

AB LIETUVOS TELEKOMAS
FINANCIAL STATEMENTS AND PERFORMANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

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Auditor's Report

To the shareholders of AB Lietuvos Telekomas

1. We have audited the accompanying balance sheet of AB Lietuvos Telekomas ("the Company") and together with its consolidated subsidiaries ("the Group") as at 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 4 - 49 and the performance report set out on pages 50 - 53 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to assess whether the information disclosed in the performance report is consistent with the financial statements.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2005 and of the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
4. In addition, in our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2005 and of the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards as issued by the IASB.
5. We did not identify material inconsistencies in the performance report with the audited financial statements.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner



Ona Armalienė
Auditor's Certificate No.000008

Vilnius, Republic of Lithuania
20 March 2006

AB LIETUVOS TELEKOMAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

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

INCOME STATEMENT

Approved by the Annual General Meeting of
Shareholders as at __ April 2006

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2005	2004	2005	2004 (restated)
Revenues	5	733,495	722,978	754,560	706,332
Employee related expenses		(129,738)	(136,558)	(100,891)	(94,968)
Interconnection expenses		(104,828)	(103,685)	(104,828)	(103,362)
Depreciation and amortisation charge	12	(247,970)	(290,816)	(233,459)	(273,875)
Other expenses	6	(153,079)	(153,506)	(159,869)	(183,266)
Other gains/(losses) - net	7	10,835	8,077	8,946	5,336
Impairment of investments in subsidiaries	14	-	-	(2,757)	(7,171)
Operating profit		108,715	46,490	161,702	49,026
Finance costs	8	(163)	(6,357)	(192)	(6,142)
Share of result of associates	14	95	419	-	-
Profit before tax		108,647	40,552	161,510	42,884
Income tax	9	(24,964)	(6,910)	(21,516)	(5,571)
Profit for the year from continuing operations		83,683	33,642	139,994	37,313
Discontinued operations:					
Profit for the period from discontinued operations	19	390	-	-	-
Profit for the year		84,073	33,642	139,994	37,313
Attributable to:					
Equity holders of the Company		83,121	32,190	139,994	37,313
Minority interest		952	1,452	-	-
		84,073	33,642	139,994	37,313
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (LTL)	10	0.11	0.04	0.18	0.05

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

The financial statements on pages 4 to 49 have been approved for issue by the Board of Directors as at 16 March 2006 and signed on their behalf by the General Manager and the Chief Financial Officer:

Arūnas Šikšta
General Manager

Jan-Erik Elsērius
Chief Financial Officer

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

BALANCE SHEET

Approved by the Annual General Meeting of
Shareholders as at _ April 2006

		As at 31 December			
		GROUP		COMPANY	
	Notes	2005	2004	2005	2004 (restated)
ASSETS					
Non-current assets					
Property, plant and equipment	12	721,528	941,027	676,186	809,887
Intangible assets	13	40,696	83,575	37,522	79,074
Investments in subsidiaries and associates	14	1,182	1,294	27,093	45,583
Other non-current assets		20	55	20	47
		763,426	1,025,951	740,821	934,591
Current assets					
Inventories		4,492	6,561	4,475	3,730
Receivables, prepayments and accrued revenue	15	106,613	114,706	135,169	123,210
Current income tax receivable		4,824	11,960	4,539	11,149
Held-to-maturity investments	16	120,151	30,115	120,151	30,115
Trading investments	17	34,769	-	34,769	-
Cash and cash equivalents	18	149,601	88,514	133,390	54,858
Assets held for sale	19	74,829	1,813	15,013	1,251
		495,279	253,669	447,506	224,313
Total assets		1,258,705	1,279,620	1,188,327	1,158,904
EQUITY					
Shareholders' equity					
Share capital	20	814,913	814,913	814,913	814,913
Treasury shares	20	(120,000)	(120,000)	-	-
Legal reserve	21	81,499	81,499	81,499	81,499
Translation differences		(21)	(33)	-	-
Retained earnings		327,171	345,036	168,486	129,478
		1,103,562	1,121,415	1,064,898	1,025,890
Minority interest		2,329	3,899	-	-
Total equity		1,105,891	1,125,314	1,064,898	1,025,890
LIABILITIES					
Non-current liabilities					
Borrowings	23	7,863	6,990	7,860	6,547
Deferred tax liabilities	24	41,249	55,149	26,798	39,136
Grants	25	7,080	9,280	7,080	9,280
Provisions	26	1,664	-	1,664	-
		57,856	71,419	43,402	54,963
Current liabilities					
Trade, other payables and accrued liabilities	22	76,186	72,806	68,641	70,041
Current income tax liabilities		2,575	1,927	-	-
Borrowings	23	8,206	6,464	7,986	6,397
Provisions	26	3,400	1,690	3,400	1,613
Liabilities related to assets held for sale	19	4,591	-	-	-
		94,958	82,887	80,027	78,051
Total liabilities		152,814	154,306	123,429	133,014
Total equity and liabilities		1,258,705	1,279,620	1,188,327	1,158,904

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

Arūnas Šikštas
General Manager

Jan-Erik Elsérius
Jan-Erik Elsérius
Chief Financial Officer

AB LIETUVOS TELEKOMAS
FINANCIAL STATEMENTS
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(All tabular amounts are in LTL '000 unless otherwise stated)

**STATEMENT OF CHANGES IN
SHAREHOLDER'S EQUITY**

Approved by the Annual General Meeting
of Shareholders as at _ April 2006

GROUP	Notes	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings		
Balance at 1 January 2004		814,913	(120,000)	81,499	(6)	359,455	3,536	1,139,397
Dividends paid for 2003	11	-	-	-	-	(46,609)	(1,157)	(47,766)
Net profit		-	-	-	-	32,190	1,452	33,642
Currency translation differences		-	-	-	(27)	-	-	(27)
Other movements		-	-	-	-	-	68	68
Balance at 31 December 2004		814,913	(120,000)	81,499	(33)	345,036	3,899	1,125,314
Balance at 1 January 2005		814,913	(120,000)	81,499	(33)	345,036	3,899	1,125,314
Dividends paid for 2004	11	-	-	-	-	(100,986)	(1,386)	(102,372)
Net profit		-	-	-	-	83,121	952	84,073
Currency translation differences		-	-	-	12	-	-	12
Minority of sold subsidiary		-	-	-	-	-	(1,136)	(1,136)
Balance at 31 December 2005		814,913	(120,000)	81,499	(21)	327,171	2,329	1,105,891

COMPANY	Notes	Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Minority interest	Total equity
Previously reported balance at 31 December 2003		814,913	(120,000)	81,499	(6)	359,455	-	1,135,861
Changes in accounting policy	30	-	120,000	-	6	(220,681)	-	(100,675)
Restated balance at 1 January 2004		814,913	-	81,499	-	138,774	-	1,035,186
Dividends paid for 2003	11	-	-	-	-	(46,609)	-	(46,609)
Net profit		-	-	-	-	37,313	-	37,313
Balance at 31 December 2004		814,913	-	81,499	-	129,478	-	1,025,890
Balance at 1 January 2005		814,913	-	81,499	-	129,478	-	1,025,890
Dividends paid for 2004	11	-	-	-	-	(100,986)	-	(100,986)
Net profit		-	-	-	-	139,994	-	139,994
Balance at 31 December 2005		814,913	-	81,499	-	168,486	-	1,064,898

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

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
Chief Financial Officer

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

CASH FLOW STATEMENT

Approved by the Annual General Meeting of
Shareholders as at __ April 2006

		Year ended 31 December			
		GROUP		COMPANY	
Notes		2005	2004	2005	2004 (restated)
Operating activities					
		83,683	33,642	139,994	37,313
	9	24,964	6,910	21,516	5,571
	12	247,970	290,816	233,459	273,875
		-	-	(57,757)	(11,478)
	14	(95)	(419)	-	-
		514	3,779	287	3,546
	7	(10,835)	(8,077)	(8,946)	(5,336)
	14	-	-	2,757	7,171
	5	(3,563)	(1,018)	(3,871)	(732)
	8	687	5,760	672	5,569
		(1,734)	1,026	163	680
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
		306	5,858	(745)	4,199
		17,893	23,052	24,490	25,940
		15,756	(1,161)	6,436	17,645
		375,546	360,168	358,455	363,963
		(721)	(17,726)	(706)	(17,535)
		(32,842)	(66,802)	(27,244)	(61,553)
		341,983	275,640	330,505	284,875

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CASH FLOW STATEMENT (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
Notes		2005	2004	2005	2004 (restated)
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(73,828)	(74,530)	(64,619)	(76,611)
Proceeds from disposal of PPE and intangible assets		35,665	29,054	22,611	24,760
Acquisition of held-to-maturity investments		(129,726)	(29,815)	(129,726)	(29,815)
Acquisition of held-for-trading investments		(34,528)	-	(34,528)	-
Disposal of held-to-maturity investments		40,172	-	40,172	-
Acquisition of subsidiaries		(9,225)	-	(9,225)	-
Disposal of subsidiaries		107	(11)	558	-
Change in prepayments for non-current assets		-	(47)	-	(47)
Loans repaid (granted) to subsidiaries		-	-	(36,350)	(9,440)
Dividends received		207	298	66,940	11,478
Interest received		2,915	931	3,223	732
Net cash used in investing activities		(168,241)	(74,120)	(140,944)	(78,943)
Financing activities					
Proceeds from borrowings		-	109,380	-	109,000
Repayment of borrowings		(10,283)	(142,249)	(10,043)	(141,830)
Repayment of bonds issued		-	(150,000)	-	(150,000)
Dividends paid to minority shareholders		(1,386)	(1,157)	-	-
Dividends paid shareholders of the Company	11	(100,986)	(46,609)	(100,986)	(46,609)
Net cash used in financing activities		(112,655)	(230,635)	(111,029)	(229,439)
Increase in cash and cash equivalents		61,087	(29,115)	78,532	(23,507)
Movement in cash and cash equivalents					
At beginning of year		88,514	117,629	54,858	78,365
Increase (decrease) in cash and cash equivalents		61,087	(29,115)	78,532	(23,507)
At end of year	18	149,601	88,514	133,390	54,858

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

Arūnas Šikšta
General Manager

Jan-Erik Elsérius
Chief Financial Officer

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

AB Lietuvos Telekomas (hereinafter “the Company”) was registered as a joint stock company on 16 June 1997. The Company is domiciled in Vilnius, the capital of Lithuania. The address of its registered office is as follows: 28 Savanorių Ave., LT-03501 Vilnius, Lithuania.

