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TEO IS CONSTANTLY SEARCHING FOR POSSIBILITIES TO EXPRESS CIVIC RESPONSIBILITY

I am glad to present you the Corporate Social Responsibility Report of TEO Group. It is one of the first public reports of this type, issued by a business company in Lithuania.

This is not big news to us to be the first in the area of business ethics. TEO is traditionally recognized as one of the most transparent, reputation-concerned Lithuanian companies, the attitude of which to business stands out of other in that the motives of benefit are always matched with the motives of social partnership and social responsibility.

Why are we doing this? My answer is simple: because responsible behaviour and doing good works for others sooner or later bring good fruits for your own table. Not without reason it is said that the first half of life you work for reputation and in the other half – the reputation works for you. Eventually, ethical and balanced behaviour becomes customary and grows into an integral part of corporate strategy and, I would add, of long-term success.

I am glad that TEO creatively and actively develops not only the business, but also the social sphere. We are in constant search for new forms, new possibilities to express our civic responsibility. We are with those who do not wait until certain norms of socially responsible

behaviour become universally acceptable or established by law. After all, social responsibility is not obedience to laws – either written or unwritten. Social responsibility starts there and then, when the company – considering the realia and challenges of the world surrounding it – decides itself to do more than required by law, voluntarily makes commitments, which, if viewed from the point of view of business criteria alone, are not always profitable.

TEO was one of the first Lithuanian companies to send a letter to UN Secretary-General Kofi Annan with a request to join the UN Global Compact. In 2005, by joining this business community which is concerned about harmonious development of the world, TEO committed to comply with the ten main principles in the areas of human rights, labour, the environment and anti-corruption.

Following the principle of socially responsible business, every year TEO pays especially much attention to social activities – only last year the Company invested more than 3 million litas in different sponsorship projects.

Today's big business cannot ignore the problems of ecology and climate change. Telecommunications business practically does not pollute the environment, but we think that we need to continue improving technologies, building heating, conditioning and other systems, in order that energy is used as efficiently as possible.

The most interesting, however, is the fact that we contribute to solving global ecology problems much more when we develop our business successfully and actively. This sounds paradoxical, but it is a fact. The more intensively society uses the virtual industry, i.e. telecommunications, information technologies and digital content, the lesser is the objective need to use the items, for the production of which much energy and natural resources are consumed. Consequently, the more creatively and actively telecommunications companies offer users their modern technologies: broadband Internet, digital television, voice telephony, the greater is their contribution to the reduction of CO₂ emissions into the atmosphere. The new knowledge-based economy is one of the few directions for the world economy to develop that actually enables to continue improving the social and economic conditions of peoples' lives without polluting nature.

Arūnas Šikšta
General Manager



CORPORATE SOCIAL RESPONSIBILITY: THE BEGINNING OF THE ROAD

The first Corporate Social Responsibility Report of TEO Group has originated from the need to make a systematic overview of the Company's activities in the social area in 2006, to look at itself from the viewpoint of not only business, but also sociability.

Our original idea was much narrower – to tell shareholders, customers and society about the sponsorship projects implemented by the Company in 2006 in the areas of education, sports, social partnership and culture. Eventually, when developing the idea, there was a growing understanding that the Report should be based on a wider and more modern viewpoint towards public and ethical aspects of business that at present is best – at least in Lithuania – conveyed by the so-called Corporate Social Responsibility (CSR) concept.

It is a complex and structured system of business ethics and the field of its concern encompasses both external activities and internal processes of a company, its relations with customers, employees and other important interest groups. One of the key areas monitored by CSR – the company's activities from the point of view of the environment protection. It is very important that CSR is not inclined to be satisfied with ethical declarations and it demands that it should be clearly described what specific actions are taken by the company in implementing them.

This social self-regulation system of business in Lithuania is still young, but it is rapidly paving ways in the sphere of the local business culture. There are influential organizations that actively propagate CSR: the Representative Office of the United Nations Development Programme (UNDP) in Lithuania, the association of big foreign capital companies – Investors' Forum; there are companies that have signed the Global Compact, and quite many seminars, conferences and other events are arranged on the subject of corporate social responsibility. In the autumn of last year, when TEO returned to ETNO – the organization uniting the biggest telecommunications companies in Europe – we sided with the CSR principles and practice followed by the organisation. We are encouraged to develop socially responsible business also by the engagement and experience of our Company's strategic investor – TeliaSonera – in this business management discipline that is new to us.

When preparing this Corporate Social Responsibility Report, we consulted representatives of the above-mentioned organisations and companies, and also followed the recommendations of the international non-governmental organisation Global Reporting Initiative.

An important, if not the most important, outcome of our work on the Corporate Social Responsibility Report is that it has prompted us to start implementing a social responsibility management system within inside the Company. Communication affairs were not our final

stop – the Corporate Social Responsibility Policy of TEO was approved, responsible units and employees were appointed and assigned the task of enlightening the organisation and formulating routine processes that would ensure the observance of social responsibility principles.

Valdas Kaminskas
Director of Corporate Communication Unit



CORPORATE SOCIAL RESPONSIBILITY POLICY OF TEO

The purpose of the Corporate Social Responsibility Policy of TEO – to define the main policies of TEO in implementing the culture as well as practice of socially responsible and harmoniously developed business in the Company and its environment.

This Policy is based on the understanding that TEO, being a big Lithuanian business enterprise and an influential member of Lithuanian society, must take into consideration the social and nature protection aspects of business, assume responsibility for the short-term and long-term consequences of its activities as a market participant, as an employer, as a consumer and as a society member. Thus TEO implements its social responsibility through purposeful corporate behaviour in the following four main areas:

- the market
- environmental protection
- relations with employees
- relations with society

CORPORATE SOCIAL RESPONSIBILITY OF TEO ON THE MARKET

SERVICES AND THEIR QUALITY

- TEO provides the services, which give the biggest benefit to its customers, help them to integrate into knowledge society, reduce the digital divide of people living in different regions and belonging to different social and demographic groups;
- TEO pays big attention to the quality of its services and customer care. The services are provided in compliance with the laws and the requirements of regulatory institutions, following the customer relations principles set forth in TEO Mission and Values, Code of Ethics and Quality Manager, and with the view of fulfilling the promises made.

INFORMING OF CUSTOMERS

- TEO seeks that the information disseminated about its services is easily accessible, clear, transparent and valuable to the user;
- TEO informs not only about the advantages of its services and the possibilities provided to the user, but also about the possible impact on their health and security;
- In carrying out advertising activities, TEO follows the principles of fair communication and non-misleading of customers, irrespective of the fact that this might cause damage to economic efficiency.

HEALTH AND SECURITY OF USERS

- The services provided by TEO conform to the requirements established in the Law of the Republic of Lithuania on Product Safety, norms of hygiene, and are safe and

provided by using certified equipment;

- Users are familiarized with instructions for equipment use and informed about the possible impact of equipment on their health;
- TEO is concerned about the protection of users against unauthorized PC access, fraud, and distribution of improper content.
- TEO provides consultations to its customers and helps them solve customer data security issues. TEO employees respect the customers' right to privacy and protect the confidential information provided by them. This information is neither made public nor used to the prejudice of customers or for the benefit of any third parties.

CORPORATE SOCIAL RESPONSIBILITY OF TEO IN 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;
- Following the principles of harmonious development, TEO pays special attention to the use of energy and hazardous materials, waste management, work and product requirements, and the provision of information and data on the organisation's impact on the environment.

CORPORATE SOCIAL RESPONSIBILITY OF TEO IN RELATIONS WITH EMPLOYEES

- For its employees, who are considered to be the Company's biggest asset and success factor, TEO ensures fair and timely work remuneration and social insurance in case of temporary incapacity for work, and also the right to rest and annual leave;
- TEO eliminates forced and child labour and seeks that this principle is followed by the Company's partners and suppliers;
- TEO recognizes the right of its employees to voluntarily join unions or association and also their right to bargain with the employer;
- TEO seeks to ensure healthy and safe working conditions for its employees; therefore special attention is paid to employees' health protection, prevention of occupational diseases, physical activity promotion. The creation of safe and healthy working conditions is established by the Collective Bargaining Agreement and is regulated by the Labour Code of the Republic of Lithuania and other legal acts on employee safety and health, the Company's Policy on Safety at Work;
- TEO ensures equal rights for its employees, following the prohibition of discrimination in respect of age, gender, origin and convictions that is established in the Constitution of the Republic of Lithuania and other labour-related laws.

CORPORATE SOCIAL RESPONSIBILITY OF TEO IN RELATIONS WITH SOCIETY

- TEO believes in successful business development in the country, where governing methods are transparent and relations among the state, business and society are based on the principle of common interests, harmonious development, as opposed to that of protections, limitations or privileges;
- By annually supporting various social and cultural projects, TEO seeks to ensure the long-term harmonious progress of business and society, to contribute to the social development and welfare of society, and the creation of e-society.
- By actively participating in public life, TEO aims not only to influence positive changes in the country, but also, through its own example, to create and strengthen philanthropic traditions in Lithuania;
- TEO believes in the progress of society and in the future created through joint efforts where more and more resources are allocated for material and spiritual creation. By supporting this, TEO invests in scientific and cultural initiatives as well as young members of society through various education and development programmes.
- By actively cooperating with both the governmental and non-governmental sectors, TEO seeks to promote the development of the information society and to contribute to the improvement of the IT sector's business environment;

- TEO prevents corruption both internally: by familiarizing employees with fair business principles and ethical standards, and externally: by promoting fair business policy and transparent communication with state institutions and by supporting organisations that popularize a socially responsible attitude towards business in Lithuania.



BUSINESS PHILOSOPHY

On 1 December 2006 TEO approved a renewed Vision and Mission of the Company in order that the main statements of the Company's business philosophy would better meet the philosophy of the Company's new brands, increased activity volumes and a broader range of business areas.

TEO VISION

Your best partner in communicating with the constantly changing world.

By employing the most modern technologies we enable our customers to reach people, knowledge and entertainment.

TEO VALUES

OPENNESS

- We cooperate openly and we are open for novelties and changes.
- Communication – the basis of a healthy working atmosphere.
- Mutual openness reduces stress and allows us to feel full-fledged members of the team.
- Only if we feel like that, we will be able to listen to and properly react to our customers' needs.

BUSINESS MINDED

- We understand business environment and create value for customers and shareholders.
- Initiative is the engine of every business development and improvement.
- Let's monitor and adapt to changes in customer needs, thus we will earn customers' favour and loyalty.

TEO MISSION

To create value for shareholders and customers by providing professional and high-quality telecommunications, TV and IT services.

RELIABILITY

- We are reliable in relations with customers, colleagues and society and keeping promises.
- Our every individual meeting with the customer represents the whole Company's policy.
- If we feel personally responsible to every customer, the customer will respect the whole Company too.

PARTNERSHIP

- Our relations with customers and colleagues are based on goodwill and respect.
- We must respect the needs of our every customer and react with goodwill to their dissatisfaction.
- By listening to our customers' requests and reacting to their remarks, we turn them into our partners.



ABOUT TEO

TEO Group – one of the largest integrated telecommunications, IT and television service providers in Lithuania.

TEO holds leading positions on Internet, data communication and fixed-line telephony markets in Lithuania. The Company's capabilities allow to offer customers state-of-the-art technologies that are not in any way worse than those offered by the world's most advanced telecommunications market players.

