-maturity investment	-	60,045	60,045
Cash and cash equivalents	175,598	-	175,598
Total	**276,032**	**60,045**	**336,077**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2011			
Assets as per balance sheet			
Trade and other receivables	103,508	-	103,508
Held-to-maturity investment	-	30,186	30,186
Cash and cash equivalents	188,589	-	188,589
Total	**292,097**	**30,186**	**322,283**

COMPANY	Loans and receivables	Held-to-maturity investments	Total
31 December 2012			
Assets as per balance sheet			
Trade and other receivables	100,153	-	100,153
Held-to-maturity investment	-	60,045	60,045
Cash and cash equivalents	159,736	-	159,736
Total	**259,889**	**60,045**	**319,934**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2011			
Assets as per balance sheet			
Trade and other receivables	101,001	-	101,001
Held-to-maturity investment	-	30,186	30,186
Cash and cash equivalents	176,791	-	176,791
Total	**277,792**	**30,186**	**307,978**

All financial liabilities of the Group amounting to LTL 61,152 thousand (2011: LTL 55,531 thousand) and of the Company amounting to LTL 63,235 thousand (2011: LTL 55,806 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

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

19 Trade and other receivables

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Trade receivables from business customers and residents	102,356	106,484	94,410	97,963
Trade receivables from other operators	14,295	14,653	13,049	14,652
Total trade receivables	**116,651**	**121,137**	**107,459**	**112,615**
Less: provision for impairment of receivables	(25,378)	(25,619)	(25,285)	(25,500)
Trade receivables - net	**91,273**	**95,518**	**82,174**	**87,115**
Receivables from companies collecting payments for telecommunication services	2,110	1,296	2,110	1,296
Prepaid expenses and other receivables	10,482	9,226	7,242	8,480
Receivables from related parties (Note 29)	7,617	12,201	7,373	10,806
Loans to related parties (Note 29)	-	-	8,497	6,499
	111,482	**118,241**	**107,396**	**114,196**
Less non-current portion	(2,322)	(6,407)	(6,784)	(10,877)
Current portion	**109,160**	**111,834**	**100,612**	**103,319**

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

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

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

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

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2012, the Group's trade receivables of LTL 9,300 thousand (2011: LTL 11,409 thousand) and the Company's trade receivables of LTL 6,840 thousand (2011: LTL 9,985 thousand) were past due but not impaired.

As of 31 December 2012, the Group's trade receivables of LTL 26,602 thousand (2011: LTL 26,659 thousand) and the Company's trade receivable of LTL 26,530 thousand (2011: LTL 26,587 thousand) were impaired and provided for. The amount of the Group's provision was LTL 25,378 thousand as of 31 December 2012 (2011: LTL 25,619 thousand) and the amount of the Company's provision was LTL 25,285 thousand as of 31 December 2012 (2011: LTL 25,500 thousand). Impairment allowance by major part has been recognised on a collective basis, based on the impairment rates used by management.

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

19 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2012	2011	2012	2011
Trade receivable total	**116,651**	**121,137**	**107,459**	**112,615**
Of which not overdue	80,749	83,069	74,089	76,043
Overdue up to 3 months	9,300	11,409	6,840	9,985
4 to 6 months	2,090	2,266	2,057	2,242
7 to 12 months	2,040	3,106	2,024	3,101
Over 12 months	22,472	21,287	22,449	21,244

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

	GROUP		COMPANY	
	2012	2011	2012	2011
Currency				
LTL	81,508	88,983	83,827	89,351
EUR	25,698	28,361	20,359	23,948
XDR	29	57	29	57
Other currency	4,247	840	3,181	840
	111,482	**118,241**	**107,396**	**114,196**

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2012	2011	2012	2011
At the beginning of year	**25,619**	**24,083**	**25,500**	**23,864**
Receivables written off during the year as uncollectible	(1,818)	(1,830)	(1,795)	(1,830)
Provision for receivables impairment/ Unused amount reversed (-)	1,577	3,366	1,580	3,466
At the end of year	**25,378**	**25,619**	**25,285**	**25,500**

The creation and release of provision for impaired receivables have been included in 'Other operating expenses' in the Statement of comprehensive income (Note 8).