The Company’s shares are traded on the Vilnius Stock Exchange as from 16 June 2000, and Global Depository Receipts (GDR), representing Company’s shares, are traded on the London Stock Exchange.

The shareholders’ structure of the Company as at 31 December 2005 was as follows:

	Number of shares	%
Amber Teleholding A/S (ultimate parent – TeliaSonera AB)	488,947,656	60.00
East Capital Asset Management	54,985,111	6.75
UAB Lintel (treasury shares, Note 20)	38,095,242	4.67
Republic of Lithuania represented by State Property Fund	16,719,602	2.05
Other shareholders (including GDR holders)	216,165,149	26.53
	<u>814,912,760</u>	<u>100.00</u>

Pursuant to the Law of the Republic of Lithuania on the Restoration of the Rights of Ownership of Citizens of the Republic of Lithuania to Existing Real Estate and the Lithuanian Government’s Resolution dated 12 July 2002 On Compensation to Citizens for the existing Real Estate bought out by the State by way of securities owned by the State, shares owned by the State Property Fund are used to compensate citizens for expropriated real estate.

The Company’s principal activity is the provision of fixed local, long distance and international telecommunication services including internet and data communication to both business and residential customers in the Republic of Lithuania.

The subsidiaries included in the Group’s consolidated financial statements and associated entities are indicated below:

Subsidiary/ associate	Country of incorporation	Ownership interest in %		Profile
		31 December 2005	31 December 2004	
UAB Lietuvos Telekomo Verslo Sprendimai	Lithuania	100%	100%	Until 1 May 2005 this subsidiary was serving the Company’s largest business customers with telecommunication services. After the above date most of the subsidiary’s employees were transferred to the Company and the subsidiary ceased its operations and currently is dormant.
UAB Lintel	Lithuania	100%	100%	Provider of Directory Inquiry Service 118 and Contact Centre services. UAB Lintel manages part of the Company’s property as well as treasury stocks.

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Subsidiary/ associate	Country of incorporation	Ownership interest in %		Profile
		31 December 2005	31 December 2004	
UAB Comliet	Lithuania	100%	100%	<p>UAB Comliet specializes in construction of external wide area and indoor telecommunications as well as other indoor engineering networks.</p> <p>In December 2005 the subsidiary sold its entire holding in AS Telegrupp (Estonia) amounting to 55%. As at 31 January 2006 the subsidiary sold its 95% stake in OOO Comliet Kaliningrad (Kaliningrad Region of Russian Federation) to the Company. The subsidiary still has a 100% owned subsidiary UAB Comliet Sprendimai (Lithuania). As at 31 January 2006 UAB Comliet Sprendimai sold its 5% stake in OOO Comliet Kaliningrad to the Company.</p> <p>As at 22 December 2005 the Company signed an agreement to sell its 100% of UAB Comliet shares to Eltel Group Corporation (Finland). The sale transaction was completed on 28 February 2006 (see Note 33).</p>
UAB Voicecom	Lithuania	100%	100%	In December 2005 UAB Voicecom took over from UAB Comliet the right to provide services of mobile analogue cellular radio communications, to construct and operate mobile analogue cellular (NMT-450 standard) radio communications national network.
UAB Baltic Data Center	Lithuania	60%	60%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Verslo Portalas	Lithuania	30%	30%	This associated entity is under liquidation.
UAB TietoEnator Consulting	Lithuania	26%	26%	A majority stake of this associated entity's shares is held by TietoEnator Oyj. The associate provides professional information technology consultancy services to the Group and third parties.
VŠĮ Lietuvos Telekomo Sporto Klubas	Lithuania	100%	100%	Supports a women's basketball team. In December 2005 the entity sold its rights and obligations related to fitness centre activities at Savanorių ave., in Vilnius, but still operates a fitness centre at P. Lukšio str., in Vilnius (see Note 7).
UAB MicroLink Lietuva	Lithuania	100%	-	In November 2005 the Company acquired a 100% stake in information technology service provider UAB MicroLink Lietuva. On 2 March 2006 the Company sold all shares of UAB MicroLink Lietuva. (see Note 33).
UAB Baltijos Kompiuterių Akademija	Lithuania	100%	-	In November 2005 the Company acquired a 100% stake in IT training company UAB Baltijos Kompiuterių Akademija. On 2 March 2006 the Company sold all shares of UAB Baltijos Kompiuterių Akademija (see Note 33).

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements are prepared in with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, excluding certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Company and the Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'. Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Company and the Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. The Company and the Group has not discovered any material error in its prior period financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Company and the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for

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retrospectively and did not result in any effect on the carrying amount of the Group's and the Company's assets.

2.1 Basis of preparation (continued)

IAS 17 (revised 2003) Leases. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard. All changes to accounting policies as a result of the revised IAS 17 were accounted for retrospectively and did not result in any effect on the carrying amount of the Group's and the Company's financial statements.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Effects of the revised IAS 21 are applied retrospectively. All changes to accounting policies as a result of the revised IAS 21 were accounted for retrospectively and did not result in any effect on the carrying amount of the Group's and the Company's financial statements.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

IAS 27 (revised 2003) Consolidated and Separate Financial Statements and IAS 28 (revised 2003) Investments in Associates. The previous versions of IAS 27 and IAS 28 permitted investment in associates and subsidiaries to be measured in any one of three ways in a parent's separate financial statements. These were cost, the equity method or as available-for-sale financial assets. The revised IAS 27 and IAS 28 require use of cost or IAS 39 for all investments included in separate financial statements. The Company accounted for investments in associates and subsidiaries at cost. All changes to accounting policies as a result of the revised IAS 27 and IAS 28 were accounted for retrospectively (See Note 30).

IAS 33 (revised 2003) Earnings per Share. IAS 33 was revised to provide additional guidance and illustrative examples on selected complex matters. The additional guidance did not affect the Group's accounting policies.

IAS 36 (revised 2004) Impairment of Assets. The Group and the Company now performs impairment tests of goodwill, intangible asset not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these financial statements. Management now assesses reasonableness of the assumptions on which the Group's and the Company's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 38 (revised 2004) Intangible Assets. The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Group's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38.

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

2.1 Basis of preparation (continued)

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans, and receivables or bills of exchange that are not quoted in an active market. The Group and the Company may now designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

The Group and the Company amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group and the Company now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Group and the Company has not redesignated any financial instrument into 'at fair value through profit or loss' or 'available for sale' categories at the date of initial application of the revised IAS 39.

IFRS 3 (issued 2004) Business Combinations. The Group applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates.

IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations. The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Group's accounting policies now describe assets 'held for sale' as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet.

New Accounting Pronouncements

Implementation of new accounting policies as a result of new accounting standards and interpretations, which came into effect as from 1 January 2006, will not have a significant effect on the figures of the Group and the Company as at 31 December 2005, disclosed in these financial statements. Certain new standards and interpretations have been published that are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006) The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. The management considered this amendment to IAS 19 and concluded that it is not relevant to the Group or the Company.

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2.1 Basis of preparation (continued)

IAS 21 (Amendment), Net Investment in Foreign Operation (effective from 1 January 2006) The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. The management believes that the amendment will not significantly affect the financial statements. At the date of the issuance of these consolidated financial statements this amendment was not adopted by the EU.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006) The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's and the Company's operations, as the Group and the Company does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31 December 2005 and 2004.

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006) The amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The management believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group and the Company should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group and the Company will apply this amendment from annual periods beginning 1 January 2006.

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006) This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group or the Company.

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006) These amendments are not relevant to the Group's or the Company's operations, as the Group and the Company does not carry out exploration for and evaluation of mineral resources.

IFRS 6, Exploration for and Evaluation of Mineral Resource (effective from 1 January 2006) IFRS 6 is not relevant to the Group's or the Company's operations.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007) IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group and the Company is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. The Group and the Company will apply IFRS 7 and amendment to IAS 1 from 1 January 2007.

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2.1 Basis of preparation (continued)

IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006) IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Implementation of IFRIC 4 is not expected to change the accounting for any of the Group's and the Company's current arrangements.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006) The Group and the Company does not have interests in decommissioning, restoration and environmental rehabilitation funds, therefore IFRIC 5 is not relevant to the Group's or the Company's operations.

IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005) IFRIC 6 is not relevant to the Group's or the Company's operations.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006) The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. IFRIC 7 is not relevant to the Group's operations. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006) The interpretation clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. IFRIC 8 is not relevant to the Group's or the Company's operations. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

IFRIC 9, Re-assessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006) IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, Financial instruments: Recognition and measurement. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition. IFRIC 9 is not relevant to the Group's or the Company's operations. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

2.2 Group accounting

Subsidiaries

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

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

2.2 Group accounting (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the functional currency of the Company.

Until 31 January 2002 the exchange rate of the Litas was fixed to the US Dollar (USD) at a rate of 4 LTL=1 USD. As from 1 February 2002 Lithuania repegged the Litas to the Euro at rate of 3.4528 LTL=1 Euro.

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2.3 Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 income statement.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Property, plant and equipment

Property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment loss.

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

Buildings	10 – 50 years
Plant and machinery	5 – 25 years
Switches, lines and related telecommunication equipment	4 – 10 years
Computers	3 years
Motor vehicles	2 – 10 years
Other tangible fixed assets	1 – 25 years

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.

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2.4 Property, plant and equipment (continued)

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 in the income statement.

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

2.5 Intangible assets

Goodwill

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

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

Other intangible assets

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

Licences	10 years
Computer software	3 – 5 years
Other intangible fixed assets	5 years

2.6 Impairment of non-financial assets

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

2.7 Financial assets

The Group classifies its financial assets into the following measurement categories: trading, 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 and re-evaluates this designation at every reporting date. During the current period the Group and the Company did not hold any investments in available-for-sale category. Regular way of purchases and sales of financial assets are accounted at trade date.

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2.7 Financial assets (continued)

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Held to maturity investments

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

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

Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

2.8 Derivative financial instruments - Fair value hedge

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

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.

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2.10 Accounting for leases – where Group is the lessee

Finance lease

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, 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 income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term. If sale and leaseback transaction results in a finance lease, any excess or shortfall of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term.