TEO is one of the largest companies quoted on the Official Trading List of the Vilnius Stock Exchange, and also the only Lithuanian company, the shares of which are traded on the London Stock Exchange.

TEO GROUP

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

UAB Lintel is the largest provider of Contact Center services in Lithuania. It handles around 16 million contacts per year. Lintel provides Directory Inquiry Service 118, telemarketing and customer care services.

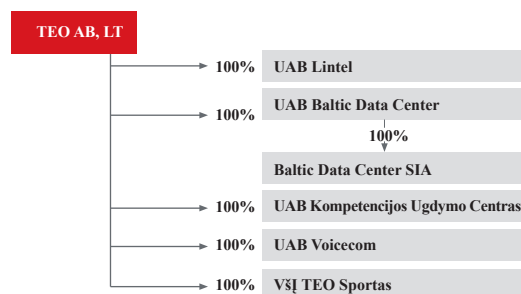
UAB Baltic Data Center is one of the most rapidly growing IT service providers for corporate customers in Lithuania. Services provided by UAB Baltic Data Center comprise a complex enterprise systems maintenance package that implies server, database and data streams as well as IT Service Desk services. UAB Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA.

UAB Kompetencijos Ugdymo Centras provides training and consultancy services, organises certified trainings. It is one of the largest employees' development institutions in Lithuania. UAB Kompetencijos Ugdymo Centras offers many different training and development methods, pedagogical and technological means (complex, certified products, a standardized structure of courses, consultancy services).

In December 2005, **UAB Voicecom** took over from UAB Comliet the right to use the national network of mobile analogue cellular radio communication of the NMT-450 standard.

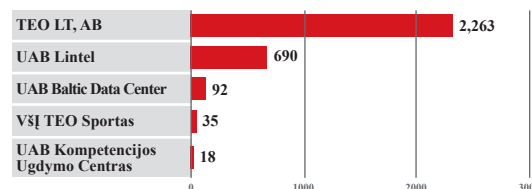
From 31 January 2006 till 15 February 2007 TEO LT, AB owned 100 per cent of the capital of OOO Comliet-Kaliningrad (Kaliningrad Region of Russian Federation).

VšĮ TEO Sportas. TEO is the sole founder of its non-profit organisation VšĮ TEO Sportas. The organisation supports the multiple champion of Lithuania and the Baltic States – the women basketball team TEO Vilnius. The organisation also operates a fitness club – ZEBRA SPORT – in Vilnius.



EMPLOYEES

On 31 December 2006, the total number of employees in TEO Group amounted to 3,098.



STRUCTURE OF TEO LT, AB

According to the By-Laws of TEO LT, AB, the Company's governing bodies are the General Shareholders' Meeting, the Board and the General Manager.

The decisions of the General Meeting, made regarding the matters within the competence of the General Shareholders' Meeting provided for in the By-Laws of the Company, are binding upon the shareholders, the Board, the General Manager and other officials of the Company. The Annual General Shareholders' Meeting is convened each year, no later than within four months after the end of each fiscal year, i.e. 31st of December.

The Board consists of seven members who are elected for a two-year term during the General Shareholders' Meeting. The Board institutes the following two committees: Audit and Remuneration. Each committee is comprised of three members of the Board. The Company has Internal Audit Unit. An independent external auditing company is elected by the Annual General Shareholders' Meeting.

The Board elects and recalls the General Manager, who, subject to the limits of his or her authority, organizes the activities of TEO. The Management Charter approved by the General Manager defines in detail the duties and authority of the General Manager and his or her deputies as well as other officers of the Company.



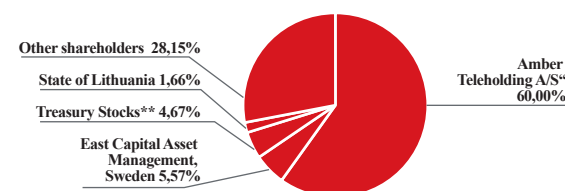
SHAREHOLDERS

The share capital of TEO LT, AB consists of 814,912,760 ordinary registered shares of one litas nominal value each. The Company has more than 12 thousand shareholders in total.

The main shareholder of TEO is the largest telecommunication corporation in the Nordic and Baltic countries – TeliaSonera AB, which indirectly owns 60 per cent of the Company's shares.

TeliaSonera – a public limited company, incorporated in Sweden. TeliaSonera was formed in 2002 by the merger of the two largest Nordic telecommunications companies – Telia of Sweden and Sonera of Finland. This merger resulted in the formation of a leading telecommunications Group, holding strong positions not only in the Nordic and Baltic regions, but also in Russia and Turkey.

TEO shareholders' breakdown (data as on 31 December 2006). Holdings in the Company (%)



NOTES:

* Amber Teleholding A/S is a subsidiary of TeliaSonera AB;

** Shares are held by UAB Lintel, a subsidiary of TEO LT, AB.

MEMBERSHIP IN ORGANISATIONS

In 2006 TEO Group companies were members in different Lithuanian and international organisations.

TEO LT, AB

Organisations in the Republic of Lithuania:

- Infobalt Association
- Lithuanian Advertising Association “Advertising Bureau”
- Vilnius Chamber of Commerce, Industry and Crafts

International organisations:

- European Telecommunications Network Operators’ Association (ETNO)
- International Private Leased Circuit, One Stop Shopping Forum (IPLC OSS Forum)
- European Network Planning Meeting (ENPM)
- Global Telecommunications Meeting (GTM)
- European Peering Forum

UAB LINTEL

International organisations:

- Customer Contact Association (CCA), involving over 800 contact centre businesses

UAB BALTIC DATA CENTER

Organisations in the Republic of Lithuania:

- Infobalt Association

International organisations:

- American Chamber of Commerce in Lithuania

UAB KOMPETENCIJOS UGDYMO CENTRAS

Organisations in the Republic of Lithuania:

- Lithuanian Computer Society
- Institute of Information Technologies

THE MOST IMPORTANT EVENTS IN THE COMPANY IN 2006

8 February

The Board approved a new structure of the Company: Sales and Marketing Divisions were established instead of Marketing Department, new Information Technology Business Development Unit was set up, and their managers were appointed.

24 April

The General Shareholders' Meeting elected a new Board of the Company.

5 May

The Company changed its name from AB Lietuvos Telekomas to TEO LT, AB and introduced new sub-brands of its main activities:

voice telephony	
Internet	
television	
services for business	

1 July

TEO put into operation its first transmitter of digital terrestrial television (DVB-T) signals in Vilnius.

7 September

TEO launched the provision of IT maintenance services for business. The services include consultations by phone and e-mail on the issues relating to the usage of computers, software installation and updating, maintenance and intermediation in installing and using business management systems.

1 October

TEO started the provision of a new service – digital television GALA. It is the Internet technology-based digital television, which ensures superior video and audio quality and provides TV content management possibilities. The GALA television's coded digital TV signal is transmitted through the same line as voice and Internet services.

7 November

TEO joined the influential international association – the European Telecommunications Network Operators' Association (ETNO).

2006 RESULTS

TEO Group revenue for the year 2006 was LTL 735 million, an increase by 0.7 per cent compared with the year 2005 revenue – LTL 730 million.

Profit for the period in 2006 amounted to LTL 130,5 million, an increase by 55.3 per cent over LTL 84 million in 2005.

	2006	2005	Change %
Number of fixed lines in service	784,958	798,617	-1.7
Penetration of lines per 100 residents	23,2	23,5	
Digitalisation rate (%)	93,9	93,5	
Number of ADSL access points	180,774	104,798	72.5
Number of wireless Internet (WiFi) access points	804	287	180.1
Number of IP TV services users	4,902	–	
Number of employees (headcount) at the end of the period	3,098	3,005	3.1

AWARDS RECEIVED BY TEO

■ THE BEST CHANGEMAKER



The authoritative commission of international experts recognized TEO as one of the best changemakers in the world. At the World Communication Awards 2006, the Company won in the "Best Changemaker" category. TEO became the first Lithuanian company to have been granted such honourable award.

The telecommunications company was granted the award for the creation of new Internet services and their positive impact on the development of the information society and broadband Internet in Lithuania. The commission composed of world-level experts stated that TEO greatly contributed to promoting Lithuania's progress. TEO's rivals in the "Best Changemaker" category were such famous telecommunications companies as Belgacom, BT (British Telecom), Motorola and Verizon.

■ THE MOST RELEVANT SOCIAL PROJECT



In 2006, the Embassy of Sweden in Lithuania and the Swedish Trade Council granted TEO LT, AB the award for the project having the most relevant contribution to the development of society in Lithuania. The award was presented to TEO during the Swedish Business Awards 2006 event. The telecommunications company was evaluated for the long-term support to the Lithuanian Association of Telephone Emergency Services, psychological help lines for children and youth.

■ THE SECOND PLACE IN THE BEST LITHUANIAN COMPANY ELECTIONS

In 2006 Euromoney, a prestigious capital and finance markets magazine, recognized TEO to be the second best company in Lithuania. The rating performed by Euromoney annually is based on the data of 61 market analysts (institutions). Companies are measured according to their profitability, market positions, growth potential, and management quality. AB Bankas Hansabankas became the best company in Lithuania.

■ THE BEST INVESTOR RELATIONS

IR Magazine, the magazine which is well known to the world's investors, recognized TEO as the Lithuanian company maintaining the best investor relations (IR) in 2006. The Lithuanian telecommunications company was elected as the leader in the field already for the third year in a row. Investor relations of companies were evaluated by more than 500 independent analysts and portfolio managers.



The IR Magazine Awards are recognized as the most accurate and valid measure of excellence in IR activities. Every year, IR Magazine commissions an independent survey aimed at identifying companies with the best IR in more than ten regions of the world.

■ THE COMPANY WITH THE BEST INVESTOR RELATIONS IN THE BALTIC COUNTRIES



TEO received the main award at the Baltic Market Awards. The telecommunications company was recognized for the Best Investor Relations in the Baltic Countries. Such awards were arranged by OMX's exchanges in Vilnius, Tallinn and Riga for the first time. The project was aimed

at not only electing the best market players, but also at encouraging companies to disseminate quality information about their activities and material events, and to maintain good investor relations.

During the project, all listed Baltic companies were evaluated against the following five criteria: periodic and annual reports, corporate websites, investor evaluation and material events.

■ THE BEST PARTNER OF YOUTH'S INITIATIVES

The Lithuanian Council of Youth Organizations (LiJOT) nominated TEO as the best partner for supporting youth initiatives. The telecommunications company was evaluated for its support to the Window to the Future project, psychological help lines and "all other good works".



In 2006 TEO was awarded for the best cooperation with youth organisations.

The support to the psychological aid telephone line Youth Line provided by TEO since 2003 was recognized as the best project of cooperation among youth organisations and the business sector.

■ THE BEST NEWS INTERNET PORTAL

During the 11th championship of Lithuanian WWW sites in 2006, the ZEBRA Internet portal (www.zebra.lt) developed by TEO won the 1st place in the News and Media category. According to the data of the research company Gemius SA, the www.zebra.lt portal is attended by a half of the total number of Internet visitors in Lithuania. The ZEBRA Internet portal is one of the three most frequently visited Lithuanian Internet websites.

The best Internet websites were elected out of more than 500 registered ones by the evaluation commission composed of website development specialists, designers, and professional computer specialists. The contest was arranged by the magazine Kompiuterija-PC World and UAB Net Frequency.