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

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

20 Held-to-maturity investments

Held-to-maturity investments accounted by the Group and the Company consist of short-term bonds issued by the Lithuanian commercial bank with Fitch long-term credit rating A, denominated in EUR (2011: in EUR). The effective interest rate on the bonds was 0.56% (2011: 2.03%). As of 31 December 2012, average maturity of bonds is 177 days (2011: 182 days). Fair value of bonds approximate to their carrying values.

All held-to-maturity investments amounting to LTL 60,045 thousand will be redeemed in 2013 after the date of approval of these financial statements (2011: all held-to-maturity investments amounting to LTL 30,186 thousand were redeemed till June 2012).

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

21 Cash and cash equivalents

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Cash in hand and at bank	49,056	43,524	33,194	33,226
Short term bank deposits	126,542	145,065	126,542	143,565
	175,598	**188,589**	**159,736**	**176,791**

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

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Currency				
LTL	156,205	179,839	145,903	169,882
EUR	19,126	5,821	13,764	4,068
USD	198	2,861	69	2,841
Other currencies	69	68	-	-
	175,598	**188,589**	**159,736**	**176,791**

The effective interest rate on the Group's and the Company's short-term bank deposits held with Lithuanian banks was 0.46% (2011: 1.95%).

The credit quality of cash in hand and at bank can be assessed by reference to Fitch long-term credit ratings (or equivalent by Standart & Poor's):

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
AA-	75,246	50,726	75,240	50,670
A+	55,555	82,016	42,134	72,267
A	44,389	55,726	42,191	53,767
Other	408	121	171	87
	175,598	**188,589**	**159,736**	**176,791**

21 Cash and cash equivalents (continued)

As of the date of approval of these financial statements deposits amounting to LTL 86.5 million have matured and were repaid to the Company. Company's deposits amounting to LTL 40.0 million will be repaid in 2013 after the date of approval of these financial statements

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

22 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 one litas each. All shares are fully paid up.

23 Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve including share premium reaches 10% of the share capital. The legal reserve can be used to cover the accumulated losses. The amount of the legal reserve surplus which exceeds the size of legal reserve required by the legislation can be added to retaining earnings for the profit distributing purpose.

As a result of cancelling of treasury shares in 2010 and following the decision of the Annual General Meeting of Shareholders held on 28 April 2011 the Company's obligatory reserve was decreased by LTL 3,817 thousand and this amount was reallocated to the Company's retained earnings.

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

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2012	2011	2012	2011
Trade payables	38,527	29,512	34,698	24,817
Trade payables to operators	7,160	7,718	7,160	7,718
Taxes, salaries and social security payable	26,574	21,751	19,469	16,651
Accruals to operators	8,626	8,591	8,626	8,591
Accrued liabilities	2,043	3,730	1,478	3,092
Other payables and deferred revenue	8,462	6,052	3,765	3,113
Amounts payable to related parties (Note 29)	718	1,013	7,246	6,679
	92,110	**78,367**	**82,442**	**70,661**
Less non-current portion	(3,463)	(3,628)	(3,275)	(3,347)
Current portion	**88,647**	**74,739**	**79,167**	**67,314**

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

	GROUP		COMPANY	
	2012	2011	2012	2011
Currency				
LTL	73,944	57,449	64,338	50,461
EUR	14,851	18,555	14,845	17,882
XDR	410	449	410	449
Other currency	2,905	1,914	2,849	1,869
	92,110	**78,367**	**82,442**	**70,661**

25 Borrowings

	GROUP		COMPANY	
	2012	2011	2012	2011
Current				
Bank borrowings	-	34	-	-
Finance lease liabilities	977	940	977	940
	977	**974**	**977**	**940**
Non-current				
Finance lease liabilities	2,282	3,259	2,282	3,259
	2,282	**3,259**	**2,282**	**3,259**
Total borrowings	**3,259**	**4,233**	**3,259**	**4,199**

Fair value of borrowings approximate to their carrying values.

