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TEO LT, AB

FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of TEO LT, AB:

Report on the Financial Statements

We have audited the accompanying separate financial statements of TEO LT, AB (hereinafter– the Company) and consolidated financial statements of TEO LT, AB and subsidiaries (hereinafter – the Group) (pages from 6 to 49), which comprise the balance sheets of the Company and the Group as at 31 December 2014, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and explanatory notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and legal regulations on accounting and financial reporting of the Republic of Lithuania, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2014, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and legal regulations on accounting and financial reporting of the Republic of Lithuania.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2014 (pages 50 to 98) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

Deloitte Lietuva UAB
Audit Company License No 001275

Simonas Rimašauskas
Lithuanian Certified Auditor
License No. 000466

Vilnius, Republic of Lithuania
25 March 2015

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

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Approved by the Annual General Meeting of Shareholders as at 29 April 2015

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2014	2013	2014	2013
Revenue	5	**698,450**	**720,589**	**665,778**	**671,983**
Cost of goods and services	6	(189,425)	(174,249)	(180,909)	(164,314)
Employee related expenses		(164,615)	(170,194)	(136,001)	(125,895)
Other operating expenses	8	(75,028)	(84,863)	(95,452)	(109,926)
Other income	7	278	361	11,283	3,643
Other gain/ (loss) - net	9	1,392	1,093	1,270	952
Depreciation, amortisation and impairment of fixed assets	14	(124,783)	(127,654)	(117,436)	(117,177)
Operating profit		**146,269**	**165,083**	**148,533**	**159,266**
Finance income		774	865	757	863
Finance costs		(523)	(376)	(324)	(358)
Finance income/ costs – net I	10	251	489	433	505
Profit before income tax		**146,520**	**165,572**	**148,966**	**159,771**
Income tax	11	(15,055)	(16,421)	(13,796)	(14,930)
Profit for the year		**131,465**	**149,151**	**135,170**	**144,841**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**131,465**	**149,151**	**135,170**	**144,841**
Profit and comprehensive income attributable to:					
Owners of the Parent		**131,465**	**149,151**	**135,170**	**144,841**
Minority interests		-	-	-	-
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)	12	0.178	0.192	0.183	0.186

The notes on pages 9 to 49 form an integral part of these financial statements.

The financial statements on pages 4 to 49 have been approved for issue by the Board of Directors as at 25 March 2015 and signed on their behalf by the General Manager and the Head of Finance and Strategic Planning:

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance
and Strategic Planning

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

BALANCE SHEET

Approved by the Annual General Meeting of Shareholders as at 29 April 2015

		As at 31 December			
		GROUP		COMPANY	
	Note	2014	2013	2014	2013
ASSETS					
Non-current assets					
Property, plant and equipment	14	755,338	771,895	722,523	735,400
Intangible assets	15	44,003	50,259	31,138	36,205
Investment property	16	10,794	10,794	-	-
Investments in associated and subsidiaries	17	3	-	43,530	43,527
Trade and other receivables	19	13,040	3,987	13,040	8,967
Deferred tax assets	26	127	236	-	-
		823,305	**837,171**	**810,231**	**824,099**
Current assets					
Inventories		2,579	2,203	2,574	2,187
Trade and other receivables	19	96,929	96,174	93,605	88,486
Current income tax receivable		3,678	166	3,263	113
Held-to-maturity investments	20	-	79,698	-	79,698
Cash and cash equivalents	21	58,220	144,891	40,177	123,870
		161,406	**323,132**	**139,619**	**294,354**
Total assets		**984,711**	**1,160,303**	**949,850**	**1,118,453**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	582,613	776,818	582,613	776,818
Legal reserve	23	77,682	77,682	77,682	77,682
Retained earnings		167,957	184,087	137,720	150,145
Total equity		**828,252**	**1,038,587**	**798,015**	**1,004,645**
LIABILITIES					
Non-current liabilities					
Borrowings	25	210	1,266	210	1,266
Deferred tax liabilities	26	27,011	22,183	23,893	18,998
Deferred revenue and accrued liabilities	24	3,790	5,479	3,790	5,386
		31,011	**28,928**	**27,893**	**25,650**
Current liabilities					
Trade, other payables and accrued liabilities	24	89,792	91,700	88,358	87,142
Current income tax liabilities		72	72	-	-
Borrowings	25	35,584	1,016	35,584	1,016
		125,448	**92,788**	**123,942**	**88,158**
Total liabilities		**156,459**	**121,716**	**151,835**	**113,808**
Total equity and liabilities		**984,711**	**1,160,303**	**949,850**	**1,118,453**

The notes on pages 9 to 49 form an integral part of these financial statements.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance
and Strategic Planning

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

STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at 29 April 2015

GROUP	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2013		**776,818**	**77,682**	**190,300**	**1,044,800**
Net profit		-	-	149,151	149,151
Total comprehensive income for the 2013		**-**	**-**	**149,151**	**149,151**
Dividends paid for 2012		-	-	(155,364)	(155,364)
Balance at 31 December 2013		**776,818**	**77,682**	**184,087**	**1,038,587**
Balance at 1 January 2014		**776,818**	**77,682**	**184,087**	**1,038,587**
Net profit		-	-	131,465	131,465
Total comprehensive income for the 2014		**-**	**-**	**131,465**	**131,465**
Dividends paid for 2013	13	-	-	(147,595)	(147,595)
Reduction of share capital	22	(194,205)	-	-	(194,205)
Balance at 31 December 2014		**582,613**	**77,682**	**167,957**	**828,252**

COMPANY	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2013		**776,818**	**77,682**	**160,668**	**1,015,168**
Net profit		-	-	144,841	144,841
Total comprehensive income for the 2013		**-**	**-**	**144,841**	**144,841**
Dividends paid for 2012		-	-	(155,364)	(155,364)
Balance at 31 December 2013		**776,818**	**77,682**	**150,145**	**1,004,645**
Balance at 1 January 2014		**776,818**	**77,682**	**150,145**	**1,004,645**
Net profit		-	-	135,170	135,170
Total comprehensive income for the 2014		**-**	**-**	**135,170**	**135,170**
Dividends paid for 2013	13	-	-	(147,595)	(147,595)
Reduction of share capital	22	(194,205)	-	-	(194,205)
Balance at 31 December 2014		**582,613**	**77,682**	**137,720**	**798,015**

The notes on pages 9 to 49 form an integral part of these financial statements.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance
and Strategic Planning

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

STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at 29 April 2015

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2014	2013	2014	2013
Operating activities					
Profit for the year		131,465	149,151	135,170	144,841
Income tax	11	15,055	16,421	13,796	14,930
Depreciation, amortisation and impairment charge	14	124,783	127,654	117,436	117,177
Dividends received from subsidiaries	7	-	-	(10,945)	(3,130)
Other gains and losses	9	(1,392)	(1,093)	(1,270)	(952)
Write off of property, plant and equipment and intangible assets		699	873	670	868
Impairment of investments in subsidiaries		-	-	-	30
Interest income	7,10	(1,052)	(1,226)	(1,095)	(1,376)
Interest expenses		270	118	95	117
Other non-cash transactions		478	506	329	359
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(376)	1,870	(387)	1,857
Trade and other receivables		(9,808)	11,321	(13,481)	6,453
Trade, other payables and accrued liabilities		670	(1,170)	4,074	4,245
Cash generated from operations		260,792	304,425	244,392	285,419
Interest paid		(249)	(118)	(74)	(117)
Interest received		1,127	1,196	1,168	1,347
Income tax paid		(13,630)	(13,326)	(12,050)	(11,556)
Net cash from operating activities		**248,040**	**292,177**	**233,436**	**275,093**

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

STATEMENT OF CASH FLOWS (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2014	2013	2014	2013
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(107,388)	(148,029)	(105,050)	(142,653)
Proceeds from disposal of PPE and intangible assets		1,342	1,110	1,352	1,039
Acquisition of held-to-maturity investments		(60,000)	(144,802)	(60,000)	(138,802)
Disposal of held-to-maturity investments		139,623	125,178	139,623	119,178
Loans granted	29	-	-	-	(986)
Loans repaid	29	-	-	4,289	4,476
Dividends received	7	-	-	10,945	3,130
Net cash used in investing activities		**(26,423)**	**(166,543)**	**(8,841)**	**(154,618)**
Financing activities					
Repayment of borrowings		(1,016)	(977)	(1,016)	(977)
Borrowings	29	34,528	-	34,528	-
Dividends paid to shareholders of the Company	13	(147,595)	(155,364)	(147,595)	(155,364)
Capital reduction paid to shareholders	22	(194,205)	-	(194,205)	-
Net cash used in financing activities		**(308,288)**	**(156,341)**	**(308,288)**	**(156,341)**
Increase (decrease) in cash and cash equivalents		**(86,671)**	**(30,707)**	**(83,693)**	**(35,866)**
Movement in cash and cash equivalents					
At the beginning of the year		144,891	175,598	123,870	159,736
Increase (decrease) in cash and cash equivalents		(86,671)	(30,707)	(83,693)	(35,866)
At the end of the year	21	**58,220**	**144,891**	**40,177**	**123,870**

The notes on pages 9 to 49 form an integral part of these financial statements.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance
and Strategic Planning

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

TEO LT, AB (hereinafter 'the Company') is a public company (joint-stock company) incorporated on 6 February 1992. The Company is domiciled in Vilnius, the capital of the Republic of Lithuania. Address of its registered office is Lvovo str. 25, LT-03501, Vilnius, Lithuania.

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

The shareholders' structure of the Company was as follows:

	31 December 2014		31 December 2013	
	Number of shares	**%**	**Number of shares**	**%**
TeliaSonera AB (Sweden)	513,594,774	88.15	684,791,575	88.15
Other shareholders	69,018,364	11.85	92,025,943	11.85
	582,613,138	**100.00**	**776,817,518**	**100.00**

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

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in 9 telecommunications markets. The Company and UAB Omnitel as members of TeliaSonera Group are regarded as related entities in Lithuania, therefore the Company is considered as SMP in the market of voice call termination in public mobile network of UAB Omnitel.

The number of full time staff employed by the Group at the end of 2014 amounted to 2,381 (2013: 2,727). The number of full time staff employed by the Company at the end of 2014 amounted to 1,888 (2013: 1,823).

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

		Ownership interest in %		
Subsidiary/ associate	**Country of incorporation**	**31 December 2014**	**31 December 2013**	**Profile**
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.

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

UAB Hostex	Lithuania	100%	100%	The web hosting and data center services providing subsidiary of UAB Baltic Data Center.
UAB Hosting	Lithuania	100%	100%	The dormant subsidiary of UAB Hostex.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A not for profit organisation established by the Company for management of the Company's Communications History Museum.
VšĮ Numerio Perkėlimas	Lithuania	25%	-	A not for profit organization established by the Company and three Lithuanian mobile operators for administration of central database to ensure telephone number portability.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 2014:

IFRS 10, Consolidated Financial Statements *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2014),* replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The amendments did not have any material effect on the Group's financial statements.

IFRS 11, Joint Arrangements, *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2014),* replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The amendments did not have any material effect on the Group's financial statements.

IFRS 12, Disclosure of Interest in Other Entities, *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2014),* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The amendments did not have any material effect on the Group's financial statements.

IAS 27, Separate Financial Statements, *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).* The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The amendments did not have any material effect on the Group's financial statements.

IAS 28, Investments in Associates and Joint Ventures, *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendments did not have any material effect on the Group's financial statements.

Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets *(issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).* The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendments did not have any material effect on the Group's financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 *(issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendments did not have any material effect on the Group's financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 *Consolidated Financial Statements.* Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments did not have any material effect on the Group's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. The amendments did not have any material effect on the Group's financial statements.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 February 2015). The Group does not expect the amendments to have any material effect on its financial statements.

Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2015). The Group does not expect the amendments to have any material effect on its financial statements.

Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015). The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 21 "Levies" (effective for annual periods beginning on or after 17 June 2014). The Group does not expect the amendments to have any material effect on its financial statements.

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

2.2 Group accounting

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

Associates

Associates are all entities over which the Group has significant influence (the power to participate in the financial and operating policy decisions of the investee) but not control. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent in statement of profit or loss and other comprehensive income.

2.3 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

2.4 Property, plant and equipment

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

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

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

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

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

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

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

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

2.5 Intangible assets

Goodwill

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

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

Other intangible assets

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

Licences	3 - 10 years
Software	2-5 years
Other intangible fixed assets	5 years

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

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

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

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

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

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

2.6 Investment property

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

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

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

2.7 Impairment of non-financial assets

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

2.8 Financial assets

2.8.1 Classification

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

Loans and receivables

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

Held to maturity investments

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

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

2.8.2 Recognition and measurement

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

2.8.3 Impairment of financial assets

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

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

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

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

2.10 Inventories

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

2.11 Trade receivables

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

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade payables

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

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

2.15 Borrowings

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

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

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

Finance lease

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

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

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

Operating lease

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

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

Operating lease

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

2.18 Income tax

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

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

Profit for 2014 is taxable at a rate of 15% (2013: 15%) in accordance with Lithuanian regulatory legislation on taxation.

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

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

According to Lithuanian legislation, tax losses accumulated as of 31 December 2014 are carried forward indefinitely.

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

2.19 Revenue recognition

Sales of services and goods

Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly related to the sales. Other revenues are recognized when i) products are delivered and significant risks and rewards of ownership of the products have passed to the customer and the amount of revenue can be measured reliably ii) services are rendered to customers. At the end of each accounting period a revenue accrual is performed to record amounts not yet billed.

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

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

Multiple element arrangements

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

Arrangements of discounts

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

2.20 Interest income

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

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

2.21 Dividend income

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

2.22 Employee benefits

Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions amounting to LTL 35.6 million for the Group and LTL 29.1 million for the Company (2013: LTL 39.0 million for the Group and LTL 28.9 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits

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

Bonus plans

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

Supplementary health insurance

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

2.23 Dividend distribution

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

Withholding tax on dividends paid to legal entities amounts to 15% (2013: 15%). According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

2.24 Segment information

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

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

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

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

	Broadband segment		Other segment		Eliminations		Total Group	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Segment revenue	665,779	671,983	73,365	92,077	(40,694)	(43,471)	698,450	720,589
Inter-segment revenue	(15,909)	(10,922)	(24,785)	(32,549)	40,694	43,471	-	-
Revenue from external customers	**649,870**	**661,061**	**48,580**	**59,528**	**-**	**-**	**698,450**	**720,589**
Depreciation and amortisation	(117,436)	(117,177)	(7,750)	(10,482)	403	5	(124,783)	(127,654)
Profit for the period	135,170	144,841	6,765	7,934	(10,470)	(3,624)	131,465	149,151
Income tax	(13,796)	(14,930)	(1,259)	(1,491)	-	-	(15,055)	(16,421)

The Group is domiciled in Lithuania. The result of its revenue from external customers in the Lithuania is LTL 595.7 million (2013: LTL 603.0 million), and the total of revenue from external customers from other countries is LTL 102.7 million (2013: LTL 117.6 million).