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 income statement on a straight-line basis over the period of the lease. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction was established at fair value, any profit or loss is recognised immediately, except that if loss is compensated for by future lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.11 Inventories

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

2.12 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by using the stage of completion method. The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Costs incurred in the year in connection with future activity on a contract are excluded and shown as contract work in progress. The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under receivables and prepayments. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under trade and other payables.

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2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade 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 amount of the provision is recognised in the income statement.

Interconnection receivables and payables to the same counterparty are stated net.

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments, with original maturities of three months or less.

2.15 Treasury shares

Where the Company or its subsidiaries purchase the Company's own share capital, in the Group's financial statements the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.16 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 income statement over the period of the borrowings using the effective interest method.

2.17 Income tax

Profit is taxable at a rate of 15% (2004: 15%) in accordance with Lithuanian regulatory legislation on taxation.

In addition, temporary social tax on profit of 4% and 3% is applicable for the years 2006 and 2007 respectively. See Note 9.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

According to Lithuanian legislation, tax losses are carried forward for five years.

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2.17 Income tax (continued)

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

Deferred tax assets and liabilities are offset only where International Accounting Standard No. 12 allows this treatment.

2.18 Grants relating to purchase of property, plant and equipment

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group or the Company will comply with all attached conditions.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.19 Provisions

Provisions are recognised when the Group or the Company 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 a reliable estimate of the amount can be made. Where the Group and the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Restructuring provisions are recognised in the period in which the Group or the Company becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Group or the Company are not provided in advance.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Sales of services and goods

Revenue is recognised as earned. Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly related to the sales. Other revenues are recognised when products are delivered or services are rendered to customers. At the end of each accounting period a revenue accrual is made 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.

Under the Company's customer loyalty programmes, customers are entitled to certain discounts relating to the Company's services and goods supplied by third parties. At the end of each reporting period the Company establishes a provision with respect to the total estimated amount of accumulated discounts. In the income statement these discounts are treated as a deduction from revenues.

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2.20 Revenue recognition (continued)

Multiple element arrangements

The Company offers certain arrangements whereby a customer can purchase a personal computer together with a defined period of servicing agreement. When such multiple element agreements exists, the amount recognised as revenue upon the sale of the personal computer is the fair value of the computer 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. Where there is a risk related to the collection of receivables under multiple element arrangements, the Company uses the residual value method. Under this method, the Company determines the fair value of the delivered element by deducting the fair value of the undelivered element from the from the contract consideration. 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.

2.21 Interest income

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

2.22 Dividend income

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

2.23 Employee benefits

Social security contributions

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

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.24 Dividend distribution

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

2.25 Earnings per share

Earnings per share is calculated in accordance with International Accounting Standard No. 33.

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2.26 Segment information

The Group uses its fixed line network to generate different types of revenue (see Note 5). The Group is operating in one business segment (fixed line services) and one geographical segment and therefore no segment information is disclosed.

3 Financial risk management

Financial risk factors

The Group's and the Company's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to limit certain exposures.

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

Market risk: Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US Dollar (USD) and Special Drawing Rights (SDR). Foreign exchange risk is controlled by hedging the foreign currency exposure of its purchase contracts and debt commitments. Group Treasury is responsible for hedging the net position in each currency by using currency borrowings and external forward currency contracts.

Credit risk

The Group has no significant concentrations of credit risk. Credit risks or the risks of counter-parties defaulting, are controlled by the application of credit terms and monitoring procedures. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk

Liquidity risk is managed by the Group Treasury, which is required to maintain a minimum required liquidity position as defined in the Group's Treasury policy. The Group Treasury also handles liquidity placements centrally for the Group.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's policy is to maintain a diversified debt portfolio. The split between fixed and floating interest rate depends on the actual situation in the market.

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4 Critical Accounting Estimates

Useful lives of telecommunication equipment and software

The Company's management determines the estimated useful lives and the related depreciation and amortisation charges for its' telecommunication equipment and software. The estimate is based on the projected technology and related software lifecycles. It could change significantly as a result of technical innovations and competitor actions in response to voice and data transmission. On the contrary, if no significant technological changes will occur, the equipment might be used longer than currently estimated.

Impairment provision for investments in subsidiaries and associates

The Company follows the guidance of IAS 36 on determining impairment provision for investments in subsidiaries and associates. This determination requires significant judgement. The recoverable amount of subsidiary and associate is determined as the higher of fair value less cost to sell or its value-in-use.

The value-in-use calculation is based on financial budgets approved by management for up to 5 years. Cash flows beyond management approved budgets are extrapolated using an estimated growth rate of 3% that is consistent with expected growth of the market. A pre-tax discount rate of 12% was applied in discounting cash flow projections and it is the same as used for the impairment tests with respect to other assets of the Company. Pre-tax discount rate was derived as weighted average cost of capital assuming that pre tax expected return of the market is 12%.

The fair value of subsidiary or associate is determined based on the price in the binding sale agreement of a subsidiary or associate in an arm's length transaction, adjusted for incremental costs that would be attributable to the disposal of the assets. For more information on impairment charge see Note 14.

Impairment provision for accounts receivable

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

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5 Revenues

	GROUP		COMPANY	
	2005	2004	2005	2004
Fixed voice services	530,458	547,228	529,510	547,269
Internet and data services	148,787	130,414	149,134	131,022
Construction services	28,432	29,932	-	-
Interest income	3,563	1,018	3,871	732
Income from dividends and the reduction of the share capital of subsidiaries	-	-	57,757	11,478
Other revenues	22,255	14,386	14,288	15,831
	733,495	722,978	754,560	706,332

6 Other operating expenses

	GROUP		COMPANY	
	2005	2004	2005	2004
Materials, maintenance and services costs	69,146	64,238	97,674	115,989
Energy and premises costs	21,228	20,035	29,076	27,296
Construction services expenses (excluding employees related expenses)	19,256	20,599	-	-
Marketing expenses	11,376	11,656	9,661	10,118
Impairment of accounts receivable	(4,718)	(3,286)	(4,238)	(3,719)
Other expenses	36,791	40,264	27,696	33,582
	153,079	153,506	159,869	183,266

The number of full time staff employed by the Group at the end of 2005 amounted to 2,845 (2004: 2,965). The number of full time staff employed by the Company at the end of 2005 amounted to 2,070 (2004: 2,098).

7 Other gains/(losses) - net

	GROUP		COMPANY	
	2005	2004	2005	2004
Gain on sales of fixed assets	12,400	9,205	10,372	6,053
Gain on sales of sport club's operations	557	-	-	-
Fair value gains on trading investment	241	-	241	-
Loss on sales of fixed assets	(616)	(730)	(513)	(717)
Loss on sales of investments in subsidiaries	(1,747)	(398)	(1,154)	-
	10,835	8,077	8,946	5,336

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8 Finance costs

	GROUP		COMPANY	
	2005	2004	2005	2004
Interest expense	(687)	(5,760)	(672)	(5,569)
Net foreign exchange gains/(losses)	524	(597)	480	(573)
	(163)	(6,357)	(192)	(6,142)

9 Income tax

	GROUP		COMPANY	
	2005	2004	2005	2004
Current tax	39,813	30,183	33,854	26,157
Deferred tax (Note 24)	(14,849)	(23,273)	(12,338)	(20,586)
	24,964	6,910	21,516	5,571

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 Group 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 profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2005	2004	2005	2004
Profit before tax and share of result of associates	108,552	40,133	161,510	42,884
Tax calculated at a tax rate of 15% (2004: 15%)	16,283	6,020	24,227	6,433
Income not subject to tax and expenses not deductible for tax purposes	(240)	432	(8,544)	(292)
Social Tax effect: 4% in 2006, 3% in 2007	6,221	-	4,228	-
Deferred tax asset not recognised on tax losses	824	949	-	-
Income tax on dividends	(511)	(493)	(776)	(700)
Income tax on reduction of share capital of subsidiary	1,500	-	1,500	-
Other	887	2	881	130
Tax charge	24,964	6,910	21,516	5,571

On 7 June 2005, the Preliminary Law on Social Tax was adopted, which provides that the tax base for this tax is taxable profit calculated in accordance with the procedure stipulated in the Lithuanian Law on Corporate Profit Tax. Social tax rates are set at 4% for 2006 and 3% for 2007. Due to the social tax, the Company's temporary differences recognised as at 31 December 2005, which will be realised in 2006, will be subject to income tax at a rate of 19%, and at a rate of 18% in 2007. Temporary differences which will be realised in 2008 and subsequent years, are assumed to be subject to income tax at a rate of 15%. For the effect of Social Tax on the financial statements on the Group and the Company see table above.

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10 Earnings per share

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

Weighted average number of shares in issue (thousands) for year ended 31 December 2005: 814,913 (ordinary shares) – 38,095 (treasury shares) = 776,818. Weighted average number of shares for the year ended 31 December 2004 was – 776,818.

	GROUP		COMPANY	
	2005	2004	2005	2004
Net profit attributable to shareholders				
Profit from continuing operations before minority interest	83,683	33,642	139,994	37,313
Minority interest	(952)	(1,452)	-	-
Net profit from continuing operations attributable to equity holders	82,731	32,190	139,994	37,313
Net profit from discontinuing operations attributable to equity holders	390	-	-	-
Net profit attributable to equity holders	83,121	32,190	139,994	37,313
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
Basic earnings per share (LTL)				
From continuing operations	0.11	0.04	0.18	0.05
From discontinuing operations	0.001	-	-	-
Basic earnings per share (LTL)	0.11	0.04	0.18	0.05

11 Dividends per share

The dividends per share, excluding treasury shares, declared in respect of 2004 and 2003 and paid in 2005 and 2004, were LTL 0.13 and LTL 0.06, respectively. There were no dividends proposed or declared in respect of 2005 as at the date of approval of these financial statements.

