

**TEO LT, AB**

**FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT  
AUDITOR'S REPORTS**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

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## **Independent auditor's report**

To the Shareholders of TEO LT, AB

### **Report on the financial statements**

We have audited the accompanying consolidated financial statements of TEO LT, AB and its subsidiaries ('the Group') and the financial statements of TEO LT, AB ('the Company') set out in pages 5 - 46 which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2006 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on other legal and regulatory requirements**

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2006 set out on pages 47 – 81 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2006.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
29 March 2007



Ona Armaliene  
Auditor's Certificate No.000008

**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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

**INCOME STATEMENT**

Approved by the Annual General Meeting of  
Shareholders as at \_\_ April 2007

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2006	2005	2006	2005
<b>Continuing operations</b>					
<b>Revenue</b>	5	734,811	729,636	717,035	692,636
Other income	6	4,367	693	44,783	60,044
Employee related expenses		(127,208)	(129,738)	(105,225)	(100,891)
Interconnection expenses		(105,329)	(104,828)	(105,329)	(104,828)
Other operating expenses	7	(158,951)	(152,865)	(175,799)	(159,655)
Depreciation, amortisation and impairment of fixed assets	13	(193,500)	(247,970)	(182,949)	(233,459)
Other gain/ (loss) - net	8	4,271	10,835	414	8,946
Impairment of investments in subsidiaries	15, 20	-	-	(1,015)	(2,757)
<b>Operating profit</b>		158,461	105,763	191,915	160,036
Finance income		5,038	3,166	4,816	1,880
Finance costs		(1,448)	(377)	(1,437)	(406)
Finance costs - net	9	3,590	2,789	3,379	1,474
Share of result of associates	15	41	95	-	-
<b>Profit before income tax</b>		162,092	108,647	195,294	161,510
Income tax	10	(30,291)	(24,964)	(28,385)	(21,516)
<b>Profit for the year from continuing operations</b>		131,801	83,683	166,909	139,994
<b>Discontinued operations</b>					
Profit (loss) for the period from discontinued operations	20	(1,252)	390	-	-
<b>Profit for the year</b>		130,549	84,073	166,909	139,994
Attributable to:					
Equity holders of the Company		130,421	83,121	166,909	139,994
Minority interest		128	952	-	-
		130,549	84,073	166,909	139,994
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)</b>	11	0.17	0.11	0.21	0.18

The notes on pages 10 to 46 form an integral part of these financial statements.

The financial statements on pages 5 to 46 have been approved for issue by the Board of Directors as at 14 March 2007 and signed on their behalf by the General Manager and the Chief Financial Officer:

Arūnas Šikšta  
General Manager

Jan-Erik Elsérius  
Chief Financial Officer

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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 2007

		As at 31 December			
		GROUP		COMPANY	
	Note	2006	2005	2006	2005
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	644,164	722,477	606,222	676,186
Intangible assets	14	33,538	40,696	27,846	37,522
Investments in subsidiaries and associates	15	-	1,182	31,739	27,093
Non-current receivables	16	4,951	1,547	10,951	1,547
		682,653	765,902	676,758	742,348
<b>Current assets</b>					
Inventories		8,154	3,737	8,056	3,731
Receivables, prepayments and accrued revenue	16	248,719	104,892	244,810	134,386
Current income tax receivable		723	4,824	-	4,539
Held-to-maturity investments	17	40,419	120,151	40,419	120,151
Trading investments	18	34,287	34,769	34,287	34,769
Cash and cash equivalents	19	232,581	149,601	224,939	133,390
Assets held for sale	20	1,515	74,829	267	15,013
		566,398	492,803	552,778	445,979
<b>Total assets</b>		<b>1,249,051</b>	<b>1,258,705</b>	<b>1,229,536</b>	<b>1,188,327</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	21	814,913	814,913	814,913	814,913
Treasury shares	21	(120,000)	(120,000)	-	-
Legal reserve	22	81,499	81,499	81,499	81,499
Translation differences		(1)	(21)	-	-
Retained earnings		333,301	327,171	211,104	168,486
		1,109,712	1,103,562	1,107,516	1,064,898
<b>Minority interest</b>		-	2,329	-	-
<b>Total equity</b>		<b>1,109,712</b>	<b>1,105,891</b>	<b>1,107,516</b>	<b>1,064,898</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	24	7,764	7,863	7,764	7,860
Deferred tax liabilities	25	17,481	41,249	13,635	26,798
Grants	26	4,727	7,080	4,727	7,080
Deferred revenue	23	2,634	1,664	1,885	1,664
		32,606	57,856	28,011	43,402
<b>Current liabilities</b>					
Trade, other payables and accrued liabilities	23	94,690	78,186	89,512	70,641
Current income tax liabilities		11,140	2,575	3,683	-
Borrowings	24	818	8,206	814	7,986
Provisions	27	-	1,400	-	1,400
Liabilities related to assets held for sale	20	85	4,591	-	-
		106,733	94,958	94,009	80,027
<b>Total liabilities</b>		<b>139,339</b>	<b>152,814</b>	<b>122,020</b>	<b>123,429</b>
<b>Total equity and liabilities</b>		<b>1,249,051</b>	<b>1,258,705</b>	<b>1,229,536</b>	<b>1,188,327</b>

The notes on pages 10 to 46 form an integral part of these financial statements.