CORPORATE SOCIAL RESPONSIBILITY ON THE MARKET

TEO provides the services, which give the biggest benefit to its customers, help them integrate into knowledge society, reduce the digital divide of people living in different regions and belonging to different social and demographic groups.

TEO pays big attention to the quality of its services and customer care. The services are provided in compliance with the laws and the requirements of regulatory institutions, following the customer relations principles set forth in TEO Mission and Values, Code of Ethics and Quality Manager, and with the view of fulfilling the promises made.

Quality is the responsibility of every employee in TEO Group. At the end of the year 2006, the Company updated the Quality Manual, which is the Company's main document describing the quality policy, quality management and control principles. It details the quality regulations of the core activities of TEO – dealing with customers, service implementation, service provision, network and works. The Quality Manual also provides for the main quality targets for the year 2007.

In 2004, TEO developed and implemented the new Customer Care Standard, which established a general approach to the quality of customer care. More than 2 thousand employees and managers of different spheres and levels have been trained according to the Standard, and new employees are familiarized with it as well. The implementation of the Customer Care Standard in the Company resulted in the improved quality of customer care.

REDUCTION OF THE TECHNOLOGICAL DIVIDE

The Company reduces the technological divide by implementing Internet technologies in smaller towns and rural areas, increasing the number of wireless Internet access points and offering digital Internet television. TEO also applies various discounts for elderly people using fixed-line telephony and Internet services.

INTERNET PENETRATION IN REGIONS

TEO provides Internet access in areas with more than 500 inhabitants – smaller Internet providers usually do not invest in areas with a similar population concentration. At the end of 2006, the Internet access provided by TEO was available to about 75 per cent of Lithuanian population. In order to improve Internet access, in 2006 TEO implemented ADSL access in 296 villages and small towns. Seeking to assure the best possible quality of Internet services in already existing points and to ensure the possibility to connect new DSL nodes, TEO invested more than LTL 2.6 million in 2006. Last year the ADSL network's construction was the fastest since 2001, when the Company launched the provision of ADSL-based Internet access services.

In 2006, TEO implemented four Divide Reduction campaigns, during which Internet penetration in the country's regions was increased. The campaign attracted 20 thousand new customers – 26 per cent of the total number of new users of broadband Internet services – were attracted to use the ZEBRA broadband Internet services. The installation of Internet and telephone lines did not cost anything for them.

WIRELESS INTERNET DEVELOPMENT

In 2005, TEO launched the installation of wireless Internet (WiFi) hot-spots and during 2006 increased their number from 287 to 804. For the whole year, TEO has been providing users with the possibility to use the ZEBRA wireless Internet for free in public places – cafés, shopping and entertainment centres, petrol stations – there where it is most needed.

DEVELOPMENT OF DIGITAL TECHNOLOGIES

In 2006, the IP telephony platform (VoIP), constructed and implemented by TEO, opened the possibilities to provide to the user all (IP telephony, Internet television, Internet) services over a single access line. That allowed TEO to disengage its six outdated analogue switching exchanges in 2006 and to save energy resources. Already now, in about 70 village and small town areas, where optical access is available, it is possible to provide high-quality digital television (GALA) over IP network. GALA TV, which was introduced in October 2006, provides the possibilities to manage TV content, watch foreign TV channels in different languages, and to have high audio and video quality. In 2011, in Lithuania analogue terrestrial television will be switched off and it will be replaced by coded digital communications.

REDUCTION OF THE DIGITAL DIVIDE BY AGE

The Company offers retired and socially disadvantaged persons lower tariffs for telephone calls. Elderly people, who comprise about 40 per cent of TEO users, have the possibility to communicate with their family members and relatives more frequently, as they get discounts on local calls. In 2006, among the users of the Local payment plan there were more than 43 thousand socially disadvantaged persons and almost 170 thousand retired persons.

“WINDOW TO THE FUTURE”

In 2006, the “Window to the Future” alliance, promoting the development of knowledge society, implemented the continuous project “The Fundamentals of Computer Literacy for E-Citizens of Lithuania”. A partner of the

project – Kompetencijos Ugdymo Centras, a subsidiary of TEO, – organized computer literacy courses.

From September to December 2006, the courses were attended by 11,194 citizens of Lithuania. They were taught by 215 lecturers-volunteers, trained by Kompetencijos Ugdymo Centras. The Company arranged ten seminars for the course lecturers during which they were familiarized with the project’s methodological materials and the database, and also installed 234 computer classrooms. The training was held in all 60 municipalities of Lithuania: 661 – in cities and towns; 246 – in rural areas. The project will run till 2008 – during this period it is planned to provide free training on Internet usage fundamentals to 50 thousand grown-up residents of Lithuania who have not used Internet before.

The project’s training programme has been developed on the basis of the computer literacy standard approved by the Government and tailoring its training content to the E-Citizen programme.

INFORMING OF CUSTOMERS

TEO seeks that the information disseminated about its services is easily accessible, clear, transparent and valuable to the user.

Provision of the information about the Company's services is regulated by the Law on Electronic Communications and by the Rules for Provision of Electronic Communications Services. These regulatory enactments obligate the Company to make public the information about services, including tariffs, as well as the information about the subscriber's rights, and model agreements.

TEO fulfils these requirements by informing its customers and users directly or via mass media. The Company annually surveys how customers evaluate the information provided by the Company.

THE CUSTOMER INFORMATION SYSTEM

In 2006, TEO improved the Customer Information System and paid much attention in particular to direct contacts and to the strengthening of communication with target groups.

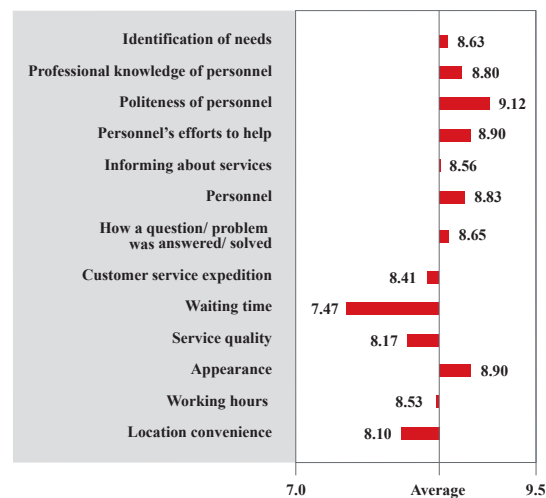
The Company most often communicates directly with 600 thousand of its customers. Other users get the information about the Company's services via mass media.

In 2006, the provision of information about products and services by TEO was evaluated by customers at the score of 8.7 out of 10. (Source: TNS Gallup).

Channel	Number of contacts / persons reached per month
Customer care by telephone	200,000
Provision of information at customer care centres	30,000
Self-service website <i>www.teo.lt</i>	40,000
Direct contacts with TEO sales and technical personnel	100,000
Mass media	300,000
Provision of information in bills A publication for customers (TEO pasaulis (TEO World))	Circulation: 600,000 Readability: 200,000
Direct communication: direct mail, telemarketing; a publication for customers (TEO verslui (TEO for Business))	30,000

CUSTOMER EVALUATIONS – THE HIGHEST

The results of the customer opinion surveys on customer care and information provision that were carried out by the research company TNS Gallup in 2006 are the highest in the telecommunications sector. In 2006, customers gave the highest evaluation to TEO services and customer care. As compared with 2005, the biggest improvement was in the evaluation of the image of TEO, prices and quality of its services. TEO is more and more often viewed as a company concerned about its customers, dynamic, improving and professional.



Source: TNS Gallup

MYSTERY SHOPPER

The mystery shopping research, carried out by TNS Gallup in 2006, revealed TEO to be one of leaders in Lithuania and a leader among the telecommunications companies carrying out such researches (TEO score is 9.4, while the general evaluation score of telecommunications companies – 8.7). TEO is distinguished from others for its communication skills and abilities to identify customer needs.

The Company also constantly evaluates the quality of customer service and work of the technical personnel, working at customer premises. According to the customer survey data, 96 per cent customers are satisfied with installation works and 91 per cent – with fault elimination works. The customer satisfaction is mostly determined by the personnel's knowledge and competence, in which the Company invests continually.

According to the data of four “mystery shopper” and “mystery calling” researches (Q4 2006), the customer care level reached in average a 9.2 score with regard to customer service at customer care units and by telephone at contact centers.

INTERNET LESSONS FOR CHILDREN

The company TEO seeks that the information about its services reaches users of all age groups. From 2005, Jonvabalis Žybsis (Twinkler the Lightning-Bug), a personage created by TEO, arranges Internet lessons for the littlest users of Internet – readers of the magazine for children "Bitutė" and visitors to www.zebra.lt.

Jonvabalis Žybsis (Twinkler the Lightning-Bug) tells the history of origination and development of computers and Internet, teaches by means of practical examples how to find information, required for homework, on Internet, how to use virtual dictionaries, maps, how to write an e-mail.

Jonvabalis Žybsis (Twinkler the Lightning-Bug) reveals not only advantages of Internet, but also teaches children how to browse Internet safely.

- "The amount of time I spend browsing Internet per day is not more than half an hour or sometimes – an hour. This time is enough for me to do everything: for both work and entertainment. Do you know why? It is simply because I know how to use Internet and I do not stick on Internet if there is no need to do so. I never associate with Internet villains, who want to do damage to other Internauts, so I easily avoid all dangers of the virtual world."

Jonvabalis Žybsis (Twinkler the Lightning-Bug)

MARKETING

In carrying out advertising activities, TEO follows the principles of fair communication and non-misleading of customers, irrespective of the fact that this might cause damage to economic efficiency.

In 2006, the Company approved the Requirements for the Advertising of TEO LT, AB and its Services and the Advertisement Preparation and Coordination Guidelines, aimed to follow uniform standards at the Company and to ensure the compliance of advertisements with effective legal acts. Since June 2006, TEO cooperates with the advertising self-regulatory association Lithuanian Advertising Bureau ("Reklamos biuras") and observes the Code of Advertising Practice.

A MEMBER OF THE LITHUANIAN ADVERTISING BUREAU

In 2006, TEO became a member of the Lithuanian Advertising Bureau, which seeks to ensure the broadcasting of ethical advertisements in the country.

The Lithuanian Advertising Bureau – an advertising self-regulatory institution, founded by Lithuanian advertising agencies, advertising clients and media representatives in 2005. Its members have issued the Lithuanian Code of Advertising Practice, which economic entities participating in advertising business voluntarily commit to observe, and on the basis of which it is evaluated whether or not an advertisement is legal, truthful, honest and compliant with the effective laws, whether or not it mortifies human dignity, insults religious feelings or political convictions, promotes behaviour harmful to health and/or environment. The

Code also helps to evaluate whether or not the advertisement misguides and/or harms the consumer, or abuses the confidence of consumers, their lack of experience and/or knowledge.

The Arbitration Commission, composed of the representatives of advertising clients, advertising agencies, television, press, the State Consumer Rights Protection Authority, the Competition Council, the Office of Equal Opportunities Ombudsperson, and the Children's Rights Protection Service as well as psychologist and sexologist, decides whether or not the advertisement is in compliance with the provisions of the Code. The Bureau's members must comply with the decisions of the Commission.