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

25 Borrowings (continued)

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

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

	Due in 1 year	**Due between 2 and 5 years**	**Due after 5 years**	**Total**
Minimum lease payments at 31 December 2011	1,086	3,471	-	4,557
Less future finance charges	(146)	(212)	-	(358)
Present value of minimum lease payments at 31 December 2011	940	3,259	-	4,199
Minimum lease payments at 31 December 2012	1,086	2,384	-	3,470
Less future finance charges	(109)	(102)	-	(211)
Present value of minimum lease payments at 31 December 2012	977	2,282	-	3,259

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

	As at 31 December			
	GROUP		**COMPANY**	
	2012	**2011**	**2012**	**2011**
Premises	2,873	3,771	2,873	3,771
	2,873	**3,771**	**2,873**	**3,771**

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

26 Deferred income taxes

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

	GROUP		COMPANY	
Deferred tax liabilities	**2012**	**2011**	**2012**	**2011**
At the beginning of year	13,993	10,290	10,686	6,932
Charged/ (credited) to statement of comprehensive income (Note 11)	4,588	3,703	4,647	3,754
At the end of year	**18,581**	**13,993**	**15,333**	**10,686**

	GROUP		COMPANY	
Deferred tax assets	**2012**	**2011**	**2012**	**2011**
At the beginning of year	(583)	(711)	-	-
Charged/ (credited) to statement of comprehensive income (Note 11)	219	128	-	-
At the end of year	**(364)**	**(583)**	**-**	**-**

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

	GROUP		COMPANY	
Deferred tax liabilities	**2012**	**2011**	**2012**	**2011**
Deferred income tax asset to be recovered / liability settled after more than 12 months	18,511	16,557	15,339	13,318
Deferred income tax asset to be recovered / liability settled (-) within 12 months	70	(2,564)	(6)	(2,632)
	18,581	**13,993**	**15,333**	**10,686**

	GROUP		COMPANY	
Deferred tax assets	**2012**	**2011**	**2011**	**2011**
Deferred income tax asset to be recovered / liability settled after more than 12 months	(59)	(293)	-	-
Deferred income tax asset to be recovered / liability settled (-) within 12 months	(305)	(290)	-	-
	(364)	**(583)**	**-**	**-**

According to Lithuanian tax legislation, investments of the Company in subsidiaries qualify for participation exemption, therefore deferred income tax liabilities have not been established on the unremitted earnings of subsidiaries.

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

26 Deferred income taxes (continued)

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

GROUP– deferred tax liabilities	Investment relief[1]	Other	Total
At 31 December 2011	**24,301**	**1,657**	**25,958**
Charged/ (credited) to statement of comprehensive income	(3,042)	(364)	(3,406)
At 31 December 2012	**21,259**	**1,293**	**22,552**

GROUP – deferred tax assets	Difference in useful lives [2]	Tax losses	Other	Total
At 31 December 2011	**(10,624)**	**(456)**	**(1,468)**	**(12,548)**
Charged/ (credited) to statement of comprehensive income	7,847	260	106	8,213
At 31 December 2012	**(2,777)**	**(196)**	**(1,362)**	**(4,335)**

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of insignificant amount of losses that can be carried forward without expiry against future taxable income.

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

COMPANY – deferred tax liabilities	Investment relief[1]	Other	Total
At 31 December 2011	**21,343**	**1,258**	**22,601**
Charged/ (credited) to statement of comprehensive income	(2,911)	(403)	(3,314)
At 31 December 2012	**18,432**	**855**	**19,287**

COMPANY – deferred tax assets	Difference in useful lives[2]	Tax losses	Other	Total
At 31 December 2011	**(10,625)**	**-**	**(1,290)**	**(11,915)**
Charged/ (credited) to statement of comprehensive income	7,847	-	114	7,961
At 31 December 2012	**(2,778)**	**-**	**(1,176)**	**(3,954)**

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

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

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

26 Deferred income taxes (continued)

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

	As at 31 December			
	GROUP		COMPANY	
	2012	2011	2012	2011
Deferred tax assets	(4,335)	(12,548)	(3,954)	(11,915)
Deferred tax liabilities	22,552	25,958	19,287	22,601
	18,217	**13,410**	**15,333**	**10,686**

27 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2012 the aggregate of bank guarantees (obligations guaranteed under tender, agreement performance arrangements) provided by AB SEB bankas on behalf of the Company and the Group amounts to LTL 5.18 million (2011: LTL 4.48 million).