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

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

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

3 Financial risk management

3.1 Financial risk factors

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

Financial risk management is carried out by a Group Treasury under policies approved by the Board of Directors. Group Treasury identifies and evaluates financial risks in close co-operation with the Group's operating units.

<u>Market risk</u>

Foreign exchange risk

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

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

Cash flow and fair value interest rate risk

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

<u>Credit risk</u>

The financial assets exposed to credit risk represent cash deposits and trade receivables. The Group didn't have held-to-maturity investments at the end of 2014 after authorised capital reduction payments.

All the new customers (corporate and private) are being investigated for creditworthiness before contract signing. Customer bill payment control consists of a number of various reminders regarding bill payment term expiration, and consequently services are limited after 7-10 days since the last reminder for all indebted customers, and after further 30-35 days provision of services is fully terminated. After sending additional reminding letters bad debts are handed over to external bad debt collection agencies for debt recovery.

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

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

Liquidity risk

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

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

3.2 Capital management

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

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

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than LTL 100,000, and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2014 and as at 31 December 2013 the Company complied with these requirements.

The Group's operations are financed mostly by the shareholders' capital. The Company did not have any borrowings until November of 2014, except finance lease liabilities. The Company borrowed EUR 10 million from TeliaSonera on 13th November 2014. For more detailed borrowings related information see Notes 25 and 29.

3.3 Fair value estimation

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

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

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

3.4 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting, according to criteria described in Note 2.11:

	GROUP		COMPANY	
	2014	2013	2014	2013
Trade and other receivable				
Gross amounts of recognised financial assets	108,731	96,507	106,938	94,927
Gross amounts of recognized financial liabilities set off in the balance sheet	(4,883)	(3,155)	(4,883)	(3,155)
Net amounts of financial assets presented in the balance sheet	**103,848**	**93,352**	**102,055**	**91,772**
Related amounts not set off in the balance sheet	-	-	-	-
Net amount	**103,848**	**93,352**	**102,055**	**91,772**

Financial liabilities

The following financial liabilities are subject to offsetting, according to criteria described in Note 2.11:

	GROUP		COMPANY	
	2014	2013	2014	2013
Trade payables				
Gross amounts of recognised financial liabilities	107,692	70,992	109,758	73,019
Gross amounts of recognized financial assets set off in the balance sheet	(4,883)	(3,155)	(4,883)	(3,155)
Net amounts of financial liabilities presented in the balance sheet	**102,809**	**67,837**	**104,875**	**69,864**
Related amounts not set off in the balance sheet	-	-	-	-
Net amount	**102,809**	**67,837**	**104,875**	**69,864**

4 Critical Accounting Estimates

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.5 and Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15)

Property, plant and equipment

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

Impairment provision for accounts receivable

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

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

5 Revenue

	GROUP		COMPANY	
	2014	2013	2014	2013
Voice telephony services	276,347	303,933	273,951	300,923
Internet services	184,597	178,268	184,988	178,780
Data communication and network capacity services	78,580	84,015	79,877	85,758
TV services	62,613	61,668	62,613	61,668
IT services	77,074	69,930	41,489	27,674
Other services	19,239	22,775	22,860	17,180
Total	**698,450**	**720,589**	**665,778**	**671,983**

6 Cost of goods and services

	GROUP		COMPANY	
	2014	2013	2014	2013
Costs of goods and services purchased	62,636	49,186	54,372	39,455
Network's interconnection	92,866	88,130	92,866	88,130
Network capacity costs	33,923	36,933	33,671	36,729
Total	**189,425**	**174,249**	**180,909**	**164,314**

7 Other income

	GROUP		COMPANY	
	2014	2013	2014	2013
Interests income	278	361	338	513
Income from dividends (Note 29)	-	-	10,945	3,130
	278	**361**	**11,283**	**3,643**

8 Other operating expenses

	GROUP		COMPANY	
	2014	2013	2014	2013
Maintenance and other services	14,021	20,127	35,811	49,134
Energy, premises and transport costs	40,065	42,846	39,147	40,926
Marketing expenses	10,350	9,698	10,025	8,664
Impairment of accounts receivable	1,141	2,396	1,147	2,401
Other expenses	9,451	9,796	9,322	8,801
	75,028	**84,863**	**95,452**	**109,926**

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

9 Other gain/loss – net

	GROUP		COMPANY	
	2014	2013	2014	2013
Gain on sales of property, plant and equipment	1,597	1,344	1,481	1,179
Loss on sales of property, plant and equipment	(188)	(192)	(188)	(191)
Other gain (loss)	(17)	(59)	(23)	(36)
	1,392	**1,093**	**1,270**	**952**

10 Finance income and costs

	GROUP		COMPANY	
	2014	2013	2014	2013
Interest income on cash and cash equivalents	294	368	277	366
Other finance income	480	497	480	497
Finance income	**774**	**865**	**757**	**863**
Interest expenses	(91)	(109)	(91)	(109)
Foreign exchange gain (loss) on financing activities	(91)	(125)	(66)	(108)
Other finance costs	(341)	(142)	(167)	(141)
Finance costs	**(523)**	**(376)**	**(324)**	**(358)**
Finance income/costs– net	**251**	**489**	**433**	**505**

11 Income tax

	GROUP		COMPANY	
	2014	2013	2014	2013
Current tax	10,118	12,691	8,901	11,265
Deferred tax (Note 26)	4,937	3,730	4,895	3,665
Income tax expense	**15,055**	**16,421**	**13,796**	**14,930**

As of 1 January 2009 amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result the Company's calculated profit tax relief amounts to LTL 7.8 million (2013: 10.2 million). Investments in new technologies are capitalised as property, plant and equipment, and their depreciation is deductible for tax purposes, therefore, the tax relief does not create any deferred tax liability.

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. The Group's and the Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

11 Income tax (continued)

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

	GROUP		COMPANY	
	2014	2013	2014	2013
Profit before income tax	**146,520**	**165,572**	**148,966**	**159,771**
Tax calculated at a tax rate of 15% (2013: 15%)	21,978	24,836	22,345	23,966
Non-taxable dividends received	-	-	(1,642)	(470)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	(104)	723	(228)	651
Tax relief	(7,789)	(10,241)	(7,789)	(10,241)
Other	970	1,103	1,110	1,024
Tax charge	**15,055**	**16,421**	**13,796**	**14,930**

12 Earnings per share

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

The weighted average number of shares for 2013 amounted to 776,818 thousand and for 2014 amounted to 738,509 thousand.

	GROUP		COMPANY	
	2014	2013	2014	2013
Net profit	**131,465**	**149,151**	**135,170**	**144,841**
Weighted average number of ordinary shares in issue (thousands)	738,509	776,818	738,509	776,818
Basic earnings per share (LTL)	**0.178**	**0.192**	**0.183**	**0.186**

13 Dividends per share

The dividends per share declared in respect of 2013 and 2012 and paid in 2014 and 2013 were LTL 0.19 and LTL 0.20 respectively. As at the date of approval of these financial statements dividends amounting to EUR 39,618 thousand (LTL 136,792 thousand) are proposed in respect of 2014.

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

14 Property, plant and equipment

The depreciation and amortisation charge in the statement of profit or loss and other comprehensive income consists of the following items:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Depreciation of property, plant and equipment	114,799	118,486	108,980	109,730
Amortisation of intangible assets (Note 15)	9,984	9,168	8,456	7,447
	124,783	**127,654**	**117,436**	**117,177**

In 2014 the Company revised the useful lives of its property, plant and equipment. After the above revision the useful lives of particular items in telecommunication equipment group were mostly prolonged, therefore the depreciation charge for 2014 for the telecommunication equipment group decreased by LTL 0.4 million as compared to previously used useful lives for property, plant and equipment. Useful life for intangible assets was also revised and mostly prolonged in 2014, the amortization charge for intangible assets decreased by LTL 0.1 million.

The effect of the revision of the useful lives resulted in the decreased depreciation and amortization charge by LTL 0.5 million in 2014 and will also result to the decrease of depreciation and amortisation charge by LTL 0.7 million in 2015.

GROUP	**Land and buildings**	**Ducts and telecommunication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2012					
Cost	125,276	2,687,391	77,402	18,062	2,908,131
Accumulated depreciation	(57,220)	(2,034,936)	(60,838)	-	(2,152,994)
Net book amount	**68,056**	**652,455**	**16,564**	**18,062**	**755,137**
Year ended 31 December 2013					
Opening net book amount	**68,056**	**652,455**	**16,564**	**18,062**	**755,137**
Additions	-	4,898	883	131,536	137,317
Reclassifications	(405)	(56)	52	(578)	(987)
Disposals and retirements	(7)	(902)	(177)	-	(1,086)
Transfers from construction in progress	511	110,913	5,928	(117,352)	-
Depreciation charge	(4,258)	(107,245)	(6,983)	-	(118,486)
Closing net book amount	**63,897**	**660,063**	**16,267**	**31,668**	**771,895**

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

14 Property, plant and equipment (continued)

At 31 December 2013					
Cost	125,716	2,678,437	80,857	31,668	2,916,678
Accumulated depreciation	(61,819)	(2,018,374)	(64,590)	-	(2,144,783)
Net book amount	**63,897**	**660,063**	**16,267**	**31,668**	**771,895**
Year ended 31 December 2014					
Opening net book amount	**63,897**	**660,063**	**16,267**	**31,668**	**771,895**
Additions	374	1,685	101	97,189	99,349
Reclassifications	(391)	94	(3)	(82)	(382)
Disposals and retirements	(1)	(720)	(4)	-	(725)
Transfers from construction in progress	674	99,260	3,270	(103,204)	-
Depreciation charge	(4,168)	(105,189)	(5,442)	-	(114,799)
Closing net book amount	**60,385**	**655,193**	**14,189**	**25,571**	**755,338**
At 31 December 2014					
Cost	126,612	2,703,737	77,686	25,571	2,933,606
Accumulated depreciation	(66,227)	(2,048,544)	(63,497)	-	(2,178,268)
Net book amount	**60,385**	**655,193**	**14,189**	**25,571**	**755,338**

COMPANY	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2012					
Cost	88,526	2,643,139	67,170	18,061	2,816,896
Accumulated depreciation	(46,850)	(2,002,301)	(52,196)	-	(2,101,349)
Net book amount	**41,676**	**640,838**	**14,972**	**18,061**	**715,547**
Year ended 31 December 2013					
Opening net book amount	**41,676**	**640,838**	**14,972**	**18,061**	**715,547**
Additions	-	-	103	131,388	131,491
Disposals and write-offs	(7)	(762)	(160)	-	(929)
Reclassifications	(404)	5	-	(580)	(979)
Transfers from construction in progress	511	110,912	5,883	(117,306)	-
Depreciation charge	(3,301)	(100,018)	(6,411)	-	(109,730)
Closing net book amount	**38,475**	**650,975**	**14,387**	**31,563**	**735,400**
At 31 December 2013					
Cost	88,965	2,632,427	70,405	31,563	2,823,360
Accumulated depreciation	(50,490)	(1,981,452)	(56,018)	-	(2,087,960)
Net book amount	**38,475**	**650,975**	**14,387**	**31,563**	**735,400**

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

14 Property, plant and equipment (continued)

	Land and buildings	Ducts and telecommu-nication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2014					
Opening net book amount	**38,475**	**650,975**	**14,387**	**31,563**	**735,400**
Additions	-	28	195	96,956	97,179
Disposals and write-offs	-	(685)	(5)	-	(690)
Reclassifications	(392)	9	(3)	-	(386)
Transfers from construction in progress	674	98,912	3,387	(102,973)	-
Depreciation charge	(3,204)	(100,909)	(4,867)	-	(108,980)
Closing net book amount	**35,553**	**648,330**	**13,094**	**25,546**	**722,523**
At 31 December 2014					
Cost	89,488	2,657,172	67,638	25,546	2,839,844
Accumulated depreciation	(53,935)	(2,008,842)	(54,544)	-	(2,117,321)
Net book amount	**35,553**	**648,330**	**13,094**	**25,546**	**722,523**

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

	As at 31 December			
	GROUP		COMPANY	
	2014	2013	2014	2013
Cost	15,293	17,124	15,293	17,124
Accumulated depreciation at 1 January	(2,178)	(2,389)	(2,178)	(2,389)
Depreciation charge for the year	(2,442)	(2,978)	(2,442)	(2,978)
Net book amount	**10,673**	**11,757**	**10,673**	**11,757**

15 Intangible assets

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction*	Total
At 31 December 2012						
Cost	17,843	169,145	10,833	18,797	5,799	222,417
Accumulated amortisation	(8,864)	(159,940)	-	(11,816)	-	(180,620)
Net book amount	**8,979**	**9,205**	**10,833**	**6,981**	**5,799**	**41,797**

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

15 Intangible assets (continued)

	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction*	Total
Year ended 31 December 2013						
Opening net book amount	**8,979**	**9,205**	**10,833**	**6,981**	**5,799**	**41,797**
Additions	-	35	-	26	17,003	17,064
Disposals and write-offs	-	(4)	-	-	-	(4)
Reclassification	-	(8)	-	-	578	570
Transfer from assets in the course of construction	-	15,751	-	562	(16,313)	-
Amortisation charge	(1,767)	(5,116)	-	(2,285)	-	(9,168)
Closing net book amount	**7,212**	**19,863**	**10,833**	**5,284**	**7,067**	**50,259**
At 31 December 2013						
Cost	17,843	173,726	10,833	16,208	7,067	225,677
Accumulated amortisation	(10,631)	(153,863)	-	(10,924)	-	(175,418)
Net book amount	**7,212**	**19,863**	**10,833**	**5,284**	**7,067**	**50,259**
Year ended 31 December 2014						
Opening net book amount	**7,212**	**19,863**	**10,833**	**5,284**	**7,067**	**50,259**
Additions	-	350	-	-	3,401	3,751
Disposals and write-offs	-	-	-	-	(25)	(25)
Reclassification	-	(1)	-	-	3	2
Transfer from assets in the course of construction	-	3,749	-	365	(4,114)	-
Amortisation charge	(1,767)	(5,882)	-	(2,335)	-	(9,984)
Closing net book amount	**5,445**	**18,079**	**10,833**	**3,314**	**6,332**	**44,003**
At 31 December 2014						
Cost	17,843	172,350	10,833	14,833	6,332	222,191
Accumulated amortisation	(12,398)	(154,271)	-	(11,519)	-	(178,188)
Net book amount	**5,445**	**18,079**	**10,833**	**3,314**	**6,332**	**44,003**

* Assets in the course of construction comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2015.

Goodwill was tested for impairment at 31 December 2014. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). As of 31 December 2014, there were 2 cash generating units identified (with the goodwill amount allocated to them): UAB Baltic Data Center (LTL 2,658 thousand) and UAB Hostex (LTL 8,175 thousand) which comprise also goodwill from UAB Interdata acquisition, company which was merged into UAB Hostex. (2013: 2 cash generating units identified with the goodwill amount allocated to them: UAB Baltic Data Center LTL 2,658 thousand, and UAB Hostex LTL 8,175 thousand). The Recoverable amount of both CGUs has been determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period.