12 Property, plant and equipment

Property, plant and equipment consists of following items:

	GROUP		COMPANY	
	2005	2004	2005	2004
Property, plant and equipment	721,527	941,018	676,185	809,878
Prepayments for property plant and equipment	1	9	1	9
	721,528	941,027	676,186	809,887

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12 Property, plant and equipment (continued)

GROUP	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
At 1 January 2004					
Cost	264,205	2,269,063	96,950	18,000	2,648,218
Accumulated depreciation	(75,652)	(1,386,933)	(64,404)	(800)	(1,527,789)
Net book amount	188,553	882,130	32,546	17,200	1,120,429
Year ended 31 December 2004					
Opening net book amount	188,553	882,130	32,546	17,200	1,120,429
Exchange rate differences	-	-	5	-	5
Additions	228	1,985	2,364	59,803	64,380
Reclassifications	(126)	(557)	(588)	(2)	(1,273)
Disposal of subsidiary	-	-	(194)	-	(194)
Disposals and retirements	(12,433)	(3,586)	(1,799)	-	(17,818)
Transfers from construction in progress	869	63,518	8,741	(73,128)	-
Depreciation charge	(8,803)	(203,823)	(11,885)	-	(224,511)
Closing net book amount	168,288	739,667	29,190	3,873	941,018
At 31 December 2004					
Cost	234,420	2,188,661	90,534	3,929	2,517,544
Accumulated depreciation	(66,132)	(1,448,994)	(61,344)	(56)	(1,576,526)
Net book amount	168,288	739,667	29,190	3,873	941,018
Year ended 31 December 2005					
Opening net book amount	168,288	739,667	29,190	3,873	941,018
Exchange rate differences	-	-	1	-	1
Additions	8,664	4,942	512	60,568	74,686
Reclassifications	589	(1,158)	280	-	(289)
Disposal of subsidiary	-	(147)	(287)	-	(434)
Disposals and retirements	(31,660)	(1,361)	(2,181)	-	(35,202)
Transfers from construction in progress	542	55,165	4,360	(60,067)	-
Reclassification to assets held for sale	(51,171)	(1,076)	(4,072)	-	(56,319)
Depreciation charge	(8,766)	(183,797)	(9,371)	-	(201,934)
Closing net book amount	86,486	612,235	18,432	4,374	721,527
At 31 December 2005					
Cost	130,863	2,183,309	70,979	4,418	2,389,569
Accumulated depreciation	(44,377)	(1,571,074)	(52,547)	(44)	(1,668,042)
Net book amount	86,486	612,235	18,432	4,374	721,527

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12 Property, plant and equipment (continued)

COMPANY	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
At 1 January 2004					
Cost	142,714	2,229,550	61,853	18,000	2,452,117
Accumulated depreciation	(65,725)	(1,365,041)	(50,820)	(800)	(1,482,386)
Net book amount	76,989	864,509	11,033	17,200	969,731
Year ended 31 December 2004					
Opening net book amount	76,988	864,510	11,033	17,200	969,731
Additions	-	765	6,651	59,774	67,190
Disposals and write-offs	(10,565)	(3,290)	(870)	-	(14,725)
Reclassifications	(127)	799	-	-	672
Transfers from construction in progress	869	67,712	4,534	(73,115)	-
Depreciation charge	(5,696)	(200,646)	(6,648)	-	(212,990)
Closing net book amount	61,469	729,850	14,700	3,859	809,878
At 31 December 2004					
Cost	114,781	2,158,370	61,722	3,915	2,338,788
Accumulated depreciation	(53,312)	(1,428,520)	(47,022)	(56)	(1,528,910)
Net book amount	61,469	729,850	14,700	3,859	809,878
Year ended 31 December 2005					
Opening net book amount	61,469	729,850	14,700	3,859	809,878
Additions	8,370	445	779	60,567	70,161
Disposals and write-offs	(11,457)	(1,111)	(231)	-	(12,799)
Reclassifications	456	(1,195)	89	-	(650)
Transfers from construction in progress	542	55,152	4,359	(60,053)	-
Depreciation charge	(5,719)	(179,115)	(5,571)	-	(190,405)
Closing net book amount	53,661	604,026	14,125	4,373	676,185
At 31 December 2005					
Cost	93,735	2,155,266	59,016	4,417	2,312,434
Accumulated depreciation	(40,074)	(1,551,240)	(44,891)	(44)	(1,636,249)
Net book amount	53,661	604,026	14,125	4,373	676,185

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12 Property, plant and equipment (continued)

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

	GROUP		COMPANY	
	2005	2004	2005	2004
Depreciation of property, plant and equipment	201,934	224,511	190,405	212,990
Amortisation of intangible assets (Note 13)	48,581	68,380	45,599	63,607
Amortisation of grants received (Note 25)	(2,545)	(2,722)	(2,545)	(2,722)
Other movements	-	647	-	-
	247,970	290,816	233,459	273,875

As at 31 December 2005 property, plant and equipment includes items (ducts and other real estate items) that are not formally registered with the Cadastre and Register of Land and Other Immovable Property. Such registration is formally required to confirm the legal ownership of such property. The carrying value of these assets amounted to LTL 109.8 million as at 31 December 2005 (2004: LTL 115.7 million). There were no practical procedures to estimate the future cost of registration of these assets, if any. The Company uses these assets in its operations and pays real estate tax on these assets. The Company's management has no doubts as to the legal title to these assets. Currently the project of amendment of Law on electronic communications of Republic of Lithuania is under consideration. In the event of this amendment being approved, the ducts would be defined as movable assets, therefore no formal registration of the ducts would be required.

In 2005 the Company revised the useful lives of its property, plant and equipment and intangible assets. After the above revision the depreciation charge for 2005 increased by LTL 1.3 million and amortisation charge for 2005 decreased by LTL 8.2 million as compared to previously used useful lives for the above assets.

13 Intangible assets

Balance of intangible assets consists of following items:

	GROUP		COMPANY	
	2005	2004	2005	2004
Intangible assets	40,696	83,450	37,522	78,949
Prepayments for intangibles assets	-	125	-	125
	40,696	83,575	37,522	79,074

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13 Intangible assets (continued)

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction	Total
At 1 January 2004						
Cost	2,575	341,350	20,728	14,263	7,247	386,163
Accumulated amortisation	(1,589)	(216,172)	(18,970)	(6,626)	-	(243,357)
Net book amount	986	125,178	1,758	7,637	7,247	142,806
Year ended 31 December 2004						
Opening net book amount	986	125,178	1,758	7,637	7,247	142,806
Additions	-	667	8	13	9,742	10,430
Disposals and write-offs	-	(4)	-	(115)	-	(119)
Reclassifications	-	15,447	-	1,037	(16,484)	-
Reclassifications to other accounts	-	(1,264)	-	(23)	-	(1,287)
Amortisation charge	(258)	(64,135)	(1,164)	(2,525)	(298)	(68,380)
Closing net book amount	728	75,889	602	6,024	207	83,450
At 31 December 2004						
Cost	2,575	353,040	20,106	15,168	505	391,394
Accumulated amortisation	(1,847)	(277,151)	(19,504)	(9,144)	(298)	(307,944)
Net book amount	728	75,889	602	6,024	207	83,450
Year ended 31 December 2005						
Opening net book amount	728	75,889	602	6,024	207	83,450
Disposal of subsidiary	-	(45)	(602)	-	-	(647)
Additions	-	2,529	-	9	4,134	6,672
Disposals and write-offs	-	(46)	-	-	(164)	(210)
Reclassification	-	4,047	-	46	(4,093)	-
Reclassification from other accounts	-	30	-	23	-	53
Reclassification to assets held for sale	-	(41)	-	-	-	(41)
Amortisation charge	(249)	(45,798)	-	(2,534)	-	(48,581)
Closing net book amount	479	36,565	-	3,568	84	40,696
At 31 December 2005						
Cost	2,575	350,571	18,934	14,835	84	386,999
Accumulated amortisation	(2,096)	(314,006)	(18,934)	(11,267)	-	(346,303)
Net book amount	479	36,565	-	3,568	84	40,696

The Company holds a licence for the provision of fixed, long distance and international telecommunication services, also including data transmission in Lithuania. The licence also provides the right to construct and develop the network for provision of the above-mentioned services. The licence was issued on 31 October 1997, amended in June 1998 and is valid until 31 October 2007. The cost of the licence amounted to LTL 1.7 million and accumulated amortisation amounted to LTL 1.4 million as at 31 December 2005.

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13 Intangible assets (continued)

In 2005 The Company's subsidiary UAB Voicecom took over from UAB Comliet the licence granted on 31 October 1997 for rights to operate NMT 450 mobile cellular network. The licence is valid until 31 October 2007. The Group uses NMT 450 network to provide wireless local loop (WLL) to customers in remote areas and for intra-group communication needs. The cost of the licence amounted to LTL 0.9 million and accumulated amortisation amounted to LTL 0.7 million as at 31 December 2005.

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
At 1 January 2004					
Cost	1,691	321,352	14,156	7,247	344,446
Accumulated amortisation	(1,043)	(203,543)	(6,551)	-	(211,137)
Net book amount	648	117,809	7,605	7,247	133,309
Year ended 31 December 2004					
Opening net book amount	648	117,809	7,605	7,247	133,309
Additions	-	-	-	9,721	9,721
Disposals and write-offs	-	-	(110)	-	(110)
Reclassifications	-	15,888	1,037	(16,925)	-
Reclassifications to other accounts	-	(1,265)	(23)	-	(1,288)
Amortisation charge	(169)	(60,005)	(2,509)	-	(62,683)
Closing net book amount	479	72,427	6,000	43	78,949
At 31 December 2004					
Cost	1,691	332,956	15,047	43	349,737
Accumulated amortisation	(1,212)	(260,529)	(9,047)	-	(270,788)
Net book amount	479	72,427	6,000	43	78,949
Year ended 31 December 2005					
Opening net book amount	479	72,427	6,000	43	78,949
Additions	-	-	-	4,134	4,134
Disposals and write-offs	-	(7)	-	-	(7)
Reclassifications	-	4,047	46	(4,093)	-
Reclassifications to other accounts	-	27	18	-	45
Amortisation charge	(169)	(42,917)	(2,513)	-	(45,599)
Closing net book amount	310	33,577	3,551	84	37,522
At 31 December 2005					
Cost	1,691	329,195	14,716	84	345,686
Accumulated amortisation	(1,381)	(295,618)	(11,165)	-	(308,164)
Net book amount	310	33,577	3,551	84	37,522

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14 Investments in subsidiaries and associates

	GROUP		COMPANY	
	2005	2004	2005	2004
At the beginning of year	1,294	1,173	45,583	52,754
Share of results of associates	95	419	-	-
Dividends received	(207)	(298)	(3,751)	-
Reduction of share capital of subsidiary	-	-	(5,432)	-
Impairment of investments	-	-	(2,757)	(7,171)
Investment reclassified to assets held for sale	-	-	(7,500)	-
Contribution to cover losses of subsidiary	-	-	950	-
At end of year	1,182	1,294	27,093	45,583

The Company recorded an impairment provision (release) for the following investments:

	2005	2004
UAB Lietuvos Telekomo Verslo Sprendimai	3,526	560
UAB Voicecom	950	-
UAB Comliet	(1,719)	6,611
	2,757	7,171

Recoverable amount of the investments in subsidiaries and associates was determined as higher of fair value less cost to sell or value-in-use. The impairment provision for investment in UAB Comliet was released as a result of decrease in cost of the investment due to dividends paid from pre-acquisition profits.

