

**TEO LT, AB**

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS,  
CONSOLIDATED ANNUAL REPORT AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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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 its subsidiaries (hereinafter – the Group) (pages from 4 to 40), which comprise the statement of financial position of the Company and the Group as at 31 December 2015, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *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 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 separate and consolidated 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 2015, 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.

### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of the Company and the Group for the year ended 31 December 2015 (pages 41 to 83) and have not noted any material inconsistencies between the financial information included in it and the separate and consolidated financial statements for the year ended 31 December 2015.

Deloitte Lietuva UAB  
Audit Company License No 001275



Simonas Rimašauskas  
Certified Auditor  
Auditor's Certificate No 000466

Vilnius, Republic of Lithuania  
31 March 2016

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

## CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Approved by the Annual General Meeting  
of Shareholders as at  
26 April 2016

	Notes	Year ended 31 December			
		GROUP		COMPANY	
		2015	2014	2015	2014
<b>Revenue</b>	5	<b>204,598</b>	<b>202,285</b>	<b>198,028</b>	<b>192,823</b>
Cost of goods and services	6	(61,632)	(54,861)	(59,276)	(52,395)
Employee related expenses		(48,264)	(47,676)	(42,711)	(39,389)
Other operating expenses	8	(20,325)	(21,729)	(26,203)	(27,645)
Other income	7	-	81	2,626	3,268
Other gain / (loss) – net	9	2,091	404	630	369
Depreciation, amortisation and impairment of fixed assets	14	(37,929)	(36,140)	(34,958)	(34,012)
Impairment of investments in subsidiaries	17	-	-	(430)	-
<b>Operating profit</b>		<b>38,539</b>	<b>42,364</b>	<b>37,706</b>	<b>43,019</b>
Finance income		135	224	133	219
Finance costs		(395)	(152)	(376)	(94)
Finance income (costs) – net	10	(260)	72	(243)	125
<b>Profit before Income tax</b>		<b>38,279</b>	<b>42,436</b>	<b>37,463</b>	<b>43,144</b>
Income tax	11	(4,103)	(4,360)	(3,442)	(3,996)
<b>Profit for the year</b>		<b>34,176</b>	<b>38,076</b>	<b>34,021</b>	<b>39,148</b>
<b>Other comprehensive income:</b>					
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>34,176</b>	<b>38,076</b>	<b>34,021</b>	<b>39,148</b>
Profit and comprehensive income attributable to:					
Owners of the Parent		34,176	38,076	34,021	39,148
Non-controlling interest		-	-	-	-
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in EUR per share)</b>	12	<b>0.059</b>	<b>0.052</b>	<b>0.058</b>	<b>0.053</b>

The notes on pages 9 to 40 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 4 to 40 have been approved for issue by the Board of Directors as at 31 March 2016 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas  
CEO

Laimonas Devyžis  
Head of Finance

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

## CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

Approved by the Annual General Meeting  
of Shareholders as at  
26 April 2016

		As at 31 December				
		GROUP		COMPANY		
Notes		2015	2014	2015	2014	
<b>ASSETS</b>						
<b>Non-current assets</b>						
	Property, plant and equipment	14	214,882	218,761	206,995	209,257
	Intangible assets	15	12,370	12,744	10,147	9,018
	Investment property	16	3,126	3,126	-	-
	Investments in associates and subsidiaries	17	-	1	12,176	12,607
	Trade and other receivables	19	7,768	3,777	6,861	3,777
	Deferred tax asset	25	-	37	-	-
			<b>238,146</b>	<b>238,446</b>	<b>236,179</b>	<b>234,659</b>
<b>Current assets</b>						
	Inventories		1,371	747	1,370	745
	Trade and other receivables	19	33,568	28,073	31,663	27,110
	Current income tax receivable		902	1,065	874	945
	Cash and cash equivalents	20	12,898	16,862	7,061	11,636
			<b>48,739</b>	<b>46,747</b>	<b>40,968</b>	<b>40,436</b>
	<b>Total assets</b>		<b>286,885</b>	<b>285,193</b>	<b>277,147</b>	<b>275,095</b>
<b>EQUITY</b>						
<b>Capital and reserves attributable to equity holders of the Company</b>						
	Share capital	21	168,958	168,736	168,958	168,736
	Legal reserve	22	16,896	22,498	16,896	22,498
	Retained earnings		48,804	48,643	39,892	39,886
	<b>Total equity</b>		<b>234,658</b>	<b>239,877</b>	<b>225,746</b>	<b>231,120</b>
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
	Borrowings	24	-	61	-	61
	Deferred tax liabilities	25	8,922	7,823	8,081	6,920
	Deferred revenue and accrued liabilities	23	424	1,098	424	1,098
			<b>9,346</b>	<b>8,982</b>	<b>8,505</b>	<b>8,079</b>
<b>Current liabilities</b>						
	Trade, other payables and accrued liabilities	23	26,861	26,007	26,995	25,590
	Current income tax liabilities		119	21	-	-
	Borrowings	24	15,061	10,306	15,061	10,306
	Provisions	26	840	-	840	-
			<b>42,881</b>	<b>36,334</b>	<b>42,896</b>	<b>35,896</b>
	<b>Total liabilities</b>		<b>52,227</b>	<b>45,316</b>	<b>51,401</b>	<b>43,975</b>
	<b>Total equity and liabilities</b>		<b>286,885</b>	<b>285,193</b>	<b>277,147</b>	<b>275,095</b>

The notes on pages 9 to 40 form an integral part of these consolidated and separate financial statements.

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Kęstutis Šliužas  
CEO

Laimonas Devyžis  
Head of Finance

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

## CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting  
of Shareholders as at  
26 April 2016

GROUP	Notes	Share capital	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2014</b>		<b>224,982</b>	<b>22,498</b>	<b>53,315</b>	<b>300,795</b>
Net profit		-	-	38,076	38,076
<b>Total comprehensive income for the 2014</b>		-	-	<b>38,076</b>	<b>38,076</b>
Dividends paid for 2013	13	-	-	(42,748)	(42,748)
Reduction of share capital	21	(56,246)	-	-	(56,246)
<b>Balance at 31 December 2014</b>		<b>168,736</b>	<b>22,498</b>	<b>48,643</b>	<b>239,877</b>
<b>Balance at 1 January 2015</b>		<b>168,736</b>	<b>22,498</b>	<b>48,643</b>	<b>239,877</b>
Net profit		-	-	34,176	34,176
<b>Total comprehensive income for the 2015</b>		-	-	<b>34,176</b>	<b>34,176</b>
Dividends paid for 2014	13	-	-	(39,617)	(39,617)
Share capital value adjustment due to conversion to euro	21	222	-	-	222
Reduction of legal reserve	22	-	(5,602)	5,602	-
<b>Balance at 31 December 2015</b>		<b>168,958</b>	<b>16,896</b>	<b>48,804</b>	<b>234,658</b>

COMPANY	Notes	Share capital	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2014</b>		<b>224,982</b>	<b>22,498</b>	<b>43,486</b>	<b>290,966</b>
Net profit		-	-	39,148	39,148
<b>Total comprehensive income for the 2014</b>		-	-	<b>39,148</b>	<b>39,148</b>
Dividends paid for 2013	13	-	-	(42,748)	(42,748)
Reduction of share capital	21	(56,246)	-	-	(56,246)
<b>Balance at 31 December 2014</b>		<b>168,736</b>	<b>22,498</b>	<b>39,886</b>	<b>231,120</b>
<b>Balance at 1 January 2015</b>		<b>168,736</b>	<b>22,498</b>	<b>39,886</b>	<b>231,120</b>
Net profit		-	-	34,021	34,021
<b>Total comprehensive income for the 2015</b>		-	-	<b>34,021</b>	<b>34,021</b>
Dividends paid for 2014	13	-	-	(39,617)	(39,617)
Share capital value adjustment due to conversion to euro	21	222	-	-	222
Reduction of legal reserve	22	-	(5,602)	5,602	-
<b>Balance at 31 December 2015</b>		<b>168,958</b>	<b>16,896</b>	<b>39,892</b>	<b>225,746</b>

The notes on pages 9 to 40 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 4 to 40 have been approved for issue by the Board of Directors as at 31 March 2016 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas  
CEO

Laimonas Devyžis  
Head of Finance

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

## CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at 26 April 2016

	Notes	Year ended 31 December			
		GROUP		COMPANY	
		2015	2014	2015	2014
<b>Operating activities</b>					
Profit for the year		34,176	38,076	34,021	39,148
Income tax	11	4,103	4,360	3,442	3,996
Depreciation, amortisation and impairment charge	14	37,929	36,140	34,958	34,012
Dividends received from subsidiaries	7	-	-	(2,626)	(3,170)
Other gain / (loss) - net	9	(2,090)	(403)	(630)	(369)
Write off of property, plant and equipment and intangible assets		342	202	337	194
Impairment of investments in subsidiaries	17	-	-	430	-
Interest income	7,10	(135)	(305)	(133)	(317)
Interest expenses		88	78	91	28
Other non-cash transactions		503	139	468	96
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(624)	(109)	(625)	(112)
Trade and other receivables		(9,487)	(2,841)	(7,837)	(3,904)
Trade, other payables and accrued liabilities		(583)	194	(196)	1,180
Provisions	26	840	-	840	-
<b>Cash generated from operations</b>		<b>65,062</b>	<b>75,531</b>	<b>62,540</b>	<b>70,782</b>
Interest paid		(82)	(72)	(11)	(21)
Interest received		134	326	133	338
Income taxes paid		(2,706)	(3,948)	(2,210)	(3,490)
<b>Net cash generated by operating activities</b>		<b>62,408</b>	<b>71,837</b>	<b>60,452</b>	<b>67,609</b>
<b>Investing activities</b>					
Purchase of property, plant and equipment (PPE) and intangible assets		(33,865)	(31,102)	(33,539)	(30,425)
Proceeds from disposal of PPE and intangible assets		2,416	389	609	392
Acquisition of held-to-maturity investments		-	(17,377)	-	(17,377)
Disposal of held-to-maturity investments		-	40,438	-	40,438
Loans repaid	30	-	-	200	1,242
Dividends received	7	-	-	2,626	3,170
<b>Net cash used in investing activities</b>		<b>(31,449)</b>	<b>(7,652)</b>	<b>(30,104)</b>	<b>(2,560)</b>

(Continued in the next page)

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

## CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

	Note	Year ended 31 December			
		GROUP		COMPANY	
		2015	2014	2015	2014
<b>Financing activities</b>					
Repayment of borrowings		(30,306)	(292)	(30,306)	(294)
Proceeds from borrowings	30	35,000	10,000	35,000	10,000
Dividends paid to shareholders of the Company	13	(39,617)	(42,748)	(39,617)	(42,748)
Capital reduction paid to shareholders	21	-	(56,246)	-	(56,246)
<b>Net cash used in financing activities</b>		<b>(34,923)</b>	<b>(89,286)</b>	<b>(34,923)</b>	<b>(89,288)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(3,964)</b>	<b>(25,101)</b>	<b>(4,575)</b>	<b>(24,239)</b>
<b>Movement in cash and cash equivalents</b>					
<b>At the beginning of the financial year</b>		<b>16,862</b>	<b>41,963</b>	<b>11,636</b>	<b>35,875</b>
Increase (decrease) in cash and cash equivalents		(3,964)	(25,101)	(4,575)	(24,239)
<b>At the end of the financial year</b>	20	<b>12,898</b>	<b>16,862</b>	<b>7,061</b>	<b>11,636</b>

(Concluded)

The notes on pages 9 to 40 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 4 to 40 have been approved for issue by the Board of Directors as at 31 March 2016 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas  
CEO



Laimonas Devyžis  
Head of Finance





## NOTES TO THE CONSOLIDATED AND SEPARATE 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 St. 25, LT-03501, Vilnius, Lithuania.

The Company's shares are traded on Nasdaq Vilnius stock exchange from 16 June 2000. Nasdaq Vilnius stock exchange is a home market for the Company's shares. From January 2011, the Company's 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 2015		31 December 2014	
	Number of shares	%	Number of shares	%
TeliaSonera AB (Sweden)	513,594,774	88.15	513,594,774	88.15
Other shareholders	69,018,364	11.85	69,018,364	11.85
	<b>582,613,138</b>	<b>100.00</b>	<b>582,613,138</b>	<b>100.00</b>

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 8 telecommunications markets. The Company and UAB Omnitel 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 2015 amounted to 2,309 (2014: 2,381). The number of full time staff employed by the Company at the end of 2015 amounted to 1,764 (2014: 1,888).

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

Subsidiary/ associate	Country of incorporation	Ownership interest in %		Profile
		31 December 2015	31 December 2014	
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 provided information technology infrastructure services to the Group and third parties.
UAB Hostex	Lithuania	-	100%	The web hosting and data center services providing subsidiary was merged into UAB Baltic Data Center in December 2015.
UAB Hosting	Lithuania	-	100%	The dormant subsidiary of UAB Hostex was merged into UAB Baltic Data Center in December 2015.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center was liquidated in January 2016.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.

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

Subsidiary/ associate	Country of incorporation	Ownership interest in %		Profile
		31 December 2015	31 December 2014	
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%	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 separate and consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

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

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

#### (a) New and amended standards and interpretations adopted by the Company and the Group

The following standards have been adopted by the Company and the Group for the first time for the financial year beginning on or after January 2015:

**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 amendments did not have any material effect on the Company's and Group's financial statements.

**IFRIC 21 "Levies"** (effective for annual periods beginning on or after 17 June 2014). The amendments did not have any material effect on the Company's and the Group's financial statements.

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

**Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016). The Company and the Group do not expect the amendment to have any material effect on its financial statements.

**Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The Company and the Group do not expect the amendments to have any material effect on its financial statements.

**Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016). The Company and the Group do 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 Company and the Group do not expect the amendments to have any material effect on its financial statements.

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

**Amendments to IAS 27 “Separate Financial Statements”** – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The Company and the Group do not expect the amendments to have any material effect on its financial statements.

**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 – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015). The Company and the Group do not expect the amendments to have any material effect on its financial statements.

**Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016). The Company and the Group do 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 Company and 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 identifiable 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. Dividends received or receivable from associated are recognized as a reduction in the carrying amount of the investment. The Group's investment in associates includes goodwill identified on acquisition.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the equity, the Group does not recognize further losses.

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 separate and consolidated financial statements are presented in euro (EUR), which is the functional currency of Company and all subsidiaries.

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

The previous year comparison information recalculated using the official litas to euro conversion ratio: 1 euro = 3.4528 litas.

#### *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 "Finance costs". 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 Company and the Group 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
Ducts and telecommunication equipment	3 – 30 years
Other tangible fixed assets	2 – 10 years

The assets' residual values and useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting 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 business 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 associated and subsidiaries'. 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 Company and the Group in future periods have finite useful life and are measured at acquisition cost less any accumulated amortisation and any accumulated impairment losses.

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

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 <b>assets</b>	5 years

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

Separately acquired licenses are shown at historical cost. Licenses 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 licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programs 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 Company and 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.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are included within 'Other gain / (loss) - net' in the statement of profit or loss and other comprehensive income.

## 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 recognition. The fair values of investment properties are disclosed in the Note 16.

## 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.



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

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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

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 all financial assets held by the Company and the Group fell under the category of Loans and receivables.

#### *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 reporting date. These are classified as non-current assets. The Company's and the Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

### 2.8.2 Recognition and measurement

Loans and receivables are carried at amortised cost using the effective interest method, less any impairment. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company or the Group has transferred substantially all risks and rewards of ownership.

### 2.8.3 Impairment of financial assets

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

Objective evidence that the Company or the Group 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 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.

Investments in associates that are included in the separate financial statements of the Company 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. Dividends received or receivable from associated are recognized as a reduction in the carrying amount of the investment. The Company's investment in associates includes goodwill identified on acquisition.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the equity, the Company does not recognize further losses.

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

## 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 Company and the Group 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 and by the Company attribute to the materials and goods for resale categories.

## 2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or service delivered 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 any 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 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 reporting date.

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

### *Finance lease*

Where the Company or the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company or the Group 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 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 Company or the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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 statement of financial position.

#### *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 Company or the Group 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 Provisions**

Provisions are recognised when the Company or the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Restructuring provisions are recognised in the period in which the Company or the Group becomes legally or constructively committed to payment. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the present obligation at the end of the reporting period.

### **2.19 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 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 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 tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Profit for 2015 is taxable at a rate of 15% (2014: 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.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets. The Group accounts for such allowances as tax credits, which means that the allowance reduce income tax payable and current tax expense.

According to Lithuanian legislation, tax losses accumulated as of 31 December 2015 are carried forward indefinitely.



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

Deferred 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 tax assets and liabilities relate to income tax levied by the same taxation authority on the same taxable entity. Current tax assets and tax liabilities are offset where the same taxable entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 2.20 Revenue recognition

### *Sales of services and goods*

Revenue is measured at the fair value of the consideration received or receivable. Amount disclosed as revenue are net of value added tax, returns, trade allowances and amount collected on behalf of third parties.

Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities. 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.

## 2.21 Interest income

Interest income is recognised on a time-proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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'.

## 2.22 Dividend income

Dividend income from investments is recognised when the right to receive payment has been established.

## 2.23 Employee benefits

### *Social security contributions*

The Company and the Group 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 Company and the Group 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 EUR 11.8 million for the Group and EUR 10.5 million for the Company (2014: EUR 11.4 million for the Group and EUR 9.5 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

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

#### Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date per mutual agreement or employers will. The Company and the Group recognise 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 reporting date are discounted to present value.

#### Bonus plans

The Company and the Group recognise a liability and an expense for bonuses based on predefined targets. The Company and the Group recognise 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.

#### Contributions to Pension Fund

The Company is contributing to III pillar pension funds on behalf of its employees who decided to participate in pension fund's program proposed by the Company with cooperation with "SEB Investicijų valdymas". These contributions are recognized as expenses when incurred.

## 2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and the Group'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% (2014: 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.

## 2.25 Segment information

The Company's Top management (Chief operating decision maker or CODM) consist of CEO and Heads of Units directly reporting to CEO. Until 1st of June 2014, CODM considered the business from Group perspective and considers the performance of the Company and each subsidiary separately.

Segments valid until 1st of June 2014 performance is provided for reporting purpose:

	Broadband segment		Other segment		Eliminations		Total Group	
	2015	2014	2015	2014	2015	2014	2015	2014
Segment revenue	198,028	192,823	18,825	21,248	(12,255)	(11,786)	204,598	202,285
Inter-segment revenue	(5,557)	(4,608)	(6,698)	(7,178)	12,255	11,786	-	-
<b>Revenue from external customers</b>	<b>192,471</b>	<b>188,215</b>	<b>12,127</b>	<b>14,070</b>	-	-	<b>204,598</b>	<b>202,285</b>
Depreciation and amortisation	(34,682)	(34,012)	(2,054)	(2,245)	182	117	(36,554)	(36,140)
Impairment of fixed assets	(276)	-	(1,099)	-	-	-	(1,375)	-
<b>Profit for the period</b>	<b>34,021</b>	<b>39,148</b>	<b>3,426</b>	<b>1,959</b>	<b>(3,271)</b>	<b>(3,031)</b>	<b>34,176</b>	<b>38,076</b>
Income tax	(3,442)	(3,996)	(661)	(364)	-	-	(4,103)	(4,360)

New organisational structure took place from 1st of June 2014. According to approved structure, new reporting segments were defined from 1st of June 2014.

**Business customer segment (B2B)** is responsible for services sales and customer care for big, medium and small business customer and operators including retail and wholesale telecommunication and IT services.

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

**Private customer segment (B2C)** is responsible for service provision and customer care for private customers.

**Other segment** includes technology division, support units and Lintel financial performance.

The management assesses the performance of the segments based on measure of revenue and operational profit using the same accounting policies than used in preparation of these consolidated financial statements.

The following is analysis of the Group's new segments (valid from 1st of June 2014). Segment revenue represents revenue generated from external customers. Management assess segment operating profit according to its responsibility defined in segment budget. Intersegment sales and expenses are not included into segment activities assessment. Comparable data for period January – May 2014 are not available.

Group's segment reporting 2014 after changes – Restated:

	January – May 2014			June – December 2014			
	Broadband	Other	Total	B2B	B2C	Other	Total
Revenue from external customers	75,656	6,850	82,506	62,912	54,773	2,094	119,779
Operating expenses external	(43,753)	(7,155)	(50,908)	(30,580)	(13,745)	(29,032)	(73,357)
<b>Operational result</b>	<b>31,903</b>	<b>(305)</b>	<b>31,598</b>	<b>32,332</b>	<b>41,028</b>	<b>(26,938)</b>	<b>46,422</b>
Impairment of property, plant and equipment	-	-	-	-	-	-	-

Group's segment reporting 2015:

	January – December 2015			
	B2B	B2C	Other	Total
<b>Revenue from external customers</b>	<b>103,160</b>	<b>97,751</b>	<b>3,687</b>	<b>204,598</b>
Operating expenses external	(48,739)	(26,695)	(54,787)	(130,221)
<b>Operational result</b>	<b>54,421</b>	<b>71,056</b>	<b>(51,100)</b>	<b>74,377</b>
Impairment of fixed assets	-	(1,375)	-	(1,375)
Other income	-	-	-	-
Other gain/ (loss) – net	-	-	-	2,091
Depreciation and amortisation of fixed assets	-	-	-	(36,554)
<b>Operating profit</b>				<b>38,539</b>

The Group is domiciled in Lithuania. The result of its revenue from external customers in the Lithuania is EUR 174.5 million (2014: EUR 172.6 million), and the total of revenue from external customers from other countries is EUR 30.1 million (2014: EUR 29.7 million).

### 3 Financial risk management

#### 3.1 Financial risk factors

The Company's and the Group's activities expose them 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.

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

### Market risk

#### *Foreign exchange risk*

The Company and the Group operate 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 Company's and the Group's trade payables and trade receivables in foreign currency are short-term and insignificant as compared to total cash pool in EUR. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 19, 20 and 23.

#### *Cash flow and fair value interest rate risk*

The Company's and Group's income and operating cash flows are substantially independent of changes in market interest rates.

### Credit risk

The financial assets exposed to credit risk represent cash deposits and trade receivables. The Company and the Group didn't have any held-to-maturity investments at the end of 2015.

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 Company's and 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 Company's and the Group's internal policy for trade receivable impairment estimation are updated on a yearly basis.

Debtors of the Company and 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. 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 Company's and the Group's liabilities are due within one year, therefore undiscounted cash flows table was not prepared for them. For the maturity analysis of the undiscounted cash flows of the Company's and the Group's borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 24.

## **3.2 Capital management**

The Company's and the Group's objectives when managing capital are to safeguard the Company's and 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 Company and 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 statement of financial position.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than EUR 40,000, and the shareholders' equity should not be lower than 50% of the company's registered share capital. As at 31 December 2015 and as at 31 December 2014 the Company complied with these requirements.

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

The Company's and the Group's operations are financed mostly by the shareholders' capital. The Company had finance lease liabilities and EUR 15 million loan from related party at the end of 2015. For more detailed borrowings related information see Notes 24 and 30.

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

### 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	
	2015	2014	2015	2014
<i>Trade and other receivable</i>				
Gross amounts of recognised financial assets	40,487	31,490	37,824	30,971
Gross amounts of recognized financial liabilities set off in the statement of financial position	(917)	(1,414)	(917)	(1,414)
<b>Net amounts of financial assets presented in the statement of financial position</b>	<b>39,570</b>	<b>30,076</b>	<b>36,907</b>	<b>29,557</b>
Related amounts not set off in the statement of financial position	-	-	-	-
<b>Net amount</b>	<b>39,570</b>	<b>30,076</b>	<b>36,907</b>	<b>29,557</b>

#### Financial liabilities

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

	GROUP		COMPANY	
	2015	2014	2015	2014
<i>Trade payables</i>				
Gross amounts of recognised financial liabilities	36,234	31,190	37,188	31,788
Gross amounts of recognized financial assets set off in the balance sheet	(917)	(1,414)	(917)	(1,414)
<b>Net amounts of financial liabilities presented in the balance sheet</b>	<b>35,317</b>	<b>29,776</b>	<b>36,271</b>	<b>30,374</b>
Related amounts not set off in the balance sheet	-	-	-	-
<b>Net amount</b>	<b>35,317</b>	<b>29,776</b>	<b>36,271</b>	<b>30,374</b>

## 4 Critical Accounting Estimates

#### *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 license under which services are provided.



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

*Impairment allowance for accounts receivable*

Impairment allowance 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 and the Group 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.

**5 Revenue**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Voice telephony services	73,871	80,036	73,314	79,342
Internet services	54,641	53,463	54,737	53,576
IT services	29,658	22,322	20,482	12,016
Data communication and network capacity services	21,753	22,758	22,078	23,134
TV services	20,648	18,134	20,648	18,134
Other services	4,027	5,572	6,769	6,621
<b>Total</b>	<b>204,598</b>	<b>202,285</b>	<b>198,028</b>	<b>192,823</b>

**6 Cost of goods and services**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Network's interconnection	26,735	26,896	26,735	26,896
Costs of goods and services purchased	25,344	18,141	23,067	15,747
Network capacity costs	9,553	9,824	9,474	9,752
<b>Total</b>	<b>61,632</b>	<b>54,861</b>	<b>59,276</b>	<b>52,395</b>

**7 Other income**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Interests income	-	81	-	98
Income from dividends (Note 30)	-	-	2,626	3,170
<b>Total</b>	<b>-</b>	<b>81</b>	<b>2,626</b>	<b>3,268</b>

**8 Other operating expenses**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Energy, premises and transport costs	10,916	11,604	10,979	11,338
Maintenance and other services	3,845	4,061	9,647	10,372
Marketing expenses	3,004	2,998	3,013	2,903
Impairment of accounts receivable	(360)	330	(361)	332
Other expenses	2,920	2,736	2,925	2,700
<b>Total</b>	<b>20,325</b>	<b>21,729</b>	<b>26,203</b>	<b>27,645</b>

**9 Other gain (loss) – net**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Gain on sales of property, plant and equipment	2,027	463	569	429
Loss on sales of property, plant and equipment	(21)	(54)	(21)	(54)
Other gain (loss)	85	(5)	82	(6)
<b>Total</b>	<b>2,091</b>	<b>404</b>	<b>630</b>	<b>369</b>

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

## 10 Finance income and costs

	GROUP		COMPANY	
	2015	2014	2015	2014
Interest income on cash and cash equivalents	5	85	4	80
Other finance income	130	139	129	139
<b>Finance income</b>	<b>135</b>	<b>224</b>	<b>133</b>	<b>219</b>
Interest expenses	(78)	(26)	(89)	(26)
Foreign exchange gain (loss) on financing activities	(32)	(26)	(23)	(19)
Other finance costs	(285)	(100)	(264)	(49)
<b>Finance costs</b>	<b>(395)</b>	<b>(152)</b>	<b>(376)</b>	<b>(94)</b>
<b>Finance income (costs) – net</b>	<b>(260)</b>	<b>72</b>	<b>(243)</b>	<b>125</b>

## 11 Income tax

	GROUP		COMPANY	
	2015	2014	2015	2014
Current tax	2,967	2,930	2,281	2,578
Deferred tax (Note 25)	1,136	1,430	1,161	1,418
<b>Income tax expense</b>	<b>4,103</b>	<b>4,360</b>	<b>3,442</b>	<b>3,996</b>

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 EUR 2.0 million (2014: EUR 2.3 million). Investments in new technologies are capitalised as property, plant and equipment, and their depreciation is deductible for tax purposes, therefore, the tax relief does not create any deferred tax liability.