Arūnas Šikšta  
General Manager

*Jan-Erik Elsérius*  
Jan-Erik Elsérius  
Chief Financial Officer



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

**STATEMENT OF CHANGES IN EQUITY**

Approved by the Annual General Meeting  
of Shareholders as at \_ April 2007

GROUP	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Total		
<b>Balance at 1 January 2005</b>		814,913	(120,000)	81,499	(33)	345,036	1,121,415	3,899	1,125,314
Currency translation differences		-	-	-	12	-	12	-	12
Net profit		-	-	-	-	83,121	83,121	952	84,073
<b>Total recognised income and expenses for 2005</b>		-	-	-	12	83,121	83,133	952	84,085
Dividends paid for 2004	12	-	-	-	-	(100,986)	(100,986)	(1,386)	(102,372)
Minority of sold subsidiary		-	-	-	-	-	-	(1,136)	(1,136)
		-	-	-	-	(100,986)	(100,986)	(2,522)	(103,508)
<b>Balance at 31 December 2005</b>		814,913	(120,000)	81,499	(21)	327,171	1,103,562	2,329	1,105,891
<b>Balance at 1 January 2006</b>		814,913	(120,000)	81,499	(21)	327,171	1,103,562	2,329	1,105,891
Currency translation differences		-	-	-	20	-	20	-	20
Net profit		-	-	-	-	130,421	130,421	128	130,549
<b>Total recognised income and expenses for 2006</b>		-	-	-	20	130,421	130,441	128	130,569
Dividends paid for 2005	12	-	-	-	-	(124,291)	(124,291)	-	(124,291)
Minority interest acquired	31	-	-	-	-	-	-	(2,457)	(2,457)
		-	-	-	-	(124,291)	(124,291)	(2,457)	(126,748)
<b>Balance at 31 December 2006</b>		814,913	(120,000)	81,499	(1)	333,301	1,109,712	-	1,109,712

COMPANY	Note	Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Total	Minority interest	Total equity
<b>Balance at 1 January 2005</b>		814,913	-	81,499	-	129,478	1,025,890	-	1,025,890
Dividends paid for 2004	12	-	-	-	-	(100,986)	(100,986)	-	(100,986)
Net profit		-	-	-	-	139,994	139,994	-	139,994
<b>Balance at 31 December 2005</b>		814,913	-	81,499	-	168,486	1,064,898	-	1,064,898
<b>Balance at 1 January 2006</b>		814,913	-	81,499	-	168,486	1,064,898	-	1,064,898
Dividends paid for 2005	12	-	-	-	-	(124,291)	(124,291)	-	(124,291)
Net profit		-	-	-	-	166,909	166,909	-	166,909
<b>Balance at 31 December 2006</b>		814,913	-	81,499	-	211,104	1,107,516	-	1,107,516

The notes on pages 10 to 46 form an integral part of these financial statements.

Arūnas Šikšta  
General Manager

*Jan-Erik Elsérius*  
Jan-Erik Elsérius  
Chief Financial Officer

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**CASH FLOW STATEMENT**

Approved by the Annual General Meeting of  
Shareholders as at \_\_ April 2007

	Notes	Year ended 31 December			
		GROUP		COMPANY	
		2006	2005	2006	2005
<b>Operating activities</b>					
Profit for the year from continuing operations		131,801	83,683	166,909	139,994
Income tax	10	30,291	24,964	28,385	21,516
Depreciation, amortisation and impairment charge	13	193,500	247,970	182,949	233,459
Dividends received from subsidiaries	6	-	-	(40,047)	(57,757)
Share of results of associates	15	(41)	(95)	-	-
Other gains and losses	8	(4,271)	(10,835)	(414)	(8,946)
Impairment of investments in subsidiaries and assets held for sale	15, 20	-	-	1,015	2,757
Interest income		(8,777)	(3,563)	(8,948)	(3,871)
Interest expenses	9	583	687	581	672
Other non-cash transactions		59	(1,220)	51	450
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(4,418)	306	(4,325)	(745)
Trade and other accounts receivable		(10,843)	17,893	(8,815)	24,490
Trade and other accounts payable and deferred revenue		3,085	15,756	4,981	6,436
Cash generated from operations		330,969	375,546	322,322	358,455
Interest paid		(576)	(721)	(593)	(706)
Interest received		5,845	2,915	6,186	3,223
Tax paid		(41,393)	(32,842)	(33,476)	(27,244)
Net cash from operating activities		294,845	344,898	294,439	333,728