15 Receivables, prepayments and accrued revenue

	GROUP		COMPANY	
	2005	2004	2005	2004
Trade receivables from business and residents	82,376	93,800	80,578	85,617
Trade receivables from other operators	6,750	18,611	6,750	18,743
Receivables from companies collecting payments for telecommunication services	3,528	1,202	3,528	1,202
Provision for impairment	(21,753)	(27,252)	(21,753)	(26,554)
Accrued revenues from operators	4,821	6,457	4,821	6,457
Accrued revenue for other telecommunication services provided and equipment sold	6,907	4,853	6,907	3,171
Prepaid expenses and other receivables	22,686	11,512	5,130	6,944
Receivables from related parties (Note 32)	1,298	5,523	2,222	16,627
Loans to subsidiaries (Note 32)	-	-	46,986	11,003
	106,613	114,706	135,169	123,210

16 Held-to-maturity investments

Held-to-maturity investments consist of bonds issued by the Government of Lithuania and Lithuanian banks. The effective interest rate on the bonds was 2.40% (2004: 2.32%) and these bonds will mature in 78 days (2004: 114 days) on average.

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17 Trading investments

In December 2005 the Company acquired 87,298 shares of the Deutsche Bank Platinum IV Euro Sovereign Elite Fund for the total amount of EUR 10 million (LTL 34.5 million). The fund's objective is to achieve long-term capital appreciation by providing investors with exposure to Eurozone sovereign issuers that have an AAA-rating constituting the Deutsche Bank Euro Sovereign Elite Index. The index consists of highly liquid bonds selected via structured methodology that offers a transparent and objective strategy. As at 31 December 2005 the investment in the fund was accounted at fair value of EUR 10.1 million (LTL 34.8 million). Fair value was determined by the reference to published price quotations.

18 Cash and cash equivalents

	GROUP		COMPANY	
	2005	2004	2005	2004
Cash in hand and at bank	98,875	69,494	82,664	54,274
Short term bank deposits	50,000	18,436	50,000	-
Restricted cash	726	584	726	584
	<u>149,601</u>	<u>88,514</u>	<u>133,390</u>	<u>54,858</u>

The effective interest rate on the Group's short-term bank deposits, held with Lithuanian banks was 2.25% (2004: 1.82%).

Restricted cash includes short-term deposits in AB Bankas Hansabankas amounting to LTL 0.4 million (2004: LTL 0.6 million) relating to loans granted by AB Bankas Hansabankas to the Group's employees to finance purchase or reconstruction of private apartments. The effective interest rate on these deposits is 0.46% (2004: 0.47%). Restricted cash also includes LTL 0.3 million (2004: LTL 0) held in temporary deposit accounts at SEB Vilniaus Bankas AB related to guarantees granted by the bank on behalf of the Company.

19 Assets held for sale and discontinuing operations

As at 31 December 2005 the Group accounted for assets held for sale comprising of UAB Comliet and it's wholly owned subsidiary UAB Comliet Sprendimai. As at 31 December 2005 UAB Comliet and UAB Comliet Sprendimai were in the process of disposal to Eltel Group Corporation. The transaction was completed on 28 February 2006 (see Note 33).

Assets held for sale also includes 3 property items that are contracted for sale to third party (5 property items were sold in 2005). The basis for the above contract with third party is the Company's plan of constructing new office premises in Vilnius, which would enable the Company to place all departments and subsidiaries in one location. According to the valid agreements buildings will be transferred to third party by 30 June 2006.

In addition, assets held for sale includes assets and liabilities attributable to the assets of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija.

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19 Assets held for sale and discontinued operations (continued)

Major classes of assets classified as held for sale:

	As at 31 December			
	GROUP		COMPANY	
	2005	2004	2005	2004
Property, plant and equipment	58,342	1,813	-	1,251
Investment property	106	-	-	-
Goodwill	5,553	-	-	-
Other intangible assets	98	-	-	-
Investments in subsidiaries	-	-	15,013	-
Deferred tax asset	949	-	-	-
Inventories	1,272	-	-	-
Trade and other receivables	4,689	-	-	-
Current income tax prepayments	259	-	-	-
Cash and cash equivalents	3,561	-	-	-
Total non-current assets classified as held for sale	74,829	1,813	15,013	1,251

Major classes of liabilities directly associated with assets classified as held for sale:

	As at 31 December			
	GROUP		COMPANY	
	2005	2004	2005	2004
Borrowings	1,005	-	-	-
Deferred income tax liability	9	-	-	-
Other taxes payable	560	-	-	-
Trade and other payables	3,017	-	-	-
Total liabilities directly associated with assets classified as held for sale	4,591	-	-	-

The Group acquired UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija from AS MicroLink (Estonia) in November 2005 as part of the acquisition by TeliaSonera group companies of MicroLink group. Both acquired companies were considered as acquired with a view to resale. As anticipated, the Lithuanian Competition Council obliged the Company to sell UAB MicroLink Lietuva. UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija were resold on 2 March 2006 (see Note 33).

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19 Assets held for sale and discontinued operations (continued)

Operations of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija were treated as discontinued. Analysis of the result of discontinued operations is as follows:

	For the period from 14 November 2005 to 31 December 2005		Total
	UAB MicroLink Lietuva	UAB Baltijos Kompiuterių Akademija	
Revenue	3,229	302	3,531
Expenses	(2,967)	(161)	(3128)
Operating profit	262	141	403
Financial activity, net	(4)	-	(4)
Profit before income tax	258	141	399
Income tax expenses	-	(9)	(9)
Profit for the period from discontinued operations	258	132	390

20 Share capital and treasury shares

Authorised share capital comprises 814,912,760 ordinary shares of LTL 1 par value each. All shares are fully paid up.

There were no changes in share capital during 2005 and 2004.

In June 2000, during the Initial Public Offering of the Company's shares by the State of Lithuania, a then subsidiary of UAB Lintel, UAB Lintkom, acquired 4.67% shares of the Company. The shares of AB Lietuvos Telekomas owned by UAB Lintkom were considered to be treasury shares and directly deducted from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120.0 million.

In May 2004, the legal merger of UAB Lintkom and UAB Lintel companies was completed. All assets, including treasury shares, and liabilities of UAB Lintkom were transferred to UAB Lintel.

The Group treats AB Lietuvos Telekomas shares held by UAB Lintel as treasury shares and directly deducts them from shareholders' equity in the Group's balance sheet at their purchase cost of LTL 120.0 million as at 31 December 2005.

21 Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of profit available for distribution, 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.

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22 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2005	2004	2005	2004
Trade payables	32,530	30,230	28,082	25,546
Trade payables to operators	2,405	1,847	2,439	1,890
Taxes, salaries and social security payable	24,177	12,138	17,625	10,418
Accruals to operators	4,201	285	4,212	292
Accrued liabilities	2,224	6,625	2,182	2,864
Derivative instruments (Note 27)	2,727	7,351	2,727	7,351
Other payables and deferred revenue	4,476	4,451	3,718	3,458
Amounts payable to related parties (Note 32)	3,446	9,879	7,656	18,222
	76,186	72,806	68,641	70,041

23 Borrowings

	GROUP		COMPANY	
	2005	2004	2005	2004
Current				
Current portion of long-term bank borrowings	7,476	6,336	7,275	6,336
Finance lease liabilities	730	128	711	61
	8,206	6,464	7,986	6,397
Non-current				
Long-term bank borrowings	-	6,716	-	6,336
Finance lease liabilities	7,863	274	7,860	211
	7,863	6,990	7,860	6,547
Total borrowings	16,069	13,454	15,846	12,944

As at 31 December 2005 bank borrowings of LTL 7.3 million (2004: LTL 12.7 million) were guaranteed by the Lithuanian Government.

Fair value of borrowing approximates to their carrying values.

The exposure of the bank borrowings (excluding finance lease liabilities) of the Group to interest rate changes and the periods in which the borrowings reprice are as follows:

	6 months or less	6-12 months	1-5 years	Total
At 31 December 2005				
Total borrowings	7,476	-	-	7,476
At 31 December 2004				
Total borrowings	13,052	-	-	13,052

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23 Borrowings (continued)

After taking account of interest rate swaps, the interest rate exposure of borrowings (excluding finance lease liabilities) at the balance sheet date was as follows:

	GROUP		COMPANY	
	2005	2004	2005	2004
Total borrowings:				
– at fixed rates	-	-	-	-
– at floating rates	7,476	13,052	7,276	12,672
	7,476	13,052	7,276	12,672

After taking account of interest rate swaps, the effective interest rates relating to the Group's borrowings (excluding finance lease liabilities) at the balance sheet date were as follows:

	GROUP		COMPANY	
	2005	2004	2005	2004
Bank borrowings	4.37%	4.18%	4.40%	4.21%

Maturities of non-current borrowings (excluding finance lease liabilities) are disclosed below:

	GROUP		COMPANY	
	2005	2004	2005	2004
Between 1 and 2 years	-	6,716	-	6,336
Between 2 and 5 years	-	-	-	-
Over 5 years	-	-	-	-
	-	6,716	-	6,336

In 2005 the Company concluded an agreement with a third party for sales and operating leaseback of certain technical premises. Leaseback of two premises in substance qualified as a finance lease. The remaining finance lease agreements concluded relate to the lease of passenger cars.