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 Company's and the Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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

	GROUP		COMPANY	
	2015	2014	2015	2014
<b>Profit before income tax</b>	<b>38,279</b>	<b>42,436</b>	<b>37,463</b>	<b>43,144</b>
Tax calculated at a tax rate of 15% (2014: 15%)	5,742	6,365	5,619	6,472
Non-taxable dividends received (tax effect)	-	-	(394)	(476)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	130	(30)	(25)	(66)
Tax relief	(2,020)	(2,256)	(2,020)	(2,256)
Other	251	281	262	322
<b>Income tax expense recognized in profit or loss and other comprehensive income statement</b>	<b>4,103</b>	<b>4,360</b>	<b>3,442</b>	<b>3,996</b>
Effective tax rate	10.72%	10.27%	9.19%	9.26%

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

## 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 Company and 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 2015 amounted to 582,613 thousand and for 2014 amounted to 738,509 thousand.

	GROUP		COMPANY	
	2015	2014	2015	2014
Net profit	34,176	38,076	34,021	39,148
Weighted average number of ordinary shares in issue (thousands)	582,613	738,509	582,613	738,509
<b>Basic earnings per share (EUR)</b>	<b>0.059</b>	<b>0.052</b>	<b>0.058</b>	<b>0.053</b>

## 13 Dividends per share

The dividends per share declared in respect of 2014 and 2013 and paid in 2015 and 2014 were EUR 0.068 and EUR 0.055 (LTL 0.19) respectively. As at the date of approval of these financial statements dividends amounting to EUR 5,826 thousand are proposed in respect of 2015.

## 14 Property, plant and equipment

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

	GROUP		COMPANY	
	2015	2014	2015	2014
Depreciation of property, plant and equipment	33,426	33,248	31,960	31,563
Impairment of property, plant and equipment	276	-	276	-
Amortisation of intangible assets (Note 15)	3,128	2,892	2,722	2,449
Impairment of intangible assets (Note 15)	1,099	-	-	-
<b>Total</b>	<b>37,929</b>	<b>36,140</b>	<b>34,958</b>	<b>34,012</b>

In 2015, 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 2015 for the telecommunication equipment group decreased by EUR 0.5 million as compared to previously used useful lives for property, plant and equipment. Useful life for intangible assets was also revised and prolonged in 2015, the amortization charge for intangible assets decreased by EUR 0.1 million.

The effect of the revision of the useful lives resulted in the decreased depreciation and amortization charge by EUR 0.6 million in 2015 and will also result to the decrease of depreciation and amortisation charge by EUR 0.1 million in 2016.



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

14 Property, plant and equipment (continued)

GROUP	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
<b>Year ended 31 December 2014</b>					
Opening net book amount	18,506	191,167	4,711	9,172	223,556
Additions	108	488	29	28,148	28,773
Reclassifications	(113)	27	-	(24)	(110)
Disposals and retirements	-	(209)	(1)	-	(210)
Transfers from construction in progress	195	28,748	947	(29,890)	-
Depreciation charge	(1,207)	(30,465)	(1,576)	-	(33,248)
<b>Closing net book amount</b>	<b>17,489</b>	<b>189,756</b>	<b>4,110</b>	<b>7,406</b>	<b>218,761</b>
<b>At 31 December 2014</b>					
Cost	36,670	783,055	22,499	7,406	849,630
Accumulated depreciation	(19,181)	(593,299)	(18,389)	-	(630,869)
<b>Net book amount</b>	<b>17,489</b>	<b>189,756</b>	<b>4,110</b>	<b>7,406</b>	<b>218,761</b>
<b>Year ended 31 December 2015</b>					
Opening net book amount	17,489	189,756	4,110	7,406	218,761
Additions	8	212	16	30,534	30,770
Reclassifications	(110)	67	(65)	(7)	(115)
Disposals and retirements	(426)	(352)	(54)	-	(832)
Transfers from construction in progress	20	27,478	1,588	(29,086)	-
Depreciation charge	(1,198)	(30,548)	(1,680)	-	(33,426)
Impairment charge	-	(276)	-	-	(276)
<b>Closing net book amount</b>	<b>15,783</b>	<b>186,337</b>	<b>3,915</b>	<b>8,847</b>	<b>214,882</b>
<b>At 31 December 2015</b>					
Cost	35,994	776,089	21,331	8,847	842,261
Accumulated depreciation	(20,211)	(589,752)	(17,416)	-	(627,379)
<b>Net book amount</b>	<b>15,783</b>	<b>186,337</b>	<b>3,915</b>	<b>8,847</b>	<b>214,882</b>

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

14 Property, plant and equipment (continued)

COMPANY	Land and	Ducts and	Other	Construction	Total
	buildings	telecommu- nication equipment	tangible fixed assets	in progress	
<b>Year ended 31 December 2014</b>					
Opening net book amount	11,143	188,535	4,167	9,141	212,986
Additions	-	8	56	28,080	28,144
Disposals and write-offs	-	(198)	(1)	-	(199)
Reclassifications	(114)	3	-	-	(111)
Transfers from construction in progress	195	28,647	981	(29,823)	-
Depreciation charge	(928)	(29,225)	(1,410)	-	(31,563)
<b>Closing net book amount</b>	<b>10,296</b>	<b>187,770</b>	<b>3,793</b>	<b>7,398</b>	<b>209,257</b>
<b>At 31 December 2014</b>					
Cost	25,917	769,571	19,589	7,398	822,475
Accumulated depreciation	(15,621)	(581,801)	(15,796)	-	(613,218)
<b>Net book amount</b>	<b>10,296</b>	<b>187,770</b>	<b>3,793</b>	<b>7,398</b>	<b>209,257</b>
<b>Year ended 31 December 2015</b>					
Opening net book amount	10,296	187,770	3,793	7,398	209,257
Additions	-	1	-	30,534	30,535
Disposals and write-offs	(45)	(348)	(52)	-	(445)
Reclassifications	(115)	(3)	2	-	(116)
Transfers from construction in progress	20	27,477	1,589	(29,086)	-
Depreciation charge	(919)	(29,461)	(1,580)	-	(31,960)
Impairment charge	-	(276)	-	-	(276)
<b>Closing net book amount</b>	<b>9,237</b>	<b>185,160</b>	<b>3,752</b>	<b>8,846</b>	<b>206,995</b>
<b>At 31 December 2015</b>					
Cost	25,806	763,214	19,496	8,846	817,362
Accumulated depreciation	(16,569)	(578,054)	(15,744)	-	(610,367)
<b>Net book amount</b>	<b>9,237</b>	<b>185,160</b>	<b>3,752</b>	<b>8,846</b>	<b>206,995</b>

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

	GROUP		COMPANY	
	2015	2014	2015	2014
Cost	4,457	4,429	4,457	4,429
Accumulated depreciation at 1 January	(445)	(630)	(445)	(630)
Depreciation charge for the year	(667)	(708)	(667)	(708)
<b>Net book amount</b>	<b>3,345</b>	<b>3,091</b>	<b>3,345</b>	<b>3,091</b>

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

## 15 Intangible assets

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction*	Total
<b>Year ended 31 December 2014</b>						
Opening net book amount	2,089	5,753	3,137	1,530	2,047	14,556
Additions	-	101	-	-	985	1,086
Disposals and write-offs	-	-	-	-	(7)	(7)
Reclassification	-	-	-	-	1	1
Transfer from assets in the course of construction	-	1,086	-	106	(1,192)	-
Amortisation charge	(512)	(1,704)	-	(676)	-	(2,892)
<b>Closing net book amount</b>	<b>1,577</b>	<b>5,236</b>	<b>3,137</b>	<b>960</b>	<b>1,834</b>	<b>12,744</b>
<b>At 31 December 2014</b>						
Cost	5,168	49,916	3,137	4,297	1,834	64,352
Accumulated amortisation	(3,591)	(44,680)	-	(3,337)	-	(51,608)
<b>Net book amount</b>	<b>1,577</b>	<b>5,236</b>	<b>3,137</b>	<b>960</b>	<b>1,834</b>	<b>12,744</b>
<b>Year ended 31 December 2015</b>						
Opening net book amount	1,577	5,236	3,137	960	1,834	12,744
Additions	-	1	-	-	3,852	3,853
Transfer from assets in the course of construction	-	2,935	-	376	(3,311)	-
Amortisation charge	(513)	(1,882)	-	(733)	-	(3,128)
Impairment charge	-	-	(1,099)	-	-	(1,099)
<b>Closing net book amount</b>	<b>1,064</b>	<b>6,290</b>	<b>2,038</b>	<b>603</b>	<b>2,375</b>	<b>12,370</b>
<b>At 31 December 2015</b>						
Cost	5,168	51,241	2,038	4,660	2,375	65,482
Accumulated amortisation	(4,104)	(44,951)	-	(4,057)	-	(53,112)
<b>Net book amount</b>	<b>1,064</b>	<b>6,290</b>	<b>2,038</b>	<b>603</b>	<b>2,375</b>	<b>12,370</b>

\* Assets in the course of construction comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2016.

Goodwill was tested for impairment at 31 December 2015. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). As of 31 December 2015 there was one cash generating unit identified with the goodwill amount allocated to UAB Baltic Data Center EUR 2,038 thousand, which comprise also goodwill from UAB Hostex company which was merged into UAB BDC in 2015. (2014: 2 cash generating units identified with the goodwill amount allocated to them: UAB Baltic Data Center EUR 770 thousand and UAB Hostex EUR 2,367 thousand). The recoverable amount of CGU 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.

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 impairment of EUR 1,099 thousand is needed as at 31 December 2015 (2014: no impairment loss).

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

## 15 Intangible assets (continued)

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
<b>Year ended 31 December 2014</b>					
Opening net book amount	2,091	5,240	1,114	2,040	10,485
Additions	-	-	-	982	982
Transfer from assets in the course of construction	-	1,083	106	(1,189)	-
Amortisation charge	(513)	(1,458)	(478)	-	(2,449)
<b>Closing net book amount</b>	<b>1,578</b>	<b>4,865</b>	<b>742</b>	<b>1,833</b>	<b>9,018</b>
<b>At 31 December 2014</b>					
Cost	5,168	46,230	3,419	1,833	56,650
Accumulated amortisation	(3,590)	(41,365)	(2,677)	-	(47,632)
<b>Net book amount</b>	<b>1,578</b>	<b>4,865</b>	<b>742</b>	<b>1,833</b>	<b>9,018</b>
<b>Year ended 31 December 2015</b>					
Opening net book amount	1,578	4,865	742	1,833	9,018
Additions	-	-	-	3,851	3,851
Transfer from assets in the course of construction	-	2,935	377	(3,312)	-
Amortisation charge	(513)	(1,672)	(537)	-	(2,722)
<b>Closing net book amount</b>	<b>1,065</b>	<b>6,128</b>	<b>582</b>	<b>2,372</b>	<b>10,147</b>
<b>At 31 December 2015</b>					
Cost	5,168	47,555	3,783	2,372	58,878
Accumulated amortisation	(4,103)	(41,427)	(3,201)	-	(48,731)
<b>Net book amount</b>	<b>1,065</b>	<b>6,128</b>	<b>582</b>	<b>2,372</b>	<b>10,147</b>

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 2015 the Group as investment property accounted construction in progress (2014: construction in progress).

At 31 December 2015 and 2014 the fair value of the investment property approximates the carrying value. The investment properties were externally valued as at 29 May 2015 by UAB Resolution valuations, by using comparative method determining value of building and revenue method determining value of land plot.

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

The movement in Investments in associates and subsidiaries during the period is as follows:

	GROUP		COMPANY	
	2015	2014	2015	2014
At the beginning of year	1	-	12,607	12,606
Establishing of associates <sup>1</sup>	-	1	-	1
Impairment of investments	-	-	(430)	-
Result of associated	(1)	-	(1)	-
<b>At end of year</b>	<b>-</b>	<b>1</b>	<b>12,176</b>	<b>12,607</b>

<sup>1</sup> In September 2014, the Company with other 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 EUR 1 thousand.

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

## 17 Investments in associates and subsidiaries (continued)

The Company recognised an impairment provision for the following investments accounted under Investments in associates and subsidiaries:

	Year ended 31 December	
	COMPANY	
	2015	2014
UAB Baltic Data Center	(430)	-
	<b>(430)</b>	<b>-</b>

Recoverable amount of the investments in UAB Baltic Data Center was determined as value in use.

## 18 Financial instruments by category

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

GROUP	Loans and receivables	Total
<b>31 December 2015</b>		
<b>Assets as per statement of financial position</b>		
Trade and other receivables	39,570	39,570
Cash and cash equivalents	12,898	12,898
<b>Total</b>	<b>52,468</b>	<b>52,468</b>
<b>31 December 2014</b>		
<b>Assets as per statement of financial position</b>		
Trade and other receivables	30,076	30,076
Cash and cash equivalents	16,862	16,862
<b>Total</b>	<b>46,938</b>	<b>46,938</b>
<b>COMPANY</b>		
<b>31 December 2015</b>		
<b>Assets as per statement of financial position</b>		
Trade and other receivables	36,907	36,907
Cash and cash equivalents	7,061	7,061
<b>Total</b>	<b>43,968</b>	<b>43,968</b>
<b>31 December 2014</b>		
<b>Assets as per statement of financial position</b>		
Trade and other receivables	29,557	29,557
Cash and cash equivalents	11,636	11,636
<b>Total</b>	<b>41,193</b>	<b>41,193</b>

All financial liabilities of the Group amounting to EUR 35,317 thousand (2014: EUR 29,776 thousand) and of the Company amounting to EUR 36,271 thousand (2014: EUR 30,374 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 EUR '000 unless otherwise stated)

19 Trade and other receivables

	GROUP		COMPANY	
	2015	2014	2015	2014
Trade receivables from business customers and residents	40,640	32,245	37,830	31,319
Trade receivables from other operators	1,849	2,666	1,479	2,301
<b>Total trade receivables</b>	<b>42,489</b>	<b>34,911</b>	<b>39,309</b>	<b>33,620</b>
Less: provision for impairment of receivables	(5,302)	(6,487)	(5,294)	(6,473)
<b>Trade receivables – net</b>	<b>37,187</b>	<b>28,424</b>	<b>34,015</b>	<b>27,147</b>
Receivables from companies collecting payments for telecommunication services	213	233	213	233
Prepaid expenses and other receivables	1,646	1,688	1,618	1,330
Receivables from related parties (Note 30)	2,290	1,505	2,678	1,977
Loans to related parties (Note 30)	-	-	-	200
	<b>41,336</b>	<b>31,850</b>	<b>38,524</b>	<b>30,887</b>
Less non-current portion	(7,768)	(3,777)	(6,861)	(3,777)
<b>Current portion</b>	<b>33,568</b>	<b>28,073</b>	<b>31,663</b>	<b>27,110</b>

All non-current receivables are due within five years from the reporting 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 2015, the Group's trade receivables of EUR 2,014 thousand (2014: EUR 3,667 thousand) and the Company's trade receivables of EUR 2,009 thousand (2014: EUR 3,627 thousand) were past due but not impaired.