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**CASH FLOW STATEMENT (CONTINUED)**

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2006	2005	2006	2005
<b>Investing activities</b>					
Purchase of property, plant and equipment (PPE) and intangible assets		(97,925)	(73,828)	(97,603)	(64,619)
Proceeds from disposal of PPE and intangible assets		9 647	33,673	9,610	21,417
Proceeds from disposal of non-current assets held for sale, except for disposal groups		71 842	1,992	-	1,194
Acquisition of held-to-maturity investments		(164,387)	(129,726)	(164,387)	(129,726)
Disposal of held-to-maturity investments		246,503	40,172	246,503	40,172
Acquisition of held-for-trading investments		-	(34,528)	-	(34,528)
Acquisition of subsidiaries and minority interest		(5,062)	(9,225)	(5,465)	(9,225)
Proceeds from sale of subsidiaries, associates and disposal groups		12,420	107	12,420	558
Loans granted		(150,000)	-	(150,700)	(36,350)
Loans repaid		-	-	41,416	-
Dividends received		47	207	40,047	66,940
Net cash used in investing activities		(76,915)	(171,156)	(68,159)	(144,167)
<b>Financing activities</b>					
Repayment of borrowings		(10,659)	(10,283)	(10,440)	(10,043)
Dividends paid to minority shareholders		-	(1,386)	-	-
Dividends paid shareholders of the Company	12	(124,291)	(100,986)	(124,291)	(100,986)
Net cash used in financing activities		(134,950)	(112,655)	(134,731)	(111,029)
<b>Increase in cash and cash equivalents</b>		<b>82,980</b>	<b>61,087</b>	<b>91,549</b>	<b>78,532</b>
<b>Movement in cash and cash equivalents</b>					
At beginning of year		149,601	88,514	133,390	54,858
Increase (decrease) in cash and cash equivalents		82,980	61,087	91,549	78,532
At end of year	19	232,581	149,601	224,939	133,390

The notes on pages 10 to 46 form an integral part of these financial statements.

Arūnas Šikšta  
General Manager

Jan-Erik Elsérius  
Chief Financial Officer

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**NOTES TO THE FINANCIAL STATEMENTS**

**1 General information**

TEO LT, AB (hereinafter 'the Company') is a joint stock company incorporated as at 16 June 1997. On 5 May 2006 former company name AB Lietuvos Telekomas was changed to TEO LT, AB. The Company is domiciled in Vilnius, the capital of Lithuania. 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 2006 was as follows:

	Number of shares	%
Amber Teleholding A/S (ultimate parent – TeliaSonera AB)	488,947,656	60.00
East Capital Asset Management	45,400,827	5.57
UAB Lintel (treasury shares, Note 21)	38,095,242	4.67
Republic of Lithuania represented by State Property Fund	13,191,350	1.62
Republic of Lithuania represented by State Tax Authorities	362,630	0.04
Other shareholders (including GDR holders)	228,915,055	28.10
	<b>814,912,760</b>	<b>100.00</b>

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 voice, internet access, data communication and since October 2006 IP TV services 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 2006	31 December 2005	
UAB Lintel	Lithuania	100%	100%	Provider of Directory Inquiry Service 118 and Contact Center services. UAB Lintel owns treasury shares of the Company.
UAB Baltic Data Center	Lithuania	100%	60%	The subsidiary provides information technology infrastructure services to the Group and third parties. On 7 April 2006, the Company acquired remaining 40% stake in subsidiary (see Note 31). The subsidiary also has 100% stake in a dormant sub-subsidiary Baltic Data Center SIA located in Latvia.
UAB Kompetencijos Ugdymo Centras (former UAB Lietuvos Telekomo Verslo Sprendimai)	Lithuania	100%	100%	From May 2005 until June 2006 being dormant subsidiary as from June 2006 UAB Kompetencijos Ugdymo Centras started providing training and consultancy services. The subsidiary took over employees from former Competence Development Center of the Company.