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

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2005	1,134	4,514	5,400	11,048
Less future finance charges	(423)	(1,331)	(724)	(2,478)
Present value of minimum lease payments at 31 December 2005	711	3,183	4,676	8,570
Minimum lease payments at 31 December 2004	72	225	-	297
Less future finance charges	(11)	(14)	-	(25)
Present value of minimum lease payments at 31 December 2004	61	211	-	272

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23 Borrowings (continued)

Groups'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 2005	1,153	4,518	5,400	11,071
Less future finance charges	(423)	(1,331)	(724)	(2,478)
Present value of minimum lease payments at 31 December 2005	730	3,187	4,676	8,593
Minimum lease payments at 31 December 2004	142	290	-	432
Less future finance charges	(15)	(15)	-	(30)
Present value of minimum lease payments at 31 December 2004	127	275	-	402

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

	As at 31 December			
	GROUP		COMPANY	
	2005	2004	2005	2004
Premises	8,339	-	8,339	-
Passenger cars	202	567	178	229
	8,541	567	8,517	229

24 Deferred income taxes

The gross movement on the deferred income tax account is as follows:

	GROUP		COMPANY	
	2005	2004	2005	2004
At beginning of year	55,149	78,422	39,136	59,722
Income statement credit (Note 9)	(14,849)	(23,273)	(12,338)	(20,586)
Reclassification to assets held for sale	949	-	-	-
At end of year	41,249	55,149	26,798	39,136
Deferred income tax to be recovered after more than 12 months	23,328	35,013	13,637	23,141
Deferred income tax to be recovered within 12 months	17,921	20,136	13,161	15,995
	41,249	55,149	26,798	39,136

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24 Deferred income taxes (continued)

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	Other	Total
At 31 December 2004	110,001	-	110,001
Charged/ (credited) to net profit	(18,319)	-	(18,319)
At 31 December 2005	91,682	-	91,682

GROUP – deferred tax assets	Tax losses	Accelerated depreciation	Other	Total
At 31 December 2004	(779)	(51,802)	(2,271)	(54,852)
Charged/ (credited) to net profit	-	3,301	169	3,470
Reclassification to assets held for sale	779	-	170	949
At 31 December 2005	-	(48,501)	(1,932)	(50,433)

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 of LTL 1.7 million (2004: 0.9 million) in respect of losses that can be carried forward against future taxable income and expires in 2009 - 2010.

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

COMPANY – deferred tax liabilities	Investment relief	Other	Total
At 31 December 2004	92,889	-	92,889
Charged/ (credited) to net profit	(15,867)	-	(15,867)
At 31 December 2005	77,022	-	77,022

COMPANY – deferred tax assets	Accelerated depreciation	Other	Total
At 31 December 2004	(51,802)	(1,951)	(53,753)
Charged/ (credited) to net profit	3,301	228	3,529
At 31 December 2005	(48,501)	(1,723)	(50,224)

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24 Deferred income taxes (continued)

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

	As at 31 December			
	GROUP		COMPANY	
	2005	2004	2005	2004
Deferred tax assets	(50,433)	(54,852)	(50,224)	(53,753)
Deferred tax liabilities	91,682	110,001	77,022	92,889
	41,249	55,149	26,798	39,136

25 Grants

Movement of the grants relating to the purchase of property, plant and equipment and intangible assets may be summarised as follows:

	GROUP		COMPANY	
	2005	2004	2005	2004
Balance at 1 January 2005	9,280	11,833	9,280	11,833
New grants received	345	169	345	169
Amortization of deferred income to match related depreciation	(2,545)	(2,722)	(2,545)	(2,722)
Balance at 31 December 2005	7,080	9,280	7,080	9,280

26 Provisions

The Group and the Company established a provision for restructuring costs and liabilities arising from loyalty programme. The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company. Liabilities arising from loyalty program relates to the points earned by the private customers that may be used to obtain discounts for services or to acquire certain prizes. Provision was established based on the assumption that all points earned by the customers will be realised.

GROUP	Restructuring provision	Provision for loyalty program	Total
Balance at 1 January 2005	83	1,607	1,690
Additional provisions for period	2,710	3,185	5,895
Used during year	(1,393)	(1,051)	(2,444)
Amount related to sold subsidiary	-	(77)	(77)
Balance at 31 December 2005	1,400	3,664	5,064

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26 Provisions (continued)

COMPANY	Restructuring provision	Provision for loyalty program	Total
Balance at 1 January 2005	83	1,530	1,613
Additional provisions for period	2,710	3,185	5,895
Used during year	(1,393)	(1,051)	(2,444)
Balance at 31 December 2005	1,400	3,664	5,064

Provisions for restructuring are expected to be fully utilized during the year 2006. Provisions for the loyalty programme are expected to be utilised as follows:

Within 1 year	2,000
After 1 year	1,664
	<u>3,664</u>

27 Financial instruments

As at 31 December 2005 the Company's and the Group's borrowings denominated in US dollars comprised USD 2.5 million or LTL 7.3 million (2004: USD 5.0 million or LTL 12.7 million). As at 1 February 2002 the Company entered into swap contracts, according to which the denomination of borrowings in US dollars was swapped to Euro. One contract remains unexpired as 31 December 2005.

At the balance sheet date the fair value of the above-mentioned derivative financial instrument was negative and amounted to LTL 2.7 million (2004: LTL 7.4 million). This amount is disclosed under trade, other payables and accrued liabilities (see Note 22).

28 Contingent liabilities

Guarantees

At 31 December 2005, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the Company has given guarantees amounting to LTL 2.1 million (2004: LTL 1.0 million). The Company has also given guarantees for the Company's employees amounting to LTL 0.4 million (2004: LTL 0.2 million).

Investigations

An investigation was started by the Lithuanian Competition Council regarding the abuse of monopoly power in the internet market which is based on complaints received from other internet service providers (UAB MicroLink, UAB Baltnetos komunikacijos, UAB Tele2, UAB Penki kontinentai, UAB Elneta and VĮ Infotruktūra). The management of the Company believes that this dispute will be resolved in the Company's favour and therefore no provision has been established as at 31 December 2005.

An investigation was started by the Lithuanian Competition Council regarding suspected misleading advertising of Takas iD0 internet service initiated by the Company. The Lithuanian Competition Council believes the advertisement relating to the possibility to recover 33% of Personal income tax from amounts paid in 2007-2008 is erroneous. The management of the Company believes that this investigation will be resolved in the Company's favour and therefore no provision has been established as at 31 December 2005.

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29 Commitments

Capital commitments

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

	GROUP		COMPANY	
	2005	2004	2005	2004
Property, plant and equipment	3,389	6,346	3,029	6,346
Intangible assets	36	249	-	183
	3,425	6,595	3,029	6,529

Operating lease commitments – where the Group is the lessee

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

The Company entered into sale and operating leaseback agreements with a third party (not related to AB Lietuvos Telekomas) for sales of eight properties. Ownership of five properties was transferred to the third party before 31 December 2005. In 2005 the Company entered into a leaseback agreement for premises at one location for 2 years and leaseback of technical premises at four different locations for 10 years.

In addition, in 2005 three agreements for leaseback of premises for a 2 year period and three agreements for leaseback of technical premises for a 10 year period were concluded, however the sale and leaseback transaction will commence only in July 2006, after the buildings will be transferred to the third party (See Note 19).

At the end of all the 2-year agreements the Company has the right but not the obligation to renew the above lease contracts for an additional one year at an agreed rent some 3 times higher than the initial rent for the 2 year period.

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

	GROUP		COMPANY	
	2005	2004	2005	2004
Not later than 1 year	4,011	610	3,986	559
Later than 1 year but not later than 5 years	11,637	1,191	11,568	1,043
Later than 5 years	6,464	24	6,464	-
	22,112	1,825	22,018	1,602

30 Change in accounting policy

In 2005 the Company adopted IAS 27 (revised 2003) and accounted for investments in subsidiaries and associates at cost in the financial statements of the Company. In 2004 investments in subsidiaries and associates were accounted for using the equity method. The Company accounted for the change in accounting policy retrospectively. The change in accounting policy resulted in an increase in earning per share of the Company for 2004 from LTL 0.04 to LTL 0.05. The following balance sheet and income statement items were affected:

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30 Change in accounting policy

COMPANY	Previously reported	Change	Restated balance
<u><i>Income statement</i></u>			
Revenues	694,854	11,478	706,332
Impairment of investments in subsidiaries	-	(7,171)	(7,171)
Share of results of subsidiaries before tax	(131)	131	-
Share of results of associates before tax	502	(502)	-
Income tax	(6,758)	1,187	(5,571)
Total		<u>5,123</u>	
<u><i>Assets</i></u>			
Investments in subsidiaries and associates	151,122	(105,539)	45,583
Receivables, prepayments and accrued revenue	113,210	10,000	123,210
Total		<u>(95,539)</u>	
<u><i>Equity</i></u>			
Treasury shares	(120,000)	120,000	-
Translation differences	(33)	33	-
Retained earnings	345,036	(215,558)	129,478
Total		<u>(95,525)</u>	
<u><i>Liabilities</i></u>			
Trade, other payables and accrued liabilities	70,055	(14)	70,041
Total		<u>(14)</u>	

31 Business combination

On 14 November 2005 the Company acquired 100% of the share capital of UAB MicroLink Lietuva and 100% of the share capital of UAB Baltijos Kompiuterių Akademija from AS MicroLink for a total consideration of LTL 7,513 thousand. UAB MicroLink Lietuva is engaged in providing information technology services and UAB Baltijos Kompiuterių Akademija provides IT training services. The acquired businesses contributed revenues of LTL 3,531 thousand and net profit of LTL 390 thousand to the Group for the period from 14 November 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, the acquisition would have contributed to the Group revenues by LTL 16,577 thousand and profit would have been increased by LTL 41 thousand.

On 14 November 2005 the Company acquired 100% of the share capital of UAB Fortek Informacinės Technologijos from SIA MicroLink Latvia. On the same date 100% of the share capital of UAB Fortek Informacinės Technologijos was sold to third parties. The acquisition and the disposal of the business resulted in a loss of LTL 1,154 thousand in the Group's and the Company's financial statements.