CESSATION OF MISLEADING ADVERTISING

In 2006, TEO ceased the use of the advertisement, which in March 2006 was acknowledged by the Competition Council as misleading according to Article 5 of the Law on Advertising.

In advertisement the Company used the statements to inform users about the possibility to take advantage of the income tax refund scheme while acquiring a PC for one litas and installing the Takas iD Internet service.

It was stated in the advertisement that the user, having acquired a PC and paid for the Internet installation by instalments for the period of three years, would get a refund of 33% of the total payments. At the time when the advertisement was broadcasted (2005) it was not yet known whether the income tax refund scheme for PC buyers would be extended for 2007-2008.

Later on, the Seimas of the Republic of Lithuania – as expected by the market players – extended the income tax refund scheme, mentioned in the advertising of TEO, for 2007-2008.

In order to avoid misleading advertising statements in future, in June 2006 the Company approved the Requirements for the Advertising of TEO LT, AB and its Services and the Advertisement Preparation and Coordination Guidelines.

HEALTH AND SECURITY OF USERS

The services provided by TEO conform to the requirements established in the Law of the Republic of Lithuania on Product Safety, norms of hygiene, and are safe and provided by using certified equipment.

Users are familiarized with instructions for equipment use and informed about the possible impact of equipment on their health.

TEO is concerned about the protection of users against unauthorized PC access, fraud, and distribution of improper content.

INFORMATION ABOUT HEALTH - ON THE INTERNET

In 2006, on the ZEBRA Internet portal, TEO advised how to preserve working capacity and health when working with a PC. The Company informed Internet users that it was not working with a computer, but rather improper working conditions that negatively impacted health. On the portal, the Company posted the descriptions of work and rest regimes, recommendations how to not get tired of working with a PC, information about the factors having impact on health when working with a PC.

TEO recommended the portal's visitors to use quality PC equipment, how to set up work places according to individual physical properties and the nature of work. The Company stressed the importance of appropriate work and rest regimes that should be differentiated according to the nature of occupation.

CONTROL OF INFORMATION INTENDED FOR ADULTS

When developing new products, TEO takes into consideration their possible undesired impact on certain user groups. The users of the GALA television service that was introduced in 2006 have the possibility to block the channels intended for adults or to take out a TV card in order that children cannot watch adult-rated programmes. In future, the Company is planning to provide its users with the possibility to block several channels.

FRAUD PREVENTION

TEO performs the monitoring of the bills of its customers – fixed-line telephony subscribers – which allows preventing fraud. Having noticed substantial changes in a bill indicating that the customer has used telephony services unusually a lot, the Company warns the customer of that. Thus, the customer is protected against possible fraud or reckless and careless behaviour with a phone in future, for example, a bill might increase considerably as a result of children using the phone for calling international or toll numbers.

PROTECTION AGAINST UNAUTHORIZED ACCESS

The Company offers the users of the ZEBRA Internet services the means intended for the protection of computers against Internet hackers – firewalls. These means restrict the possibilities of external computer access and also protect both the computer itself and the data and information stored on it. On the ZEBRA Internet portal, the Company's customers can select either a high or medium protection level. They are informed about this possibility on www.zebra.lt and in publications for customers.

ENSURING CUSTOMER DATA PRIVACY

TEO provides consultations to its customers and helps them solve customer data security issues. TEO employees respect the customers' right to privacy and protect the confidential information provided by them. This information is neither made public nor used to the prejudice of customers or for the benefit of any third parties.

The policy of TEO with regard to the assurance of customer data protection is implemented in compliance with the Law on Legal Protection of Personal Data and the Law on Electronic Communications. In providing personal data, TEO LT, AB cooperates with other enterprises and state institutions in accordance with the procedure established by law.

SECURITY POLICY OF UAB BALTIC DATA CENTER

In seeking to assure the protection of customer data, UAB Baltic Data Center, a company providing IT services, has a definite security policy and an implemented modern information security management system. This system helps to control, analyze, monitor and improve the protection of the company's information, as well as to identify the most important information sources.

Every employee of the company strictly adheres to the instructions provided for in the company's security policy

and is personally responsible for security within the company. This is established in confidentiality agreements, which continue to be in force upon termination of employment relations with the company. Confidentiality agreements are also signed with subcontractors, partners and consultants.

SECURITY CERTIFICATE

In 2006, SFS-Inspecta Certification, a Finnish audit company granted UAB Baltic Data Center with the BS7799 Standard Compliance Certificate, the first ever granted to a Lithuanian company.

The BS7799 Certificate is to prove that the company's information security management system has been checked against the best practice standard and found compliant with its requirements. This confirms that the company takes all measures required to protect the information against unauthorized access and modifications, and assures the employees' observance of the security rules.



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.

Following the principles of harmonious development, TEO pays special attention to the use of energy and hazardous materials, waste management, work and product requirements, and the provision of information and data on the organisation's impact on the environment.



Back in 1996, ETNO launched its Environmental Charter, confirming high level environmental protection standards. Since 2006, TEO has also committed to observe these standards.

THE ENVIRONMENTAL CHARTER OF ETNO

■ **AWARENESS**

We shall aim to ensure recognition and acknowledgement of all relevant environmental impacts, including the positive and negative impacts of our products and services. In particular we shall build the environment into our training programmes and company communication programmes.

■ **REGULATORY COMPLIANCE**

We shall strive to achieve full compliance with all relevant environmental legal requirements, and to exceed these requirements where appropriate.

■ **RESEARCH AND DEVELOPMENT**

We shall support research and development into the contribution new telecommunication services can make to sustainable development.

■ **PROCUREMENT**

We shall build environmental considerations into our procurement processes. Special attention will be paid to: energy-consumption, waste management, process and product requirements, the use of hazardous materials.

■ **PROVIDING INFORMATION**

We shall provide relevant data and information about our environmental performance to employees, customers, shareholders and governments.

■ **ENVIRONMENTAL MANAGEMENT SYSTEMS**

We shall implement environmental management systems which support the development of appropriate and well-structured environmental protection.

REDUCED MOTOR VEHICLE POLLUTION

In order to reduce vehicle running costs and fuel consumption, in 2006 TEO updated its own vehicle fleet with 97 new motor cars, such as Volkswagen Polo, Mitsubishi Colt and Fiat Grande Punto.

TEO updates its own vehicle fleet every year by acquiring vehicles with combustion gases neutralizing systems that are designed to reduce the amount of pollutants in emitted gases. All newly purchased vehicles have catalysts installed and are compliant to EURO 3 and EURO 4 standards. TEO vehicles are serviced by manufacturer-authorized vehicle service centres.

AN ECOLOGICAL BUILDING

To the order of TEO, in 2006 the project of a new administration building was developed. When developing the project, it was sought that the building should not have any adverse effect on the environment.

In 2008, TEO will move into the new head-office that will rise on the right bank of Neris – the biggest river in the capital. The Company's building will harmoniously integrate into the city's environment and will meet all ecological requirements. New technologies will allow making better use of natural resources and reducing building operation costs. The group of architects, headed by S. Pamernickis, have taken into consideration the

possibilities to reduce electric energy consumption. For example, by means of modern technologies, indoor premises will get heated less and thus air-conditioning needs will diminish. In the new building it will be possible to use rain water. For building the façade of the new head-office of TEO, a natural stone – granite – has been selected.



WASTE RECYCLING

In order to save natural resources, since 1999 TEO has been cooperating with UAB Elektroninių Mašinų Perdirbimas (EMP) in the areas of waste processing and recycling. TEO has concluded service agreements with EMP for the collection of waste luminescent lamps, cables, and ferrous metal scrap. TEO also cooperates with UAB Bateris, which collects waste accumulators. During 2006, in Vilnius region TEO delivered 1.107 tons of luminescent lamps and 22.3 tons of cable scrap for recycling.

TEO uses and implements ecologically clean technologies, reduces production and non-production waste. By its activities TEO actively supports the objective of EMP to create a modern and universal waste sorting, collection and recycling system where all types of waste could be conveniently and quickly processed and recycled, and secondary raw materials produced from them could be used for manufacture of new products.

- *EMP – the largest electronic waste recycling company in the Baltic States. It was established in 1999. The company's operations contribute to fulfilling Lithuania's commitments to the European Union by 2008 to recycle 4 kg of electronic equipment waste per capita.*
- *At the end of 2004, EMP started developing a logistics system for free collection of electronic waste from residents and businesses all over Lithuania. Now, every day about 30 EMP cars run in ten counties of Lithuania and collect electronic waste free of charge from private and legal persons, who have called the toll-free line 8 800 10 108.*

The system described in the project would provide the possibility to control various house management systems: to turn on or off lightning, water supply, alarm systems, to regulate interior lightning by adjusting blinds or curtains. There would be a possibility to regulate heating and ventilation in separate rooms.

The project “High Technologies and Equipment of Future Housing” was presented in 2006 at the exhibition Intelligent Home, held at the Lithuanian Exhibition Centre "Litexpo". TEO, which uses the most modern technologies, seeks to encourage society to use them as well.

VISION OF FUTURE HOUSING

In 2006, TEO cooperated with Computer Department of the Kaunas University of Technology in implementing the project “High Technologies and Equipment of Future Housing”, aimed at creating an intelligent system for improving housing comfort. The project was based not only on the improvement of housing conditions, but also on the economy of natural resources, energy, and the reduction of environmental impact. It is planned that in future the possibilities to adapt the system’s possibilities both in Lithuania and abroad will be big, because the product is intended for medium-income users.



CORPORATE SOCIAL RESPONSIBILITY IN RELATIONS WITH EMPLOYEES

For its employees, who are considered to be the Company's biggest asset and success factor, TEO ensures fair and timely work remuneration and social insurance in case of temporary incapacity for work, and also the right to rest and annual leave.

TEO eliminates forced and child labour and seeks that this principle is followed by the Company's partners and suppliers.

TEO recognizes the right of its employees to voluntarily join unions or association and also their right to bargain with the employer.

The Company pays much of attention to the emotional satisfaction of its employees, promotion of their motivation, and development of their professional knowledge and skills. In order that the employees' performance is in compliance with the values and principles as well as general moral norms of the organization, the culture of the organisation is being fostered.

TEO has also approved the Code of Ethics. The rights and interests of the Company's employees are ensured by the Collective Bargaining Agreement, concluded between the employer and the representative office formed by the Trade Union.

EMPLOYEE LOYALTY SURVEY

Specialists of Human Resources Unit of TEO regularly carry out employee opinion surveys. The results of such surveys are taken into consideration when improving employment relations and environment.

In 2006, TEO conducted a survey of the factors promoting employee loyalty. The goal of the survey was to identify the factors increasing employees' motivation and enhancing their loyalty to the organisation, and to evaluate the importance of these factors. The survey involved 75 randomly selected employees of the Company who discussed in groups using the brainstorm technique.

The survey results have revealed that TEO employees most value provision with work equipment, proper management and appreciation from the top management, good working environment, and feeling of security. Also,

the employees have mentioned proper work organisation and pay, development and career opportunities as well as the Company's image.

JOB SATISFACTION SURVEY

The survey conducted in 2006 has showed that TEO employees' job satisfaction is higher than the average recorded among employees of other companies in Lithuania. The Company's employees are best satisfied with the nature of their work, management and physical working conditions. The survey participants have rated their satisfaction with work at the Company at the score of 8.19. Almost a half of the surveyed employees are motivated and do not see any reasons to work somewhere else.