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Subsidiary/ associate	Country of incorporation	Ownership interest in %		Profile
		31 December 2006	31 December 2005	
UAB Voicecom	Lithuania	100%	100%	UAB Voicecom maintains 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 which was taken over from UAB Comliet.
VšĮ TEO Sportas (until June 2006 was known as Lietuvos Telekomo Sporto Klubas)	Lithuania	100%	100%	Non profit organisation supports a women's basketball team and operates a fitness center at P. Lukšio str., in Vilnius. In December 2005 the entity sold its rights and obligations related to fitness center activities at Savanorių ave., in Vilnius.
OOO Comliet- Kaliningrad	Russian Federation, Kaliningrad Region	100%	-	In January 2006 the Company acquired 95% and 5% stakes in the subsidiary from UAB Comliet and UAB Comliet Sprendimai (subsidiary of UAB Comliet) respectively. The Company sold OOO Comliet-Kaliningrad on 15 February 2007 (see Note 34).
UAB Comliet	Lithuania	-	100%	<p>In December 2005 UAB Comliet sold its entire holding of 55% in AS Telegrupp (Estonia).</p> <p>In January 2006 UAB Comliet and its wholly owned subsidiary UAB Comliet Sprendimai sold their respective holdings of 95% and 5% in OOO Comliet-Kaliningrad (Russian Federation, Kaliningrad Region) to the Company (see above).</p> <p>On 28 February 2006 the Company sold its 100% stake in UAB Comliet that specialized in construction of external wide area, indoor telecommunications and engineering networks. The transaction also incorporated the sale of wholly owned subsidiary of UAB Comliet - UAB Comliet Sprendimai (Lithuania) (see Note 32).</p>
UAB MicroLink Lietuva	Lithuania	-	100%	In November 2005, the Company acquired a 100% stake in information technology service provider UAB MicroLink Lietuva. In March 2006 the Company sold all shares of UAB MicroLink Lietuva (see Note 32).
UAB Baltijos Kompiuterių Akademija	Lithuania	-	100%	In November 2005, the Company acquired a 100% stake in IT training company UAB Baltijos Kompiuterių Akademija. In March 2006 the Company sold all shares of UAB Baltijos Kompiuterių Akademija (see Note 32).
UAB Verslo Portalas	Lithuania	-	30%	In March 2006 this associated entity was liquidated.
UAB TietoEnator Consulting	Lithuania	-	26%	In April 2006 the Company sold its stake in UAB TietoEnator Consulting to TietoEnator Oyj. The associate provided professional information technology consultancy services to the Group and third parties.

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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 have been prepared in accordance with in with International Financial Reporting Standards as adopted by the EU.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these 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 the Accounting Regulatory Committee decision of October 2004, the Commission adopted the Regulation 2086/2004 and 1864/2005 requiring the use of IAS 39, excluding certain provisions on portfolio hedging of core deposits, by all listed companies. The company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's and Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. 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 2006. Listed below are those new or amended standards or interpretations:

##### *(a) Amendments to published standards effective in 2006*

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts is mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2006. It amended requirements for financial guarantee contracts. These amendments are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

##### *(b) Standards, amendments and interpretations effective in 2006 but not relevant*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's and Company's operations:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;

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## **2.1 Basis of preparation (continued)**

*(b) Standards, amendments and interpretations effective in 2006 but not relevant (continued)*

- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources; IFRS 6, Exploration for and Evaluation of Mineral Resources; IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

*(c) Standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted*

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2007:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). This standard does not have any impact on the classification and valuation of the Group's and the Company's financial instruments.
- IFRS 8, Operating segments (effective from 1 January 2009). The management have not yet started assessment of the impact of IFRS 8 on the Group's and the Company's accounts;
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 is not relevant to the Group's or the Company's operations;
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 is not relevant to the Group's or the Company's operations;
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). Management believes that this interpretation is not relevant the Group's or the Company's operations;
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). It is not expected that the interpretation will have significant impact to the Group's or the Company's accounts;
- IFRIC 11, 'IFRS 2 - Company and treasury share transactions' (effective for annual periods beginning on or after 1 March 2007). Management does not expect the interpretation to be relevant for the Group's or the Company's accounts; and
- IFRIC 12, 'Service Concession Arrangements' (effective for annual periods beginning on or after 1 January 2008). Management do not expect the interpretation to be relevant to the Group or the Company.

IFRIC 10, 11, 12 and IFRS 8 have not been yet endorsed by 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.

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

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## **2.2 Group accounting (continued)**

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 identified on acquisition, net of any accumulated impairment loss.

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.

### *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.

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## **2.3 Foreign currency translation (continued)**

### *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	3 – 30 years
Switches, lines and related telecommunication equipment	3 – 20 years
Computers	3 years
Motor vehicles	5 - 10 years
Other tangible fixed assets	3 – 10 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.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement in the period incurred.



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## **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

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group and the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

## **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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2.7 Financial assets**

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

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## **2.7 Financial assets (continued)**

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

### *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 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.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group or the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other (losses)/gains – net, in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group and the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group and the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.12.

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**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.

**2.10 Inventories**

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

**2.11 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, prepayments and accrued revenue. 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, other payables and accrued liabilities.

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**2.12 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 (more than 90 days overdue) 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 carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against in the income statement.

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

**2.13 Cash and cash equivalents**

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

**2.14 Treasury shares**

Where the Company or its subsidiaries purchase the Company's own share capital, in the Group's financial statements the consideration including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

**2.15 Trade payables**

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

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

*Finance lease*

Where the Group or the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group or the Company, 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 or the Company is not reasonably certain that it will obtain ownership by the end of the lease term. If sale and leaseback transaction results in a finance lease, any excess or shortfall of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term.