Details of net assets acquired and goodwill of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija are as follows:

Purchase consideration	7,513
Net assets acquired	<u>(1,960)</u>
Goodwill	<u>5,553</u>
Purchase consideration	7,513
Cash and cash equivalents in subsidiaries acquired	<u>(2,935)</u>
Cash outflow on acquisition	<u>4,578</u>

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31 Business combination (continued)

The assets and liabilities arising from the acquisition are as follows:

Cash and cash equivalents	2,935
Property, plant and equipment	2,454
Intangible assets	61
Financial fixed assets	106
Inventories	137
Receivables	2,427
Payables	(2,475)
Borrowings	(3,685)
Net assets acquired	1,960

The fair values of assets and liabilities acquired approximate to their book values. The Lithuanian Competition Council obliged the Company to sell the acquired shares of UAB MicroLink Lietuva. As no permission to keep shares from Lithuanian Competition Council was obtained, these businesses were classified as held for sale. All shares of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija were resold on 2 March 2006 (see Note 19 and Note 33).

Disposals

On 30 December 2005 the wholly owned subsidiary of the Company UAB Comliet disposed 55 % of the shares of AS Telegrupp. The disposed business during 2005 contributed revenues of LTL 16,964 thousand and net profit of LTL 278 thousand, including attributable to equity holders of LTL 153 thousand and attributable to minority interests of LTL 125 thousand.

The assets and liabilities disposed are as follows:

	Disposed carrying amounts
Cash and cash equivalents	1,846
Property, plant and equipment	435
Intangible assets	45
Other non-current assets	13
Inventory	498
Receivables, prepayments, and accrued revenue	2,709
Total assets	5,546
Equity	2,523
Borrowings	20
Trade, other payables and accrued liabilities	2,926
Provisions for other liabilities	77
Total equity and liabilities	5,546
Disposed consideration settled in cash:	
Cash received	1,395
Cash and cash equivalents in subsidiary disposed	(1,846)
Cash inflow from disposal	(451)

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32 Related party transactions

The Group is controlled by A/S Amber Teleholding which owns 60 % of the Company's shares. The ultimate parent of the Group is AB TeliaSonera. Majority shareholders of AB TeliaSonera are Governments of Sweden and Finland. The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2005	2004	2005	2004
AB TeliaSonera and its subsidiaries, except for UAB Omnitel	15,849	16,799	15,732	16,799
UAB Omnitel	31,860	24,627	30,427	23,970
Subsidiaries of AB Lietuvos Telekomas	-	-	5,131	11,120
UAB TietoEnator Consulting	541	867	375	681
Total sales of telecommunication and other services	48,250	42,293	51,665	52,570

Purchases of assets and services:

Purchases of assets from:

	GROUP		COMPANY	
	2005	2004	2005	2004
UAB Comliet and it's subsidiaries	-	-	6,105	11,188
UAB TietoEnator Consulting	1,467	3,234	1,467	2,721
	1,467	3,234	7,572	13,909

Purchases of services from:

	GROUP		COMPANY	
	2005	2004	2005	2004
AB TeliaSonera and its subsidiaries, except for UAB Omnitel	15,741	15,633	15,682	15,543
UAB Omnitel	36,931	39,214	36,337	38,798
Subsidiaries of AB Lietuvos Telekomas	-	-	46,925	74,490
UAB TietoEnator Consulting	4,838	4,587	4,792	3,885
	57,510	59,434	103,736	132,716
Total purchases of assets and services	58,977	62,668	111,308	146,625

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

Total receivables and accrued revenue from related parties

Receivables from related parties:

	GROUP		COMPANY	
	2005	2004	2005	2004
AB TeliaSonera and its subsidiaries, except for UAB Omnitel	681	1,493	681	1,493
UAB Omnitel	332	240	96	108
Subsidiaries of AB Lietuvos Telekomas	-	-	1,230	11,338
UAB TietoEnator Consulting	36	63	32	49
	1,049	1,796	2,039	12,988

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32 Related party transactions (continued)

Accrued revenue from related parties:

	GROUP		COMPANY	
	2005	2004	2005	2004
AB TeliaSonera and its subsidiaries, except for UAB Omnitel	183	1,603	183	1,603
UAB Omnitel	-	2,036	-	2,036
UAB TietoEnator Consulting	66	88	-	-
	<u>249</u>	<u>3,727</u>	<u>183</u>	<u>3,639</u>
Total receivables and accrued revenue from related parties	<u>1,298</u>	<u>5,523</u>	<u>2,222</u>	<u>16,627</u>

Payables and accrued expenses to related parties

Payables to related parties:

	GROUP		COMPANY	
	2005	2004	2005	2004
AB TeliaSonera and its subsidiaries, except for UAB Omnitel	777	1,189	776	1,189
UAB Omnitel	1,196	2,184	1,162	2,141
Subsidiaries of AB Lietuvos Telekomas	-	-	4,204	9,294
UAB TietoEnator Consulting	878	1,798	871	1,193
	<u>2,851</u>	<u>5,171</u>	<u>7,013</u>	<u>13,817</u>

Accrued expenses to related parties:

	GROUP		COMPANY	
	2005	2004	2005	2004
AB TeliaSonera and its subsidiaries, except for UAB Omnitel	195	1,321	190	1,321
UAB Omnitel	400	3,084	394	3,077
UAB Comliet and its subsidiaries	-	-	59	7
UAB TietoEnator Consulting	-	303	-	-
	<u>595</u>	<u>4,708</u>	<u>643</u>	<u>4,405</u>
Total payables and accrued expenses to related parties:	<u>3,446</u>	<u>9,879</u>	<u>7,656</u>	<u>18,222</u>

Loans to subsidiaries:

	COMPANY	
	2005	2004
Beginning of the year	11,003	35,540
Loans advanced during year	53,800	-
Loan repayments received	(18,000)	(24,537)
Interest charged	1,594	106
Interest received	(1,411)	(106)
End of the year	<u>46,986</u>	<u>11,003</u>

AB LIETUVOS TELEKOMAS
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FOR THE YEAR ENDED 31 DECEMBER 2005

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

32 Related party transactions (continued)

The loans advanced to subsidiaries have the following terms and conditions:

Name of the subsidiary	Amount of loan	Balance outstanding as at		Term	Interest rate
		31 December 2005			
UAB Comliet	3,800	2,800	due on 31 May 2010		2.10%
UAB Lintel	50,000	44,000	due on 3 May 2010		2.10%
	53,800	46,800			

The Company expects to recover all the loans receivable from subsidiaries outstanding as at 31 December 2005 within one year.

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

Remuneration of the Group's top management (excluding social tax)

	2005	2004
Remuneration of key management personnel	3,270	1,940

The total amount paid to the seven members of the Board of the Company during 2005 amounted to LTL 802 thousand (2004: LTL 784 thousand).

33 Events after the balance sheet date

On 31 January 2006, the Company acquired from its subsidiary UAB Comliet a 95% stake and from UAB Comliet Sprendimai, a subsidiary of UAB Comliet, a 5% stake in OOO Comliet Kaliningrad.

On 2 March 2006 the Company finalised a deal to sell 100% stake in UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija. As at 28 February 2006 the Company finalised a deal to sell 100% stake in UAB Comliet. The above sale transactions will not have a significant effect on the result of Lietuvos Telekomas Group's operations.

As at 8 February 2006, the Board of AB Lietuvos Telekomas approved construction of a new head-office of the Company in Vilnius at Lvovo str. 21a. Also the Board approved a new organisational structure for the Company that will come into force as of 1 March 2006. A new Sales Division, position of Chief Sales Officer and Deputy General Manager will be established.

Arūnas Šikšta
General Manager

Jan-Erik Elsėrius
Jan-Erik Elsėrius
Chief Financial Officer



Approved by the Annual General Meeting of
Shareholders as at April 2006

To the shareholders of AB Lietuvos Telekomas

In 2005, Lietuvos Telekomas Group maintained its leading position as the largest internet and fixed-line telephony service provider in Lithuania, as well as leader in provision of data communication, leased lines and call center services. Lietuvos Telekomas is indirectly owned by the largest Nordic and Baltic telecommunications company TeliaSonera.

From 1 January 2003, AB Lietuvos Telekomas together with its subsidiaries is designated as an operator with significant market power (SMP) in the public fixed-line telephony network and services, leased line services and interconnection services markets.

In December 2005, the Communications Regulatory Authority (CRA) designated Lietuvos Telekomas as an operator with SMP in calls termination at public telephony line network provided at fixed place, in January 2006 as SMP in wholesales broadband access market, and in February 2006 – as SMP in national and international transit at public telephony line network provided at fixed place. The Company has appealed to court requesting revocation of the designations of Lietuvos Telekomas as SMP in calls termination and wholesales broadband access markets, and as a means of securing a claim the court suspended implementation of CRA order on SMP status in wholesales broadband access market.

In the year 2005, the major emphasis in Lietuvos Telekomas Group was given to marketing and sales with special attention to small and medium size companies. The Group's structure was streamlined in order to focus on the core telecommunications and IT businesses by divesting non-core activities. Also the sales units of the Group were restructured and new separate Business and Private Customers Departments were established.

During the last year Lietuvos Telekomas managed to maintain its market share on fixed-line telephony service market in terms of both revenue and number of customers above 90 per cent. At the end of 2005, the total number of main lines in service was 798,617 or 23.4 lines per 100 inhabitants in Lithuania. During the year 2005 roughly 45 thousand new lines were installed while roughly 65 thousand were disconnected. Number of payment plans subscribed to by loyal customers increased up to 442 thousand. Total traffic volume increased by 1.9 per cent.

In 2005, number of DSL internet access service users doubled and exceeded 100 thousand. The Company offered especially speedy internet payment plans, developed and launched wireless internet access services, and for the long-term internet service subscribers offered personal computers and notebooks for just one litas. Also Lietuvos Telekomas obtained a licence for transmission of digital terrestrial TV programs.

During the year 2005 the total revenue of Lietuvos Telekomas Group increased by 1.5 per cent or by LTL 10.5 million to LTL 733.5 million over the revenue of LTL 723 million for the year 2004. EBITDA for the year 2005 increased by 5.7 per cent and amounted to LTL 356.7 million (LTL 337.3 million a year ago) and EBITDA margin reached 48.6 per cent (46.7 per cent a year ago). Profit before income tax for the year 2005 was LTL 108.6 million (LTL 40.6 million for the year 2004) and profit for the period increased by 2.5 times and amounted to LTL 84 million, while for the year 2004 profit for the period amounted to LTL 33.6 million. Net cash flow from operating activities for the year 2005 amounted to LTL 342 million (LTL 275.6 million for the year 2004). In spite of payment of dividends of LTL 101 million and investment in financial instruments of LTL 124 million cash and cash equivalents increased by LTL 61 million. Capital investments for the year 2005 amounted to LTL 74 million (LTL 75 millions in 2004). At the end of 2005 the total number of employees (headcounts) in AB Lietuvos Telekomas' Group amounted to 3,005 (including 94 employees in UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija) and number of full time staff employed by the Group was 2,845 (including 94 employees in UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija).