As of 31 December 2015, the Group's trade receivables of EUR 6,580 thousand (2014: EUR 6,637 thousand) and the Company's trade receivable of EUR 6,575 thousand (2014: EUR 6,625 thousand) were impaired and provided for. The amount of the Group's provision was EUR 5,302 thousand as of 31 December 2015 (2014: EUR 6,487 thousand) and the amount of the Company's provision was EUR 5,294 thousand as of 31 December 2015 (2014: EUR 6,473 thousand). Impairment allowance by major part has been recognised on a collective basis, based on the impairment rates assessed by management.

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2015	2014	2015	2014
<b>Trade receivable total</b>	<b>42,489</b>	<b>34,911</b>	<b>39,309</b>	<b>33,620</b>
Of which not overdue	33,895	24,607	30,725	23,368
Overdue up to 3 months	2,014	3,667	2,009	3,627
4 to 6 months	325	327	325	321
7 to 12 months	1,016	510	1,015	510
Over 12 months	5,239	5,800	5,235	5,794

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

## 19 Trade and other receivables (continued)

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

Currency	GROUP		COMPANY	
	2015	2014	2015	2014
EUR	40,345	30,570	37,537	29,612
Other currency	991	1,280	987	1,275
<b>Total</b>	<b>41,336</b>	<b>31,850</b>	<b>38,524</b>	<b>30,887</b>

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2015	2014	2015	2014
<b>At the beginning of year</b>	<b>6,487</b>	<b>7,142</b>	<b>6,473</b>	<b>7,119</b>
Receivables written off during the year as uncollectible	(828)	(991)	(828)	(991)
Provision for receivables impairment/ Unused amount reversed (-)	(357)	336	(351)	345
<b>At the end of year</b>	<b>5,302</b>	<b>6,487</b>	<b>5,294</b>	<b>6,473</b>

The recognition 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.

## 20 Cash and cash equivalents

	GROUP		COMPANY	
	2015	2014	2015	2014
Cash in hand and at bank	12,898	16,862	7,061	11,636
<b>Total</b>	<b>12,898</b>	<b>16,862</b>	<b>7,061</b>	<b>11,636</b>

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

Currency	GROUP		COMPANY	
	2015	2014	2015	2014
EUR	12,743	16,826	6,906	11,613
USD	155	36	155	23
<b>Total</b>	<b>12,898</b>	<b>16,862</b>	<b>7,061</b>	<b>11,636</b>

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	
	2015	2014	2015	2014
AA-	4,858	1,852	3,056	43
A+	6,901	14,663	2,870	11,252
A	1,119	330	1,120	330
Other	20	17	15	10
<b>Total</b>	<b>12,898</b>	<b>16,862</b>	<b>7,061</b>	<b>11,635</b>

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.

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

## 21 Share capital

From 5 June 2015 the authorised share capital comprises of 582,613,138 ordinary shares of EUR 0.29 nominal value each. From 20 October 2014 until 5 June 2015 the authorised share capital was comprised of 582,613,138 ordinary shares of then LTL 1 nominal value each. Until 20 October 2014, the authorised share capital was comprised of 776,817,518 ordinary shares of then LTL 1 nominal value each. On 20 October 2014, the authorised share capital was reduced by cancelling 194,204,380 ordinary shares of then LTL 1 nominal value. All shares are fully paid up.

On 1 January 2015, the Republic of Lithuania joined the euro zone. 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, on 29 April 2015 the Company's shareholders passed a decision to determine that the nominal value of one Company's share is equal to EUR 0.29 and established that the Company's authorized capital is equal to EUR 168,957,810.02.

## 22 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.

On 29 April 2015, the Annual General Meeting of shareholders decided to reduce the Company's legal reserve by EUR 5.6 million to EUR 16.9 million and to reallocate an amount of EUR 5.6 million to the Company's retained earnings.

## 23 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2015	2014	2015	2014
Trade payables	15,579	14,492	15,381	14,047
Taxes, salaries and social security payable	6,189	6,230	5,567	5,634
Accruals to operators	2,243	2,104	2,243	2,104
Accrued liabilities	1,424	1,377	1,416	1,306
Other payables and deferred revenue	1,014	1,612	753	1,181
Trade payables to operators	647	950	647	951
Amounts payable to related parties (Note 30)	189	340	1,412	1,465
	<b>27,285</b>	<b>27,105</b>	<b>27,419</b>	<b>26,688</b>
Less non-current portion	(424)	(1,098)	(424)	(1,098)
<b>Current portion</b>	<b>26,861</b>	<b>26,007</b>	<b>26,995</b>	<b>25,590</b>

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

Currency	GROUP		COMPANY	
	2015	2014	2015	2014
EUR	26,380	26,351	26,523	25,940
Other currency	905	754	896	748
<b>Total</b>	<b>27,285</b>	<b>27,105</b>	<b>27,419</b>	<b>26,688</b>



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

## 24 Borrowings

	GROUP		COMPANY	
	2015	2014	2015	2014
<b>Current</b>				
Borrowings	15,000	10,000	15,000	10,000
Finance lease liabilities	61	306	61	306
	<b>15,061</b>	<b>10,306</b>	<b>15,061</b>	<b>10,306</b>
<b>Non-current</b>				
Finance lease liabilities	-	61	-	61
	<b>-</b>	<b>61</b>	<b>-</b>	<b>61</b>
<b>Total borrowings</b>	<b>15,061</b>	<b>10,367</b>	<b>15,061</b>	<b>10,367</b>

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.

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

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2014	314	61	-	375
Less future finance charges	(8)	-	-	(8)
<b>Present value of minimum lease payments at 31 December 2014</b>	<b>306</b>	<b>61</b>	<b>-</b>	<b>367</b>
Minimum lease payments at 31 December 2015	61	-	-	61
Less future finance charges	-	-	-	-
<b>Present value of minimum lease payments at 31 December 2015</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>61</b>

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

	GROUP		COMPANY	
	2015	2014	2015	2014
Premises	52	312	52	312
	<b>52</b>	<b>312</b>	<b>52</b>	<b>312</b>

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

## 25 Deferred income taxes

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

Deferred tax liabilities	GROUP		COMPANY	
	2015	2014	2015	2014
At the beginning of year	7,823	6,425	6,920	5,502
Charged/ (credited) to statement of profit or loss and other comprehensive income (Note 11)	1,099	1,398	1,161	1,418
At the end of year	8,922	7,823	8,081	6,920

Deferred tax assets	GROUP		COMPANY	
	2015	2014	2015	2014
At the beginning of year	(37)	(69)	-	-
Charged/ (credited) to statement of profit or loss and other comprehensive income (Note 11)	37	32	-	-
At the end of year	-	(37)	-	-

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

Deferred tax liabilities	GROUP		COMPANY	
	2015	2014	2015	2014
Deferred income tax asset to be recovered / liability settled after more than 12 months	7,597	8,157	6,789	7,278
Deferred income tax asset to be recovered / liability settled (-) within 12 months	1,325	(334)	1,292	(358)
	8,922	7,823	8,081	6,920

Deferred tax assets	GROUP		COMPANY	
	2015	2014	2015	2014
Deferred income tax asset to be recovered / liability settled after more than 12 months	-	(69)	-	-
Deferred income tax asset to be recovered / liability settled (-) within 12 months	-	32	-	-
	-	(37)	-	-

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.

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 <sup>1</sup>	Difference in useful lives <sup>2</sup>	Other	Total
At 31 December 2014	4,577	3,465	34	8,076
Charged/ (credited) to statement of profit or loss and other comprehensive income	(542)	1,826	(27)	1,257
At 31 December 2015	4,035	5,291	7	9,333

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

## 25 Deferred income taxes (continued)

<b>GROUP – deferred tax assets</b>	<b>Tax losses</b>	<b>Other</b>	<b>Total</b>
<b>At 31 December 2014</b>	(2)	(288)	(290)
Charged/ (credited) to statement of profit or loss and other comprehensive income	2	(123)	(121)
<b>At 31 December 2015</b>	-	(411)	(411)

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:

<b>COMPANY – deferred tax liabilities</b>	<b>Investment relief<sup>1</sup></b>	<b>Difference in useful lives<sup>2</sup></b>	<b>Other</b>	<b>Total</b>
<b>At 31 December 2014</b>	3,813	3,301	34	7,148
Charged/ (credited) to statement of profit or loss and other comprehensive income	(470)	1,833	(27)	1,336
<b>At 31 December 2015</b>	<b>3,343</b>	<b>5,134</b>	<b>7</b>	<b>8,484</b>

<b>COMPANY – deferred tax assets</b>	<b>Tax losses</b>	<b>Other</b>	<b>Total</b>
<b>At 31 December 2014</b>	-	(228)	(228)
Charged/ (credited) to statement of profit or loss and other comprehensive income	-	(175)	(175)
<b>At 31 December 2015</b>	-	(403)	(403)

<sup>1</sup> 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-deductible therefore deferred tax liability was created. It will be fully utilized during useful lives of these assets.

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

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:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Deferred tax assets	(411)	(290)	(403)	(228)
Offset with deferred tax liabilities	411	253	403	228
<b>Deferred tax assets as per statement of financial position</b>	<b>-</b>	<b>(37)</b>	<b>-</b>	<b>-</b>
Deferred tax liabilities	9,333	8,076	8,484	7,148
Offset with deferred tax asset	(411)	(253)	(403)	(228)
<b>Deferred tax liabilities as per statement of financial position</b>	<b>8,922</b>	<b>7,823</b>	<b>8,081</b>	<b>6,920</b>

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

## 26 Provisions

The Company established a provision for restructuring costs amounting to EUR 840 thousand. The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company. Provisions for restructuring are expected to be fully utilized during the year 2016.

## 27 Contingent liabilities and contingent assets

### Guarantees

As at 31 December 2015 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 EUR 0.95 million (2014: EUR 1.0 million).

### Minimum lease payments receivable

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

	GROUP		COMPANY	
	2015	2014	2015	2014
Not later than 1 year	5,404	4,690	5,404	4,690
Later than 1 year but not later than 5 years	2,003	3,282	2,003	3,282
<b>Total</b>	<b>7,407</b>	<b>7,972</b>	<b>7,407</b>	<b>7,972</b>

Minimum lease payments recognized in the statement of profit or loss and other comprehensive income during 2015 were EUR 6,561 thousand (2014: EUR 6,227 thousand).

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

## 28 Commitments

### Capital commitments

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

	GROUP		COMPANY	
	2015	2014	2015	2014
Property, plant and equipment	3,152	3,908	3,152	3,908
	<b>3,152</b>	<b>3,908</b>	<b>3,152</b>	<b>3,908</b>

### Operating lease commitments – where the Group is the lessee

The Company and the Group lease 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	
	2015	2014	2015	2014
Minimum lease payments	3,638	3,638	3,453	3,251
	<b>3,638</b>	<b>3,638</b>	<b>3,453</b>	<b>3,251</b>

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

	GROUP		COMPANY	
	2015	2014	2015	2014
Not later than 1 year	1,852	2,062	1,850	2,055
Later than 1 year but not later than 5 years	2,008	2,746	2,008	2,744
Later than 5 years	1,200	331	1,200	331
<b>Total</b>	<b>5,060</b>	<b>5,139</b>	<b>5,058</b>	<b>5,130</b>

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

## 29 Business combination

On 4 January 2016, the Company acquired a 100% stake in UAB Omnitel from TeliaSonera AB, which also owns 88.15 per cent of the Company's shares.

### *Goodwill arising on acquisition*

Purchase consideration	148,407
Fair value of net assets acquired	<u>(63,254)</u>
<b>Goodwill</b>	<b><u>85,153</u></b>

Goodwill arose in the acquisition because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

### *Assets acquired and liabilities recognised at the date of acquisition*

	<u>Fair value</u>	<u>Acquiree's carrying amount</u>
Cash and cash equivalents	14,489	14,489
Property, plant and equipment	71,564	71,564
Intangible assets	16,453	16,453
Inventories	4,473	4,473
Trade and other receivables	59,712	59,712
Trade and other payables	(25,209)	(25,209)
Deferred tax liability	(1,228)	(1,228)
Borrowings	<u>(77,000)</u>	<u>(77,000)</u>
<b>Net assets acquired</b>	<b><u>(63,254)</u></b>	<b><u>(63,254)</u></b>

The initial accounting for the acquisition has only been provisionally determined at the date of acquisition. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the management's best estimate of the likely fair value values.

### *Net cash outflow on acquisition of subsidiaries*

Purchase consideration settled in cash	148,407
Cash and cash equivalents in subsidiaries acquired	<u>(14,489)</u>
<b>Cash outflow on acquisition</b>	<b><u>133,918</u></b>

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

### 30 Related party transactions

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

#### Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2015	2014	2015	2014
TeliaSonera AB and its subsidiaries	9,715	9,211	8,090	7,317
Subsidiaries of the Company	-	-	5,557	4,618
<b>Total sales of telecommunication and other services</b>	<b>9,715</b>	<b>9,211</b>	<b>13,647</b>	<b>11,935</b>

#### Purchases of assets and services:

	GROUP		COMPANY	
	2015	2014	2015	2014
<i>Purchases of assets from:</i>				
TeliaSonera AB and its subsidiaries	16	-	16	-
Subsidiaries of the Company	-	-	3	87
	<b>16</b>	<b>-</b>	<b>19</b>	<b>87</b>
<i>Purchases of services from:</i>				
TeliaSonera AB and its subsidiaries	4,220	3,911	4,170	3,857
Subsidiaries of the Company	-	-	6,691	7,186
	<b>4,220</b>	<b>3,911</b>	<b>10,861</b>	<b>11,043</b>
<b>Total purchases of assets and services</b>	<b>4,236</b>	<b>3,911</b>	<b>10,880</b>	<b>11,130</b>

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

##### Receivables and accrued revenue from related parties:

	GROUP		COMPANY	
	2015	2014	2015	2014
<i>Receivables from related parties:</i>				
<i>Long term receivables:</i>				
TeliaSonera AB and its subsidiaries	279	335	279	335
<i>Short-term receivables:</i>				
TeliaSonera AB and its subsidiaries	1,035	473	861	326
Subsidiaries of the Company	-	-	588	654
	<b>1,314</b>	<b>808</b>	<b>1,728</b>	<b>1,315</b>
<i>Accrued revenue from related parties:</i>				
TeliaSonera AB and its subsidiaries	279	335	279	335
	<b>279</b>	<b>335</b>	<b>279</b>	<b>335</b>
<b>Total receivables and accrued revenue from related parties</b>	<b>2,290</b>	<b>1,505</b>	<b>2,678</b>	<b>1,977</b>

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 as at 31 December 2015 and 2014.