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**2.17 Accounting for leases – where the Group or the Company is the lessee (continued)**

*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.

**2.18 Income tax**

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

Profit is taxable at a rate of 15% (2005: 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 10.

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

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

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

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

**2.19 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.

**2.20 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.

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## **2.20 Provisions (continued)**

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

Provisions are measured at the present value of the expenditures expected to be required to settle the 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.

## **2.21 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's or the Company's activities. Revenue of the Company is shown net of value-added tax, returns, rebates and discounts and Group revenues – after additionally eliminating sales within the Group.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's or the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group and the Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### *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 performed to record amounts not yet billed.

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

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

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 estimates accumulated discounts and recognise the amount as deferred income. In the income statement these discounts are treated as a deduction from revenues.

### *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. When service revenues are contingent upon provision of services 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.

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**2.22 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.

**2.23 Dividend income**

Dividend income is recognised when the right to receive payment is established. Dividend distribution received by the Company from pre-acquisition profits of subsidiaries and associates is deducted from the cost of respective investments.

**2.24 Employee benefits**

*Social security contributions*

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

*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 Group and 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.

*Bonus plans*

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

**2.25 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks on behalf of employees.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's and the Company's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.



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## **2.26 Dividend distribution**

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

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

## **2.27 Non-current assets (or disposal groups) held for sale**

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

## **2.28 Segment information**

The Group and the Company 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 to hedge certain risk 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 Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

### Market risk: Foreign exchange risk

The Group 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.

### Market risk: Price risk

The Group is exposed to Deutsche Bank Platinum IV Euro Sovereign Elite Fund share price risk because of investment held by the Group and classified as fair value through profit or loss. The Group is not exposed to commodity price risk.

### Credit risk

The Group has no significant concentrations of credit risk outside TeliaSonera Group. 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.

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**3 Financial risk management (continued)**

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 split between fixed and floating interest rate depends on the actual situation in the market.

**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

The Company follows the guidance of IAS 36 on determining impairment provision for investments in subsidiaries carried at cost. 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 is determined based on the price in the binding sale agreement of a subsidiary in an arm's length transaction, adjusted for incremental costs that would be attributable to the disposal of the assets. The same principle is used for determination of fair value less cost to sell for assets or disposal groups held for sale.

Had discount rate been increased or growth rate decreased by 3 percentage points, there would be no impairment provision to be charged with respect to subsidiaries.

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**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Fixed voice services	524,571	531,790	523,179	530,842
Internet and data services	179,023	148,787	179,625	149,134
IT services	9,892	3,823	1,553	1,070
TV services	708	-	708	-
Construction services	1,651	28,432	-	-
Other revenues	18,966	16,804	11,970	11,590
	<b>734,811</b>	<b>729,636</b>	<b>717,035</b>	<b>692,636</b>

**6 Other income**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Interests income on bonds and loans	4,367	693	4,736	2,287
Dividend income from subsidiaries and associates	-	-	40,047	57,757
	<b>4,367</b>	<b>693</b>	<b>44,783</b>	<b>60,044</b>

**7 Other operating expenses**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Materials, maintenance and services costs	79,194	69,146	100,766	97,674
Energy, premise and transport costs	31,332	30,341	34,389	36,772
Marketing expenses	20,740	11,376	19,481	9,661
Impairment of accounts receivable	(1,129)	(4,718)	(1,188)	(4,238)
Construction services expenses (excluding employees related expenses)	889	19,256	-	-
Other expenses	27,925	27,464	22,351	19,786
	<b>158,951</b>	<b>152,865</b>	<b>175,799</b>	<b>159,655</b>

The number of full time staff employed by the Group at the end of 2006 amounted to 2,896 (2005: 2,845). The number of full time staff employed by the Company at the end of 2006 amounted to 2,224 (2005: 2,070).

**8 Other gain/loss - net**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Gain on sales of property, plant and equipment	4,974	12,400	1,013	10,372
Gain (loss) on sale of investments	795	(1,190)	879	(1,154)
Fair value gain (loss) on trading investment	(482)	241	(482)	241
Loss on sales of property, plant and equipment	(1,016)	(616)	(996)	(513)
	<b>4,271</b>	<b>10,835</b>	<b>414</b>	<b>8,946</b>

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**9 Finance income and costs**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Interest income on cash and cash equivalents	4,410	2,870	4,212	1,584
Other finance income	628	296	604	296
Finance income	5,038	3,166	4,816	1,880
Interest expenses	(583)	(687)	(581)	(672)
Foreign exchange gain (loss) on financing activities	(427)	524	(418)	480
Other finance costs	(438)	(214)	(438)	(214)
Finance costs	(1,448)	(377)	(1,437)	(406)
Finance costs – net	3,590	2,789	3,379	1,474