Minimum lease payments receivable

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

	GROUP		COMPANY	
	2012	2011	2012	2011
Not later than 1 year	19,332	17,332	19,332	17,332
Later than 1 year but not later than 5 years	13,048	11,938	13,048	11,938
Later than 5 years	-	-	-	-
	32,380	**29,270**	**32,380**	**29,270**

Minimum lease payments recognised in the statement of comprehensive income during 2012 were LTL 20,615 thousand (2011: LTL 25,928 thousand).

The Company lease terminal telecommunication equipment under various agreements which terminate in 2015.

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

28 Commitments

Capital commitments

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

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Property, plant and equipment	13,582	10,590	13,582	10,590
	13.582	**10,590**	**13.582**	**10,590**

Operating lease commitments – where the Group is the lessee

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

As discussed in Note 25, the Company leases technical premises under operating lease agreements for 10 years. In December 2012 the rent of administrative premises at Galvydžio 7/Žygio 97 was terminated. In addition, the Company in 2008 prolonged rent of administrative premises in Žirmūnų 141 for 8 years.

In addition, the Group rents other premises. In 2011 a new mid-term lease agreement was signed for the rent of premises Savanorių ave. 18 for second customer care centre in Vilnius.

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

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Minimum lease payments	15,319	16,314	8,631	8,863

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

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Not later than 1 year	7,380	7,824	6,696	7,163
Later than 1 year but not later than 5 years	12,514	16,046	11,580	14,959
Later than 5 years	1,269	2,270	1,268	2,251
	21,163	**26,140**	**19,544**	**24,373**

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

29 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which owns 88.15% of the Company's shares and votes. Majority shareholders of TeliaSonera AB are Governments of Sweden and Finland. The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
TeliaSonera AB and its subsidiaries	47,330	44,275	39,743	35,259
Subsidiaries of the Company	-	-	10,971	10,509
Total sales of telecommunication and other services	**47,330**	**44,275**	**50,714**	**45,768**

Purchases of assets and services:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Purchases of assets from:				
TeliaSonera AB and its subsidiaries	4,715	268	4,715	268
Subsidiaries of the Company	-	-	420	423
	4,715	**268**	**5,135**	**691**

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Purchases of services from:				
TeliaSonera AB and its subsidiaries	19,983	23,824	13,778	11,048
Subsidiaries of the Company	-	-	35,576	38,818
	19,983	23,824	49,354	49,866
Total purchases of assets and services	**24,698**	**24,092**	**54,489**	**50,557**

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

Receivables and accrued revenue from related parties

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Receivables from related parties:				
TeliaSonera AB and its subsidiaries	4,787	4,359	3,748	2,464
Subsidiaries of the Company	-	-	1,362	1,288
	4,787	**4,359**	**5,110**	**3,752**

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Prepayments to related parties:				
TeliaSonera AB and its subsidiaries	-	4,715	-	4,715
	-	**4,715**	**-**	**4,715**

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

29 Related party transactions (continued)

	GROUP		COMPANY	
	2012	2011	2012	2011
Accrued revenue from related parties:				
TeliaSonera AB and its subsidiaries	2,830	3,127	2,264	2,339
	2,830	**3,127**	**2,264**	**2,339**
Total receivables and accrued revenue from related parties	**7,617**	**12,201**	**7,374**	**10,806**

The receivables from related parties arise mainly from sale transactions and due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provision are held against receivables from related parties (2011: nil)

Payables and accrued expenses to related parties

	GROUP		COMPANY	
	2012	2011	2012	2011
Payables to related parties:				
TeliaSonera AB and its subsidiaries	718	1,013	651	777
Subsidiaries of the Company	-	-	6,558	5,902
	718	**1,013**	**7,209**	**6,679**

	GROUP		COMPANY	
	2012	2011	2012	2011
Accrued expenses to related parties:				
Subsidiaries of the Company	-	-	37	-
	-	**-**	**37**	**-**
Total payables and accrued expenses to related parties:	**718**	**1,013**	**7,246**	**6,679**

The payable to related parties arise mainly from purchase transactions and are due one month after date of purchase. The payables bear no interest.