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

15 Intangible assets (continued)

Management determined budgeted profit after tax based on past performance, valued contracts with customers and its expectations of market development. Cash flows beyond the five-year period are extrapolated using the estimated rates as follows: growth rate perpetuity: 0%; discount rate: 8%. The discount rates used are post- tax and reflect specific risks relating to the relevant operating segments. Based on analysis performed, the management concluded that no impairment charge is needed as at 31 December 2014 (2013: no impairment loss).

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
At 31 December 2012					
Cost	17,843	143,856	11,057	5,775	178,531
Accumulated amortisation	(8,856)	(137,395)	(6,195)	-	(152,446)
Net book amount	**8,987**	**6,461**	**4,862**	**5,775**	**26,085**
Year ended 31 December 2013					
Opening net book amount	**8,987**	**6,461**	**4,862**	**5,775**	**26,085**
Additions	-	-	-	17,003	17,003
Reclassifications	-	(16)	-	580	564
Transfer from assets in the course of construction	-	15,751	562	(16,313)	-
Amortisation charge	(1,767)	(4,104)	(1,576)	-	(7,447)
Closing net book amount	**7,220**	**18,092**	**3,848**	**7,045**	**36,205**
At 31 December 2013					
Cost	17,843	156,544	11,440	7,045	192,872
Accumulated amortisation	(10,623)	(138,452)	(7,592)	-	(156,667)
Net book amount	**7,220**	**18,092**	**3,848**	**7,045**	**36,205**
Year ended 31 December 2014					
Opening net book amount	**7,220**	**18,092**	**3,848**	**7,045**	**36,205**
Additions	-	-	-	3,393	3,393
Reclassifications	-	(4)	-	-	(4)
Transfer from assets in the course of construction	-	3,742	365	(4,107)	-
Amortisation charge	(1,770)	(5,035)	(1,651)	-	(8,456)
Closing net book amount	**5,450**	**16,795**	**2,562**	**6,331**	**31,138**

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

15 Intangible assets (continued)

At 31 December 2014					
Cost	17,843	159,624	11,804	6,331	195,602
Accumulated amortisation	(12,393)	(142,829)	(9,242)	-	(164,464)
Net book amount	**5,450**	**16,795**	**2,562**	**6,331**	**31,138**

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

16 Investment property

As at 31 December 2014 the Group as investment property accounted construction in progress (2013: construction in progress).

At 31 December 2014 and 2013 the fair value of the investment property approximates the carrying value. The investment properties were externally valued as at 30 December 2011 by Re&Solution, by using method of residual value. By Management assessment there have been no significant changes in situation in the market and the economy as a whole during 2014; therefore the fair value of the property has not changed significantly since 31 December 2011. No valuation of the investment property was performed by external valuator at the end of Year 2014.

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

17 Investments in associates and subsidiaries

As at 31 December 2014 the investments accounted by the Company under Investments in associates and subsidiaries amounted to LTL 43,530 thousand (2013: LTL 43,527 thousand).

In September 2014, the Company with telecommunication companies Bitė Lietuva, Omnitel and Tele2 established a joint not for profit organization “Numerio perkėlimas” (“Number portability”) and investments in this associate amounted to LTL 3 thousand.

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

18 Financial instruments by category

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

GROUP	Loans and receivables	Held-to-maturity investments	Total
31 December 2014			
Assets as per balance sheet			
Trade and other receivables	103,848	-	103,848
Held-to-maturity investment	-	-	-
Cash and cash equivalents	58,220	-	58,220
Total	**162,068**	**-**	**162,068**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2013			
Assets as per balance sheet			
Trade and other receivables	93,352	-	93,352
Held-to-maturity investment	-	79,698	79,698
Cash and cash equivalents	144,891	-	144,891
Total	**238,243**	**79,698**	**317,941**

COMPANY	Loans and receivables	Held-to-maturity investments	Total
31 December 2014			
Assets as per balance sheet			
Trade and other receivables	102,055	-	102,055
Held-to-maturity investment	-	-	-
Cash and cash equivalents	40,177	-	40,177
Total	**142,232**	**-**	**142,232**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2013			
Assets as per balance sheet			
Trade and other receivables	91,772	-	91,772
Held-to-maturity investment	-	79,698	79,698
Cash and cash equivalents	123,870	-	123,870
Total	**215,642**	**79,698**	**295,340**

All financial liabilities of the Group amounting to LTL 102,809 thousand (2013: LTL 67,837 thousand) and of the Company amounting to LTL 104,875 thousand (2013: LTL 69,864 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

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

19 Trade and other receivables

	GROUP		COMPANY	
	2014	2013	2014	2013
Trade receivables from business customers and residents	111,337	103,666	108,137	97,900
Trade receivables from other operators	9,204	7,971	7,946	6,668
Total trade receivables	**120,541**	**111,637**	**116,083**	**104,568**
Less: provision for impairment of receivables	(22,399)	(24,661)	(22,349)	(24,581)
Trade receivables - net	**98,142**	**86,976**	**93,734**	**79,987**
Receivables from companies collecting payments for telecommunication services	805	1,301	805	1,301
Prepaid expenses and other receivables	5,827	6,650	4,590	5,680
Receivables from related parties (Note 29)	5,195	5,234	6,825	5,490
Loans to related parties (Note 29)	-	-	691	4,995
	109,969	**100,161**	**106,645**	**97,453**
Less non-current portion	(13,040)	(3,987)	(13,040)	(8,967)
Current portion	**96,929**	**96,174**	**93,605**	**88,486**

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

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

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

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

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2014, the Group's trade receivables of LTL 12,660 thousand (2013: LTL 9,172 thousand) and the Company's trade receivables of LTL 12,523 thousand (2013: LTL 8,921 thousand) were past due but not impaired.

As of 31 December 2014, the Group's trade receivables of LTL 22,916 thousand (2013: LTL 25,577 thousand) and the Company's trade receivable of LTL 22,873 thousand (2013: LTL 25,523 thousand) were impaired and provided for. The amount of the Group's provision was LTL 22,399 thousand as of 31 December 2014 (2013: LTL 24,661 thousand) and the amount of the Company's provision was LTL 22,349 thousand as of 31 December 2014 (2013: LTL 24,581 thousand). Impairment allowance by major part has been recognised on a collective basis, based on the impairment rates used by management.

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

19 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2014	2013	2014	2013
Trade receivable total	**120,541**	**111,637**	**116,083**	**104,568**
Of which not overdue	84,965	76,888	80,687	70,124
Overdue up to 3 months	12,660	9,172	12,523	8,921
4 to 6 months	1,130	1,567	1,108	1,551
7 to 12 months	1,761	2,403	1,760	2,400
Over 12 months	20,025	21,607	20,005	21,572

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

	GROUP		COMPANY	
	2014	2013	2014	2013
Currency				
LTL	90,987	84,037	88,910	83,648
EUR	14,562	14,103	13,336	11,830
Other currency	4,420	2,021	4,399	1,975
	109,969	**100,161**	**106,645**	**97,453**

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2014	2013	2014	2013
At the beginning of year	**24,661**	**25,378**	**24,581**	**25,285**
Receivables written off during the year as uncollectible	(3,422)	(3,164)	(3,422)	(3,114)
Provision for receivables impairment/ Unused amount reversed (-)	1,160	2,447	1,190	2,410
At the end of year	**22,399**	**24,661**	**22,349**	**24,581**

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

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

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

20 Held-to-maturity investments

There were no held-to-maturity investments accounted by the Group and the Company as of 31 December 2014 (2013: LTL 79,698 thousand).

21 Cash and cash equivalents

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Cash in hand and at bank	58,220	60,479	40,177	39,458
Short term bank deposits	-	84,412	-	84,412
	58,220	**144,891**	**40,177**	**123,870**

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Currency				
LTL	50,939	88,427	38,642	77,368
EUR	7,158	55,939	1,456	46,285
USD	123	456	79	217
Other currencies	-	69	-	-
	58,220	**144,891**	**40,177**	**123,870**

The effective interest rate on the Group's and the Company's short-term bank deposits held with Lithuanian banks was 0.34% (2013: 0.35%).

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
AA-	6,396	39,594	149	39,574
A+	50,625	103,786	38,852	82,828
A	1,141	1,161	1,141	1,161
Other	58	350	35	307
	58,220	**144,891**	**40,177**	**123,870**

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

22 Share capital

From 20 October 2014 the authorised share capital comprises 582,613,138 ordinary shares of LTL 1 par value each. Until 20 October 2014, the authorised share capital was comprised of 776,817,518 ordinary shares of LTL 1 par value each. The authorised share capital was reduced by cancelling 194,204,380 ordinary shares of LTL 1 par value and paying out 194,204,380 litas to the shareholders *pro rata*. All shares are fully paid up.

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

23 Legal reserve

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

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Trade payables	50,038	47,231	48,503	45,720
Trade payables to operators	3,283	4,041	3,283	4,041
Taxes, salaries and social security payable	21,511	25,063	19,452	19,719
Accruals to operators	7,266	6,570	7,266	6,570
Accrued liabilities	4,753	6,433	4,509	6,265
Other payables and deferred revenue	5,559	7,201	4,078	5,855
Amounts payable to related parties (Note 29)	1,172	640	5,057	4,358
	93,582	**97,179**	**92,148**	**92,528**
Less non-current portion	(3,790)	(5,479)	(3,790)	(5,386)
Current portion	**89,792**	**91,700**	**88,358**	**87,142**

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Currency				
LTL	75,742	78,145	74,358	73,879
EUR	15,231	17,586	15,207	17,207
Other currency	2,609	1,448	2,583	1,442
	93,582	**97,179**	**92,148**	**92,528**

25 Borrowings

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Current				
Borrowings	34,528	-	34,528	-
Finance lease liabilities	1,056	1,016	1,056	1,016
	35,584	**1,016**	**35,584**	**1,016**
Non-current				
Finance lease liabilities	210	1,266	210	1,266
	210	**1,266**	**210**	**1,266**
Total borrowings	**35,794**	**2,282**	**35,794**	**2,282**

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

25 Borrowings (continued)

Fair value of borrowings approximate to their carrying values.

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

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

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2013	1,086	1,298	-	2,384
Less future finance charges	(70)	(32)	-	(102)
Present value of minimum lease payments at 31 December 2013	1,016	1,266	-	2,282
Minimum lease payments at 31 December 2014	1,086	212	-	1,298
Less future finance charges	(30)	(2)	-	(32)
Present value of minimum lease payments at 31 December 2014	1,056	210	-	1,266

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

	As at 31 December			
	GROUP		COMPANY	
	2014	2013	2014	2013
Premises	1,077	1,975	1,077	1,975
	1,077	**1,975**	**1,077**	**1,975**

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

26 Deferred income taxes

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

	GROUP		COMPANY	
Deferred tax liabilities	**2014**	**2013**	**2014**	**2013**
At the beginning of year	22,183	18,581	18,998	15,333
Charged/ (credited) to statement of profit or loss and other comprehensive income (Note 11)	4,828	3,602	4,895	3,665
At the end of year	**27,011**	**22,183**	**23,893**	**18,998**

	GROUP		COMPANY	
Deferred tax assets	**2014**	**2013**	**2014**	**2013**
At the beginning of year	(236)	(364)	-	-
Charged/ (credited) to statement of profit or loss and other comprehensive income (Note 11)	109	128	-	-
At the end of year	**(127)**	**(236)**	**-**	**-**

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

	GROUP		COMPANY	
Deferred tax liabilities	**2014**	**2013**	**2014**	**2013**
Deferred income tax asset to be recovered / liability settled after more than 12 months	28,164	13,928	25,130	10,820
Deferred income tax asset to be recovered / liability settled (-) within 12 months	(1,153)	8,255	(1,237)	8,178
	27,011	**22,183**	**23,893**	**18,998**

	GROUP		COMPANY	
Deferred tax assets	**2014**	**2013**	**2014**	**2013**
Deferred income tax asset to be recovered / liability settled after more than 12 months	(240)	(34)	-	-
Deferred income tax asset to be recovered / liability settled (-) within 12 months	113	(202)	-	-
	(127)	**(236)**	**-**	**-**

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

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

26 Deferred income taxes (continued)

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

GROUP– deferred tax liabilities	Investment relief[1]	Difference in useful lives[2]	Other	Total
At 31 December 2013	**17,891**	**4,664**	**1,060**	**23,615**
Charged/ (credited) to statement of profit or loss and other comprehensive income	(2,086)	7,300	(944)	4,270
At 31 December 2014	**15,805**	**11,964**	**116**	**27,885**

GROUP – deferred tax assets	Tax losses	Other	Total
At 31 December 2013	**(152)**	**(1,516)**	**(1,668)**
Charged/ (credited) to statement of profit or loss and other comprehensive income	145	522	667
At 31 December 2014	**(7)**	**(994)**	**(1,001)**

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

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

COMPANY – deferred tax liabilities	Investment relief[1]	Difference in useful lives[2]	Other	Total
At 31 December 2013	**15,178**	**4,641**	**588**	**20,407**
Charged/ (credited) to statement of profit or loss and other comprehensive income	(2,014)	6,758	(471)	4,273
At 31 December 2014	**13,164**	**11,399**	**117**	**24,680**

COMPANY – deferred tax assets	Tax losses	Other	Total
At 31 December 2013	**-**	**(1,409)**	**(1,409)**
Charged/ (credited) to statement of profit or loss and other comprehensive income	-	622	622
At 31 December 2014	**-**	**(787)**	**(787)**

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

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

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

26 Deferred income taxes (continued)

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

	As at 31 December			
	GROUP		COMPANY	
	2014	2013	2014	2013
Deferred tax assets	(1,001)	(1,668)	(787)	(1,409)
Offset with deferred tax liabilities	874	1,432	787	1,409
Deferred tax assets as per balance sheet:	**(127)**	**(236)**	**-**	**-**
Deferred tax liabilities	27,885	23,615	24,680	20,407
Offset with deferred tax asset	(874)	(1,432)	(787)	(1,409)
Deferred tax liabilities as per balance sheet:	**27,011**	**22,183**	**23,893**	**18,998**

27 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2014 the aggregate of bank guarantees (obligations guaranteed under tender, agreement performance arrangements) provided by AB SEB bankas on behalf of the Company and the Group amounts to LTL 3.46 million (2013: LTL 3.99 million).

Minimum lease payments receivable

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

	GROUP		COMPANY	
	2014	2013	2014	2013
Not later than 1 year	16,194	16,278	16,194	16,278
Later than 1 year but not later than 5 years	11,333	8,916	11,333	8,916
	27,527	**25,194**	**27,527**	**25,194**

Minimum lease payments recognized in the statement of profit or loss and other comprehensive income during 2014 were LTL 21,501 thousand (2013: LTL 22,460 thousand).

The Company lease terminal telecommunication equipment under various agreements which terminate in 2017.