**10 Income tax**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Current tax	54,114	39,813	41,548	33,854
Deferred tax (Note 25)	(23,823)	(14,849)	(13,163)	(12,338)
	30,291	24,964	28,385	21,516

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

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Profit before tax and share of result of associates	162,051	108,552	195,294	161,510
Tax calculated at a tax rate of 19% (2005: 15%)	30,790	16,283	37,106	24,227
Deferred tax asset not recognised on tax losses	73	824	-	-
Non taxable dividends received	-	-	(7,609)	(8,664)
Income tax on reduction of share capital of subsidiary	-	1,500	-	1,500
Social Tax effect: 4% in 2006, 3% in 2007	-	6,221	-	4,228
Income not subject to tax and expenses not deductible for tax purposes	(83)	(240)	(132)	120
Income tax on dividends	(808)	(511)	(808)	(776)
Other	319	887	(172)	881
Tax charge	30,291	24,964	28,385	21,516

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**10 Income tax (continued)**

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 Group's and the Company's temporary differences recognised as at 31 December 2006, which will be realised in 2007 will be subject to income and social tax at a rate of 18%. Temporary differences which will be realised in 2008 and subsequent years according to enacted legislation will be subject to income tax at a rate of 15%. For the effect of Social Tax on the financial statements of the Group and the Company see table above.

**11 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 2006: 814,913 (ordinary shares) – 38,095 (treasury shares) = 776,818. Weighted average number of shares for the year ended 31 December 2005 was – 776,818.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Net profit attributable to shareholders</b>				
Profit from continuing operations before minority interest	131,801	83,683	166,909	139,994
Minority interest	(128)	(952)	-	-
Net profit from continuing operations attributable to equity holders	131,673	82,731	166,909	139,994
Net profit (loss) from discontinuing operations attributable to equity holders	(1,252)	390	-	-
Net profit attributable to equity holders	130,421	83,121	166,909	139,994
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
<b>Basic earnings per share (LTL)</b>				
From continuing operations	0.17	0.11	0.21	0.18
From discontinuing operations	(0.002)	0.001	-	-
Basic earnings per share (LTL)	0.17	0.11	0.21	0.18

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**12 Dividends per share**

The dividends per share, excluding treasury shares, declared in respect of 2005 and 2004 and paid in 2006 and 2005, were LTL 0.16 and LTL 0.13, respectively. There were no dividends proposed or declared in respect of 2006 as at the date of approval of these financial statements.

**13 Property, plant and equipment**

Property, plant and equipment consist of following items:

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Property, plant and equipment	637,930	722,476	599,988	676,185
Prepayments for property plant and equipment	6,234	1	6,234	1
	<b>644,164</b>	<b>722,477</b>	<b>606,222</b>	<b>676,186</b>

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Depreciation of property, plant and equipment	173,302	201,934	164,072	190,405
Amortisation of intangible assets (Note 14)	22,547	48,581	21,226	45,599
Amortisation of grants received (Note 26)	(2,349)	(2,545)	(2,349)	(2,545)
	<b>193,500</b>	<b>247,970</b>	<b>182,949</b>	<b>233,459</b>

As at 31 December 2006 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 103.9 million as at 31 December 2006 (2005: LTL 109.8 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 draft 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 2006 the Company revised the useful lives of its property, plant and equipment and intangible assets. After the above revision the depreciation charge for 2006 decreased by LTL 0.09 million and amortisation charge for 2006 decreased by LTL 0.2 million as compared to previously used useful lives for property, plant and equipment.

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**13 Property, plant and equipment (continued)**

<b>GROUP</b>	<b>Land and buildings</b>	<b>Ducts and telecommu- nication equipment</b>	<b>Other tangible fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 31 December 2004</b>					
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
<b>Year ended 31 December 2005</b>					
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	(1,159)	280	-	(290)
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	(50,221)	(1,076)	(4,072)	-	(55,369)
Depreciation charge	(8,766)	(183,797)	(9,371)	-	(201,934)
Closing net book amount	87,436	612,234	18,432	4,374	722,476
<b>At 31 December 2005</b>					
Cost	131,813	2,183,309	70,979	4,418	2,390,519
Accumulated depreciation	(44,377)	(1,571,075)	(52,547)	(44)	(1,668,043)
Net book amount	87,436	612,234	18,432	4,374	722,476
<b>Year ended 31 December 2006</b>					
Opening net book amount	87,436	612,234	18,432	4,374	722,476
Additions	15	3,151	420	88,597	92,183
Reclassifications	4,675	(2,191)	(38)	-	2,446
Disposals and retirements	(5,492)	(277)	(104)	-	(5,873)
Transfers from construction in progress	2,875	76,767	4,205	(83,847)	-
Depreciation charge	(13,982)	(152,819)	(6,501)	-	(173,302)
Closing net book amount	75,527	536,865	16,414	9,124	637,930
<b>At 31 December 2006</b>					
Cost	120,635	2,206,266	67,513	9,124	2,403,538
Accumulated depreciation	(45,108)	(1,669,401)	(51,099)	-	(1,765,608)
Net book amount	75,527	536,865	16,414	9,124	637,930