During the survey, TEO employees indicated responsibility, helpfulness, adaptability and attentiveness as the most important values in work, while the values they considered unimportant were caution, lenience and autonomy.

EVALUATION OF INTERNAL COMMUNICATION

The Company pays special attention to internal communication. In 2006, the main means of informing the Company's employees was through the internal publication Mūsų TEO (Our TEO) and the intranet TEO Lyga (TEO League).

For new employees of TEO, the Company has developed a special publication – A Newcomer's Guide (Naujoko knyga), which provides an introduction to the Company, its organisational structure, services provided, traditions, management and work organisation processes.

- The internal publication Mūsų TEO (Our TEO) has old traditions, as it has been published since 1995. It communicates the most important information concerning TEO Group: its daily operations, new services, general procedure, promotion campaigns, TeliaSonera, the Lithuanian telecommunications market, sponsorship projects, and the Company's festivals. The publication is issued every Friday by Corporate Communication Unit.
- The intranet TEO Lyga (TEO League) was started in 2000. The intranet publishes news that are relevant to the Company and its employees, and also promotion campaigns, internal regulatory acts, media reviews. The publication Mūsų TEO (Our TEO) is also distributed via the intranet TEO Lyga (TEO League). Every division and every unit have their own columns on the Intranet.

EVALUATION OF COMMUNICATION

In 2006, the Company conducted an evaluation of the effectiveness of its internal information channels. According to its data, employees stated that they received sufficient information on what was going on in the Company. They indicated the intranet TEO Lyga (TEO League) as the best source of information on the Company's activities and evaluated it at the score of 7.12 out of 10 possible.

The internal publication Mūsų TEO (Our TEO) is read by more than 42 per cent of respondents. Most frequently, it is read on the intranet. Every issue of the publication is read, on the average, by 1,100 unique readers – employees of TEO Group. They are mostly interested in personnel-related information (salaries, training, social issues, etc.), news and strategy of TEO Group.

HEALTH AND SAFETY OF EMPLOYEES

TEO seeks to ensure healthy and safe working conditions for its employees, therefore special attention is paid to employees' health protection, prevention of occupational diseases, physical activity promotion.

The creation of safe and healthy working conditions is established by the Collective Bargaining Agreement and is regulated by the Labour Code of the Republic of Lithuania and other legal acts on employee safety and health, the Company's Policy on Safety at Work.

COMMITMENTS TO EMPLOYEES

In 2006, TEO Group employees were additionally insured against accidents at work and on the way to/from work with the Company's own funds. Employees, who are likely to be exposed to occupational risk factors at work, are vaccinated every year with the Company's funds. Employees are provided with special outfit, shoes and other personal protective equipment in a timely manner and free of charge. At working places, employees are supplied with first aid kits. The Company organises tests on individually and collectively used protective aids and examinations of working environment and working places.

ACCIDENTS

In 2005, 21 accidents were recorded in TEO, 11 of which occurred at work, other – on the way to/from work. In 2006, the number of accidents decreased by 29 per cent.

TEO employee accidents

2005	Total	At work	On the way to / from work
Number of accidents	21	11	10
Light accidents	20	11	9
Severe accidents	0	0	0
Fatal accidents	1	0	1
Of which group accidents		1 (3 persons suffered)	1 (2 persons suffered, 1 of them died)

2006	Total	At work	On the way to / from work
Number of accidents	15	6	9
Light accidents	12	4	8
Severe accidents	1	1	0
Fatal accidents	1	1	0
Of which group accidents	1	1	0

SPORTS

The Company promotes the wellness of its employees by providing all employees of TEO Group with the possibility to go in for sports free of charge: to attend a swimming pool, play basketball or volleyball at sports halls rented by the Company for its employees.

In 2006, the basketball championship of TEO Group employees was arranged for the seventh time. As in 2005, the TEO team Pears of Fear took the 1st place. The second place was won by the team Vilnius of UAB Omnitel that was participating as a guest, the third place – by the team Stumbras from Kaunas. In total, nine teams of TEO employees took part in the championship.

THE SOCIAL NEEDS FUND

The Social Needs Fund, which is intended to develop the organisation's culture and to meet the social needs of employees, has been established in the Company. In 2006, the Fund allocated more than LTL 3 million for employee allowances, culture and sports events, and rent of the basketball hall.

The Fund is administered by the Committee of the Social Needs Fund that is composed of representatives of the employer and trade unions.

Purpose of the funds allocated by the Social Needs Fund	Amount spent (in thousands of LTL)
Allowances	325.91
Culture and sports events, rent of sports halls	166.65
Fostering the organisation's culture	1,060.67
Total	1,553.23

EMPLOYEE TRAINING

The company TEO pays a lot of attention to increasing the responsibility of managers and employees, developing their professional competences and strengthening their motivation.

Performance quality and promotion systems are constantly improved. In 2006, TEO allocated, on the average, twelve hours of training per employee – two hours more than in 2005. Trainings are constantly arranged for the employees of all companies belonging to TEO GROUP. In 2006, the Company allocated LTL 1,533.76 thousand for training needs.

In 2006, more than a half of TEO employees were involved in various training programs. About 1,200 employees and managers from different levels were trained to work according to the Customer Service Standard of TEO, 320 specialists improved their knowledge and skills in the sales area. Seeking to develop business development competences of employees, in 2006 special programmes for work with newly-implemented IT technologies and their maintenance were worked out.

In order to evaluate the performance efficiency of employees, employee performance evaluation discussions are conducted with employees at the beginning of every year. During them, all managers meet with every employee individually and evaluate the latter's competence and success in achieving the targets set for the last year, agree on new activity targets and employees' training needs. In 2006, such performance evaluation discussions were held with more than 80 per cent of TEO employees.

TEO EMPLOYEE TRAINING PROGRAMMES IN 2006

In March 2006, TEO and Lintel were allocated about LTL 3 million of the European Union's funds for employee training and increasing their competence. With the help of these funds, about 300 different training events will be arranged that will involve the participation of approximately a half of TEO employees. The project will run till June 2008. Having taken into consideration the main targets of the project, it is planned to implement the programmes intended to develop managers' skills in business management, sales, project management, as well as the programmes to improve technological knowledge and skills, a programme for integration of new employees, etc.

Management Training Programme

- In 2006, the Company continued the Management Training Programme. This programme is aimed at strengthening the capabilities of the organisation's managers in leadership, efficient application of business management principles, forecasting of market changes and trends, taking advantage of them, ensuring employee motivation. This programme includes the management competence evaluation, which helps to more precisely identify the areas in which the competences of the Company's management are strong and those where they need to be improved, and to provide guidelines for future training.

Programme for Newly Employed Staff

- Seeking to speed up the adaptation of newly employed staff, 156 new employees of TEO participated in the

Introductory Programme for Newly Employed Staff in 2006. During the program, the Company's top-level managers presented the vision, mission, strategy and targets of TEO, specialists shared their experience in service and product development and gave an introduction to relevant development-related issues.

Training of Sales Specialists

- In 2006, as the number of sales employees grew rapidly, a lot of attention was paid to their training. For that purpose, three training programmes have been designed. The first programme, called Sales Fundamentals, is intended for young and inexperienced employees. The programme Entrepreneurship Fundamentals and Efficient Sale has been designed for employees who have basic sales skills. Advanced employees, who are capable of offering more complex solutions to business customers, work according to the programme, called Sales Skills Improvement.

EQUAL OPPORTUNITIES

TEO ensures equal rights for its employees, following the prohibition of discrimination in respect of age, gender, origin and convictions that is established in the Constitution of the Republic of Lithuania and other labour-related laws.

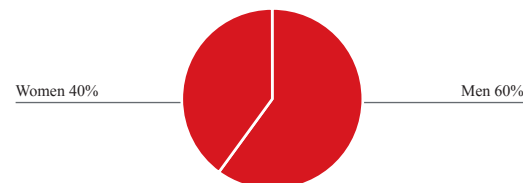


There were no cases of discrimination or infringements in the above-mentioned respects recorded in the Company neither in 2006 nor before.

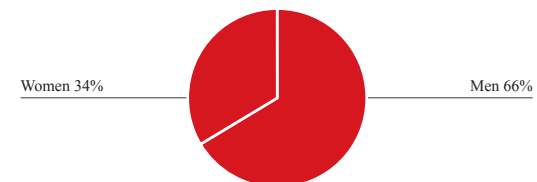
The Board of TEO that was elected in 2006 is composed of six men and one woman. All members of the former Board were men only. The majority of the top-level management positions in the Company are held by men. TEO Group companies are headed by two women and four men.

According to the data as on December 2006, the total number of employees (headcount) in TEO Group was 3,098: 2,007 men and 1,091 women.

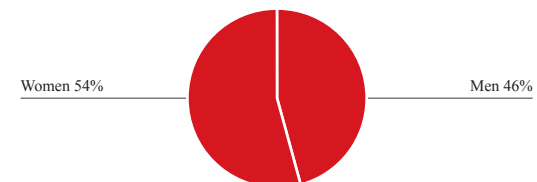
Employees of TEO LT, AB



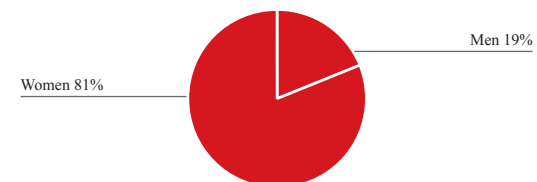
Employees of UAB Baltic Data Center



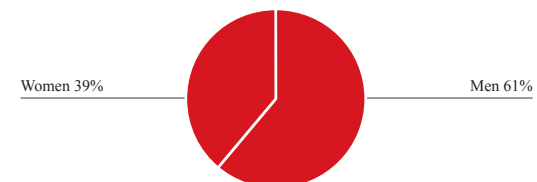
Employees of VšĮ TEO Sportas



Employees of UAB Lintel

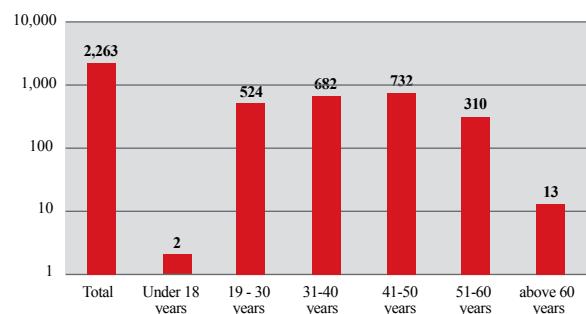


Employees of UAB Kompetencijos Ugdymo Centras



DISTRIBUTION BY AGE

The average age of the employees of TEO LT, AB – 39.3 years. The biggest number of employees are in the age groups of 31–40 years (682) and 41–50 (732), while the number of employees in the age group of 19–30 is a little lower (524).



DISTRIBUTION BY EDUCATION

According to the data as on December 2006, 51.9 per cent (1,175) of TEO LT, AB employees had higher education, 1.1 per cent (25) – special secondary education, 24.5 per cent (554) – secondary and 0.4 per cent (9) – uncompleted secondary education.

WORKPLACES IN REGIONS

More than a half of TEO Group employees work in Vilnius, however the Company has also created many workplaces in different regions of Lithuania. For example, even 95.6 per cent of UAB Lintel employees work not in the capital, as the company has branches in Kaunas, Klaipėda, Panevėžys and Radviliškis.