AB LIETUVOS TELEKOMAS
PERFORMANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

AB Lietuvos Telekomas, the parent company of the Group, offers customers fixed-line telephony, Internet, data communication and fixed-line network interconnection services. Lietuvos Telekomas also operates an Internet portal named Takas.

The total share capital of Lietuvos Telekomas consists of 814,912,760 ordinary registered shares of LTL 1 nominal value each. Amber Teleholding A/S, a wholly-owned subsidiary of TeliaSonera AB, holds 60 per cent of Lietuvos Telekomas' shares. At the end of 2005 East Capital Asset Management held 6.75 per cent of the Company's shares. In 2005, the State of Lithuania shareholding in AB Lietuvos Telekomas went down from 4.56 per cent (31 Dec. 2004) to 2.05 per cent (31 Dec. 2005) as the State continued to give up shares of the Company as compensation to Lithuanian citizens for realty redeemable by the State of Lithuania. 4.67 per cent of the shares are Treasury Stocks held by UAB Lintel, a member of Lietuvos Telekomas' Group. In 2005, AB Lietuvos Telekomas paid out to the shareholders LTL 100,986 thousand of dividends or LTL 0.13 per share for the year 2004.

On 28 February 2006, Lietuvos Telekomas sold 2,000 ordinary registered shares with a nominal value of LTL 5,000 each for a total nominal value of LTL 10 million or 100 per cent of the total share capital of UAB Comliet. UAB Comliet specialized in construction of external wide area and indoor telecommunications as well as other indoor engineering networks. On 8 February 2006, the Board of Lietuvos Telekomas approved the sale of UAB Comliet shares. An agreement on sale of UAB Comliet shares to Eltel Group Corporation, Finland was signed on 22 December 2005. The transaction also included the sale of UAB Comliet Sprendimai (UAB Comliet owns 100 per cent stake in UAB Comliet Sprendimai).

On 30 December 2005, UAB Comliet sold its 55 per cent stake in Estonian company Telegrupp AS, and on 31 January 2006 UAB Comliet and UAB Comliet Sprendimai sold its 95 per cent and 5 per cent, respectively, stakes in OOO Comliet-Kaliningrad in the Russian Federation to AB Lietuvos Telekomas. Now Lietuvos Telekomas owns 100 per cent stake in OOO Comliet-Kaliningrad whose authorised capital amounts to 4 million Russian roubles (LTL 405,664 as of 31 January 2006).

In 2005, UAB Comliet paid out to AB Lietuvos Telekomas LTL 7 million of dividends from accumulated profits.

UAB Lintel (AB Lietuvos Telekomas owns 2,800,000 ordinary registered shares of the company with a nominal value of LTL 10 each for a total nominal value of LTL 28 million or 100 per cent of the total share capital) is the largest provider of Call Center services in Lithuania, it handles 16 million contacts per year and operates 4 Call Centers. Lintel also provides Directory Inquiry Service 118, telemarketing and customer care services. UAB Lintel holds 4.67 per cent of Lietuvos Telekomas' shares (treasury stocks). In 2005, UAB Lintel paid out to AB Lietuvos Telekomas LTL 50 million of dividends for the year 2004.

Starting from 1 May 2005 the activities of UAB Lietuvos Telekomo Verslo Sprendimai were taken over by the Business Customers Department of AB Lietuvos Telekomas. At present, Lietuvos Telekomo Verslo Sprendimai has stopped its activities. On 27 April 2005, UAB Lietuvos Telekomo Verslo Sprendimai registered reduced by LTL 7 million (from LTL 8 million to LTL 1 million) share capital and in 2005 disbursed free cash to the sole shareholder of the company - AB Lietuvos Telekomas. Now AB Lietuvos Telekomas owns 20,000 ordinary registered shares of the company with a nominal value of LTL 50 each for a total nominal value of LTL 1 million or 100 per cent of the total share capital. In 2005, UAB Lietuvos Telekomo Verslo Sprendimai paid out to AB Lietuvos Telekomas LTL 1.22 million of dividends for the year 2004.

In December 2005 UAB Voicecom (AB Lietuvos Telekomas owns 100 ordinary registered shares with a nominal value of LTL 100 each for a total nominal value of LTL 10 thousand or 100 per cent of the total share capital) took over from UAB Comliet the right to use the national network of mobile analogue cellular radio communication of the NMT-450 standard.

AB LIETUVOS TELEKOMAS
PERFORMANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

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

UAB Baltic Data Center (AB Lietuvos Telekomas owns 6,000 shares with a nominal value of LTL 100 each for a total nominal value of LTL 600 thousand or 60 per cent of the total share capital) is providing IT infrastructure and a wide range of Service Desk services. TietoEnator Oyj, one of the biggest IT services providers in Nordic countries, owns a 40 per cent stake in the company. UAB Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA, which is a dormant company. In 2005, UAB Baltic Data Center paid out to AB Lietuvos Telekomas LTL 1,514 thousand of dividends for the year 2004.

UAB TietoEnator Consulting (AB Lietuvos Telekomas owns 4,160 ordinary registered shares with a nominal value of LTL 100 each for a total nominal value of LTL 416 thousand or 26 per cent of the total share capital) provides companies in the Baltic region with high-value-added IT-related consulting services. 74 per cent of UAB TietoEnator Consulting shares are owned by TietoEnator Oyj. In 2005, UAB TietoEnator Consulting paid out to AB Lietuvos Telekomas LTL 206.5 thousand of dividends for the year 2004.

Lietuvos Telekomas is the sole founder of its wholly-owned non-profit organisation VšĮ Lietuvos Telekomo Sporto Klubas. The organisation supports Lietuvos Telekomas' women basketball team, a multiple champion of Lithuania and the Baltic States. VšĮ Lietuvos Telekomo Sporto Klubas also operates a fitness center located at P. Lukšio str. 34 in Vilnius.

On 18 October 2005, the Board of AB Lietuvos Telekomas approved the sales of non core business of Lietuvos Telekomas' Group – fitness center located at Savanorių avenue in Vilnius and premises used for those activities, and belonging to the Group. On 30 December 2005, UAB Lintel, a subsidiary of AB Lietuvos Telekomas, signed an agreement on sales of building (sport palace), located at Savanorių ave. 28 in Vilnius, to UAB Minoleta, and VšĮ Lietuvos Telekomo Sporto Klubas signed documents regarding transfer of rights and obligations as well as assets related to the fitness center activities provided at Savanorių ave. 28 to UAB Neo Aljansas and UAB Minoleta.

In November 2005, AB Lietuvos Telekomas acquired 14,000 ordinary registered shares of UAB MicroLink Lietuva with nominal value of LTL 50 each for a total nominal value of LTL 700 thousand or 100 per cent of the share capital and 1,100 ordinary registered shares of UAB Baltijos Kompiuterių Akademija with nominal value of LTL 100 each for a total nominal value of LTL 110 thousand or 100 per cent of the share capital. UAB MicroLink Lietuva provides support and maintenance services of IT systems and private networks, develops software solutions, and UAB Baltijos Kompiuterių Akademija is engaged in the training of IT specialists.

On 20 February 2006, AB Lietuvos Telekomas, following the initial remedy imposed upon the purchase of UAB MicroLink Lietuva by the Lithuanian Competition Council and having the approval of the buyer by the Competition Council, signed an agreement on sale of all UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares to AS Martinson Trigon. Shares of both companies were sold on 2 March 2006.

AB Lietuvos Telekomas owns 6,000 ordinary registered shares with a nominal value of LTL 1 each for a total nominal value of LTL 6 thousand or 30 per cent of the total share capital of UAB Verslo Portalas which is under liquidation since 18 March 2004. 70 per cent of the shares are owned by UAB Verslo Žinios.

On 8 December 2005 Lietuvos Telekomas' Group members, AB Lietuvos Telekomas and UAB Lintel, and third party signed agreements on sale of eight real estate units of Lietuvos Telekomas' Group located in Vilnius to third party for an amount of LTL 71.9 million. The ownership right for five real estate units from Lietuvos Telekomas' Group to third party was transferred on 30 December 2005 and for the remaining three will be transferred on 30 June 2006. After selling Lietuvos Telekomas' Group will lease back needed space in seven real estate units from the third party.

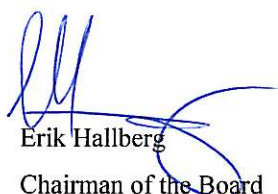
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AB LIETUVOS TELEKOMAS
PERFORMANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

From 1 March 2006 Nerijus Ivanauskas is appointed to the position of Chief Marketing Officer and Deputy General Manager, and Darius Gudačiauskas is appointed to the position of Chief Sales Officer and Deputy General Manager.

In 2006, AB Lietuvos Telekomas will continue optimisation of product portfolio and its simplification, development of segment specific product packages and long-term loyalty programs as well as new business areas such as broadcasting and transmission of digital content and TV programs. The Company will develop wireless internet and IT services combined with data communication services. The Group's capital investments in 2006 should amount to around LTL 100 million.

The Report on Company's Activities for the year 2005 was approved by the Board of AB Lietuvos Telekomas on 16 March 2006 and signed on behalf of the Board by the Chairman of the Board.



Erik Hallberg
Chairman of the Board

Report on Company's Activities for the year 2005**To the shareholders of AB Lietuvos Telekomas**

In 2005, Lietuvos Telekomas Group maintained its leading position as the largest internet and fixed-line telephony service provider in Lithuania, as well as leader in provision of data communication, leased lines and call center services. Lietuvos Telekomas is indirectly owned by the largest Nordic and Baltic telecommunications company TeliaSonera.

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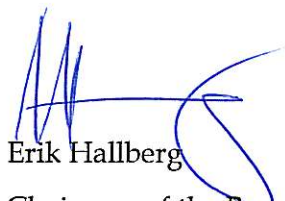
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The Report on Company's Activities for the year 2005 was approved by the Board of AB Lietuvos Telekomas on 16 March 2006 and signed on behalf of the Board by the Chairman of the Board.



Erik Hallberg

Chairman of the Board