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

### 30 Related party transactions (continued)

#### Payables and accrued expenses to related parties:

	GROUP		COMPANY	
	2015	2014	2015	2014
<i>Payables to related parties:</i>				
TeliaSonera AB and its subsidiaries	183	316	171	312
Subsidiaries of the Company	-	-	1,235	1,129
	<b>183</b>	<b>316</b>	<b>1,406</b>	<b>1,441</b>
<i>Accrued expenses to related parties:</i>				
TeliaSonera AB and its subsidiaries	6	24	6	24
	<b>6</b>	<b>24</b>	<b>6</b>	<b>24</b>
<b>Total payables and accrued expenses to related parties</b>	<b>189</b>	<b>340</b>	<b>1,412</b>	<b>1,465</b>

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	
	2015	2014	2015	2014
<b>Beginning of the year</b>	-	-	200	1,447
Loans advanced during year	-	-	-	-
Loan repayments received ( in cash)	-	-	(200)	(1,242)
Interest charged (including VAT)	-	-	-	21
Interest received (including VAT)	-	-	-	(26)
<b>End of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200</b>

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
<b>Year ended 31 December 2014</b>					
UAB Hostex	6 August 2013	EUR	200	till 06 August 2016 <sup>1</sup>	0.93%

<sup>1</sup> As of 31 December 2014, the loan of LTL 691(EUR 200) thousand is classified as current assets due to UAB Hostex intention to repay this loan during 2015. The loan was repaid during 2015 Q1.

#### Borrowings from related parties:

	GROUP		COMPANY	
	2015	2014	2015	2014
<b>Beginning of the year</b>	<b>10,006</b>	-	<b>10,006</b>	-
Borrowings	35,000	10,000	35,000	10,000
Repayments of borrowings (in cash)	(30,000)	-	(30,000)	-
Interest charged (including VAT)	80	6	80	6
Interest paid (including VAT)	(80)	-	(80)	-
<b>End of the year</b>	<b>15,006</b>	<b>10,006</b>	<b>15,006</b>	<b>10,006</b>

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

### 30 Related party transactions (continued)

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
<b>Year ended 31 December 2015</b>					
TeliaSonera AB	22 May 2015	EUR	15,000	25 February 2016	0.38%
<b>Year ended 31 December 2014</b>					
TeliaSonera AB	6 November 2014	EUR	10,000	13 May 2015	0.44%

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

During 2015 dividends paid out to TeliaSonera AB amounted to EUR 34,924 thousand (2014: EUR 37,682 thousand dividends; EUR 49,582 thousand amount paid due to capital reduction).

During 2015 dividends received by the Company from subsidiaries amounted to EUR 2,626 thousand (2014: EUR 3,170 thousand).

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

	2015	2014
Remuneration of key management personnel	3,187	2,925
Social security contributions on remuneration	901	840
<b>Total remuneration</b>	<b>4,088</b>	<b>3,765</b>

Key management includes CEO, 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 2015 was 27 (as of 31 December 2014: 29).

The total amount of annual payments (tantiemes) assigned to the six members of the Board of the Company for the year 2014 during 2015 amounted to EUR 94 thousand (2014: EUR 94 thousand). As of 31 December 2015, the amount of EUR 16 thousand of tantiemes assigned for the year 2010 were not paid yet (2014: EUR 16 thousand).

### 31 Events after the reporting period

On 4 January 2016, the Company acquired from TeliaSonera AB, which also owns 88.15 per cent of the Company's shares, a 100 per cent stake in UAB Omnitel for EUR 220 million on a cash and debt free basis. On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance this acquisition.

#### 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, CEO of TEO LT, AB, and Laimonas Devyžis, Head of Finance 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 2015 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  
CEO



Laimonas Devyžis  
Head of Finance





## CONSOLIDATED ANNUAL REPORT

Approved by the Board  
as at 31 March 2016

### I. GENERAL INFORMATION

#### Reporting period

Year ended 31 December 2015

#### Issuer and its contact details

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

#### Main activities of the Group

TEO LT, AB Group is 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;
- wholesale calls origination on public telephone network provided at a fixed location;
- wholesale calls termination on individual public telephone networks provided at a fixed location;
- wholesale local access provided at a fixed location;
- wholesale broadband access;
- wholesale high quality data transmission services via terminating segment;
- digital terrestrial television broadcasting transmission services provided by TEO LT, AB in the territory of the Republic of Lithuania.

Teo is regarded as an entity related to UAB Omnitel, because till 4 January 2016 TeliaSonera AB (Sweden) and from 4 January 2016 Teo owns a 100 per cent stake in Lithuanian mobile operator 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 2015, **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 subsidiary of UAB Baltic Data Center – 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.

**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 2015, UAB Lintel paid to the Company EUR 626 thousand in dividends for the year 2014.

In December 2015, UAB Hostex, a subsidiary of **UAB Baltic Data Center (BDC)** and provider of web hosting and data center services, and UAB Hosting, a dormant subsidiary of UAB Hostex, were merged into UAB Baltic Data Center. In January 2016, Baltic Data Center SIA, a dormant subsidiary of UAB Baltic Data Center in Latvia, was liquidated. In 2015, UAB Baltic Data Center paid to the Company EUR 2 million in dividends for the year 2014.

**UAB Kompetencijos Ugdymo Centras** is a dormant subsidiary of the Company and **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**, that manages the funded by Teo Communications History Museum in Kaunas. On 29 December 2015, the buildings in the Old Town of Kaunas at Rotušės sq. 17, 18, 19 and 20 owned by Teo Group and in which the Communications History Museum is located were sold to UAB Reksus, a company specializing in real estate rentals in Kaunas. The Museum will remain open until March 2016.

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 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 Vilnius stock exchange (symbol: TEO1L) as of 31 December 2015:

Type of shares	Number of shares	Nominal value (in EUR)	Total nominal value (in EUR)	Issue Code
Ordinary registered shares	582,613,138	0.29	168,957,810.02	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 and, accordingly, the number of the Company's shares included into Main List of Nasdaq Vilnius stock exchange was reduced from 776,817,518 to 582,613,138. Nasdaq 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

Teo strategy to develop a new generation IT and telecommunications business is working: in 2015 the total revenue was growing 3 out of 4 quarters and increased by 1.1 per cent up to EUR 204.6 million (EUR 202.3 million in 2014). It was the first time since 2012 that Teo has demonstrated annual revenue increase.

During 2015, a particular attention was given to streamlining and efficiency of activities.

In 2015, developing its business Teo continued investing into a next-generation fiber optic network and by the end of the year already 70 per cent (or 854 thousand) of households in Lithuania had the possibility to use the fast broadband access. In total, investments into upgrade and development of network and IT systems amounted to EUR 34.6 million, an increase by 15.7 per cent over the year 2014.

Throughout the year 2015 number of IPTV and broadband Internet customers continued to grow: number of IPTV customers increased by 23.9 per cent and reached 163 thousand, while number of broadband Internet customers increased by 5.5 per cent and the total number of broadband connections amounted to 391 thousand, whereof 225 thousand were fiber-optic.

Changing services mix ensured positive revenue dynamics in 2015:

- Stable revenue from Internet, TV and IT growth fully offset declining revenue from retail voice telephony.
- Revenue from IT services and IT equipment sales to business customers was up by 10.7 per cent.
- Revenue from equipment sales to residential customers over the year increased by 2.4 times.
- Revenue from voice transit services remained on the same level as a year ago.

Consistently transforming from traditional telecommunications operator into a new generation IT and telco company, Teo in October 2015 announced about the decision to acquire mobile operator Omnitel.

While preparing for a new company's development stage, Teo continued to streamline its activities and simplify Group's structure. In December 2015, subsidiaries Hostex and Hosting were merged into Baltic Data Center.

On 4 January 2016, a milestone for creation of a new generation telco was laid – Teo acquired a 100 per cent stake in Omnitel from TeliaSonera and the joined management team that was formed in December 2015 started to run a new business.

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

<b>Financial figures</b>	<b>2015</b>	<b>2014</b>	<b>Change (%)</b>
Revenue (EUR thousand)	204,598	202,285	1.1
EBITDA (EUR thousand)	76,469	78,504	(2.6)
EBITDA margin (%)	37.4	38.8	
<i>EBITDA excluding non-recurring items (EUR thousand)</i>	<i>80,765</i>	<i>83,146</i>	<i>(2.9)</i>
<i>EBITDA margin excluding non-recurring items (%)</i>	<i>39.5</i>	<i>41.1</i>	
Operating profit (EUR thousand)	38,539	42,364	(9.0)
Operating profit margin (%)	18.8	20.9	
Profit before income tax (EUR thousand)	38,279	42,436	(9.8)
Profit before income tax margin (%)	18.7	21.0	
Profit for the period (EUR thousand)	34,176	38,076	(10.2)
Profit for the period margin (%)	16.7	18.8	
Earnings per share (EUR)	0.059	0.052	
Weighted average number of shares (thousand)	582,613	738,509	(21.1)
Cash flow from operations (EUR thousand)	62,408	71,837	(13.1)
Operating free cash flow (EUR thousand)	28,543	40,735	(29.9)
<b>Financial ratios</b>	<b>31-12-2015</b>	<b>31-12-2014</b>	
Return on capital employed (%)	14.1	15.2	
Return on average assets (%)	13.6	13.4	
Return on shareholders' equity (%)	15.0	13.8	
Operating cash flow to sales (%)	30.5	35.5	
Gearing ratio (%)	0.9	(2.7)	
Debt to equity ratio (%)	6.4	4.3	
Current ratio (%)	113.7	128.7	
Rate of turnover of average assets (%)	72.4	64.2	
Equity to assets ratio (%)	81.8	84.1	
<b>Operating figures</b>	<b>31-12-2015</b>	<b>31-12-2014</b>	<b>Change (%)</b>
Number of fixed telephone lines in service	500,475	525,879	(4.8)
Number of broadband Internet connections (FTTH, FTTB, DSL and other excluding Wi-Fi)	390,883	370,599	5.5
Number of TV services customers	210,273	186,935	12.5
Number of personnel (head-counts) at the end of period	2,603	2,631	(1.1)
Number of full-time employees at the end of the period	2,309	2,381	(3.0)

## Revenue

During 2015, revenue from non-voice telephony services such as Internet, TV, IT equipment and IT services continued to grow and fully offset decline in revenue from voice telephony.

The **total revenue** for the year 2015 were by 1.1 per cent higher than revenue of EUR 202.3 million a year ago and amounted to EUR 204.6 million. Over the year the total revenue excluding revenue from voice telephony services increased by 6.9 per cent.

Share of revenue from non-voice telephony services continued to grow and amounted to 63.9 per cent of the total revenue for the year 2015. Share of revenue from Internet services increased and reached 26.7 per cent, from IT services and IT equipment sales – 14.5 per cent and TV services – 10.1 per cent. Share of revenue from data communication and network capacity services, and other services amounted to 10.6 and 2 per cent, respectively. Share of revenue from voice telephony services shrank to 36.1 per cent of the total revenue.

Over the year, revenue from **voice telephony** services went down by 7.7 per cent due to decline in number of telephone lines in service and consequently lower traffic volume. Revenue from transit services was the same as a year ago. During 2015, the revenue from retail voice telephony excluding networks' interconnection services went down by 11.8 per cent.

During 2015, the total number of main telephone lines in service decreased by 25.4 thousand (39 thousand in 2014).

Total voice telephony traffic volume generated by residential and business customers during 2015, compared with the year 2014, decreased by 13.6 and 6.7 per cent, respectively, while total volume of calls to mobile operators' networks increased by 16.1 per cent due to attractive payment plans for calls to mobile networks.

During 2015 the total number of **broadband Internet access** (excluding Wi-Fi) users increased by 20.3 thousand (14 thousand in 2014).

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 12.4 per cent and exceeded 225 thousand at the end of 2015, while the number of copper DSL connections eased by 2.7 per cent to 165 thousand.

By the end of 2015, the number Internet connection over the fiber-optic access network amounted to 57.7 per cent of 391 thousand of Teo broadband Internet connections (excluding Wi-Fi).

With the increasing volumes of data transmitted over the Internet, Teo shifted to new Internet bandwidth standards. From November 2015, the standard fiber-optic Internet plan "Optimalus plius" ("Optimal Plus") delivers the bandwidth of up to 300 Mbps, a 300 GB storage, time control and Internet security functions. The plan with 100 Mbps remains an economic option, while customers who want to receive maximum added value and speed are able to choose the plan with the bandwidth of up to 600 Mbps.

Compared with the year 2014, revenue from **data communication** services alone declined by 0.7 per cent, while revenue from **network capacity** services alone decreased by 9.1 per cent.

During 2015, the number of IPTV services users increased by 31.5 thousand (25.3 thousand during 2014) and by the end of the year amounted to 163 thousand. During 2015, number of digital terrestrial television (DVB-T) users went down by 8.2 thousand and amounted to 47 thousand. Over the year, the total number of **television** service customers increased by 23.3 thousand or 12.5 per cent.

From 1 October 2015, the Company's Internet television platform "Interneto.tv" was complemented with sports, news, fashion, interior design and entertainment shows of DELFI TV, while starting from mid-October – with another four music and movie channels for children.