For the period ended 31 December 2012 amount of LTL 147 thousand (2011: LTL 306 thousand) of interest income was accounted in the Statement of Comprehensive Income as Finance income. The base for calculating interest income was the prepayment to a related party which was due on 21 September 2012.

Loans to related parties:

	GROUP		COMPANY	
	2012	2011	2012	2011
Beginning of the year	-	-	6,499	11,526
Loans advanced during year	-	-	12,000	4,470
Loan repayments received (in cash)	-	-	(10,000)	(9,500)
Interest charged (including VAT)	-	-	705	365
Interest received (including VAT)	-	-	(707)	(362)
End of the year	-	-	8,497	6,499

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

29 Related party transactions (continued)

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

Name of the related party	Date of agreement	Original currency of agreement	Outstanding balance	Maturity	Interest rate
Year ended 31 December 2012					
UAB Baltic Data Center	20 July 2007	LTL	4,000	due on 21 Jun 2013	1.89%
UAB Hostex	19 April 2011	LTL	4,470	due on 19 April 2016	4.43%
Year ended 31 December 2011					
UAB Baltic Data Center	20 July 2007	LTL	2,000	due on 21 Jun 2012	4.29%
UAB Hostex	19 April 2011	LTL	4,470	due on 19 April 2016	4.43%

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

During 2012 dividends paid out to TeliaSonera AB amounted to LTL 106,101 thousand. During 2011 dividends paid out to the then subsidiary of TeliaSonera AB, Amber Teleholding A/S, amounted to LTL 88,011 thousand, and dividends paid out directly to TeliaSonera AB amounted to LTL 7,181 thousand.

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

	2012	2011
Remuneration of key management personnel	8,924	9,308
Social security contributions on remuneration	2,764	2,883
Total remuneration	11,688	12,191

Key management includes General Manager, Chief Officers, and Directors of main units, departments and regional centers. The total number of top management personnel employed as of 31 December 2012 was 29 (as of 31 December 2011: 31).

The total amount of annual compensations (tantiems) assigned to the six members of the Board of the Company during 2012 amounted to LTL 324 thousand (2011: LTL 378 thousand). As of 31 December 2012 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid (2011: LTL 216 thousand).

30 Events after balance sheet day

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

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.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, 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 Financial Statements as of and for the year ended 31 December 2012 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group of undertakings.

Giedrius Vegys	Antanas Poška
Acting General Manager	Acting Chief Financial Officer

Approved by the Board
as at 13 March 2013

CONSOLIDATED ANNUAL REPORT

I. GENERAL INFORMATION

Reporting period

Year ended 31 December 2012

Issuer and its contact details

Name of the Issuer	**TEO LT, AB** (hereinafter – TEO or "the Company")
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Name of Register of Legal Entities	State Enterprise Centre of Registers
Code of enterprise	121215434
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
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:

Name of the company	Date of registration, code, name of Register of Legal Entities	Contact details	TEO share in the share capital of the company (%)	TEO share of votes (%)
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.lintel.lt	100.00	100.00
UAB Baltic Data Center	17 December 2001, code 125830791, State Enterprise Center of Registers	Žirmūnų str. 141, LT-09128 Vilnius, Lithuania tel. +370 5 274 8360, fax. +370 5 278 3399, www.bdc.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	5 July 1995, code 134517169, State Enterprise Center of Registers	Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania tel. +370 5 236 7214, fax. +370 5 231 3444	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Jogailos str. 9A/A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613	100.00	100.00
VšĮ Ryšių Istorijos Muziejus	13 July 2010, code 302528309, State Enterprise Center of Registers	Rotušės sq. 19, LT- 44279 Kaunas, Lithuania tel. +370 37 321 131 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	-

Financial ratios	31-12-2012	31-12-2011
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

Operating figures	31-12-2012	31-12-2011	Change (%)
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 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"), alowing 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, 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.