Employees of UAB Lintel (31 December 2006)

Radviliškis	133
Administration	11
Consultants	122
Kaunas	249
Administration	17
Consultants	217
Editor administrators	2
Editors	13
Klaipėda	113
Administration	14
Consultants	99
Panevėžys	165
Administration	19
Consultants	146
Centre	30
Total	690

CULTURE OF THE ORGANISATION

TEO fosters traditions, which bring together and unite all employees of TEO Group.

Every year, the Company arranges the celebration of the Day of TEO, and the Employee of the Year election. Also, employees have the possibility to contribute their ideas to the Bank of Ideas.

EMPLOYEE OF THE YEAR ELECTIONS

In 2006, 19 best employees of TEO Group were elected and awarded for the first time. The awards were aimed at recognizing and appreciating those employees of the Company who had achieved excellent performance results and whose work and behaviour had been in accordance with and implementing the values of TEO. These awards will become a traditional part of the organisation's culture.



DAY OF TEO

The Day of TEO is an annually arranged gathering of TEO Group employees and the most important customers of TEO that involves interpersonal communication, entertainment and festivity. On the occasion of the Day of TEO, the Company's employees are granted an additional day off.



In 2006, the Day of TEO was celebrated in the Šešuolėliai Manor (Širvintos district) by more than 1,700 employees and guests of TEO Group.

BANK OF IDEAS

The Bank of Ideas has been working in TEO since 2004. This competition is aimed at encouraging the Company's employees to propose their ideas related to improvement of the organisation's activities.

During the whole year, employees have possibility to send their proposals to a special e-mail address of the Bank of Ideas. Every quarter of the year, the commission selects the five best ideas and then the voting for one of them is held on the intranet TEO Lyga (TEO League). At the beginning of the year, the four best Quarterly Ideas are presented to the Company's managers, who select the most valuable one – the Idea of the Year. The authors of Quarterly Ideas are awarded prizes and the author of the Idea of the Year – a premium. In 2006, the idea, how to promote users to have fixed telephone lines installed, was selected as the most useful one.



CORPORATE SOCIAL RESPONSIBILITY IN RELATIONS WITH SOCIETY

By annually supporting various social and cultural projects, TEO seeks to ensure the long-term harmonious progress of business and society, to contribute to the social development and welfare of society, and the creation of e-society.

TEO is one of the biggest sponsorship providers in Lithuania and has long-standing traditions of relations with communities. By actively participating in public life, the Company aims not only to influence positive changes in the country, but also, through its own example, to create and strengthen philanthropic traditions in Lithuania.

TEO views sponsorship as social investment – the values of supported organisations need to be close to the Company's own values. Also, it is important that support funds are used purposefully and have a long-term value.

The main sponsorship directions of TEO have formed on the basis of the Company's strategy, business area and issues relevant to society. Traditionally, TEO pays the biggest attention to educational, sports, healthy living, culture and science projects; focuses on socially vulnerable groups, the youth, district communities. When selecting sponsorship directions and projects, TEO considers, first of all, their benefit to society – whether or not they would help solve relevant problems or give publicity to problem solving possibilities.

In 2006, TEO gave priority to educational and knowledge society creation and development projects, the necessity of which in society had noticeably increased.

Support and other allowances are not provided to profit-seeking and political organisations and parties, religious communities, brutal sports representatives, gaming

organisers, illegally operating organisations. Support is not granted to private persons either.

- The Company signs one sponsorship agreement more frequently than every other day – during 2006, 184 agreements were concluded in total. In 2006, the Company allocated LTL 3,850,353 to support public and social projects.



INVESTMENTS IN THE PROGRESS OF SOCIETY

TEO – a socially optimistic and progressively thinking organisation.

TEO believes in the progress of society and in the future created through joint efforts where more and more resources are allocated for material and spiritual creation. By supporting this, TEO invests in scientific and cultural initiatives as well as young members of society through various education and development programmes.

NATIONAL ADVANCEMENT PREMIUM

One of the most impressive projects sponsored by TEO in 2006 – the National Advancement Premium, established for the first time. TEO, together with the initiators, partners and other sponsors of the Premium, signed a Manifesto of Advancement, naming the objective to properly recognize and appreciate the achievements of Lithuanian science as well as the people, having made them. At the end of May 2006, for the first time in Lithuania, the following three premiums were awarded: Science Advancement, Partnership Advancement and Culture Advancement. They were awarded to honour Lithuania's meritorious people in science, business and culture who had been promoting the country's advancement with their ideas, discoveries, original solutions or their world accomplishments.

Laureates of the Science Advancement Premium

- Prof. Habil. Dr. Algimantas Marcinkevičius
- Prof. Habil. Dr. Vytautas Jonas Sirvydis
- Prof. Habil. Dr. Giedrius Uždavins

For the implementation of cardiosurgery in medical practice.

Laureates of the Partnership Advancement Premium

- Prof. Habil. Dr. Valdas Algirdas Bumelis
- Prof. Habil. Dr. Eugenijus Arvydas Janulaitis

For the development of the fundamentals of the modern biotechnology industry.

Laureates of the Culture Advancement Premium

- Gintaras Karosas

For founding the open-air museum EUROPOS PARKAS.

TIME TO HELP OTHERS

TEO welcomes the objective of Lithuania to become a country which provides support and by its support contributes to the development of mature society that responsibly looks at the surrounding world. In 2006, TEO supported the information campaign "Time to Help Others" of the United Nations Development Program (UNDP) and became its good-will ambassador and partner. The campaign "Time to Help Others" included various events – a symbolic public walk "Walk the World" in Vilnius, schoolchildren and youth



debates, and a schoolchildren essays contest. The communication and awareness raising campaign "Support: Its Time to Help Others" was broadcasted on TV and radio.

The peak event of the campaign was a live outdoor concert that took place in the Cathedral Square in Vilnius. The concert attracted the audience of 7 thousand people. The Company, together with one of the favourites of the Eurovision Song Contest 2006 – the group "LT United" – and other stars of the entertainment business in Lithuania, invited Lithuanian people not to be indifferent and to help people of developing countries overcome poverty and illiteracy.

GRATITUDE TO THE BEST TEACHERS

Since 2002, TEO has been implementing its own initiated project "Best Graduates Elect Best Teachers". With the help of this project, the Company annually expresses its respect to the best teachers of the country and thanks them for their contribution to the development of the young members of society.

Every year, the Company and the ISM University of Management and Economics organize a survey of secondary school graduates who have passed the state examinations for the school-leaving certificates with the best results. During the survey, graduates are asked

to name their best teachers and to describe them. The list of the best teachers is traditionally announced on the Teachers' Day in October. At the end of the year, all

elected teachers are invited to an event, during which they are awarded diplomas and gifts from TEO. The event also includes a concert by musicians and singers and a performance by actors.

In 2006, the best graduates elected their most loved and most respected teachers for the fifth time already. They elected 111 teachers in total.

IT CONTEST "BEAVER"

In 2006, TEO sponsored the Information Technology contest "Beaver" for the third time. This contest is aimed to encourage Lithuanian children to use computers in learning various subjects, solving logical and mathematical tasks, puzzles, developing their thinking and imagination, to reveal the advantages of modern information technologies and to evaluate their shortcomings.

7,105 pupils of grades 5-12 from 324 schools participated in the contest arranged in 2006. The contest winners were awarded during the second international conference "Informatics in Secondary Schools: Evolution and Perspectives", intended to commemorate the twenty years of teaching informatics in Lithuanian schools. In total, 31 pupils were congratulated.

In 2006, teachers, who had arranged the contest "Beaver" in their schools, were also awarded for the first time. The General Sponsor of the contest TEO awarded them travel tickets to the Eurologo Conference in Bratislava, Slovakia, which will take place in August 2007.



TEO – THE MAIN SPONSOR OF BMI

The Baltic Management Institute (BMI) is the top training centre for business executives in the Baltic States. Its programme curriculum is designed in English and in accordance with universally recognized international standards. Since 1999, more than 300 Lithuanian business representatives from 267 companies have participated in the BMI International EMBA programme. The average age of EMBA students – 34 years, about 80 per cent of them are top and senior level managers. The number of women choosing this programme is growing year by year and at present they constitute 20 per cent of the total number of students.

“TEO is a long standing and one of the main sponsors of BMI. By supporting us, TEO contributes to the implementation of BMI’s goals. We together seek that corporate executives familiarize with the most up-to-date management theories and methodologies, apply them, thus ensuring a steady and even growth of the Baltic region’s economy and its long-term competitiveness. As our Institute co-operates with prestigious business schools in Europe and offers a modern business training methodology, BMI graduates acquire the best western education in business. They become a new, modern and progressive generation of Lithuanian businessmen who have international education and perform successfully. According to our calculations, the companies in which BMI graduates or students are working create about 30 per cent of Lithuania’s GDP.”

Vida Bandis
Director General of BMI

“HARRY POTTER” – IN BRAILLE

Seeking to develop the literacy of the blind and visually handicapped and to encourage their cultural integration, in 2006 TEO supported the publishing of books in Braille. TEO granted support to the blind and visually handicapped in 2005 as well, when financed the publication of a telephone directory in Braille.



Due to the peculiarities of publishing in Braille, the publication of one book for the visually handicapped costs about five times more than that of a usual book. With the Company’s support, in 2006 “Braille Book” published the popular books by J. K. Rowling “Harry Potter and the Stone of Wisdom” and “Harry Potter and the Prisoner of Azkaban” – the first books for visually handicapped children. TEO is planning to support the initiatives of book publishing in Braille in future as well.

- The blind and visually handicapped have the possibility to read the books published in Braille at special libraries, which get such books for free – at the Lithuanian Library for the Blind in Vilnius as well as at its branch libraries in Kaunas, Klaipėda, Panevėžys and Šiauliai and also at mobile libraries in other towns.

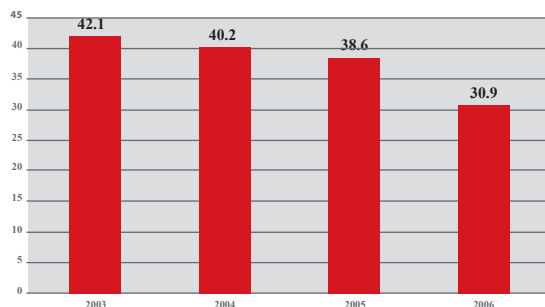
SOCIAL SOLIDARITY PROJECTS

Following the philosophy of socially responsible business, TEO actively participates in the projects aimed at promoting the social solidarity of people and helping those who have suffered different kinds of disasters.

PSYCHOLOGICAL HELP LINES

According to the data of the World Health Organisation, Lithuania is leading according to the sad statistics – Lithuania has the biggest rate of suicides in Europe. Seeking to contribute to solving this sore problem, since 2003 the Company has been supporting the Lithuanian Association of Telephone Emergency Services, psychological help lines for children and youth. The total amount allocated by TEO to support the activities of psychological help lines over the last four years of cooperation – LTL 225 thousand.

The suicide rate in Lithuania per 100 000 inhabitants



Seeking psychological help, people of different ages, from children to seniors, call the Youth Line. Two times a day on the average, the volunteers of the Youth Line receive calls from persons intending to commit suicide. During the last year, they answered about 119 thousand calls. However, the needs for psychological help are not satisfied yet – there was a 19 times bigger number of attempts to call than the service, working on a voluntary basis, could answer.