**IT services** are generated from data center, information system management and web-hosting services provided to local and multinational enterprises as well as IT equipment sales.

Over the year revenue from electronic equipment sales to both residential and business customers increased by 1.8 times. This is due to a more than tenfold increase in the range of products, convenient and simple purchase of equipment at Teo online shop, direct contracts with manufacturers and attractive offers. In June 2015, Teo became an Apple Authorised Reseller in Lithuania and by end of the year started closer cooperation with Samsung.

In October 2015, Teo introduced a cloud services package including Microsoft Office 365 for businesses. The package contains Microsoft Office software, the Skype platform for business, email service with 50 GB storage, 1 TB data storage and support from Teo staff. The Company was the first in the Baltic countries to offer such package on a monthly subscription basis.

At the end of 2015, Teo, as developer of SAP competencies in Lithuania, together with Rimi Baltic have completed the largest SAP HANA in-memory database installation project in the Baltic States. The experience of Teo allowed migrating all data without stopping Rimi's business management systems and to complete the process within the scheduled time frame of five months. Rimi Baltic is currently the largest customer of SAP in the Baltic States.

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 Contact Center services went down by 24.7 per cent due to termination of some projects in 2014, and revenue from other non-core business services decreased by 30.4 per cent.

During 2015, Teo upgraded video surveillance (CCTV) systems in Kretinga and Šilutė and their districts.

**Other income** for 2014 consisted 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)**. In



December 2015, Teo Group sold the buildings in the Old Town of Kaunas, in which the Communications History Museum, supported by the Company, is located.

### Market information

According to the Reports of the Communications Regulatory Authority (CRA), during the nine months of 2015, the total revenue of the Lithuanian electronic communications market amounted to EUR 467 million, an increase by 3.4 per cent over the nine months of 2014.

	Teo market share (%)			
	in terms of customers		in terms of revenue	
	Q3 2015	Q3 2014	Q3 2015	Q3 2014
Fixed voice telephony services	89.9	90.1	94.0	94.2
Fixed Internet access services	46.4	45.9	56.3	55.6
Internet access services (total)	32.8	33.2	45.8	46.8
Pay-TV services (total)	28.0	25.2	34.5	30.1
Network interconnection services	n/a	n/a	19.6	22.9
Data communication services	n/a	n/a	82.8	55.5
Leased line services	n/a	n/a	53.5	55.9

On 30 September 2015, Internet penetration per 100 residents of Lithuania was 40.3 per cent (37.4 per cent a year ago), while the penetration of broadband Internet using fixed connection was 28.5 per cent (27 per cent a year ago). Pay-TV penetration per 100 households was 56.2 per cent (55.2 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 19.1 per cent (19.8 per cent a year ago).

### Operating expenses

During 2015, **cost of goods and services** were by 12.3 per cent higher than a year ago due to higher IT equipment sales and transit traffic volumes. **Operating expenses** (excluding cost of goods and services, and non-recurring items) for the year 2015 were by 0.2 per cent lower than a year ago.

The competence shift and pressure on salaries especially in IT area, in spite of reduced the total number of employees, resulted that **employee-related expenses** (excluding one-time redundancy pay-outs) for the year 2015 were higher by 2.8 per cent than in 2014. The total employee-related expenses including one-time redundancy pay-outs were higher by just 1.2 per cent. The non-recurring employee-related expenses during 2015 amounted to EUR 4 million (EUR 4.6 million in 2014).

During 2015, the total number of employees in Teo Group decreased by 28 from 2,631 to 2,603: in Lintel increased by 101, while in Teo and other subsidiaries went down by 129. In terms of full-time employees, the total number of employees in Teo Group during 2015 decreased by 72 from 2,381 to 2,309.

**Other expenses** during 2015 decreased by 6.5 per cent.

### Earnings

**EBITDA** (excluding non-recurring items) for the year 2015 decreased by 2.9 per cent to EUR 80.8 million over EUR 83.1 million a year ago. EBITDA margin (excluding non-recurring items) amounted to 39.5 per cent (41.1 per cent in 2014). Over the year, EBITDA including non-recurring items eased by 2.6 per cent from EUR 78.5 million in 2014 to EUR 76.5 million in 2015. EBITDA margin including non-recurring items in 2015 stood at 37.4 per cent (38.8 per cent a year ago).

**Depreciation, amortisation and impairment charges** during 2015 were by 5 per cent higher than depreciation and amortisation charges a year ago. In 2015, depreciation, amortisation and impairment charges amounted to 18.5 per cent of the total revenue (17.9 a year ago).

**Operating profit (EBIT)** for the year 2015 was down by 9 per cent, and operating profit margin was 18.8 per cent (20.9 per cent in 2014). Operating profit (excluding non-recurring items) in 2015 was by 9.5 per cent lower than in 2014, and operating profit margin (excluding non-recurring items) was 20.8 per cent.

**Net financial income** in 2015 was negative and amounted to EUR 260 thousand. 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 from 1 January 2015, the Company recorded as a non-recurring loss an amount of EUR 222 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.

**Profit before income tax** in 2015 was down by 9.8 per cent and amounted to EUR 38.3 million (EUR 42.4 million a year ago). Profit before income tax (excluding non-recurring items) was by 10.2 per cent lower than during 2014.

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 2015 amounted to EUR 2 million (EUR 2.3 million in 2014). **Income tax expenses** in 2015 were by 5.9 per cent lower than a year ago.

**Profit for the period** in January-December 2015 amounted to EUR 34.2 million, a decrease by 10.2 per cent over the profit of EUR 38.1 million for the same period a year ago. The profit margin was 16.7 per cent (18.8 per cent a year ago). Profit for the period (excluding non-recurring items) was by 10.6 per cent lower than in January-December 2014 and profit margin (excluding non-recurring items) was 18.7 per cent.

#### Statement of financial position and cash flow

During January-December 2015, **total assets** of Teo Group increased by 0.6 per cent. Total **non-current assets** contracted by 0.1 per cent and amounted to 83 per cent of total assets. In May, following the resolution of the Annual General Meeting of Shareholders of 29 April 2015, dividend of the total amount of EUR 39.6 million or EUR 0.068 per share for the year 2014 were paid to the shareholders of the Company. During the year total **current assets** increased by 4.3 per cent and amounted to 17 per cent of the total assets, whereof cash alone represented 4.5 per cent of the total assets.

Over the year **shareholders' equity** decreased by 2.2 per cent and amounted to 81.8 per cent of the total assets.

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 from 1 January 2015, the Annual General Meeting of shareholders, held on 29 April 2015, decided, and the Register of Legal Persons of the Republic of Lithuania on 5 June 2015 registered the nominal value of one Teo share equal to 0.29 euro and the Company's **authorized capital** equal to 168,957,810.02 euro.

The Annual General Meeting of shareholders also decided to reduce Teo **obligatory reserve** by EUR 5.6 million to EUR 16.9 million and to reallocate an amount of EUR 5.6 million to the Company's retained earnings.

As of 31 December 2015, consolidated **retained earnings** of Teo Group amounted to EUR 48.8 million, while retained earnings of the Parent company amounted to EUR 39.9 million or EUR 0.068 per share. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company.

At the end of December 2015, total amount of short-term **borrowings** (loan and financial liabilities related to financial leasing of premises) amounted to EUR 15.1 million (EUR 10.3 million a year ago), while cash amounted to EUR 12.9 million (EUR 16.9 million in 2014).

**Net cash flow from operating activities** in 2015 was by 13.1 per cent lower than that in 2014. **Operating free cash flow** (operating cash flow excluding capital investments) in January-December 2015 was by 29.9 per cent less than a year ago due to higher investments and increase in amounts receivables.

During 2015, **capital investments** increased by 15.7 per cent and amounted to EUR 34.6 million (EUR 29.9 million a year ago). The majority of capital investments (69 per cent or EUR 23.7 million) went to development of the next generation fiber-optic access network and expansion of the core network. An amount of EUR 10.2 million was invested into IT systems. In the beginning of 2016, the Company shall open a new Tier III standard data center in Vilnius.

At the end of December of 2015, Teo had 854 thousand households passed (836 thousand a year ago), or 70 per cent of the country's households, by the FTTH network.

In 2015, Teo installed the first direct fiber-optic connection with Kiev, the capital of Ukraine, and at the end of the year the total bandwidth of the Company's direct international Internet connections reached 158 Gbps.



During 2015, the Company optimised and improved its customer care. A new or renewed customer care showrooms of a new “Smart Teo home” concept were opened in shopping malls of Vilnius, Kaunas, Klaipėda, Šiauliai, Šilutė, Elektrėnai and Telšiai. In November 2015, Teo and Omnitel open the first experimental joint customer care showroom in Alytus, where customer could get acquainted with services of both companies – fast mobile and fiber-optic Internet, IPTV, voice telephony, IT equipment and various gadgets.

**Cash and cash equivalents** during January–December 2015 decreased by EUR 3.9 million.

During 2015, TEO LT, AB paid EUR 40.4million of **taxes and contributions**, including taxes and contributions that the Company withheld and paid on behalf of other persons. An amount of EUR 13.1 million was contributed to the State Social Insurance Fund and a total of EUR 27.3 million was paid to the State Tax Inspectorate.

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

Information about related party transactions is provided in Note 30 of TEO LT, AB Consolidate and Separate Financial Statements for the year ended 31 December 2015.

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 management team of the Company. Companies that belong to TeliaSonera Group and management team 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 2015, the Company had no outstanding loan granted to subsidiaries. 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), Telia Eesti AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland). As of 31 December 2015, the outstanding balance of the loan granted by TeliaSonera AB to TEO LT, AB was EUR 15 million.

#### **Other material information**

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

On 6 October 2015, the Company informed that Teo considers all possible ways of use of the land lot at 21A Lvovo str. in Vilnius belonging to Teo Group, including the disposal of the shares of UAB Verslo Investicijos, which holds the land lot. However, at the mean time there is no legally binding decisions adopted.

#### **Recent events**

On 4 January 2016, Teo acquired from TeliaSonera AB, which also owns 88.15 per cent of Teo shares, a 100 per cent stake in UAB Omnitel for EUR 220 million on a cash and debt free basis. On 18 December 2015, Teo signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance this acquisition. The combination is estimated to generate annual synergies of around EUR 10 million when implemented.

On 27 January 2016, UAB Omnitel, a subsidiary of TEO LT, AB, was recognised the winner of radio frequencies block bundle No. C1 at Communications Regulatory Authority auction for the right to use radio frequencies (channels) from paired radio frequencies bandwidth of 880–915 MHz and 925–960 MHz, and paired radio frequencies bandwidth of 1710–1785 MHz and 1805–1880 MHz. Omnitel offered the highest price (EUR 14.3 million) for this radio frequencies block bundle and got the priority right to choose the preferred A and B category radio frequencies block. Omnitel has chosen A2 (i.e. radio frequencies from paired radio frequencies bandwidth of 891.7–903.3 MHz and 936.7–948.3 MHz) and B1 (i.e. radio frequencies from paired radio frequencies bandwidth of 1710–1735 MHz and 1805–1830 MHz) radio frequencies blocks.

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

There were no major research and development projects undertaken during 2015, except the on-going development and improvement of the Company’s services.

With the development of technologies and the increasing volumes of data transmitted over the Internet, in June 2015 Teo increased the bandwidth of a Premium FTTH Internet plan from 500 Mbps to 600 Mbps, and in November increased the speed of its standard Optimum Internet plan up to 300 Mbps and introduced a next-generation router, which allows the use of a maximum bandwidth for the Internet access both via wire and via Wi-Fi. Compared to older-generation routers, the distinguishing feature of the Technicolor equipment supplied to Teo and TeliaSonera Group is not only a five times higher actual Wi-Fi bandwidth (up to 500 Mbps) and a wire bandwidth of up to 950 Mbps, but also a convenient possibility to connect the cables of TV set-top box, computer and other devices to any port on the router. The new routers with built-in three 5 GHz and two 2.4 GHz antennas support the Wi-Fi connection of both the latest and older standards.

Seeking to adjust to unavoidable change of technologies and usage patterns, and to increase or maintain attractiveness and competitiveness of voice telephony services, Teo together with Omnitel started to develop a package of converged voice services that combines advantages of fixed and mobile telephony. The first service out of this package – voice recording – was already offered to business customers of both companies in 2015. Another converged voice functionality will allow customers to manage their availability over fixed and mobile phones and ensure efficiency. The essence of the service is that by changing settings it is possible at the same time to receive calls to both fixed and mobile phones and to pick up a call the way it is the most convenient to the customer.

### 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. During 2015, the Company reduced consumption of electricity by 12 per cent, diesel fuel – by 23 per cent and gasoline usage – by 30 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.

At the end of December 2015, total amount of short-term **borrowings** (loan and financial liabilities related to financial leasing of premises) amounted to EUR 15.1 million (EUR 10.4 million a year ago), while cash amounted to EUR 12.9 million (EUR 16.9 million in 2014). On 18 December 2015, Teo signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance acquisition of shares in UAB Omnitel.

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 employees responsible for the Group's treasury management at Finance unit under policies approved by the Board of Directors. The employees responsible for the Group's treasury management 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 Consolidated and Separate Financial Statements for the year ended 31 December 2015.

### Plans and forecasts

Year 2016 will be a year of a new generation telco, combining fixed and mobile communications as well as content and IT services, creation. Integration of Teo and Omnitel activities shall ensure creation of the value to existing and potential customers, and secure consistent revenue growth. Technological leadership and convergence will create new customer experience through higher value services. Consistent customer's experience at any contact point and consistency in all channels is another strategic priority of a new business.

The Company will continue business transformation program that was launched in 2015 to simplify processes and service portfolio as well as upgrade of business support systems. The speed of decision making and implementation remains of high priority, as well as company culture oriented towards satisfaction of customer needs. Eventually customer is interested only in the ultimate result: services easily available anywhere, anytime and on any device.

In terms of business customers, we are seeking for long-term partnership and by offering the best information and communication technology (ICT) solution we provide them with opportunity to concentrate on doing their own business. We are seeking to be the best IT advisor to our customers.