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

28 Commitments

Capital commitments

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Property, plant and equipment	13,494	8,375	13,494	8,004
	13,494	**8,375**	**13,494**	**8,004**

Operating lease commitments – where the Group is the lessee

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

The operating lease expenditure charged to the statement of profit or loss and other comprehensive income are as follows:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Minimum lease payments	12,561	10,940	11,226	9,073

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

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Not later than 1 year	7,120	6,948	7,095	6,305
Later than 1 year but not later than 5 years	9,482	7,057	9,476	6,140
Later than 5 years	1,142	1,206	1,142	1,206
	17,744	**15,211**	**17,713**	**13,651**

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

29 Related party transactions

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

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
TeliaSonera AB and its subsidiaries	31,804	32,473	25,267	25,945
Subsidiaries of the Company	-	-	15,947	10,930
Total sales of telecommunication and other services	**31,804**	**32,473**	**41,214**	**36,875**

Purchases of assets and services:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Purchases of assets from:				
Subsidiaries of the Company	-	-	300	487
	-	**-**	**300**	**487**

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Purchases of services from:				
TeliaSonera AB and its subsidiaries	13,505	14,998	13,315	12,265
Subsidiaries of the Company	-	-	24,813	32,093
	13,505	**14,998**	**38,128**	**44,358**
Total purchases of assets and services	**13,505**	**14,998**	**38,428**	**44,845**

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

Receivables and accrued revenue from related parties

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Receivables from related parties:				
Long term receivables:				
TeliaSonera AB and its subsidiaries	1,060	1,157	1,060	1,157
Short-term receivables:				
TeliaSonera AB and its subsidiaries	1,728	2,686	1,221	1,596
Subsidiaries of the Company	-	-	2,259	1,350
	2,788	**3,843**	**4,540**	**4,103**

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Accrued revenue from related parties:				
TeliaSonera AB and its subsidiaries	2,407	1,391	2,285	1,387
	2,407	**1,391**	**2,285**	**1,387**
Total receivables and accrued revenue from related parties	**5,195**	**5,234**	**6,825**	**5,490**

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

29 Related party transactions (continued)

The receivables from related parties arise mainly from sale transactions and due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provision are held against receivables from related parties (2013: nil).

Payables and accrued expenses to related parties

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Payables to related parties:				
TeliaSonera AB and its subsidiaries	1,089	630	1,078	611
Subsidiaries of the Company	-	-	3,896	3,737
	1,089	**630**	**4,974**	**4,348**

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Accrued expenses to related parties:				
TeliaSonera AB and its subsidiaries	83	10	83	10
	83	**10**	**83**	**10**
Total payables and accrued expenses to related parties:	**1,172**	**640**	**5,057**	**4,358**

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

Loans to related parties:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Beginning of the year	**-**	**-**	**4,995**	**8,497**
Loans advanced during year	-	-	-	986
Loan repayments received (in cash)	-	-	(4,289)	(4,476)
Interest charged (including VAT)	-	-	72	193
Interest received (including VAT)	-	-	(87)	(205)
End of the year	**-**	**-**	**691**	**4,995**

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

Name of the related party	**Date of agreement**	**Original currency of agreement**	**Outstanding balance**	**Maturity**	**Interest rate**
Year ended 31 December 2014					
UAB Hostex	06 August 2013	LTL	691	till 06 August 2016[1]	0.93%
Year ended 31 December 2013					
UAB Hostex	19 April 2011	LTL	3,994	till 19 April 2016	3.35%
UAB Hostex	06 August 2013	LTL	986	till 06 August 2016	1.04%

[1] As of 31 December 2014, the loan of LTL 691 thousand is classified as current assets due to UAB Hostex intention to repay this loan during 2015. As of the date of approval of these financial statements all amount of the loan was repaid to the Company.

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

29 Related party transactions (continued)

Borrowings from related parties:

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
Beginning of the year	**-**	**-**	**-**	**-**
Borrowings	34,528	-	34,528	-
Repayments of borrowings (in cash)	-	-	-	-
Interest charged (including VAT)	21	-	21	-
Interest paid (including VAT)	-	-	-	-
End of the year	**34,549**	**-**	**34,549**	**-**

The borrowings from related parties have the following terms and conditions:

Name of the related party	Date of agreement	Original currency of agreement	Outstanding balance	Maturity	Interest rate
Year ended 31 December 2014					
TeliaSonera AB	06 November 2014	EUR	34,528	13 May 2015	0.44%

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

During 2014 dividends paid out to TeliaSonera AB amounted to LTL 130,110 thousand (2013: LTL 136,958 thousand) and amount paid out to TeliaSonera AB due to capital reduction amounted to LTL 171,198 thousand (2013: nil).

During 2014 dividends received by the Company from subsidiaries amounted to LTL 10,945 thousand (2013: LTL 3,130 thousand).

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

	2014	**2013**
Remuneration of key management personnel	10,098	9,045
Social security contributions on remuneration	2,899	2,776
Total remuneration	12,997	11,821

Key management includes General Manager, Heads of Units directly reporting to General Manager and Heads of the largest Units of the Company. The total number of top management personnel employed as of 31 December 2014 was 29 (as of 31 December 2013: 29).

The total amount of annual compensations (tantiems) assigned to the six members of the Board of the Company during 2014 amounted to LTL 324 thousand (2013: LTL 324 thousand). As of 31 December 2014 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid (2013: LTL 54 thousand).

30 Events after balance sheet day

Following the Law on expression of nominal value of authorized capital and securities of the public and limited companies in euro and amendment of the By-laws of such companies of the Republic of Lithuania as the Republic of Lithuania joined the euro zone as of 1 January 2015, the Company will record as a non-recurring loss an amount of EUR 221 thousand (LTL 764 thousand) for the year 2015 due to conversion of the nominal value of the Company's share expressed in litas into euro and its rounding and recalculation of nominal value of the authorized capital.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, General Manager of TEO LT, AB, and Lars Bolin, Head of Finance and Strategic Planning of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Financial Statements as of and for the year ended 31 December 2014 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flows of the Company and the Group of undertakings.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance
and Strategic Planning

CONSOLIDATED ANNUAL REPORT

Approved by the Board
as at 25 March 2015

I. GENERAL INFORMATION

Reporting period

Year ended 31 December 2014

Issuer and its contact details

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

Main activities of the Group

TEO LT, AB Group is an information and communication technology company, providing integrated telecommunication, IT and television services to residents and businesses in Lithuania. Teo Group is a part of TeliaSonera Group, a telecommunication services provider in the Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain.

The Company's **vision** is to be the best partner in communicating with the constantly changing world. By constantly introducing the most advanced technologies, we aim at enabling our customers to reach people, knowledge and entertainment simply and easily. The Company's **mission** is to create value for shareholders and customers by providing professional, high quality and easy to use telecommunications, television and IT services.

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an **operator with significant market power** (SMP) in Lithuania on the following markets of:
- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- minimum set of leased lines;
- calls origination on public telephone network provided at a fixed location;
- calls termination on individual public telephone networks provided at a fixed location;
- wholesale broadband access;
- wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location;
- low-speed wholesale terminating segments of leased lines market, high-speed wholesale terminating segments of leased lines market, national wholesale trunk segments of leased lines market;
- digital terrestrial television (DVB-T) broadcasting transmission services for end-users of content provision services using radio frequencies (channels) assigned to Teo.

As TeliaSonera AB (Sweden) owns a 100 per cent stake in Lithuanian mobile operator UAB Omnitel, Teo is regarded as an entity related to UAB Omnitel, therefore Teo is considered as SMP on the market of voice call termination on the mobile network of Omnitel.

As of 31 December 2014, **Teo Group** consisted of the parent company, TEO LT, AB, (registered on 6 February 1992, code 121215434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Lvovo str. 25, LT-03501 Vilnius tel.: +370 5 262 1511; fax. +370 5 212 6665; internet address: www.teo.lt), subsidiaries and associates of TEO LT, AB, and subsidiaries of UAB Baltic Data Center (UAB Hostex, UAB Hosting and Baltic Data Center SIA).

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

Name of the company	Date of registration, code, name of Register of Legal Entities	Contact details	Teo share in the share capital of the company (%)	Teo share of votes (%)
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	Ukmergės str. 223, LT-07156 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.lintel.lt	100.00	100.00
UAB Baltic Data Center	17 December 2001, code 125830791, State Enterprise Center of Registers	Žirmūnų str. 141, LT-09128 Vilnius, Lithuania tel. +370 5 274 8360, fax. +370 5 278 3399, www.bdc.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	5 July 1995, code 134517169, State Enterprise Center of Registers	Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Jogailos str. 9A/A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613	100.00	100.00
VšĮ Ryšių Istorijos Muziejus	13 July 2010, code 302528309, State Enterprise Center of Registers	Rotušės sq. 19, LT- 44279 Kaunas, Lithuania tel. +370 37 321 131 fax. +370 37 424 344 www.rysiumuziejus.lt	-	100.00
VšĮ Numerio Perkėlimas	5 September 2014, code 303386211, State Enterprise Center of Registers	Jogailos str. 9, LT- 01116 Vilnius, Lithuania	-	25.00

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

In 2014, the Company renewed its Internet and TV services, which are now provided under common single Teo brand. Starting from 5 March 2014 television GALA became Teo television and from April Internet ZEBRA is called Teo Internet.

From 1 June 2014 a new governing structure of TEO LT, AB came into effect. The two new Business to Consumer (B2C) and Business to Business (B2B) Divisions, responsible for development of services and provision of customer care, were formed instead of Service Development and Sales Divisions. Along with these changes, the activities of the specialists of Teo Group companies – UAB Lintel and UAB Baltic Data Center (BDC) – are more and more integrated into these Divisions.

UAB Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. For residential customers Lintel provides Directory Inquiry Service 118, and for business customers – telemarketing and remote customer care services. In 2014, UAB Lintel paid to the Company LTL 2.9 million in dividends for the year 2013.

UAB Baltic Data Center (BDC) is a leading provider of data center and information system management services in the Baltic States. BDC provides professional data centre, computer workstation and business management system support and development services. BDC has a subsidiary, UAB Hostex, that provides web hosting and data center services to residential customers and small companies as well as to Internet portals. UAB Hostex has a dormant subsidiary UAB Hosting. In Latvia, BDC owns a dormant subsidiary – Baltic Data Center SIA. In 2014, UAB Baltic Data Center paid to the Company LTL 8 million in dividends for the year 2013.

UAB Kompetencijos Ugdymo Centras is a dormant company that until June 2009 was providing consultancy and training services. **UAB Verslo Investicijos** was acquired in 2008 for the implementation of an investment project.

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

In September 2014, four Lithuanian telecommunication companies Bitė Lietuva, Omnitel, Tele2 and Teo have established a joint not for profit organization **VšĮ Numerio Perkėlimas**. This not for profit organization together with UAB Mediafon from 1 January 2016 will administer central database to ensure telephone number portability.

TEO LT, AB has no branches or representative offices.

Agreements with intermediaries of public trading in securities

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

Data about securities traded on regulated market

The following securities of TEO LT, AB are included into the Main List of NASDAQ OMX Vilnius stock exchange (symbol: TEO1L) as of 31 December 2014:

Type of shares	Number of shares	Nominal value (in LTL)	Total nominal value (in LTL)	Issue Code
Ordinary registered shares	582,613,138	1	582,613,138	LT0000123911

On 20 October 2014, following the decision of the Annual General Meeting of Shareholders held on 29 April 2014, the authorised capital of the Company was reduced from 776,817,518 litas to 582,613,138 litas and, accordingly, the number of the Company's shares included into Main List of NASDAQ OMX Vilnius stock exchange was reduced from 776,817,518 to 582,613,138. NASDAQ OMX Vilnius stock exchange is a home market for Teo shares.

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

Securities of the Company's subsidiaries are not traded publicly as subsidiaries are limited liabilities companies and are 100 per cent (except VšĮ Numerio Perkėlimas) owned by the Company.

II. FINANCIAL INFORMATION

During 2014, Teo reached several milestones: number of Internet subscriptions, including Wi-Fi, exceeded half a million and at the end of 2014 amounted to 517 thousand (371 thousand excl. Wi-Fi). Customers using modern Teo fiber-optic network reached 201 thousand, an increase by 20 thousands or 11 per cent over the year, while number of IPTV customers was 131 thousand, a record growth of 24 per cent.

In terms of total revenue, the decline in 2014 was by 3.1 per cent: residential customers' segment declined by 1.3 per cent, business customers' by 7 per cent, while Business to Operators showed a growth of 2.2 per cent due to positive development in the transit services. During the year non-voice revenue increased in total by 1.3 per cent, driven by net increase in customer base of broadband Internet and IPTV subscriptions as well as higher sales in IT goods and equipment, and the share of non-voice services for the first time reached over 60 per cent. Negative impact on revenue during 2014 was still from the decrease in revenue from fixed voice telephony (down by 9.1 per cent) as disconnection of telephone lines continues, but in a slower pace than before. During 2014, voice subscription base decreased by 7 per cent, outgoing voice traffic generated by residential and business customers decreased by 15.4 and 11.4 per cent, respectively, while total volume of calls to mobile operators' networks increased by 29.6 per cent.

The efficiency improvement program and the setup of new organization with rather high non-recurring (redundancy) costs during the year resulted that operating expenses were almost the same as in 2013, i.e. lower by 0.1 per cent. Excluding non-recurring items, the operating expenses (excluding cost of goods and services) were down by 10.5 per cent, while cost of goods and services increased by 8.7 per cent due to higher sales of IT goods, customer equipment and transit services. The operating free cash flow in 2014 stood at LTL 141 million, a decline of 2.4 per cent compared with the previous year. Positive was that bad debts decreased by over 50 per cent with a ratio of only 0.16 per cent of the total revenue. Return on capital employed ended up at 15.2 per cent (16.4 per cent in 2013), while return on shareholders' equity reached 13.8 per cent (14.7 per cent in 2013). During 2014, EBITDA excluding non-recurring items decreased by 3.7 per cent and reached LTL 287 million, while EBITDA margin (excl. non-recurring items) was almost on the same level as in previous year and amounted to 41.1 per cent (41.4 per cent in 2013).

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

Key figures of Teo Group

Financial figures	2014	2013	Change (%)
Revenue (LTL thousand)	698,450	720,589	(3.1)
EBITDA (LTL thousand)	271,052	292,737	(7.4)
EBITDA margin (%)	38.8	40.6	
EBITDA excluding non-recurring items (LTL thousand)	*287,081*	*297,999*	*(3.7)*
EBITDA margin excluding non-recurring items (%)	*41.1*	*41.4*	
Operating profit (LTL thousand)	146,269	165,083	(11.4)
Operating profit margin (%)	20.9	22.9	
Profit before income tax (LTL thousand)	146,520	165,572	(11.5)
Profit before income tax margin (%)	21.0	23.0	
Profit for the period (LTL thousand)	131,465	149,151	(11.9)
Profit for the period margin (%)	18.8	20.7	
Earnings per share (LTL)	0.178	0.192	
Weighted average number of shares (thousand)	738,509	776,818	(4.9)
Cash flow from operations (LTL thousand)	248,040	292,177	(15.1)
Operating free cash flow (LTL thousand)	140,652	144,148	(2.4)

Financial ratios	31-12-2014	31-12-2013
Return on capital employed (%)	15.2	16.4
Return on average assets (%)	13.4	14.7
Return on shareholders' equity (%)	13.8	14.7
Operating cash flow to sales (%)	35.5	40.5
Gearing ratio (%)	(2.7)	(21.4)
Debt to equity ratio (%)	4.3	0.2
Current ratio (%)	128.7	348.3
Rate of turnover of assets (%)	64.2	64.1
Equity to assets ratio (%)	84.1	89.5

Operating figures	31-12-2014	31-12-2013	Change (%)
Number of fixed telephone lines in service	525,879	565,327	(7.0)
Number of broadband Internet connections (FTTH, FTTB, DSL and other excluding Wi-Fi)	370,598	356,659	3.9
Number of TV services customers	186,935	172,308	8.5
Number of personnel (head-counts) at the end of period	2,631	3,034	(13.3)
Number of full-time employees at the end of the period	2,381	2,727	(12.7)

Revenue

The **total revenue** for 2014 was LTL 698 million, a decrease by 3.1 per cent over the total revenue of LTL 721 million for 2013. During the 2014 revenue from Internet, TV and IT services continued to grow while revenue from voice telephony, data communication and network capacity as well as other services went down.