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**13 Property, plant and equipment (continued)**

COMPANY	Land and buildings	Ducts and telecommu- nication equipment	Other tangible fixed assets	Construction in progress	Total
<b>At 31 December 2004</b>					
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
<b>Year ended 31 December 2005</b>					
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
<b>At 31 December 2005</b>					
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
<b>Year ended 31 December 2006</b>					
Opening net book amount	53,661	604,026	14,125	4,373	676,185
Additions	5,115	34	280	88,598	94,027
Disposals and write-offs	(5,691)	(269)	(84)	-	(6,044)
Reclassifications	639	(747)	-	-	(108)
Transfers from construction in progress	2,875	76,767	4,205	(83,847)	-
Depreciation charge	(9,433)	(149,752)	(4,887)	-	(164,072)
Closing net book amount	47,166	530,059	13,639	9,124	599,988
<b>At 31 December 2006</b>					
Cost	87,333	2,182,099	58,561	9,124	2,337,117
Accumulated depreciation	(40,167)	(1,652,040)	(44,922)	-	(1,737,129)
Net book amount	47,166	530,059	13,639	9,124	599,988

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**14 Intangible assets**

<b>GROUP</b>	<b>Licences</b>	<b>Software</b>	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Assets in the course of construction</b>	<b>Total</b>
<b>At 31 December 2004</b>						
Cost	2,575	353,040	602	15,168	505	371,890
Accumulated amortisation	(1,847)	(277,151)	-	(9,144)	(298)	(288,440)
Net book amount	728	75,889	602	6,024	207	83,450
<b>Year ended 31 December 2005</b>						
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
<b>At 31 December 2005</b>						
Cost	2,575	350,571	-	14,835	84	368,065
Accumulated amortisation	(2,096)	(314,006)	-	(11,267)	-	(327,369)
Net book amount	479	36,565	-	3,568	84	40,696
<b>Year ended 31 December 2006</b>						
Opening net book amount	479	36,565	-	3,568	84	40,696
Additions	-	1,065	2,658	-	11,663	15,386
Disposals and write-offs	-	-	-	(2)	-	(2)
Reclassification	-	10,365	-	608	(10,973)	-
Reclassification from other accounts	-	5	-	-	-	5
Amortisation charge	(261)	(20,470)	-	(1,816)	-	(22,547)
Closing net book amount	218	27,530	2,658	2,358	774	33,538
<b>At 31 December 2006</b>						
Cost	2,575	266,353	2,658	15,276	774	287,636
Accumulated amortisation	(2,357)	(238,823)	-	(12,918)	-	(254,098)
Net book amount	218	27,530	2,658	2,358	774	33,538

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**14 Intangible assets (continued)**

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
<b>At 31 December 2004</b>					
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
<b>Year ended 31 December 2005</b>					
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
<b>At 31 December 2005</b>					
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
<b>Year ended 31 December 2006</b>					
Opening net book amount	310	33,577	3,551	84	37,522
Additions	-	-	-	11,550	11,550
Reclassifications	-	10,365	608	(10,973)	-
Amortisation charge	(169)	(19,249)	(1,808)	-	(21,226)
Closing net book amount	141	24,693	2,351	661	27,846
<b>At 31 December 2006</b>					
Cost	1,691	243,911	15,208	661	261,471
Accumulated amortisation	(1,550)	(219,218)	(12,857)	-	(233,625)
Net book amount	141	24,693	2,351	661	27,846

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 0.8 million as at 31 December 2006 (2005: LTL 0.7 million). The management of the Company is considering a possibility to renew the expiring licence or employ alternative technologies to provide services for the customers currently connected using NMT network.

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

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**15 Investments in subsidiaries and associates**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
At the beginning of year	1,182	1,294	27,093	45,583
Share of results of associates	41	95	-	-
Acquisition of minority interest (Note 31)	-	-	5,465	-
Contribution to cover losses of subsidiary	-	-	-	950
Impairment of investments	-	-	-	(2,757)
Reduction of share capital of subsidiary	-	-	-	(5,432)
Investment reclassified to assets held for sale	-	-	(403)	(7,500)
Dividends received	(47)	(207)	-	(3,751)
Associate disposed	(1,176)	-	(416)	-
At end of year	-	1,182	31,739	27,093

In 2006 the Company reclassified investment in OOO Comliet-Kaliningrad carried at cost to assets held for sale (in 2005: UAB Comliet). For revaluation effect of the investment at fair value less cost to sell see Note 20.