Through value based and result oriented leadership we are seeking to create a digital ecosystem in Lithuania that would make proud our customers and all residents of the country.

## III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS

### Share capital

From 5 June 2015, the **authorised capital** of the Company amounts to 168,957,810.02 euro and consists of 582,613,138 ordinary registered shares with a nominal value of 0.29 euro each. The number of Teo shares that provide voting rights during the General Meeting is 582,613,138.

On 29 March 2015, the Annual General Meeting of Shareholders decided to change the expression of the nominal value of the Company's shares and the authorized capital in litas into expression in euro, i.e. to determine that the nominal value of one Company's share is equal to 0.29 euro and to establish that the Company's authorized capital is equal to 168,957,810.02 euro.

On 20 October 2014, the authorised capital of the Company was reduced from 776,817,518 litas to 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 194,204,380 Company's shares with the nominal value equal to the reduction amount, i.e. 194,204,380 litas. The nominal value of one Teo share the then was one litas.

582,613,138 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of Nasdaq Vilnius stock exchange (code: TEO1L). Nasdaq 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 2015) for the Annual General Meeting of Shareholders, which was held on 29 April 2015, was 11,624.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2015:

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	-
<b>TOTAL:</b>	<b>582,613,138</b>	<b>100.00</b>	<b>100.00</b>	-

#### 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 2015, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders amounted to 582,613,138. 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 2015, Teo share price on Nasdaq Vilnius stock exchange increased by 1.9 per cent. The shares' turnover, compared to the year 2014, decreased by 36.2 per cent.

Information about trading in Teo shares on Nasdaq Vilnius stock exchange in 2015:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	1.000	1.110	0.986	1.010	1.039	6,158,002	6,397,257
LTL	3.453	3.833	3.404	3.487	3.587	6,158,002	22,088,448

Teo market capitalisation as on 31 December 2015 was EUR 588 million, while a year ago it amounted to EUR 577 million.

#### Dividends

On 27 May 2015, the Company paid out to the shareholders EUR 39.6 million of dividends or EUR 0.068 per share for the year 2014. Following the Law, dividends were paid to the shareholders who on the dividend record day, 14 May 2015, 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:

	2015	2014	Change (%)
Number of personnel (head-counts)	2,603	2,631	(1.1)
Number of full-time employees	2,309	2,381	(3.0)

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	31-12-2015	31-12-2014	Change
TEO LT, AB	1,839	1,956	(117)
UAB Lintel	756	655	101
UAB Baltic Data Center	3	4	(1)
UAB Hostex	-	10	(10)
UAB Kompetencijos Ugdymo Centras	-	1	(1)
VšĮ Ryšių Istorijos Muziejus	5	5	-
	<b>2,603</b>	<b>2,631</b>	<b>(28)</b>

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

Name of the company	2015	2014	Change (%)
TEO LT, AB	42,711	39,389	8.4
UAB Lintel	5,244	5,501	(4.7)
UAB Baltic Data Center and its subsidiaries	234	2,700	(91.3)
Other TEO LT, AB subsidiaries	75	86	(12.8)
	<b>48,264</b>	<b>47,676</b>	<b>1.2</b>

Information about employees of TEO LT, AB as of 31 December 2015:

Group of employees	Number of employees	Education			Average monthly salary (in EUR)
		University	College	High school	
Managers	27	26	-	1	6,425.81
Middle level managers	190	167	16	7	1,991.46
Specialists	1,622	1,061	287	274	1,030.31
	<b>1,839</b>	<b>1,254</b>	<b>303</b>	<b>282</b>	<b>1,208.73</b>

### Collective Bargaining Agreement

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

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

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

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



- 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, Head of Human Resources 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 318,58 euro.
- 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 144,81 euro 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 2015, the Social Needs Fund allocated EUR 73.2 thousand for the above-mentioned purposes.

On 27 March 2015, Teo signed an agreement with SEB Investicijų Valdymas (SEB Investment Management) regarding Teo employees' pension savings at 3rd tier pension funds. Starting from 1 April 2015, Teo employees working in the

Company for at least a year could participate in a program "Save with Teo". For all Teo employees participating in the program the Company allocates a fixed amount that is transferred into one of SEB Investicijų Valdymas' fund chosen by the employee. If the employee is willing to contribute additionally to the pension saving from his salary, then Teo transfers an amount equal to employee's contribution from his salary in addition.

## **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 CEO. 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, CEO 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 CEO, sets his/her remuneration and other conditions of the employment agreement, approves his/her office regulations, induces and applies penalties to him/her. CEO 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 CEO define the duties and authority of CEO and Heads of Units, as well as other officers of the Company in more details.

On 29 April 2015, the Annual General Meeting of Shareholders, upon termination of two-year term of the Board, re-elected Robert Andersson, Stefan Block, Claes Nycander, Tiia Tuovinen, Inga Skisaker and Rolandas Viršilas (all proposed by TeliaSonera AB) to the Board of the Company for the new two-year term of the Board.

On 4 June 2015, the Board elected Robert Andersson as the Chairman of the Company's Board for the current term of the Board, i.e. until 29 April 2017. The Board appointed the following members of the Board: Stefan Block, Tiia Tuovinen and Inga Skisaker (independent member of the Board) as members of the Audit Committee for the two-year term (but in any case not longer than until their term of the membership in the Board) and elected Stefan Block as the Chairman of the Audit Committee. The Board also elected the following members of the Board: Robert Andersson, Claes Nycander and Rolandas Viršilas (independent member of the Board) as members of the Remuneration Committee for the one-year term (until 4 June 2016).

### **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 2015, eight ordinary and three extraordinary meetings of the Board were held. Eight ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, and three extraordinary meeting were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings and were devoted for appointments of management team members and approval of acquisition of shares of UAB Omnitel. During all Board meetings in 2015 there was quorum prescribed by legal acts: all member of the Board participated in nine meetings and one member of the Board did not attend two meetings. The Board approved financial statements for the 12 months of 2014 and the 3, 6 and 9 months of 2015; financial statements and the consolidated annual report for the year ended 31 December 2014; convoked the Annual General Meetings of Shareholders and proposed to the Annual General Meeting a profit allocation for the year 2014, to re-elect audit enterprise of the Company, to reduce the Company's obligatory reserve and to express the nominal value of the Company's shares and the authorized



capital in euro. The Board also elected Chairman of the Board, members of the Audit and Remuneration Committees and Chairman of the Audit Committee; approved an acquisition of a 100 per cent stake in UAB Omnitel from TeliaSonera AB and loan for financing of this acquisition; merger of UAB Hostex and UAB Hosting into UAB Baltic Data Center; disposal of premises in Kaunas, where Communications History Museum is located; followed up implementation of the business and investment plans for the year 2015; and approved the business and investment plans for the year 2016.

During 2015, three meetings of the Remuneration Committee were held. The following issues were considered during the meetings: approval of pension savings program for the Company's employees "Save with Teo", approval of the order on annual premium payouts to employees of the Company, approval of annual premium payouts to the Management Team for the year 2014, management succession, election of the Chairman and the Secretary of the Committee. All members of the Committee attended two meetings; during one meeting one member of the Committee was absent. The Chairman of the Committee chaired the meetings.

During 2015, four meetings of the Audit Committee were held, during which the following issues were considered: audited financial statements and annual report for the year 2014, profit allocation for the year 2014, expenses management in 2014 and plan for 2015, Teo Group treasury policy, internal audit report for the fourth quarter of 2014 and the first quarter of 2015, internal audit plan and its follow-up for the year 2015, scope of external audit for the year 2015 presented by Teo audit enterprise Deloitte Lietuva, findings of Deloitte Lietuva audit of the Company's internal risk reporting. Meetings also considered risk management issues including top risks (such as Euro implementation, financial and IT risks), internal fraud cases and whistle blowing reports. The Audit Committee meetings were attended by all members of the Committee and meetings were chaired by the Chairman of the Audit Committee.

On 29 April 2015, the shareholders resolved to assign EUR 93.8 thousand for the payment of annual payments (tantiemes) for the year 2014 to six members of the Board, i.e. EUR 15,640 per one member of the Board. As of 31 December 2015 the amount of EUR 15.6 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.

Four members of the Board – Robert Andersson, Stefan Block, Claes Nycander and Tiia Tuovinen – as well as CEO and Head of Finance and Strategic Planning of the Company participated in the Annual General Meeting of Shareholders on 29 April 2015.

Following The Governance Code for the Companies Listed on Nasdaq 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 2015

**Robert Andersson** (born in 1960) – Chairman of the Board, member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 (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; Telia Eesti AS (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. He owns 10,000 shares of TeliaSonera AB. He 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, re-elected for the two-year term on 29 April 2015 (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 Telia Eesti AS (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. 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, re-elected for the two-year term on 29 April 2015 (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), Chairman of the Supervisory Council, Systecon AB (Sweden), member of the Board, and Svenska UMTS-Nät 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. 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 29 April 2015 (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), Senior Legal Counsel, Head of Competition Group Legal Affairs. Current Board assignment – Kekkilä Oy (Finland), member of the Board. 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. 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 29 April 2015 (nominated 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. She has no shareholdings that exceed 5 per cent of the share capital of any company.

**Rolandas Viršilas** (born in 1963) – member of the Board since 25 April 2013, re-elected for the two-year term on 29 April 2015 (nominated by TeliaSonera AB), member of the Remuneration Committee. Education – Vilnius University (Lithuania), Faculty of Mathematics, Master's degree. Employment – UAB Švyturys-Utenos Alus (Lithuania), CEO. 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 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.

#### Management Team in 2015

**Kęstutis Šliužas** (born in 1972) – CEO of Teo from 1 November of 2013. Education – Vilnius University (Lithuania), Bachelor's and Master's degrees. Involvement in activities of other entities – Kaunas Technology University (Lithuania), member of the Business Council, and Association INFOBALT (Lithuania), member of the Board. Kęstutis Šliužas has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

**Aleksandr Samuchov** (born in 1973) – Head of Business to Business Division of Teo from 1 June 2014 until 31 December 2015. 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. Involvement in activities of other entities – UAB Baltic Data Center, a subsidiary of TEO LT, AB, General Manager. Aleksandr Samuchov has no direct interest in the share capital of Teo. 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 from 1 June 2014 until 31 December 2015. 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. Involvement in activities of other entities – UAB Lietuvos Monetų Kalykla (Lithuania), member of the Board. Nerijus Ivanauskas has no direct interest in the share capital of Teo. 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 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 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 from 23 June 2014 until 31 December 2015. 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. 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 Resources Division of Teo 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. He has 450 shares of TeliaSonera AB (Sweden). 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 from 1 June 2014 until 31 August 2015. 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 assignments – Vilnius International School (Lithuania), Chairwoman of the Council. Eglė Gudelytė-Harvey has no direct interest in the share capital of Teo. She has no shareholdings that exceed 5 per cent of the share capital of any company.

**Giedrė Kaminskaitė-Salters** (born in 1978) – Head of Legal Affairs Division of Teo from 7 December 2015. Education: London School of Economics (United Kingdom), Bachelor of Science in International Relations; Oxford University (United Kingdom), MPhil in Russian and East European Studies; BPP Law School, London (United Kingdom), law conversion studies, juris doctor equivalent; Maastricht University (The Netherlands), Doctor of Law. Giedrė Kaminskaitė-Salters has no direct interest in the share capital of Teo. She 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.

**Antanas Bubnelis** (born in 1981) – Head of Corporate Affairs Division of Teo from 1 June 2014 until 31 December 2015. 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. Involvement in activities of other entities – BMI Alumni Association (Lithuania), member of the Council. Antanas Bubnelis has no direct interest in the share capital of Teo. 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 from 1 June 2014 until 23 December 2015. Education: Vilnius University (Lithuania), Master of Science in Economics; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Involvement in activities of other entities – BMI Alumni Association (Lithuania), member of the Council. Giedrė Tarbūnienė has no direct interest in the share capital of Teo. 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 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. Involvement in activities of other entities – member of the Cyber Security Council (Lithuania); Deputy Chairman of INFOBALT (Lithuania) Cybersecurity Committee; Deputy Chairman of European Telecommunications Network Operator's (ETNO) Association Cybersecurity Committee. Vytautas Bučinskas has no direct interest in the share capital of Teo. He 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 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 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 1 December 2015, the Board of Teo approved a joint management team for Teo and Omnitel that from 1 January 2016 began to lead the companies to offer new joint broadband and mobile communication, Internet, television and IT services. From 1 January 2016, Kęstutis Šliužas, CEO of Teo, also became the CEO of Omnitel. Petteri Ahonen, Head of B2B of Omnitel, from 1 January 2016 was also appointed to the position of the Head of B2B at Teo. The position of the Head of B2C in both companies was taken by Norbertas Žioba. Laimonas Devyžis, CFO of Omnitel, was appointed to the position of Head of Finance of both companies. Andrius Šemeškevičius, Head of Technology & IT at Teo, become the Head of Technology of new business. Andrius Byčkovas, CTO of Omnitel, from 1 January 2016 took the position of the Head of Competitive Customer Operations of the joint management team. Ramūnas Bagdonas, Head of Human Resources at Teo, was also appointed as the Head of Human Resources at Omnitel. Audronė Mažeikaitė, Head of Communications at Omnitel, became responsible for Corporate Affairs of both companies. Giedrė Kaminskaitė-Salters, Head of Legal at Teo, took the position of the Head of Legal at Omnitel as well. Mantas Goštautas, who joined Teo in August 2015, became the

Head of Business Development of both companies. Vytautas Bučinskas, who was the Head of Risk Management Unit at Teo, also took the position of the Head of Risk at Omnitel.

Information about remuneration of key management personnel is provided in Note 30 of TEO LT, AB Consolidated and Separate Financial Statements for the year ended 31 December 2015. Key management includes CEO, Heads of Units directly reporting to CEO and Heads of the largest Units of the Company. The total amount of Teo dividends for the year 2014 paid in 2015 to key management personnel amounted to 1,267.32 euro and an amount of 5,100 euro of dividends for the year 2014 was paid to one member of the Board.

During 2015, 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 Aleksandr Samuchov who was 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 up to 6 monthly salaries unless laws regulating labour relations provides otherwise.