Revenue from services provided to residential customers during 2014, compared with the same revenue a year ago, were almost at the same level – a slight decline by 1.3 per cent. Revenue from services provided to business customers were lower by 7 per cent, while revenue from services provided to other telecommunication operators went up by 2.2 per cent.

Share of revenue from voice telephony services from the total amount of revenue continued to shrink and amounted to 39.6 per cent of the total revenue in 2014 (42.2 per cent in 2013). Share of revenue from Internet services further increased and was 26.4 per cent, IT services – 11 per cent and television services – 9 per cent, while share of revenue from data communication and network capacity services eased to 11.3 per cent and other services to 2.7 per cent.

Over the year, revenue from voice telephony services went down by 9.1 per cent due to continued decline in number of telephone lines in service and consequently lower traffic volume, while revenue from transit services increased but that was not enough to offset a continuous decline of revenue from retail voice telephony services. During 2014, the revenue from retail voice telephony excluding networks' interconnection services went down by 14.6 per cent.

During 2014, the total number of main telephone lines in service decreased by 39 thousand.

Total volume of voice telephony traffic generated by residential and business customers during 2014, compared with 2013, decreased by 15.4 and 11.4 per cent, respectively, while total volume of calls to mobile operators' networks increased by 29.6 per cent due to attractive payment plans for calls to mobile networks.

During 2014 the total number of **broadband Internet access** (excluding Wi-Fi) users increased by 14 thousand.

Over the year the number of Internet connections over the next-generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 11.3 per cent and exceeded 201 thousand at the end of 2014, while the number of copper DSL connections eased by 3.7 per cent to 170 thousand. During the year, the number of Teo Wi-Fi connections almost doubled and amounted to 147 thousand as of 31 December 2014.

By the end of 2014, the number Internet connection over the fiber-optic access network amounted to 38.8 per cent of all 517 thousand Teo broadband Internet connections (including Wi-Fi).

Starting from April 2014, Internet speed was increased for some Teo customers, also service bundles, that offer medium and the fastest Internet speed, were supplemented with more value added services. The services "Teo Wi-Fi", "Saugykla" ("Storage") and "Interneto Apsauga" ("Internet Security") were added to Teo Internet service bundles without any additional fees. These additional services are provided depending on the bundle customers' have chosen.

Starting from July 2014 thousands of viewers and participants of events at the Vilnius Siemens Arena will be able to use, free of charge, the wireless Internet "Teo Wi-Fi". This unique wireless Internet solution is the first project of such a scale in an indoor entertainment arena in Lithuania that provides an opportunity for all event viewers to use Wi-Fi simultaneously.

In December, Teo together with Omnitel, provider of mobile communication services, introduced to business customers a new service called "Internetas visur" ("Internet Everywhere"). This the first in Lithuania solution for business, when one provider offers both fixed-line and mobile Internet access. Teo business customers, who subscribe to the service, will be able to use both fixed Internet access and the largest in Lithuania Omnitel's 3G and 4G mobile Internet access on their computers.

Compared with 2013, revenue from **data communication** services alone eased by 1.6 per cent and revenue from **network capacity** services alone decreased by 12 per cent.

During 2014, the number of IPTV services users increased by 25.3 thousand or 23.8 per cent, and by the end of 2014 amounted to 131 thousand. During the January-December 2014, the number of digital terrestrial television (DVB-T) users contracted by 10.6 thousand and amounted to 55 thousand. Over the year, the total number of **television** service customers went up by 14.6 thousand.

In 2014, Teo introduced a new more easily managed interface of IPTV service, offered to customers of "Smart Teo television" new Lithuanian High Definition TV channels – LRT HD and "Sport 1 HD".

Starting from July 2014 customers of Teo IPTV are able to view their photos, video and audio recordings on a TV screen. Before the launch of this service Teo customers could access their personal files kept in the "Storage" only on the Internet but now the files are accessible through TV menu as well.

In December, the Company stated to provide a new generation Internet TV service, "Inteneto.tv", as a separate service. Initially, in 2013 the service was provided just to Teo IPTV service customers. From June 2014, it became available to some customers of Omnitel. Now anyone may subscribe to the service regardless of which Internet providers' service is used. It allows subscribers to watch TV on a PC, smartphone or tablet anywhere in Lithuania where Internet access is available. Updated "Inteneto.tv" service features 25 TV channels. Recordings of most of the TV shows are available for three days after their broadcast.

Consolidated Teo Group revenue from **IT services** are generated from data center, information system management and web-hosting services provided to local and multinational enterprises by subsidiaries UAB Baltic Data Center (BDC) and UAB Hostex, and equipment sales and IT services provided by the Company.

In 2014, BDC entered into a new three-year agreement with DNB bank to support information technology (IT) infrastructure in Lithuania, Latvia and Estonia. BDC has been supporting DNB's IT infrastructure since 2007. During six years of partnership, BDC continuously managed to provide DNB with high quality services in all three Baltic States.

In 2014, Teo opened an e-shop of household electronic equipment for the convenience of its customers. From now on by paying a monthly fee Teo customers are able to buy not only TVs and computers, but printers, cameras and game computers in the online shop. By opening its online shop, Teo expanded the range of products by four times. The items available in the e-shop www.teo.lt/parduotuve include nearly fifty TVs, laptops and tablet computers as well as printers, cameras and game computers from the world's best-known manufacturers (Acer, HP Compaq, Dell, etc.) selected by Teo specialists.

Over the year Teo Group revenue from electronic equipment sales more than tripled.

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

Over the year revenue from other non-core business services eased by 0.7 per cent, while revenue from Contact Center services went down by 27.9 per cent due to termination of some projects.

In April and May, during the Presidential Elections and Elections to the European Parliament, Contact Center of Lintel was providing information to the voters by short number.

During 2014, Teo upgraded video surveillance (CCTV) systems in Mažeikiai, Kelmė, Tytuvėnai, Panevėžys and districts of Akmenė, installed a CCTV system in Ariogala and districts of Trakai.

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

Market information

According to the Reports of the Communications Regulatory Authority (CRA), during the nine months of 2014, the total revenue of the market amounted to LTL 1,562 million, a decrease by 3.4 per cent over the nine months of 2013.

	Teo market share (%)			
	in terms of customers		**in terms of revenue**	
	Q3 2014	**Q3 2013**	**Q3 2014**	**Q3 2013**
Fixed voice telephony services	90.1	90.2	94.2	94.4
Fixed Internet access services	53.4	50.8	54.9	55.5
Internet access services (total)	40.1	37.0	46.3	43.3
Digital pay-TV services	42.6	41.7	44.0	42.1
Pay-TV services (total)	25.2	23.5	30.1	28.8
Network interconnection services	n/a	n/a	22.9	28.0
Data communication services	n/a	n/a	55.5	56.7
Leased line services	n/a	n/a	55.9	60.0

On 30 September 2014, broadband Internet penetration per 100 residents of Lithuania was 41.7 per cent (38.1 per cent a year ago), while the penetration of broadband Internet using fixed connection was 31.3 per cent (27.8 per cent a year ago). Digital pay-TV penetration per 100 households was 32.7 per cent (31.3 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 19.8 per cent (21.2 per cent a year ago).

Operating expenses

Total operating expenses of the Group in 2014 were almost the same as in 2013, i.e. lower by 0.1 per cent, in spite of non-recurring redundancy charge in 2014.

During 2014, **cost of goods and services** increased by 8.7 per cent due to higher volumes of transit traffic and IT equipment sales, compared with 2013.

Employee-related expenses in 2014 were by 3.3 per cent lower than in 2013 in spite of non-recurring redundancy charge in 2014. During the first quarter of 2014, the Company implemented efficiency improvement program under which up to 130 employees of Teo Group terminated their employment contracts on the base of mutual agreement. During the second quarter of 2014, a new organisational structure of the Company was introduced and majority of employees of Baltic Data Center was moved into Teo. The total cost of redundancy pay-outs during 2014 amounted to LTL 16 million.

During 2014, the total number of employees in Teo Group decreased by 403 (whereof 261 in Lintel due to termination of some projects) from 3,034 to 2,631. In terms of full-time employees, the total number of employees in Teo Group during 2014 decreased by 345 (mainly in Lintel) from 2,727 to 2,381.

Other operating expenses during 2014 decreased by 11.6 per cent due to the strict cost control.

Earnings

EBITDA in 2014 was down by 7.4 per cent to LTL 271 million over LTL 293 million in 2013. EBITDA margin declined and amounted 38.8 per cent (40.6 per cent in 2013). EBITDA excluding non-recurring items over the year went down by 3.7 per cent while EBITDA margin excluding non-recurring items stood at 41.1 per cent.

Depreciation and amortisation charges went down by 2.2 per cent, and amounted to 17.9 per cent of total revenue (17.7 per centa year ago).

Operating profit (EBIT) for the year 2014 went down by 11.4 per cent and operating profit margin was 20.9 per cent (22.9 per cent in 2013). Operating profit excluding non-recurring items in 2014 was by 4.7 per cent lower than in 2013, and operating profit margin excluding non-recurring items was 23.2 per cent.

Net financial income in 2014 was by 48.7 per cent lower than a year ago.

Profit before income tax for the year 2014 was down by 11.5 per cent and amounted to LTL 147 million (LTL 166 million a year ago). Profit before income tax excluding non-recurring items was by 4.8 per cent lower than in 2013.

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the year 2014 amounted to LTL 7.8 million (LTL 10.2 million in 2013). **Income tax expenses** in 2014 were by 8.3 per cent lower than a year ago.

Profit for the period in January-December 2014 amounted to LTL 131 million, a decrease by 11.9 per cent over the profit of LTL 149 million for the same period year ago. The profit margin was 18.8 per cent (20.7 per cent a year ago). Profit for the period excluding non-recurring items in 2014 was by 4.5 per cent lower than in 2013 and profit margin excluding non-recurring items was 21.1 per cent.

Balance sheet and cash flow

During the fourth quarter of 2014, following the decision of the Annual General Meeting of Shareholders as of 29 April 2014, Teo reduced its authorized capital by LTL 194.2 million (or 25 per cent) and paid out the shareholders LTL 194.2 million. As a result, the amount of **total assets** of Teo Group at the end of 2014 was by 15.1 per cent less than a year ago.

During 2014, the total **non-current assets** declined by 1.7 per cent and amounted to 83.6 per cent of total assets. Following the resolutions of the Annual General Meeting of Shareholders of 29 April 2014, in May, the total amount of LTL 147.6 million or LTL 0.19 per share of dividends for the year 2013, and in November, the total amount of LTL 194.2 million or LTL 0.25 per share of funds due to authorized capital reduction were paid to the shareholders of the Company. Therefore, total **current assets** decreased by 50 per cent and amounted to 16.4 per cent of the total assets. At the end of 2014, cash represented 5.9 per cent of total assets (19.4 per cent a year ago).

During 2014, **shareholders' equity** decreased by 20.3 per cent due to authorized capital reduction and amounted to 84.1 per cent of the total assets.

As of 31 December 2014, consolidated **retained earnings** of Teo Group amounted to LTL 168 million, while retained earnings of the Parent company amounted to LTL 138 million or LTL 0.236 per share. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends shall be paid from retained earnings of the Parent company.

Dividends paid to legal entities (residents and non-residents) are subject to **withholding** Corporate income **tax** of 15 per cent, unless otherwise provided for by the laws. From 1 January 2014 dividends paid to natural persons (residents and non-residents) are subject to withholding Personal income tax of 15 per cent.

During the fourth quarter of 2014, the Company borrowed LTL 34.5 million and at the end of 2014 the total amount of **borrowings** (loan and financial liabilities related to financial leasing of premises) amounted to LTL 35.8 million (LTL 2.3 million in 2013), while cash amounted to LTL 58.2 million.

Net **cash flow from operating activities** in 2014 was by 15.1 per cent lower than a year ago. **Operating free cash flow** (operating cash flow excluding capital investments) in 2014 was by 2.4 per cent less than a year ago.

During 2014, **capital investments** amounted to LTL 103.1 million (LTL 154.3 million a year ago). The majority of capital investments (88 per cent or LTL 90.6 million) went to development of the next generation fiber-optic access network and expansion of the core network. The total amount of LTL 5.3 million was invested into IT systems, LTL 4.6 million into transport and LTL 2.6 million – other investments.

As a result by the end of 2014, Teo had 836 thousand households passed (804 thousand a year ago), or more than two thirds of the country's households, by the FTTH network.

During 2014 **cash and cash equivalents** mainly due to reduction of the authorized capital decreased by LTL 86.7 million.

During 2014, TEO LT, AB paid LTL 113.2 million of **taxes and contributions**, not including taxes and contributions that the Company withheld and paid on behalf of other persons. An amount of LTL 33.4 million was contributed to the State Social Insurance Fund and a total of LTL 79.8 million was paid to the State Tax Inspectorate.

Information about related party transactions

Information about related party transactions is provided in Note 29 of TEO LT, AB Financial Statements for the year ended 31 December 2014.

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

The Company and its subsidiaries are providing to each other telecommunications, Call Center, IT and other services. As of 31 December 2014 the Company had an outstanding loan granted to UAB Hostex, a subsidiary of UAB Baltic Data Center. The Company's subsidiaries have no interest in the share capital of TEO LT, AB.

Teo and Teo Group through its largest shareholder, TeliaSonera AB, are related to TeliaSonera Group that provides telecommunication services in Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain. The main buyers and providers of telecommunications services to Teo Group are UAB Omnitel (Lithuania), TeliaSonera International Carrier (Sweden), Elion Ettevotted AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland). As of 31 December 2014 TeliaSonera AB had an outstanding loan granted to TEO LT, AB.

Other material information

Following the Order of Director of Communications Regulatory Authority of the Republic of Lithuania, Teo ceased to be recognized as undertaking having significant market power on the markets of National transit services in fixed public telephone network and International transit services in fixed public telephone network.

In August 2014, Lithuanian Court of Appeal decided to retain in force the decision of Vilnius District Court, confirming that the land lot at 21A Lvovo str. is lawfully used by Teo Group. The appeal to the Court was concerning the agreement on lease of the state owned land, located at 21A Lvovo str. in Vilnius. Until 2007 on this land lot there were buildings owned by Teo Group, most of which were demolished in preparation for construction of the Company's new headquarters building. From 2006 due to the judicial processes the Company could not carry out activities on this land lot leased from the municipality. Currently Teo is considering further possibilities for the use of this site.