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 ours 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	-
TOTAL:	**776,817,518**	**100.00**	**100.00**	**-**

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 1,610 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:

	2012	2011
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	31-12-2012	31-12-2011	Change
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
	3,257	**3,303**	**(46)**

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

Name of the company	2012	2011	Change (%)
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
	170,465	**156,809**	**8.7**

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

Group of employees	Number of employees	Education			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
	1,958	**1,172**	**355**	**431**	

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 Ettevõtted 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: Lattelecom SIA (Latvia), member of the Supervisory Council, member of the Audit Committee, and member of the Business Planning and Finance Committee; TeliaSonera Network Sales AB (Sweden), member of the Board; TeliaSonera 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: Lattelecom SIA (Latvia), member of the Supervisory Council; TeliaSonera Finland Oyj (Finland), member of the Board; TeliaSonera International Carrier AB (Sweden), member of the Board; Tilts Communications A/S (Denmark), member of the Board and Managing Director; 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.

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 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
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main TEO development directions and strategies are publicized in the Annual and Interim Reports and the Company's performance presentations, that are available on the Company's webpage, and are discussed during meetings with investors and etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the Company are acting in order to implement TEO mission – to create value for shareholders and customers by providing professional and high-quality telecommunications, TV and IT services.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company has the Board that represents the shareholders of the Company, is responsible for strategic management of the Company, supervises 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.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's policy towards employees, customers and local community is set up in the Company's Corporate Social Responsibility Policy and described in the Company's Corporate Social Responsibility Report.

Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but minority shareholder as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the senior management of the Company reports on the Company's performance ensures effective supervision and control of the Company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the recommendation are fulfilled by the Board of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Following the By-Laws of the Company, the Board consists of 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.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	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.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **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.**		
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.	Yes	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. 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.
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.	Yes	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 acquitted with such information in advance. 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.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence. Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.
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	Yes	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.

required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.		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.
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.	Yes	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.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and 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.
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: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the	Yes	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. The other four members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder. 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.

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); 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); 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; 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; 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; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 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.		
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.	Yes	
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	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.

3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Annual compensations (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.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Consolidated Annual Report. Also, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the senior management of the Company provides information about the Company's performance.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information possessed by the Company, all members of the Board are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2012 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. 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 advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	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. 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. The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.

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.	Yes	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. 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. 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. 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.
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.	Yes	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. 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.
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.	Yes	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.

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.	Yes	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.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.
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.	No	In TEO, the function of the Nomination Committee is performed by the Remuneration Committee.

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.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.	Yes	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. 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. Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2012.

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: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 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. 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.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;	Yes	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.

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; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 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. 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. 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. 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.		

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 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.		
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.	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.

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

Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	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.

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.	No	The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
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	

Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential. 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.

8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Agreements with top managers of the Company are concluded and approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. Before submitting for the Board's approval nominees to the administration of the Company and their remuneration terms, nominees at first are discussed and approved at the Remuneration Committee. 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.

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. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 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: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 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.	No	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. 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. The Consolidated Annual Report is publicly available on the Company's webpage. The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes. The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.

8.6. 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	

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.	No	
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.	Not applicable	
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
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.		
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.		

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.		

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	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. In 1999, following the Company's privatization program, almost 5 per cent of the Company's shares were sold to its employees. The current and former employees of the Company actively participate in the shareholders meetings, show interest in the Company's performance and results. Every year the Company pays dividends to the shareholders. The Company has approved Principles for Sponsorship and Support and, on the basis of them, builds its relations with society and local communities. The Company 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.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

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.

10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. 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.	Yes (except item 4)	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. All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English. TEO Group prepares its financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. 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. 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. The Company's Consolidated Annual Report and Consolidated Financial Statements are publicly available on the Company's webpage. 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.
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.	No	
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.	No	
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.	Yes	

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.	Yes	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.
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.	Yes	All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company's webpage contains the Company's all annual and interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on NASDAQ OMX Vilnius stock exchange in both Lithuanian and English.

Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent audit firm carries out an audit of the annual stand-alone financial statements of the Company and consolidated financial statements of the Company together with its subsidiaries prepared in accordance with the International Financial Reporting Standards as adopted by the EU. This independent audit firm also reviews consolidated annual reports for any inconsistencies with audited financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Board proposes the candidacy of an independent audit firm to the Annual General Meeting of Shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	Information about non-audit services provided to the Company by the audit firm following the laws is annually presented to the Audit Committee together with the audit firm's confirmations of auditors' independence from the Company. This information is presented in the Consolidated Annual Report of the Company.