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 financial position of the Company and its consolidated subsidiaries for the year ended 31 December 2014 and 31 December 2015 together with the related statement of profit or loss and other 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 2015, 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 2015 and to make the assessment of the consolidated annual report of the Company for the year 2015. Shareholders authorized the Company's CEO to conclude the agreement for audit services, establishing the payment for services as agreed between the parties but in any case not more than 74,337 (seventy four thousand three hundred and thirty seven) euro (VAT excluded) for the audit of the Company's annual consolidated financial statements for the year 2015 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. The selection of the audit enterprise was due to decision of the Annual General Meeting of TeliaSonera AB shareholders on 8 April 2015 to elect Deloitte AB (Sweden) as the auditor of TeliaSonera. Teo as consolidated subsidiary of TeliaSonera Group is audited by Lithuanian arm of Deloitte.

Following the Law of the Republic of Lithuania on Audit, UAB Deloitte Lietuva on 23 November 2015 submitted to the Audit Committee a letter evidencing UAB Deloitte Lietuva independence from TEO LT, AB. In 2015, UAB Deloitte Lietuva



provided the following non-audit services to the Company – preparation of documentation regarding related party transactions pricing in 2013 and 2014.

## VI. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

TEO LT, AB essentially follows a recommendatory Corporate Governance Code for the Companies Listed on Nasdaq 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 CEO. 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 notice of convocation of the General Meeting and any other information and notices which the Company should announce publicly (including notices about reorganization of the Company and reduction of the authorized capital) shall be announced in the electronic publication published by the registrar of legal entities for announcement of public notices or shall be delivered to each shareholder or any other person who should be notified by registered mail or against signature. In cases when notices cannot be announced in such publication due to technical obstacles, such notices shall be announced in the daily Lietuvos Rytas or delivered to each shareholder or any other person who should be notified by registered mail or against signature.

In 2015, following the By-Laws of the Company, announcements to the shareholders about convocation of the Annual General Meeting of Shareholders and procedure of dividend payment 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 Vilnius stock exchange, daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and were posted on the Company's webpage [www.teo.lt](http://www.teo.lt).

The major regulatory news, except announcements of annual and interim results, during 2015 were related to convocation of the Annual General Meeting of Shareholders; proposed draft decisions and decisions of the meeting; election of the Chairman of the Board, members of the Audit and Remuneration Committees, Chairman of the Audit Committee; decision to acquire 100 per cent stake in UAB Omnitel, reorganization of subsidiaries and approval of joint management team.

## 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, CEO of TEO LT, AB, and Laimonas Devyžis, Head of Finance of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Consolidated Annual Report for the year 2015 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  
CEO



Laimonas Devyžis  
Head of Finance



## APPENDIX TO THE CONSOLIDATED ANNUAL REPORT

CORPORATE GOVERNANCE REPORTING FORM FOR THE YEAR ENDED 31 DECEMBER 2015

TEO LT, AB (hereinafter 'Teo' or 'the Company') acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified. In addition, other explanatory information indicated in this form are provided.

### Summary of the Corporate Governance Reporting Form

According to the By-Laws, the governing bodies of the Company are the General Shareholder's Meeting, the Board and CEO. There is no Supervisory Council in the Company. The Board represents the shareholders, and performs supervision and control functions. The Board consists of six members elected for the term of two years. All members of the Board are considered non-executive directors, whereby two out of six members are independent members of the Board. The Board for the two years' term elects members of the Audit Committee and every year for the one-year term members of the Remuneration Committee. Three members of the Board, whereof one is independent, comprise each committee. The Board elects and recalls CEO of the Company, sets his/her remuneration and other conditions of the employment agreement.

More information about the corporate governance, shareholders' rights, activities of the Board and the Committees as well as members of the Board and Management Team, internal control and risk management systems are provided in the Consolidated Annual Report for the year ended 31 December 2015.

### Structured table for disclosure

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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.

<p>1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.</p>	<p>Yes</p>	<p>The Company's policy towards employees, customers and local community is set up in the Company's Corporate Social Responsibility Policy and described in the Company's Corporate Social Responsibility Report.</p>
<p><b>Principle II: The corporate governance framework</b></p> <p><b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b></p>		
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>The functions set in the recommendation are fulfilled by the Board of the Company.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	<p>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.</p>



<p>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.</p>	<p>Yes</p>	<p>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 three times – in April 2011, April 2013 and April 2015. One Board member was elected in April 2011 and re-elected twice – in April 2013 and in April 2015, another was elected in April 2013 and re-elected in April 2015. Three members were elected in April 2014 and re-elected in April 2015. The By-Laws of the Company do not provide any possibility to recall a member of the Board. This can be done following the Laws.</p>
<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The Chairman of the Board who was elected in May 2014 and re-elected in June 2015 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 CEOs of the Company are neither working in the Company nor in any collegial body.</p>
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</b></p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>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 14 years the same amount of annual compensation (tantieme) (EUR 15.6 thousand) was allocated to each member of the Board.</p>

<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>CVs of the candidates to the Board (including information about candidate's participation in activities of other companies) are included into the material for the Annual General Meeting (AGM) and shareholders may be acquitted with such information in advance.</p> <p>Information about employment of the Board members as well as their participation in the activities of other companies is continuously monitored and collected, and at the end of each quarter corrected and updated by contacting each member of the Board. Then information is provided in the Company's interim reports and placed on the webpage of the Company.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence.</p> <p>Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>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.</p> <p>Two members of the Audit Committee have business administration background: one works in a bank and another – as a CFO. 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.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>Upon election, all members of the Board were acquainted with their duties and responsibilities set by Lithuanian legislation as well as the By-laws of the Company. Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p>	<p>Yes</p>	<p>In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and none of other shareholders has more than 10 per cent of votes, Teo Board consists of four members that are employees of the majority shareholder and two independent members of the Board in order to ensure proper resolution of conflicts of interest.</p>

<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1Part 1);</li> <li>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</li> <li>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</li> <li>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships</li> </ol>	<p>Yes</p>	<p>According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body.</p> <p>The other four members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder.</p> <p>Teo Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalised independence criteria are taken into account.</p>
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<p>with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	Yes	
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	Yes	<p>When electing the Board in April 2015 it was disclosed that two out of six nominees to the Board were regarded as independent members of the Board.</p>
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	Yes	<p>In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.</p>	Yes	<p>Annual compensations (tantiemes) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last 14 years the same amount of annual compensation (tantieme) (EUR 15.6 thousand) was allocated to each member of the Board. Following the International Financial Reporting Standards, annual compensations (tantiemes) to the members of the Board are considered as operating expenses.</p>
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p>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.</p>		



<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p>	<p>Yes</p>	<p>The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Consolidated Annual Report. In addition, 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.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>According to the information possessed by the Company, all members of the Board are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2015 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.</p>

<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>	<p>Yes</p>	<p>The collegial body is mainly dependent on the majority shareholder that operates in the same business area but in decision-making acts in the interest of the Company.</p> <p>The Company provides the Board and its Committees with the resources needed for fulfilment of their functions (for instance, the Board members are reimbursed for expenses of traveling to the Board meetings), and employees of the Company who are responsible for the discussed area participate in the meetings of the Board and the Committees and provide all necessary information to the Board.</p> <p>The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.</p>
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Yes</p>	<p>The Board institutes two Committees: Audit and Remuneration. The Nomination Committee is not instituted as its functions are performed by the Remuneration Committee. Three members of the Board comprise each committee.</p> <p>Members of the Audit Committee are two members of the Board having education in business administration (one of them is an independent member of the Board) and one member of the Board having lawyer's education.</p> <p>The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its internal orders.</p> <p>The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the</p>	<p>Yes</p>	<p>The annual and interim financial statements at first are discussed at the Audit Committee and then, with the conclusions of the Committee, are presented for the Board's approval.</p> <p>Before submitting for the Board's approval nominees to the management team of the Company and their remuneration terms, nominees at first shall be discussed and approved at the Remuneration Committee.</p>

<p>collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>		
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Yes</p>	<p>All six members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executive directors (one of them is independent) are elected to the Remuneration Committee.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes</p>	<p>Responsibilities and work regulations of the Board committees are approved by the Board. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. In 2015, three meetings of the Remuneration Committee were held. In June 2015, 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 of the Company. In 2015, 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. Following the Audit Committee's work regulations, the secretary of the meetings is Head of Finance of the Company.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and</p>	<p>No</p>	<p>In Teo, the function of the Nomination Committee is performed by the Remuneration Committee.</p>



<p>management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</p> <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <p>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;</p> <p>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;</p> <p>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;</p> <p>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</p> <p>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;</p>	<p>Yes</p>	<p>The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.</p> <p>Twice per year the Committee should present updated information to the Board about the Committee's activities, if any.</p> <p>The Remuneration Committee reviews and establishes the general compensation goals and guidelines for the Company's employees and the criteria by which bonuses are determined, reviews and makes recommendation for compensation for executives and management, plans for executive development and succession, supports the Chairman of the Board in the recruitment of CEO and supports CEO in recruitment of the managers directly reporting to CEO.</p> <p>Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2015.</p>

<p>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);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> <li>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</li> </ol> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</li> </ol>	<p>Yes</p>	<p>The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and internal orders.</p>

- 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 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

<p>committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2015 but no assessment of its activities is provided.
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p>		
<p><b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>		
<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	Yes	The Company's Board meetings are chaired by the Chairman of the Board. Head Legal of the Company is the Secretary of the Board and assists in organizing activities of the Board.
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p>	Yes	The meetings of Teo Board are convoked following the schedule, preliminary agreed and approved by the Board. Not less than two meetings are convoked per quarter. It is publicly announced about the Board meetings that are approving financial statements and then, accordingly, financial statements are made publicly available.

<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>Following the Board's work regulations, information about the meeting convocation, agenda and all materials related to the agenda issues should be provided to each Board member not later than seven days before the meeting. The meeting agenda should not be changed during the meeting, unless all members present at the meeting agree or absentees inform that they agree with the changed agenda.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>No</p>	<p>Teo could not fulfil this recommendation as only the Board is instituted at the Company.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p>		
<p>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.</p>		
<p>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.</p>	<p>Yes</p>	<p>The share capital of the Company consists of 582,613,138 ordinary registered shares of 0.29 euro nominal value each. Each share gives one vote during the shareholders meeting. All shares of the Company are given equal rights.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company's By-Laws, stipulating all the rights of shareholders, are publicly available on the Company's webpage.</p>
<p>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.</p>	<p>No</p>	<p>The shareholders approve only transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.</p>
<p>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.</p>	<p>Yes</p>	<p>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 2015 was convened on 29 April 2015 at 1 p.m.</p>



<p>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.</p>	<p>Yes</p>	<p>Notice of the AGM as well as draft decisions proposed by the Board to the AGM and accompanied by draft documents were publicly announced and simultaneously placed on the webpage of the Company on 26 March 2015. 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 Vilnius stock exchange information systems and on the Company's webpage.</p>
<p>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.</p>	<p>Yes</p>	<p>Shareholders of Teo may exercise their right to vote in the General Shareholders' Meeting in person or through a representative upon issuance of proper proxy or having concluded an agreement on the transfer of their voting rights in the manner compliant with the legal regulations, also the shareholder may vote by completing the general voting ballot in the manner provided by the Law on Companies.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>No</p>	<p>The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p><b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b></p>		
<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p>	<p>Yes</p>	<p>Members of the managing bodies are acting in a manner that voids conflicts of interest; therefore there have not been any such cases in practice.</p>



<p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p>	<p>Yes</p>	
<p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</p>	<p>Yes</p>	
<p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p>	<p>Yes</p>	
<p><b>Principle VIII: Company's remuneration policy</b></p> <p><b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b></p>		
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> </ol>	<p>No</p>	<p>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. The Company has a program "Save with Teo", an employees' pension savings at 3rd tier pension funds, which terms are the same for all employees of the Company.</p>

<p>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</p> <p>5) Sufficient information on deferment periods with regard to variable components of remuneration;</p> <p>6) Sufficient information on the linkage between the remuneration and performance;</p> <p>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</p> <p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</p> <p>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;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>No</p>	<p>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.</p> <p>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.</p>

<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li> <li>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</li> <li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ol> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ol> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>	<p>No</p>	<p>In the Consolidated Annual Report and Consolidated Financial Statements the Company discloses information about total employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. Also the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies.</p> <p>The Consolidated Annual Report is publicly available on the Company's webpage.</p> <p>The Company does not have any share options system for employees' remuneration. The Company has a program "Save with Teo", an employees' pension savings at 3rd tier pension funds, which terms are the same for all employees of the Company.</p> <p>The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.</p>
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8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	Remuneration of the Company's salespersons consists of non-variable and variable components, depending on sales results. For the rest of personnel there is possibility to get bonuses for the Company's yearly results following the rules set by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	
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.	Yes	The decision on payment of annual bonuses to employees of the Company, including members of Management Team, is taken only after approval of the Audited Annual Financial Statements by the Board.
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	No	The Annual General Meeting of Shareholders approves only annual compensations (tantiemes) to the members of the Board.

<p>into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>		
<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.</li> </ol> <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>		
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>		



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

**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.

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.

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 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.

9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.

The Company prepares the Report on Corporate Social Responsibility, which discusses principles and practices in relation to the Company's cooperation with investors, employees, customers and local communities.





<p>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 Vilnius stock exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>The Company is submitting information (both in English and Lithuanian) to the information system operated by Nasdaq Vilnius stock exchange which ensures that the information is disseminated simultaneously to all markets. Teo strives to announce information before or after trading hours on Nasdaq Vilnius stock exchange and simultaneously disseminate information to all the markets where the Company's securities are traded. The Company strictly follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.</p>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p>	<p>Yes</p>	<p>All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage, thus ensuring fair, timely and cost-efficient access to relevant information.</p>
<p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p>	<p>Yes</p>	<p>The Company's webpage contains the Company's all annual and interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on Nasdaq Vilnius stock exchange in both Lithuanian and English.</p>
<p><b>Principle XI: The selection of the company's auditor</b></p> <p><b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>The Board proposes the candidacy of an independent audit firm to the Annual General Meeting of Shareholders.</p>

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