Recent events

On 12 February 2015, Teo upgraded its brand and opened the first customer care showrooms of a new concept. These change reflect the Company's value and customers' expectations to use modern technologies in a simple, clear and flexible way.

Research and development activities

There were no major research and development projects undertaken during 2014, except the on-going development and improvement of the Company's services.

In March 2014, Teo changed the interface of IPTV service – the customers are able to use TV content more simply and intuitively, easier find the programmes and video recordings. The new TV interface also includes a new feature, making it possible to limit the time the children spend at the TV screen. In July, Smart Teo Television was supplemented with another exclusive service – possibility to access the files from the Internet storage services "Saugykla" and to view recordings and photo archives on TV screen. Upgraded Smart Teo Television was awarded with the Gold Medal during the contest "Lithuanian Product of the Year 2014".

In 2013, launched new Teo services "Interneto.tv", an internet TV service for smart devices, from June 2014 became available to some customers of Omnitel and from December it is offered to everyone as a separate service.

In December 2014, Teo together with Omnitel introduced to business a new service called "Internetas visur" ("Internet Everywhere"), an Internet solution that offers both fixed-line and mobile Internet access.

Environmental protection

In its activities, Teo uses only the most innovative means and the most modern technological processes that meet all ecological standards and help reduce the negative impact on the environment. In 2014, the Company reduced consumption of electricity by 4.2 per cent (for administrative purposes – by 1.7 per cent), water – by 12.4 per cent and fuel usage – by 6.6 per cent. More information about the Company's activities in environmental protection as well as other corporate social responsibility activities is provided in annually issued Corporate Social Responsibility Reports.

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

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

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

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

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

Risk management

The main risk factors associated with the activities of the Company are as follows:

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- Acceptance of new products of the Company by the market.
- Currency exchange rates fluctuations.
- General economic situation in the Republic of Lithuania.
- Changes in the Lithuanian legislation.
- Changes in the regulation of accounting and taxation systems.

As of 31 December 2014 the total amount of borrowings (loan and financial liabilities related to financial leasing of premises) amounted to LTL 35.8 million (LTL 2.3 million in 2013), while cash amounted to LTL 58.2 million.

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

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

Information about the Company's financial risk management is provided in Note 3 of TEO LT, AB Financial Statements for the year ended 31 December 2014.

Plans and forecasts

Teo will continue to have a strong focus on customer satisfaction and customer loyalty, which include sharpening up of our TV and value added services portfolio, strengthening our visibility, being close to our customers in the mass market and improvement of our end-to-end processes as well as our Online services. In Business to Business (B2B) segment main focus will be in the IT and ICT area, to take market share and introduce new IT services for both small and large business customers.

Long-term focus areas will also be to create business value through superior network connectivity, meaning transition from voice to data through future proof network access as well as increase in utilization of fiber and copper networks combined with selective fiber investments, mainly for single dwelling units and business centers. In addition, continued focus on business excellence, to improve time to market by simplify operations/processes and transform our legacy to create agility and cost efficiency. Furthermore, we will increase our focus to lead the way in responsible business by having sustainability, CSR and anti-corruption high up in our agenda.

In 2015, Teo plans to update or open in new places more than 10 showrooms of the new concept. The Company plans to invest EUR 1 million in the upgrading and opening of new showrooms during the next couple of years.

In the second half of 2015, the Company plans to open the eighth data centre, which will be built in strict compliance with high reliability level Tier III requirements. The constructed data centre will have 106 server racks; planned IT capacity is 500 kW. Servers will be cooled using an energy-efficient KyotoCooling cooling system, which is already used in another Teo data centre located in Vilnius. Investments into new data center will amount up to EUR 2.9 million.

III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS

Share capital

From 20 October 2014 the **share capital** of the Company amounts to 582,613,138 litas and consists of 582,613,138 ordinary registered shares with a nominal value of 1 litas (0.29 euro) each. It was reduced from 776,817,518 litas to 582,613,138 litas by cancelling 194,204,380 shares. From 20 October 2014, the number of Teo shares that provide voting rights during the General Meeting is 582,613,138.

The Annual General Meeting of Shareholders, held on 29 April 2014, decided to reduce the Company's authorised capital by 194,204,380 litas from 776,817,518 litas to LTL 582,613,138 litas. The purpose of reduction of the Company's authorised capital – payment of the Company's funds to all shareholders in proportion to the nominal value of shares owned by the property right by the shareholder. The Company's authorised capital was reduced by way of cancelling of the Company's shares with the nominal value equal to the reduction amount, i.e. 194,204,380 litas.

582,613,138 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L). NASDAQ OMX Vilnius stock exchange is a home market for Teo shares.

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

Shareholders

The number of shareholders on the shareholders registration day (22 April 2014) for the Annual General Meeting of Shareholders, which was held on 29 April 2014, was 11,913.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2014:

Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder	Share of the share capital (%)	Share of votes given by the shares owned by the right of ownership (%)	Share of votes held together with persons acting in concert (%)
TeliaSonera AB, Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	513,594,774	88.15	88.15	-
Other shareholders	69,018,364	11.85	11.85	-
TOTAL:	**582,613,138**	**100.00**	**100.00**	**-**

Treasury stocks

The Company has no treasury stocks. The Company has never acquired any shares from the management of the Company.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 31 December 2014, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders amounted to 582,613,138 (before the reduction of the authorized capital on 20 October 2014 it was 776,817,518). One ordinary registered share of TEO LT, AB gives one vote in the General Meeting of Shareholders.

The Company is not aware of any agreements between the shareholders that could limit transfer of securities and/or their ability to exercise their voting rights.

Information about trading in the Company's securities

During 2014, Teo **share price** on NASDAQ OMX Vilnius stock exchange increased by 29.4 per cent mainly due to reduction of the authorised capital and number of shares by 25 per cent. The shares' turnover, compared to the year 2013, decreased by 26.8 per cent.

Information about trading in Teo shares on NASDAQ OMX Vilnius stock exchange in 2014:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.666	3.625	2.417	3.422	2.812	9,654,486	27,143,664
EUR	0.772	1.050	0.700	0.991	0.814	9,654,486	7,861,349

Teo market capitalisation as of 31 December 2014 was LTL 1,994 million (EUR 577 million) while a year ago it amounted to LTL 2,057 million (EUR 596 million).

Dividends

On 28 May 2014, the Company paid out to the shareholders LTL 147,595 thousand of dividends or 0.19 litas per share for the year 2013. Following the Law, dividends were paid to the shareholders who on the dividend record day, 14 May 2014, i.e. the tenth business day after the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. Dividends to all shareholders were paid in cash.

IV. PERSONNEL

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

	2014	2013	Change (%)
Number of personnel (head-counts)	2,631	3,034	(13.3)
Number of full-time employees	2,381	2,727	(12.7)

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

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

Name of the company	31-12-2014	31-12-2013	Change
TEO LT, AB	1,956	1,885	71
UAB Lintel	655	916	(261)
UAB Baltic Data Center	4	214	(210)
UAB Hostex	10	13	(3)
UAB Kompetencijos Ugdymo Centras	1	1	-
VšĮ Ryšių Istorijos Muziejus	5	5	-
	2,631	**3,034**	**(403)**

From 1 June 2014 a new governing structure of TEO LT, AB came into effect. The two new Business to Consumer and Business to Business Divisions, responsible for development of services and provision of customer care, were formed instead of Service Development and Sales Divisions. Along with these changes, the activities of the specialists of Teo Group companies – UAB Lintel and UAB Baltic Data Center (BDC) – are more and more integrated into these Divisions.

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

Name of the company	2014	2013	Change (%)
TEO LT, AB	136,001	125,895	8.0
UAB Lintel	18,993	22,166	(14.3)
UAB Baltic Data Center and its subsidiaries	9,324	21,906	(57.4)
Other TEO LT, AB subsidiaries	297	227	30.8
	164,615	**170,194**	**3.3**

Information about employees of TEO LT, AB as of 31 December 2014:

Group of employees	Number of employees	Education			Average monthly salary (in LTL)
		University	College	High school	
Managers	29	28	-	1	22,009
Middle level managers	212	183	18	11	6,200
Specialists	1,715	1093	305	317	2,887
	1,956	**1,304**	**323**	**329**	**3,873**

Collective Bargaining Agreement

The currently valid Collective Bargaining Agreement between TEO LT, AB, as the employer, and employees of TEO LT, AB, represented by joint representation of Trade Unions, came into force from 25 April 2007.

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

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

- Additional 30 calendar days of unpaid vacation can be granted because of family circumstances, sanatorium treatment, or for other important reasons in case business conditions are favourable. Upon an employee's request for personal competence training abroad and if it is related to the interest of the Company, Director of Human Resources Unit could grant additional unpaid vacations.
- In case of death of the employee's father, mother, wife, husband, child, brother or sister, or birth of a child, the employee gets additional 3 calendar days of paid vacations.
- Vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference.
- Being on duty at home is organised following the order set by Labour Code. During the duty employees are equipped with mobile phones.
- Teo employee's remuneration consists of regularly paid wage which consist of two parts: (1) fixed part – main salary, paid according to the employee's position and possessed competence, and (2) variable part – bonus which can be of two types: bonus for quarterly (monthly) results or bonus for achievement of annual goals. In exceptional cases, one-time bonus could be paid. The list of positions for which quarterly (monthly) or annual bonuses can be paid, bonus descriptions, amounts and payment conditions are set by a separate rules and procedures.
- During the validity of this Collective Bargaining Agreement, the minimal average salary for a full-time employee with a permanent employment contract for the fully worked month is 1,100 litas.
- TEO LT, AB employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00).
- TEO LT, AB employees are paid 2 employee's hourly wage (basic salary) amount for working during weekends and public holidays.
- At the end of financial year employees can be paid bonuses for the Company's yearly results from the wage fund following the rules set by the Company.
- If the employee falls ill, the Employer for first two days of illness pays 90 per cent of the employee's average remuneration.
- Development of the Company's employee's competence and payment for it is executed following the annual competence development plans set after the evaluation of agreements reached by unit managers and employees in respect of training needs and with regards to the Company's development directions and financial abilities.
- The Employer, following valid documentation regulating support for employees' studies, could make a written agreement with the employee regarding payment for his/her university level studies that are in line with his/her individual competence development needs, and pay for such studies on agreed terms. If the studies' programs and individual studies' plans are in line with the employee's competence development needs, an average salary could be paid during the studies' vacations.
- The Employer shall provide information about professional training in towns and districts organised by labour exchange to the employees, who have been notified about their intended dismissal.
- The Employer may provide conditions for the employees to be dismissed to attend professional training courses arranged by labour exchanges and, upon mutual agreement between the parties, to pay for them without exceeding the limit of 500 litas including VAT.
- The employee, who has been notified about his/her intended dismissal, during the period of notification, at his/her request, shall be entitled to unpaid educational leave and may be granted by the Employer up to 50 per cent of time off from work (the employee shall retain his/her average wage for this time) to seek for a new job or to retrain.
- The Employer commits itself to additionally insure the Company employees against accidents at work and on the way to/from work with its own funds; with the Company's funds to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in a timely manner and free of charge.
- The Company has established a Social Needs Fund. Its purpose is to improve the organisation's culture and to meet the social needs of the employees in accordance with the regulations of the Fund. The Fund shall be managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.
- In case of death of the employee's father, mother, wife, husband or child, he/she shall be paid an allowance amounting to 10 Minimum Standard of Living (MSL) from the Social Needs Fund; in case of death of the Company employee, his/her family members shall be paid all funeral expenses, excluding a funeral dinner, and his/her spouse or children maintained by him/her shall be paid a relief amounting to 12 MSL.
- The Fund also commits itself to buy Christmas presents to the employees' children (under 10 years of age), to allocate a bonus amounting to 10 MSL on the occasion of 20, 30 and 40 years of continuous record of service in telecommunications.
- The Fund may grant an allowance if, due to difficult financial situation of the employee or his/her family, the employee or his/her family has incurred substantial material loss.
- The Fund shall allocate funds to improve health of the employees: rent of sports premises and grounds, support of sports and culture events arranged on the Company level. The Fund shall organize and finance a culture and sports event of the Company's employees.

In 2014, the Social Needs Fund allocated LTL 517 thousand for the above-mentioned purposes.

V. MANAGING BODIES OF THE ISSUER

According to the By-laws of TEO LT, AB the managing bodies of the Company are General Meeting, Board and General Manager. The Company does not have a Supervisory Council. The Board of the Company represents the shareholders and performs supervision and control functions.

The decisions of the General Meeting made regarding the matters of competence of the General Meeting, are binding upon the Shareholders, the Board, General Manager and other officials of the Company. The Shareholders of the Company that at the end of the date of record of the General Meeting are shareholders of the Company have the right to participate in the General Meeting. The date of record of the General Meeting of the Shareholders of the Company is the fifth business day prior to the General Meeting or the repeated General Meeting. The person, participating in the General Meeting and having the right to vote shall deliver his/her identification proving document. In case the person is not a shareholder he/she is to present a document, proving his/her right to vote at the General Meeting.

The Members of the Board serving on the Board of the Company are acting jointly as a governing body of the Company. The Board consists of six Members. The members of the Board are elected for a term of two years. The Chairman of the Board is elected by the Board from its members for two years. The Members of the Board are elected by the General Meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

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

On 29 April 2014, upon resignation of Malin Frenning (Chairwoman of the Board), Jens Lööw and Mats Lillienberg from the Board, the Annual General Meeting of Shareholders elected Robert Andersson, Stefan Block and Claes Nycander (all proposed by TeliaSonera AB) to the Board of the Company for the current term of the Board, i.e. till 25 April 2015.

On 21 May 2014, the Board elected Robert Andersson as the Chairman of the Company's Board for the current term of the Board. The Board elected member of the Board Stefan Block as the member and the Chairman of the Audit Committee for the current term of the Committee, and elected the following members of the Board as the members of the Remuneration Committee for the term of one year (until 21 May 2015): Robert Andersson, Claes Nycander and Rolandas Viršilas (independent member of the Board).

Procedure for amending the Company's By-laws

TEO LT, AB By-laws provide that the General Meeting shall have an exclusive competence to amend and supplement the By-laws of the Company, except for the cases provided for in the Law on Companies of the Republic of Lithuania. A qualified majority of 2/3 of votes present during the General Meeting shall be required at the General Meeting to adopt decisions concerning the amendment of the By-laws.

The Board Activities

During 2014 eight ordinary and four extraordinary meetings of the Board were held. Eight ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, and four extraordinary meetings were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings. During all Board meetings in 2014 there was quorum prescribed by legal acts: ten meetings were attended by all members of the Board, and during two meetings one member of the Board (one time Inga Skisaker, another time – Rolandas Viršilas) were not able to attend. The Board approved financial statements for the 12 months of 2013 and the 3, 6 and 9 months of 2014, financial statements and the consolidated annual report for the year ended 31 December 2013, convoked the Annual General Meetings of Shareholders, proposed to the Annual General Meeting a profit allocation for the year 2013, new audit enterprise of the Company and reduction of the authorized capital of the Company, approved a new governing structure of the Company and appointed members of the Management Team, elected Chairman of the Board, Chairman of the Audit Committee and members of the Remuneration Committees, approved establishment together with three Lithuanian mobile operators of not for profit organization "Numerio Perkėlimas", followed up implementation of the business and investment plan for the year 2014, and approved the business and investment plans for the year 2015.