- Employees of the Child Line want children to feel at least a bit better. Last year, there were 4 million attempts to call the Child Line. What would happen if the Child Line ceased existing? The answer is simple: children would not have anyone to talk to”, – says Robertas Povilaitis, who was announced to be the most tolerant man in 2006.

"CHOOSE LIFE"



Developing the project, last year the Youth Psychological Aid Centre arranged a free suicide prevention concert "Choose Life", the main sponsor of which was TEO.

The initiators of the non-commercial concert had the goal to draw society's attention to the suicide problem in Lithuania, to show that it was possible

find a way out of the most difficult situations in life. The video presentations, which had been created specially for the event, introduced the youth to myths about suicide. Singers and musicians who performed during the concert advised the youth to try finding a way out in difficult moments and not to fall into despair.

About 10 thousand spectators gathered to the Siemens Arena in Vilnius to watch the free concert. The concert won the “Best Idea” title during the Siemens Arena Awards in 2006.

- In 2006, for the long-term support to the Lithuanian Association of Telephone Emergency Services and psychological help lines for children and youth, the Embassy of Sweden in Lithuania and the Swedish Trade Council granted TEÓ LT, AB the award for the project having the most relevant contribution to the development of society in Lithuania.

The support to the psychological aid telephone line Youth Line provided by TEO since 2003 was recognized as the best project of cooperation among youth organisations and the business sector by the Lithuanian Council of Youth Organizations (LiJOT).

SHORT NUMBERS

Every year, by offering its services – mostly by allocating toll-free numbers and refusing its profit – TEO LT, AB contributes to public campaigns intended to help people who have suffered different kinds of disasters or to bring society together to solve social and health problems.

In 2006, the Company allocated short numbers to the following 14 public campaigns and organisations:

- Vilnius Evangelical Lutheran Church;
- Charity and Support Fund to Commemorate the Name of Vincas Kudirka;
- Public Institution Marijos Radijas;
- The public support campaign “Christmas Soup”;
- “Fruition Campaign”;
- “Goodness Day”;
- National Association of Organisations of Women with Blood Diseases;
- Public Institution Pax Et Bonum;
- Directorate of the National Park of the Curonian Spit – for the restoration of forests in Smiltynė;
- Lithuanian League of Human Rights – for the project “I Want to Dream”;
- Public Institution Muzikos Frontas – the project “I Want to See the World”, intended for visually handicapped children;
- Youth Psychological Aid Centre – for the project “Choose Life”;
- Lithuanian Red Cross – funds for the elimination of the effects and consequences of the fire in Švėkšna;
- Civil Society Institute – support to the community of Telšiai.

SUPPORT TO THE COMMUNITY OF THE TOWN OF TELŠIAI

During winter colds in 2006, when an accident occurred on the district heating supply networks in Telšiai, TEO made its contribution to the support given to the community of the town. More than 12 thousand residents of Telšiai were left without district heating and suffered cold in their unheated flats.

On the initiative of the Civil Society Institute and TEO, a short number was promptly announced. By calling that number, Lithuanian people could donate money for sufferers in Telšiai. LTL 85 thousand were donated to the Fund for Support to Telšiai. TEO additionally allocated the support of LTL 7 thousand to the Municipality of Telšiai.

“FRUITION CAMPAIGN”

In 2006, by allocating a short number, TEO supported the “Fruition Campaign”, the biggest support project in Lithuania that was arranged for the fourth time. The goal of the project was to improve the conditions of living, health and education for children in child care homes. During the campaign, the amount of more than LTL 2 million was donated by SMSs and telephone calls to the short number.

TEO and other telecommunications operators, supporting the campaign, refused the administration fee for the SMSs and telephone calls to the campaign’s short number, so children in child care homes received the total amount of donated money.

“GOODNESS DAY”

In 2006, TEO supported the campaign “Goodness Day”, which was intended to support premature newborns. The amount of LTL 1.5 million that was donated during the campaign was distributed among three main hospitals in Lithuania which nurturing and taking care of very small and prematurely born infants. Lithuanian people not only donated money by calling or sending short messages to the allocated short numbers, but also knitted thousands of stockings for premature babies.

“CHRISTMAS SOUP”

In 2006, UAB Lintel took part in the charity campaign “Christmas Soup”, arranged by the Lithuanian Radio and Television as well as the Maltese Order and Franciscan Brothers to support the lonely and needy.

Residents and guests of the cities of Vilnius, Kaunas, Klaipėda, Panevėžys and Šiauliai were invited to donate money – buy soup, cooked according to the recipes of famous Lithuanian people. The money collected during the campaign was given to lonely and needy people in custody of the Maltese Order.

Having joined the charity campaign, UAB Lintel not only allocated funds to arrange it, but also informed about it and donated the distribution of food packages to poor people. The campaign was crowned by a free Christmas concert in St. Catherine's Church.

SUPPORT TO LOCAL COMMUNITIES

By actively participating in community life, TEO seeks to create relations with residents of local communities. In 2006, TEO increased the amount of support allocated to local communities – in total, the Company sponsored the festivals of 70 cities and towns, cultural projects, other initiatives of communities. Especially big attention was given to festivals with unique traditions, reflecting the cultural or historical oneness of cities and towns.

FESTIVAL OF EXPERIMENTAL ARCHAEOLOGY



TEO sponsored the 8th festival of experimental archaeology "Days of Live Archaeology in Kernavė 2006". The festival's accent was the presentation of the history and crafts of the medieval Kernavė town. During three days, the State Cultural Reserve of Kernavė, which had been included into the UNESCO World Heritage List, was visited by more than 10 thousand people. Ancient crafts, soldiery and archaic music were presented by about 300 craftsmen, musicians and soldier-performers from different countries, including Estonia, Germany, Russian and France.

500TH ANNIVERSARY OF THE TOWN OF ZARASAI

In August 2006, the town of Zarasai impressively celebrated even two anniversaries – the 500th anniversary of the foundation of the town and the 100th anniversary of the consecration of St. Mary's Assumption Church in Zarasai. A sculpture called "The Deerfish", symbolizing the heraldry of the town of Zarasai, was solemnly unveiled during the anniversary celebration festival. With sponsorship from TEO, the sculpture "The Deerfish" was created by Henrikas Rakauskas.



"BORDER FIESTA" ON THE BORDER BETWEEN POLAND AND LITHUANIA

In June 2006, TEO sponsored the traditional festival of the district of Lazdijai (Republic of Lithuania) and the county of Sejny (Republic of Poland) – the "Border Fiesta". Amateur fishermen from all over Lithuania gathered to the Galadus (Galaduš) lake lying on the border between Poland and Lithuania. They competed for the Mayor's Cup, participated in the boat spinning competition. The festival's program included performances of art and folk groups and famous musicians from Lazdijai, Sejny and Suwalki (Suwalki).

THE ONLY IN EUROPE MUSHROOM FESTIVAL



On the last Saturday of September each year, Varėna arranges the Mushroom Festival – the only festival of this kind in Europe. The festival of harvest and ancient Dzūkian crafts and merry-making has been inviting passionate mushroomers from all over Lithuania since 1987. Participants of the festival held in 2006 admired ancient Dzūkian crafts and trades, tasted Dzūkian dishes and products made of mushrooms, berries, etc.

ŽAGARĖ CHERRY FESTIVAL



The Žagarė Cherry Festival – the festival of cherry harvest that is intended to promote the economic and cultural development of the Žagarė region. Žagarė is one of the oldest towns in Lithuania and it is famous for its cherry liqueur and horses, therefore namely these berries and this drink have become the main accents of the

event. Visitors of the year 2006 festival, which was sponsored by TEO, enjoyed a horse competition, a sports competition, exhibitions, a fair, a strongmen competition and football games.

CULTURE PROJECTS

TEO seek that the country's professional art and culture have the possibilities to develop unhampered and be available to Lithuanian residents. In 2006, TEO actively sponsored different culture events.

“POETRY SPRING”

In 2006, TEO was the main sponsor of the oldest poetry festival in Lithuania - “Poetry Spring”. This festival is the most outstanding international literary event in Lithuania that is organized by the Lithuanian Writers' Union. The festival includes the readings of poetry by Lithuanian and foreign poets, the participation of actors, singers, musicians and artists. During the festival, the most outstanding poets are honoured, prizes for poetry translations into the Lithuanian language and for Lithuanian poetry translations into other languages are awarded, and also honour is paid to an actor-poetry reciter for the most substantial debut in a poetry almanac.

The festival has been arranged every year since 1965.

MUSIC FESTIVAL “GAIDA”

In 2006, TEO sponsored the music festival “Gaida” – the largest festival of contemporary music in Lithuania. It is a prestigious event that presents creative work of various genres: from chamber, symphony concerts to electronic projects, musical theatre, sound installations, club events, etc. The festival presents the best achievements in contemporary music of the entire world, the latest tendencies and trends in music both in Lithuania and all over the world. The most distinguished foreign musicians are invited to take part in the festival; works that are considered

to be especially successful are performed. One of the festival's tasks – to initiate new projects of Lithuanian composers and performers and to expand the limits of creativity.

PALANGA SUMMER FESTIVAL 2006

In summer 2006, residents and visitors of the city of Palanga were brought together by the becoming-traditional festival “Palanga Summer 2006“, the sponsor of which was TEO. The festival visitors were offered a wide cultural programme: classical music concerts, jazz and electronic music weekends. The musical performance “Notre-Dame de Paris”, the Lithuanian cult rock opera “Love and Death in Verona”, the evening of works by poet Justinas Marcinkevičius as well as many other events were the focus of attention.

MODERN DANCE FESTIVAL

In 2006, TEO was the main sponsor of the 16th international festival of modern dance. It is one of the most interesting culture events in Kaunas and Lithuania that is important both to Lithuanian amateur and professional dancers and art lovers, willing to get acquainted with the progressive culture of the world. For the 16th time, the festival was organized by the modern dance theatre AURA from Kaunas. Last year, the festival took place not only in Kaunas, but also in Vilnius and Alytus. Spectators were introduced to the world's latest trends in modern dance. They also had the opportunity to participate in impressive meetings with the world-famous dance masters from Israel, Switzerland, the USA, Poland, France and Germany.

COMMUNICATIONS MUSEUM



In 2006, TEO allocated about LTL 300 thousand to the Communications Museum in Kaunas for its maintenance and for renewing its collection of exhibits. The museum contains collections of post, radio, telegraph, telephone and informatics exhibits revealing the development of communications in Lithuania and all over the world since the

16th century, documentary materials on the history of communications means. These exhibits are important not only for Lithuania, but also for all Eastern Europe.

In cooperation with culture institutions and private persons, the Museum organizes exhibitions of art, philately, photography, and technology heritage collections, lectures and concerts. Situated in the Old Town of Kaunas, the Museum's building is attributed to the heritage of the history of culture.

SUPPORT TO SPORTS AND WELLNESS

Believing that harmonious development is impossible without healthy living, the Company supports sports and wellness promotion projects and is the main sponsor of the women basketball team TEO.

TEO – A SUPPORTER OF WOMEN'S BASKETBALL



In 2006, TEO was the biggest supporter of the women basketball team TEO Vilnius – the strongest women basketball team in the Baltic region and one of the most powerful ones in Europe. In 2006, the team became the champion of the Lithuanian Women's Basketball League for the ninth time, and also took the 1st place at the Baltic Women's Basketball League for the seventh season in succession. It is the only Lithuanian team fighting in the Europe's most prestigious women's basketball tournament – EuroLeague. In the tournament's 2004–2005

season the team won an impressive victory and took the 3rd place.