During 2014 four meetings of the Remuneration Committee were held. The aim of the meetings was to prepared recommendation to the Board on approval of annual variable payouts for employees of the Company, including the Management Team, for the results achieved in 2013; to elect the Chairman and Secretary of the Committee; to present to the Board Teo Management Team succession plan, changes in sales variable pay scheme, economic trends and benchmark market data that have an impact on remunerations decisions; to prepare recommendation to the Board on approval of a new benefit in the Company's remuneration package. First two Remuneration Committee meetings were attended by two members of the Committee, one member of the Committee was absent. All three members of the Committee attended the rest two meetings. All meetings were chaired by the then Chairwoman or Chairman of the Committee.

During 2014, four meetings of the Audit Committee were held, during which the following issues were considered: consideration and approval of the draft of consolidated financial statements for the year 2013, draft of consolidated annual report for the year 2013, draft of profit allocation for the year 2013, internal audit plan for the year 2014, nomination of the external audit enterprise, follow up of internal audit plan for the year 2014 including findings from internal Audit and mitigation activities, risk management issues including top risks (such as risks in Euro implementation), internal fraud cases and whistle blowing reports. All members of the Committee attended all Audit Committee meetings and the Chairman of the Audit Committee chaired meetings.

On 29 April 2014, the Annual General Meeting of TEO LT, AB shareholders resolved to assign LTL 324 thousand for the payment of annual payments (tantiemes) for the year 2013 to six members of the Board, i.e. LTL 54 thousand per one member of the Board. As of 31 December 2014 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid to one member of the Board who had not provided written requests to the Company.

The Annual General Meeting of the Company's shareholders that was held on 29 April 2014, was attended by two to be elected and one current member of the Board as well as General Manager and acting Chief Financial Officer of the Company.

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

Members of the Board as of 31 December 2014

Robert Andersson (born in 1960) – Chairman of the Board, member of the Board since 29 April 2014 (nominated by TeliaSonera AB), Chairman of the Remuneration Committee. Education: George Washington University, Washington DC, (U.S.A.), Master of Business Administration, International Business, and Swedish School of Economics and Business Administration, Helsinki (Finland), Master of Science, Accounting/Finance. Employment – TeliaSonera AB (Sweden), Executive Vice President and Head of Region Europe. Current Board Assignments: TeliaSonera Finland Oyj (Finland), Chairman of the Board; TeliaSonera Norge AS (Norway), Chairman of the Board; UAB Omnitel (Lithuania), Chairman of the Board; AS Eesti Telekom (Estonia), Chairman of the Supervisory Council; Xfera Móviles S.A. (Spain), member of the Board and Enea AB (Sweden), member of the Board. TeliaSonera AB (Sweden) that nominated Robert Andersson to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Robert Andersson has no direct interest in the share capital of TEO LT, AB. He owns 10,000 shares of TeliaSonera AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Tiia Tuovinen (born in 1964) – member of the Board since 28 April 2009, re-elected for the two-year term on 25 April 2013 (nominated by TeliaSonera AB), member of the Audit Committee. Education: University College London (United Kingdom), Master of Laws, and University of Helsinki (Finland), Master of Laws. Employment: TeliaSonera AB (Sweden), Group Legal Affairs, Senior Legal Counsel for Competition and Corporate Governance. Current Board assignments: Kekkilä Oy (Finland), member of the Board; Innofactor Oyj (Finland), member of the Board and member of the Board of several real estate companies in Helsinki, Finland. TeliaSonera AB (Sweden) that nominated Tiia Tuovinen to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Tiia Tuovinen has no direct interest in the share capital of TEO LT, AB. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Inga Skisaker (born in 1971) – member of the Board since 28 April 2011, re-elected for the two-year term on 25 April 2013 (nominated as independent candidate by TeliaSonera AB), member of the Audit Committee. Education: Vilnius University (Lithuania), Master of International Business Administration. Employment – Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board, and Investors Forum (Lithuania), member of the Board. TeliaSonera AB (Sweden) that nominated Inga Skisaker as independent candidate to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Inga Skisaker has no direct interest in the share capital of TEO LT, AB. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Stefan Block (born in 1967) – member of the Board since 29 April 2014 (nominated by TeliaSonera AB), Chairman of the Audit Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Business and Administration. Employment – TeliaSonera AB (Sweden), Chief Financial Officer of Region Europe. Current Board Assignments: TeliaSonera Denmark A/S (Denmark), Chairman of the Board; Síminn Denmark A/S (Denmark), member of the Board; Telia Finance (Sweden), member of the Board; TeliaSonera Norge AS (Norway), member of the Board; Xfera Móviles S.A. (Spain), member of the Board; UAB Omnitel (Lithuania), member of the Board; LMT SIA (Latvia), member of the Supervisory Council and AS Eesti Telekom (Estonia), member of the Supervisory Council. TeliaSonera AB (Sweden) that nominated Stefan Block to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Stefan Block has no direct interest in the share capital of TEO LT, AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Claes Nycander (born in 1963) – member of the Board since 29 April 2014 (nominated by TeliaSonera AB), member of the Remuneration Committee. Education: Uppsala University (Sweden), Master of Business and Administration; Stanford University Palo Alto (U.S.A.), Master of Science in Electrical Engineering; Institute of Technology at University of Linköping (Sweden), Master of Science in Electrical Engineering and University of Linköping (Sweden), Bachelor of Science in Mathematics. Employment – TeliaSonera AB (Sweden), Chief Technology Officer of Region Europe. Current Board Assignments: TT Nätverket A/S (Denmark), Chairman of the Board; LMT SIA (Latvia), member of the Supervisory Council and Systecon AB (Sweden), member of the Board. TeliaSonera AB (Sweden) that nominated Claes Nycander to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Claes Nycander has no direct interest in the share capital of TEO LT, AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Rolandas Viršilas (born in 1963) – member of the Board, elected for the two-year term on 25 April 2013 (nominated as independent candidate by TeliaSonera AB), member of the Remuneration Committee. Education: Vilnius University (Lithuania), Faculty of Mathematics, Master's degree. Employment: UAB Švyturys – Utenos Alus (Lithuania), Chief Executive Officer. Current Board assignments: Lithuanian Brewers´ Guild (Lithuania), Chairman of the Council and VšĮ Užstato Sistemos Administratorius, member of the Board. TeliaSonera AB (Sweden) that nominated Rolandas Viršilas as independent candidate to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Rolandas Viršilas has 75,000 shares of TEO LT, AB that accounts to 0.0129 per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Members of the Management Team as of 31 December 2014

Kęstutis Šliužas (born in 1972) from 1 November of 2013 took the office of General Manager of TEO LT, AB. Education: Vilnius University (Lithuania), Bachelor's degree (1994) and Master's degree (1996). Kęstutis Šliužas has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and has no shareholdings that exceed 5 per cent of the share capital of any company.

Aleksandras Samuchovas (born in 1973) – Head of Business to Business Division of TEO LT, AB from 1 June 2014. Education: Vilnius University (Lithuania), Diploma in Economics; ISM University of Management and Economics (Lithuania), Master of Business Administration; Vienna University of Economics and Business (Austria), Executive Master of Business Administration. Current Board assignment – UAB Baltic Data Center, a subsidiary of TEO LT, AB, General Manager. Aleksandras Samuchovas has no direct interest in the share capital of TEO LT, AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Nerijus Ivanauskas (born in 1970) – Head of Business to Consumer Division of TEO LT, AB from 1 June 2014. Education: Vilnius University (Lithuania), Bachelor of Econometrics; International Management School (Budapest, Hungary) and Candidate Master of Business Administration; Emory University (Atlanta, U.S.A.), Master of Business Administration. Current Board assignment – UAB Lietuvos Monetų Kalykla (Lithuania), member of the Board. Nerijus Ivanauskas has no direct interest in the share capital of TEO LT, AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Andrius Šemeškevičius (born in 1976) – Head of Technology & IT Division of TEO LT, AB from 18 August 2014. Education: Vilnius Gediminas Technical University (Lithuania), Bachelor's degree in Engineering Informatics and Master's degree in Engineering Informatics. Andrius Šemeškevičius has 8,761 share of TEO LT, AB that accounts to 0.0015 per cent of the total number of the Company's shares and votes. He is not involved in the business of other Lithuanian companies and has no shareholdings that exceed 5 per cent of the share capital of any company.

Lars Bolin (born in 1963) – Head of Finance and Strategic Planning Division of TEO LT, AB from 23 June 2014. Education: Gothenburg School of Economics (Sweden), Studies in Economics; Chalmers University of Gothenburg (Sweden), Master of Science in Industrial Engineering; Stockholm School of Economics (Sweden), Executive Master of Business Administration. Lars Bolin has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and has no shareholdings that exceed 5 per cent of the share capital of any company.

Ramūnas Bagdonas (born in 1974) – Head of Human Recourses Division of TEO LT, AB from 1 June 2014. Education: Vytautas Magnus University (Lithuania), Master of Business Administration; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Ramūnas Bagdonas has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and has no shareholdings that exceed 5 per cent of the share capital of any company.

Eglė Gudelytė-Harvey (born in 1975) – Head of Legal Affairs Division of TEO LT, AB from 1 June 2014. Education: Vilnius University (Lithuania), Master of Law; King's College London (United Kingdom), Diploma in EU Competition Law and Master of EU Competition Law. Current Board assignment – Vilnius International School, Chairwoman of the Council. Eglė Gudelytė-Harvey has no direct interest in the share capital of TEO LT, AB. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Antanas Bubnelis (born in 1981) – Head of Corporate Affairs Division of TEO LT, AB from 1 June 2014. Education: Vilnius University (Lithuania), Bachelor of Information and Communication Science and Master of Arts in Public Relations; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Current Board assignment – BMI Alumni Association (Lithuania), member of the Council. Antanas Bubnelis has no direct interest in the share capital of TEO LT, AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Giedrė Tarbūnienė (born in 1974) – Head of Process Division of TEO LT, AB from 1 June 2014. Education: Vilnius University (Lithuania), Master of Science in Economics; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Current Board assignment – BMI Alumni Association (Lithuania), member of the Council. Giedrė Tarbūnienė has no direct interest in the share capital of TEO LT, AB. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Vytautas Bučinskas (born in 1974) – Head of Risk Management Division of TEO LT, AB from 1 June 2014. Education: Kaunas Technology University (Lithuania) Bachelor of Management of Production and Master of Marketing; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Vytautas Bučinskas has no direct interest in the share capital of TEO LT, AB. He is not involved in the business of other Lithuanian companies and has no shareholdings that exceed 5 per cent of the share capital of any company.

Kastytis Kmitas (born in 1958) – Head of Internal Audit Division of TEO LT, AB from 1 June 2014. Education: Vilnius University (Lithuania), Diploma in Economics; ISM University of Management and Economics (Lithuania), Master of Business Administration. Kastytis Kmitas has 4,202 shares of TEO LT, AB that accounts to 0.0007 per cent of the total number of the Company's shares and votes. He is not involved in the business of other Lithuanian companies and has no shareholdings that exceed 5 per cent of the share capital of any company.

On 20 March 2014, the Board approved a new governing structure of the Company, which took effect in June 2014. The Board also approved the termination of labour relations with Giedrius Vegys, Chief Financial Officer of the Company, and Edis Kasperavičius, Chief Sales Officer of the Company. Starting from 21 March 2014 Giedrius Vegys was not performing functions of Chief Financial Officer and terminated his work in the Company on 22 May 2014. Edis Kasperavičius was acting Chief Sales Officer until new governing structure of the Company came into effect and terminated his work in the Company on 22 July 2014.

On 7 April 2014, the Board appointed the managers of the units in the new Company's structure, which took effect in June 2014. The Business to Consumer Division led by Nerijus Ivanauskas, former Chief Marketing Officer. The Head of the Business to Business Division is Aleksandras Samuchovas, who is also Director of Baltic Data Center, a subsidiary of the Company. Giedrė Tarbūnienė joined the management team to lead the Process Division. In the new governing structure the Human Resources Division is led by Ramūnas Bagdonas, Legal Affairs – by Eglė Gudelytė-Harvey, Corporate Affairs – by Antanas Bubnelis, Risk Management – by Vytautas Bučinskas, Internal Audit – by Kastytis Kmitas. In the new structure instead of Finance Division, the Finance and Strategic Planning Division was formed. On 21 May 2014, the Board appointed Lars Bolin as Head of Finance and Strategic Planning from 23 June 2014 and Andrius Šemeškevičius as Head of Technology and IT from August 2014.

Darius Didžgalvis, Chief Technology Officer of the Company, left the Company on 8 April 2014 and Vytautas Bučinskas, Director of Risk Management Unit, was appointed as acting Chief Technology Officer. Eglutė Bivainienė, Chief Operational Officer of Company, left the Company on 30 May 2014.

From 1 June 2014, Renaldas Radvila, who is responsible for remote customer care of Teo private customers, was appointed as a new General Manager of UAB Lintel, a subsidiary of the Company. In the position of General Manager of Lintel he replaced Laurynas Šeškevičius, who became responsible for Teo private customer care in the regions.

Information about remuneration of key management personnel is provided in Note 29 of TEO LT, AB Financial Statements for the year ended 31 December 2014. Key management includes General Manager, Heads of Units directly reporting to General Manager and Heads of the largest Units of the Company. The total amount of Teo dividends for the year 2013 paid in 2014 to key management personnel amounted to 4,534 litas and pay out due to the reduction of the authorised capital amounted to 5,963 litas. An amount of LTL 19 thousand of dividends for the year 2013 and pay out of LTL 25 thousand due to reduction of the authorised capital were paid to one member of the Board in 2014.

During 2014, there were no loans, guarantees or sponsorship granted to the members of the Board or members of the Management Team by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or members of the Management Team of the Company for being members of their managing bodies, except Aleksandras Samuchovas who is also a General Manager of UAB Baltic Data Center, a subsidiary of TEO LT, AB.

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

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

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

The Board approves the main conditions of employment agreements of the members of the Company's Management Team. According to them member of the Management Team in case his/her employment agreement is terminated due to his/her revocation from the office under the initiative of the Company without any fault on the part of the member of the Management Team, the Company shall pay to him/her the compensation amounting from 6 to 12 monthly salaries.

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

Auditors

Auditors from UAB Deloitte Lietuva, a member of Deloitte network, audited the balance sheet of the Company and together with its consolidated subsidiaries for the year ended 31 December 2014 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows and a summary of significant accounting policies and other explanatory notes for the years then ended.

On 29 April 2014, the shareholders of the Company during the Annual General Meeting of Shareholders elect UAB Deloitte Lietuva as the Company's audit enterprise to perform the audit of the annual consolidated financial statements of the Company for the year 2014 and to make the assessment of the consolidated annual report of the Company for the year 2014. Shareholders authorized the Company's General Manager to conclude the agreement for audit services, establishing the payment for services as agreed between the parties but in any case not more than 256,670 (two hundred fifty six thousand and six hundred seventy) litas (VAT excluded) for the audit of the Company's annual consolidated financial statements for the year 2014 and assessment of the Company's consolidated annual report.

Deloitte is a globally connected network of member firms in more than 150 countries and territories providing audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. On 2 April 2014, the Annual General Meeting of TeliaSonera AB shareholders elected Deloitte AB (Sweden) as the auditor of TeliaSonera. Teo, a consolidated subsidiary of TeliaSonera Group, is audited by Lithuanian arm of Deloitte.

Following the Law of the Republic of Lithuania on Audit, UAB Deloite Lietuva on 24 November 2014 submitted to the Audit Committee of the Board a letter evidencing UAB Deloitte Lietuva independence from TEO LT, AB. In 2014, UAB Deloitte Lietuva provided the following non-audit services to the Company: tax consultancy and documentation of related party transactions pricing.

Auditors from UAB PricewaterhouseCoopers audited the balance sheet of the Company and together with its consolidated subsidiaries for the years ended 31 December 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows and a summary of significant accounting policies and other explanatory notes for the years then ended.

VI. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

TEO LT, AB essentially follows a recommendatory Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and valid from 1 January 2010. According to the By-Laws of TEO LT, AB the governing bodies of the Company are the General Shareholder's Meeting, the Board and the General Manager. The Law of the Republic of Lithuania on Companies provides that Lithuanian companies at their discretion could have either two (Supervisory Council and Board) or only one collegial governing body. There is no Supervisory Council in TEO LT, AB. Following the By-laws of the Company, the Board of TEO LT, AB consists of six members who are elected for the term of two years. The Board represents the shareholders, and performs supervision and control functions. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

Following the Governance Code, all members of the current Board are considered non-executive directors, whereby two out of six members are independent members of the Board. The members of the Audit Committee are elected for the two years' term and members of the Remuneration Committee are elected every year for the one year term by the Board. Two members of the current Audit Committee have financial background and one member of this Committee is an independent member of the Board.

The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code that is attached as an appendix to this Consolidated Annual Report.

Publicly announced information

The By-Laws of TEO LT, AB provide that the Company's notices, including information and other documents related to the General Meeting to be convened, as well as notices and information about reorganization or liquidation of the Company, decisions of the General Meeting and the Board, other notices and documents which, according to the laws of the Republic of Lithuania, By-laws or decisions of the Company's bodies, must be announced to all shareholders and/or other persons, are given in the daily Lietuvos Rytas or delivered personally to each shareholder or any other person to whom notification is required, by registered mail or by recorded delivery.

In 2014, following the By-Laws of the Company, announcements to the shareholders about convocation of the Annual General Meeting of Shareholders, procedure of dividend payment, decision of the Annual General Meeting of Shareholders to reduce the authorised capital of the Company, procedure of the authorised capital reduction, submission of the documentation regarding the reduction of the authorised capital to the Register of Legal Entities, registration of the reduced authorised capital and procedure of pay out of funds due the reduction of the authorised capital were announced in the daily Lietuvos Rytas. These obligatory announcements to the shareholders and all the rest announcements about material events of TEO LT, AB were submitted to Financial Services and Markets Supervision Department of the Bank of Lithuania, NASDAQ OMX Vilnius stock exchange, daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and were posted on the Company's webpage www.teo.lt.

The major regulatory news, except announcements of annual and interim results, during 2014 were related to approval of new governing structure of the Company and changes in Management Team, resignation of three members of the Board and nomination of three new members of the Board, convocation of the Annual General Meeting of Shareholders, proposed draft decisions and decisions of the meeting, implementation of the decision of the Annual General Meeting of Shareholders regarding the reduction of the authorised capital, election of the Chairman of the Board, Chairman of the Audit Committee and member of the Remuneration Committee, order of Director of Communications Regulatory Authorities cease to consider Teo as an undertaking having a significant market power on transit markets, the Court decision regarding the land lit at 21A Lvovo str., establishment of not for profit organization together with three mobile operators.

teo

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, General Manager of TEO LT, AB, and Lars Bolin, Head of Finance and Strategic Planning of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Consolidated Annual Report for the year 2014 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance
and Strategic Planning

APPENDIX TO THE CONSOLIDATED ANNUAL REPORT

TEO LT, AB DISCLOSURE CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON THE REGULATED MARKET IN 2014

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

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main Teo development directions and strategies are publicized in the Annual and Interim Reports and the Company's performance presentations, that are available on the Company's webpage, and are discussed during meetings with investors and etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the Company are acting in order to implement Teo mission – to create value for customers and shareholders by providing professional, high-quality and easy to use telecommunications, TV and IT services
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company has the Board that represents the shareholders of the Company, is responsible for strategic management of the Company, supervises and controls activities of CEO of the Company, on a regular basis convokes meetings of the Board, where management team of Teo on a regular basis informs the Board about the Company's performance.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's policy towards employees, customers and local community is set up in the Company's Corporate Social Responsibility Policy and described in the Company's Corporate Social Responsibility Report.

Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but the minority shareholders as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the management team of the Company reports on the Company's performance ensures effective supervision and control of the Company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the recommendation are fulfilled by the Board of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Following the By-Laws of the Company, the Board consists of six Board members elected for a two-year term. All members of the Board are non-executive directors.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	Following the By-Laws of the Company, the Board members are elected for a two-year term, not limiting the number of terms. Thus one member of the Board has been working in the Board since April 2009 and has been re-elected twice – in April 2011 and in April 2013. One Board member was elected in April 2011 and re-elected in April 2013, another elected in April 2013. Three new members were elected in April 2014 upon resignation of three former ones. The By-Laws of the Company do not provide any possibility to recall a member of the Board. This can be done following the Laws.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Board who was elected in 2014 and substituted the Chairwoman of the Board which was elected as Chairwoman in 2011, re-elected in 2013 and resigned from the Board in 2014. The Chairman as well as previously Chairwoman represents the majority shareholder of the Company and neither is involved in any daily activities of the Company, nor has at any time been working in the Company. Former General Managers of the Company are neither working in the Company nor in any collegial body.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	While electing the collegial body, the Company's shareholders well before or during the Annual General Meeting can be acquainted with the detailed information about the nominees. In the Company, there exists the practice that the majority shareholder nominates independent candidates to the collegial body. As a result, the Board contains two independent members of the Board that were nominated by the majority shareholder. There are two out of six independent members of the Board. Annual compensations (tantiemes) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last 13 years the same amount of annual compensation (tantieme) (LTL 54 thousand) was allocated to each member of the Board.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	CVs of the candidates to the Board (including information about candidate's participation in activities of other companies) are included into the material for the Annual General Meeting (AGM) and shareholders may be acquitted with such information in advance. Information about employment of the Board members as well as their participation in the activities of other companies is continuously monitored and collected, and at the end of each quarter corrected and updated by contacting each member of the Board. Then information is provided in the Company's interim reports and placed on the webpage of the Company.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence. Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee,	Yes	There are two members of the Board having degrees in Business Administration, one has degree in Business Administration and Finance, one has degree in Business Administration, Electrical Engineering and Mathematics, one is a lawyer and one has a degree in Mathematics. Four out of six are working in the telecommunications company; one – in banking sector and one – as CEO of brewery.

collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.		Two members of the Audit Committee have business administration background: one works in a bank and another – as a Chief Financial Officer. One member of the Audit Committee is a lawyer. All members of the Remuneration Committee hold the positions of senior managers in enterprises other than the Company.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Upon election, all members of the Board were acquainted with their duties and responsibilities set by Lithuanian legislation as well as the By-laws of the Company. Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and none of other shareholders has more than 10 per cent of votes, Teo Board consists of four members that are employees of the majority shareholder and two independent members of the Board in order to ensure proper resolution of conflicts of interest.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include	Yes	According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body. The other four members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder. Teo Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalised independence criteria are taken into account.

4) compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 5) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 6) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 7) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 8) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 9) He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes	

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	When electing a Board in April 2013 it was disclosed that two out of six nominees to the Board were regarded as independent members of the Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Annual compensations (tantiemes) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last 13 years the same amount of annual compensation (tantieme) (LTL 54 thousand) was allocated to each member of the Board. Following the International Financial Reporting Standards, annual compensations (tantiemes) to the members of the Board are considered as operating expenses.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Consolidated Annual Report. Also, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the management team of the Company provides information about the Company's performance.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information possessed by the Company, all members of the Board are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2014 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	The collegial body is mainly dependent on the majority shareholder that operates in the same business area but in decision-making acts in the interest of the Company. The Company provides the Board and its Committees with the resources needed for fulfilment of their functions (for instance, the Board members are reimbursed for expenses of traveling to the Board meetings), and employees of the Company who are responsible for the discussed area participate in the meetings of the Board and the Committees and provide all necessary information to the Board. The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	The Board institutes two Committees: Audit and Remuneration. The Nomination Committee is not instituted as its functions are performed by the Remuneration Committee. Three members of the Board comprise each committee. Members of the Audit Committee are two members of the Board having education in business administration (one of them is an independent member of the Board) and one member of the Board having lawyer's education. The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its internal orders. The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The annual and interim financial statements at first are discussed at the Audit Committee and then, with the conclusions of the Committee, are presented for the Board's approval. Before submitting for the Board's approval nominees to the management team of the Company and their remuneration terms, nominees at first shall be discussed and approved at the Remuneration Committee.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	All six members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executive directors (one of them is independent) are elected to the Remuneration Committee.

4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	Responsibilities and work regulations of the Board committees are approved by the Board. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. In 2014, four meetings of the Remuneration Committee were held for overview and discussion of the Teo remuneration system. In May 2014, the Board elected new members of the Remuneration Committee for a one-year term. Following the Remuneration Committee's work regulations, the secretary of the meetings shall be Head of Human Resources Division of the Company. In 2014, four meetings of the Audit Committee were held. During all meetings there was a required quorum; meetings were chaired by the Chairman of the Audit Committee. In May 2014, the Board elected one new members of the Audit Committee for a current term of the Committee. Following the Audit Committee's work regulations, the secretary of the meetings is Head of Finance and Strategic Planning Division of the Company.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.	No	In Teo, the function of the Nomination Committee is performed by the Remuneration Committee.

4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.	Yes	The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders. Twice per year the Committee should present updated information to the Board about the Committee's activities, if any. The Remuneration Committee reviews and establishes the general compensation goals and guidelines for the Company's employees and the criteria by which bonuses are determined, reviews and makes recommendation for compensation for executives and management, plans for executive development and succession, supports the Chairman of the Board in the recruitment of the General Manager and supports the General Manager in recruitment of the managers directly reporting to the General Manager. Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2014.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence	Yes	The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and internal orders.

of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.		

4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2013 but no assessment of its activities is provided.

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

Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The share capital of the Company consists of 582,613,138 (until 20 October 2014 it was 776,817,518) ordinary registered shares of one litas (EUR 0.29) nominal value each. Each share gives one vote during the shareholders meeting. All shares of the Company are given equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company's By-Laws, stipulating all the rights of shareholders, are publicly available on the Company's webpage.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The shareholders approve only transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	Teo shareholders' meetings are convened at the head-quarters of the Company in Vilnius. The Annual General Meetings are held in the second half of April. The Annual General Meeting in 2014 was convened on 29 April 2014 at 1 p.m.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Notice of the AGM as well as draft decisions proposed by the Board to the AGM and accompanied by draft documents were publicly announced and simultaneously placed on the webpage of the Company on 21 March 2014. Accordingly, adopted resolutions (including information about voting for each resolution) and documents approved by the shareholders were placed on the webpage of the Company. All information and documents for investors were presented in Lithuanian and English on NASDAQ OMX Vilnius stock exchange information systems and on the Company's webpage.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of Teo may exercise their right to vote in the General Shareholders' Meeting in person or through a representative upon issuance of proper proxy or having concluded an agreement on the transfer of their voting rights in the manner compliant with the legal regulations, also the shareholder may vote by completing the general voting ballot in the manner provided by the Law on Companies.

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the managing bodies are acting in a manner that voids conflicts of interest; therefore there have not been any such cases in practice.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	

Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential. General information about the remuneration policy, employee-related expenses and the total amount of remuneration paid over the year to the key management of the Company is publicly announced in the Company's Annual Report and Consolidated Financial Statements.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Yes	Information about the total amount of remuneration paid over the year to the management of the Company is publicly announced in the Company's Consolidated Annual Report.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The standard agreements with the members of the Management Team of the Company are approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.

8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The Board approves the main conditions of agreements with the members of the Management Team of the Company. These agreements are considered confidential and their content and terms are not publicly disclosed. Information about compensation to the member of the Management Team in case he/she is dismissed without a due reason is provided in the Consolidated Annual Report.

8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	No	In the Consolidated Annual Report and Consolidated Financial Statements the Company discloses information about total employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. Also the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies. The Consolidated Annual Report is publicly available on the Company's webpage. The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes. The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.

8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	Remuneration of the Company's salespersons consists of non-variable and variable components, depending on sales results. For the rest of personnel there is possibility to get bonuses for the Company's yearly results following the rules set by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	No	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	Key functions of the Company's Remuneration Committee, its formation and composition are described herein in Recommendation 4.13. The names of members of the Remuneration Committee are announced in the Company's periodic reports and on the webpage of the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Yes	

8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement which obligates the management of the Company to inform employees, on a regular basis, about implementation of the Collective Agreement, the Company's performance, changes in the market and etc. In 1999, following the Company's privatization program, almost 5 per cent of the Company's shares were sold to its employees. The current and former employees of the Company actively participate in the shareholders meetings, show interest in the Company's performance and results. Every year the Company pays dividends to the shareholders. The Company has approved Principles for Sponsorship and Support and, on the basis of them, builds its relations with society and local communities. The Company prepares the Report on Corporate Social Responsibility, which discusses principles and practices in relation to the Company's cooperation with investors, employees, customers and local communities.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes (except item 4)	Information about the financial situation, performance and management of the Company and its subsidiaries is disclosed on a regular basis by disseminating press and stock releases, annual and interim reports of the Company, financial statements of the Group, and presentations to the investors. All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English. Teo Group prepares its financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. In the Consolidated Annual Report and Consolidated Financial Statements the Company discloses information about employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. Also, the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies. The Company's Consolidated Annual Report and Consolidated Financial Statements are publicly available on the Company's webpage. Information about the education, working experience, current employment, participation in activities of other companies, possession of shares of the Company by the members of the Board or the management team of the Company is publicly disclosed in periodic reports and available on the Company's webpage.
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	No	
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	No	
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius stock exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company is submitting information (both in English and Lithuanian) to the information system operated by NASDAQ OMX Vilnius stock exchange which ensures that the information is disseminated simultaneously to all markets. Teo always strives to announce information before or after trading hours on NASDAQ OMX Vilnius stock exchange and simultaneously disseminate information to all the markets where the Company's securities are traded. The Company strictly follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company's webpage contains the Company's all annual and interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on NASDAQ OMX Vilnius stock exchange in both Lithuanian and English.

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