TEO aims at changing the prevailing attitude to women's basketball as to a narrow branch of sports, and supports the women's initiative to strive for victories in basketball.

TARGETED WORKOUTS

The health and safety of visitors to the sports and fitness club ZEBRA Sport is ensured by the supervision of

professional trainers and other specialists as well as modern targeted load-bearing workout methodologies.

Upon taking into consideration the needs of its customers, ZEBRA Sport has been one of the first clubs in Lithuania to implement Own Zone, a targeted individual load selection system. This system helps the customer select an optimal program, to match requests with body capabilities. During workouts, a portable magnetic tape regularly records a person's heart activity, other health status indicators and thus prevents the risk of wrong workouts.

ZEBRA CLUB IN PALANGA

Seeking to encourage the holidaymakers of the most popular Lithuanian resort to spend their leisure and holiday time actively and purposefully, in summer 2006 TEO opened a ZEBRA Beach Club in Palanga that became an active leisure zone.



Every morning, ZEBRA Sport instructors invited holidaymakers to start their day with ZEBRA exercise, afternoons – by joining a ZEBRA fiesta and playing active beach games: small football, beach volleyball and various relay races.

The high-speed ZEBRA Internet was available at the ZEBRA Club. The Club's visitors had the possibility to check their e-mail, browse the Internet and read the hottest news free of charge.

WATER QUALITY ASSURANCE

The supply of quality water to customers visiting the sports and fitness club ZEBRA Sport is assured by a new water cleaning technology that was installed in 2006. In order to ensure that conditions at the sports and fitness club ZEBRA Sport are safe and not harmful to the health of its customers, the club has installed, at its own expense, the special equipment, which processes the supplied water with antibacterial agents that kill not only bacteria, but also viruses, amoebas, fungus and algae.

The equipment was purchased after harmful Legionnaires' bacteria were found in the pool of the fitness club ZEBRA Sport. The unpleasant incident occurred through no fault of the fitness club: it used the same water as that supplied to other institutions in Vilnius. In order to avoid similar incidents in future, microbiological and parasitological analyses of the water at the fitness club ZEBRA Sport are performed every month.

CHILDREN'S CAMP "HEALTHY SUMMER"

In July 2006, TEO sponsored the children's summer camp, organized by the Vilnius City Municipality. The camp involved 33 children, 13 of whom – from the Vilnius child care home No. 2. Trainers of the fitness club ZEBRA Sport worked with the camp's children.

At the camp, which lasted for one week, children learned the basics of self-defence, modern street dance; participated in workouts, which were interspersed with light effects and video projections; attended a sauna complex and a Jacuzzi. Most of

entertaining games and relay races were organized in the open air – on the bank of the river Neris and in the Vingis Park. Cognitive excursions to the vaults of the Vilnius Archcathedral Basilica, the Gediminas' Castle and other famous places in Vilnius were arranged for children.

COOPERATION WITH THE NON-GOVERNMENTAL SECTOR

By actively cooperating with both the governmental and non-governmental sectors, TEO seeks to promote the development of the information society and to contribute to the improvement of the IT sector's business environment.

The Company's position is not to be involved directly in forming the state policy and in lobbying activities. The Procedure for Provision of Support and Other Allowances, approved by TEO, provides for that the Company shall not provide any financial support to political parties, politicians and political organisations.

In 2006, the partnership of TEO with non-governmental and different associated organizations was focused on the development of information and communication technologies as well as of knowledge society. In 2006, TEO cooperated with the Association of Local Authorities in Lithuania, and was a member of the Infobalt Association, the Vilnius Chamber of Commerce, Industry and Crafts and the Investors' Forum.

VILNIUS CHAMBER OF COMMERCE, INDUSTRY AND CRAFTS

The Company has been a member of the Vilnius Chamber of Commerce, Industry and Crafts since 1999.

In 2006, TEO had the rights of a member of the Board of the Chamber and actively participated in the trainings and courses organized by the Chamber, seized the opportunity to submit its proposals regarding amendments to the legal

acts, regulating the business environment, and the improvement of conditions for business.

ELECTRONIC GRADE-BOOK

In 2006, TEO helped the Association of Lithuanian Chambers of Commerce, Industry and Crafts implement the Electronic Grade-Book project for Lithuanian schools. By providing the high-speed Internet services and financial support, since 2005 TEO has been contributing to the development of the Electronic Grade-Book System, which includes information about the achievements of pupils. In 2006, the Company's employees together with the representatives of the Association of Lithuanian Chambers of Commerce, Industry and Crafts arranged seminars in different regions of Lithuania, presented the system to school representatives and trained them how to use it.

In 2006, the specially developed Electronic Grade-Book System, available at www.dienynas.lt, included 447 Lithuanian schools. At present, there are 732 principals, 667 editors, more than 10 thousand teachers and 70 thousand pupils who are registered as users of the System.

■ "The Electronic Grade-Book will help restore the connection between the school and parents and pupils. Pupils will not feel forgotten. Teachers will see the homeworks assigned by their colleagues, scheduled tests, etc. With pupils' school activity plan available, parents of pupils will have the possibility to plan their leisure time more flexibly. In addition, adults are encouraged to use computers as well as the possibilities provided by the Internet. This project is beneficial for both society and business and for the State as well."

Darius Prialgauskas
Project Manager

ASSOCIATION OF LOCAL AUTHORITIES IN LITHUANIA

In 2006, TEO signed the Cooperation Agreement with the Association of Local Authorities in Lithuania. The Company committed to continue the social, culture, information and communication technologies implementation projects as well as Internet content development projects that had been implemented together with the Association for more than one year.

By cooperating with the Association, the Company seeks to speed up the development of modern information and communication technologies in Lithuanian districts, to encourage society to use modern information technologies, to promote the integration of the handicapped into modern society with the help of IT.

In 2006, TEO sponsored the Auksinė Krivulė laureates' awards, organized by the Association of Local Authorities in Lithuania, during which 22 local authorities were honoured. These awards – a part of the Association's continued project for strengthening the relations of local authorities and society and improving the image of local authorities that is aimed at forming a positive opinion about local authorities, improving their image, and inculcating the concept of civic activeness in society.

THE FORUM OF EUROPEAN TELECOMMUNICATIONS COMPANIES

In 2006, for the first time in Lithuania, TEO organized the 15th European Network Planning Meeting (ENPM).

It is a top-level annual forum of European telecommunications companies during which various new ideas in the area of telecommunications are discussed, bilateral meetings of companies' representatives are held, where the interconnections of the telecommunications networks intended for voice and data transmission are planned and coordinated.



The year 2006 meeting was attended by 43 European telecommunications operators, including representatives from Deutsche Telekom (Germany), France Telecom (France), BT (Great Britain), Telefonica (Spain), TeliaSonera (Sweden), Rostelecom (Russia).

TEO has been taking part in the activities of the European Network Planning Meeting since 2000.

SUPPORT FROM THE STRUCTURAL FUNDS OF THE EUROPEAN UNION

In March 2006, TEO and Lintel were allocated LTL 3 million funds from the European Union for training employees and improving their competences. Using the funds received, about 300 different training events will be organized that will involve the participation of a half of the Company's employees.

COMBATING CORRUPTION

TEO prevents corruption both internally: by familiarizing employees with fair business principles and ethical standards, and externally: by promoting fair business policy and transparent communication with state institutions and by supporting organisations that popularize a socially responsible attitude towards business in Lithuania.

By joining the United Nations Global Compact in 2005, TEO on its own initiative committed to comply with the ten principles in the areas of human rights, labour, the environment and anti-corruption.

The 10th principle provides for the fight against corruption: "Businesses should work against corruption in all its forms, including extortion and bribery."

In 2006, no charges were made to the Company for corruptive activities.

The principles of the fight against corruption that are relevant to TEO employees are set forth in the Company's Code of Ethics: TEO employees are prohibited from participating in illegal and dishonourable activities, accepting gifts, money or gratuitous services. The Company also undertakes not to provide gifts or services if this might affect the benefit of another party.

TEO employees are introduced to ethical standards on the Company's intranet TEO Lyga (TEO League), the internal publication Mūsų TEO (Our TEO) and the publication

developed for new employees of TEO – A Newcomer's Guide ("Naujoko knyga"), as well as during introductory trainings.

The Ethics Committee has been set up in the Company to investigate possible cases of corruptive acts related to the activities of TEO.

■ "Ethical standards are observed in the Company, as employees are regularly informed of ethical requirements, and their own involvement and consciousness are encouraged. Every employee has the possibility to inform the Committee about violations of ethical standards by sending e-mail messages to a special e-mail address."

Edis Kasperavičius
Chairman of the Ethics Committee

COOPERATION WITH COPYRIGHT PROTECTION INSTITUTIONS

Seeking to control illegal and unethical Internet content, TEO cooperates with copyright protection organisations – the Agency of Lithuanian Copyright Protection Association (LATGA-A) and the Association of Film Industry.

TEO grants these organisations access to the servers, where users exchange information and publish their own creative works. The Associations regularly inform about illegal content information that has been put on the file exchange (FTP) servers and register copyright violations, and TEO immediately removes such unethical or illegal Internet content.

COMPETITIVE ENVIRONMENT

TEO together with its related legal entities is designated as an operator with significant market power (SMP) on fourteen markets. TEO competes on all telecommunications markets, except that of mobile telephony services.

In 2006, TEO was designated as an entity having significant market power in the areas of fixed-line telephony, leased lines, Internet access, and data communication. The activities of TEO are regulated by the Law on Competition and the Law on Electronic Communications. The Company's activities are monitored and constantly evaluated by the Communications Regulatory Authority.

■ TEO COMPETES IN ALL AREAS, EXCEPT MOBILE TELEPHONY SERVICES

Market	Market revenues (LTL million) in 2006	Market change over a year (%)	Number of market participants	Market share of TEO in Q4 2006 (%)
Fixed-line telephony services	425	-4,3	52	96,0
Leased line services	25	-2,9	15	51,7
Internet access services	265	24,2	115	45,2
Data communication services	47	16,9	14	50,4
Network interconnection services	607	14,3	4+	19,1
Mobile telephony services	1238	5,2	7	–

TEO DID NOT DISPUTE THE DECISION OF THE COMPETITION COUNCIL

In 2006, the Competition Council passed a decision that the Company had infringed the requirements of Article 9 of the Law on Competition that provided for the prohibition to abuse a dominant position.

By the above-mentioned decision, TEO LT, AB was obligated to cancel the actions contravening the Law on Competition and, within a prescribed period, change the terms and conditions for the provision of the ADSL access service so that there would be no unfair prices or other conditions for the purchase of the service. For the violation of the Law on Competition, a fine of LTL 3 million 11 thousand was imposed on the Company. When imposing the sanction for the violation, the Competition Council took into consideration that TEO, in fact, did not dispute the facts established by the Competition Council and admitted to have violated the Law.

On the basis of the investigation findings, the Company assumed specific obligations to correct the situation both in wholesale and retail markets of DSL (digital subscriber line) services. The Company revised the pricing of its wholesale broadband Internet services, changed the application terms and conditions of provided wholesale broadband services.