The Company recorded an impairment provision (release) for the following investments accounted under Investments in subsidiaries and associates:

	<b>Year ended 31 December</b>	
	<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>
UAB Kompetencijos Ugdyimo Centras (former Lietuvos Telekomo Verslo Sprendimai)	-	3,526
UAB Voicecom	-	950
UAB Comliet	-	(1,719)
	-	2,757

Recoverable amount of the investments in subsidiaries and associates was determined as higher of fair value less cost to sell or value-in-use. In 2005 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.

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**16 Trade and other receivables**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Trade receivables from business and residents	83,323	82,376	79,998	80,578
Trade receivables from other operators	8,242	6,750	8,242	6,750
Receivables from companies collecting payments for telecommunication services	3,460	3,528	3,460	3,528
Provision for impairment of receivables	(18,556)	(21,753)	(18,927)	(21,753)
Accrued revenues from operators	5,048	4,821	5,048	4,821
Accrued revenue for other telecommunication services provided and equipment sold	7,966	6,907	7,719	6,907
Prepaid expenses and other receivables	11,607	22,512	10,928	5,894
Receivables from related parties (Note 33)	1,997	1,298	2,610	2,222
Loans to related parties (Note 33)	150,583	-	156,683	46,986
	<u>253,670</u>	<u>106,439</u>	<u>255,761</u>	<u>135,933</u>
Less non-current portion	(4,951)	(1,547)	(10,951)	(1,547)
Current portion	<u>248,719</u>	<u>104,892</u>	<u>244,810</u>	<u>134,386</u>

**17 Held-to-maturity investments**

Held-to-maturity investments consist of bonds issued by the Lithuanian banks. The effective interest rate on the bonds was 3.15% (2005: 2.40%) and these bonds will mature in 22 days (2005: 78 days) on average. Fair value of bonds approximate to their carrying values.

**18 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 2006 the investment in the fund was accounted at fair value of EUR 9.9 million (LTL 34.3 million) (2005: EUR 10.1 million (LTL 34.8 million). Fair value was determined by the reference to published price quotations.

**19 Cash and cash equivalents**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Cash in hand and at bank	130,512	98,875	122,870	82,664
Short term bank deposits	100,000	50,000	100,000	50,000
Restricted cash	2,069	726	2,069	726
	<u>232,581</u>	<u>149,601</u>	<u>224,939</u>	<u>133,390</u>

The effective interest rate on the Group's and the Company's short-term bank deposits, held with Lithuanian banks was 3.25% (2005: 2.25%).

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**19 Cash and cash equivalents (continued)**

Restricted cash includes short-term deposits in AB Bankas Hansabankas amounting to LTL 0.4 million (2005: LTL 0.4 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 0.26% (2005: 0.46%). Also see Note 29.

Restricted cash also includes LTL 1.8 million (2005: LTL 0.3 million) held in temporary deposit accounts at SEB Vilniaus Bankas AB related to guarantees granted by the bank on behalf of the Company.

**20 Assets held for sale and discontinued operations**

As at 31 December 2006 the Group accounted for assets and liabilities directly associated with assets classified as held for sale relating to OOO Comliet-Kaliningrad (2005: UAB Comliet, UAB Comliet Sprendimai, UAB MicroLink Lietuva, UAB Baltijos Kompiuteriu Akademija). Assets held for sale also include one building that is contracted for sale to a third party (2005: 3 buildings)

As at 31 December 2006 the Company accounted for investment in subsidiary as asset held for sale relating to OOO Comliet-Kaliningrad (2005: UAB Comliet, UAB MicroLink Lietuva, UAB Baltijos Kompiuteriu Akademija).

As at 31 December 2006 OOO Comliet-Kaliningrad was in the process of disposal. The transaction was completed on 15 February 2007 (see Note 34). For disposals during 2006 see Note 32.

Major classes of assets classified as held for sale:

	As at 31 December			
	GROUP		COMPANY	
	2006	2005	2006	2005
<i>Non-current assets held for sale, except for disposal group:</i>				
Property, plant and equipment	1,353	54,550	-	-
	1,353	54,550	-	-
<b>Disposal groups:</b>				
Property, plant and equipment	2	3,792	-	-
Investment property	-	106	-	-
Goodwill	-	5,553	-	-
Other intangible assets	-	98	-	-
Investments in subsidiaries	-	-	267	15,013
Deferred tax asset	44	949	-	-
Inventories	-	1,272	-	-
Trade and other receivables	113	4,689	-	-
Current income tax prepayments	-	259	-	-
Cash and cash equivalents	4	3,561	-	-
	162	20,279	267	15,013
Total assets classified as held for sale	1,515	74,829	267	15,013

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**20 Assets held for sale and discontinued operations (continued)**

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

	As at 31 December			
	GROUP		COMPANY	
	2006	2005	2006	2005
Borrowings	-	1,005	-	-
Deferred income tax liability	-	9	-	-
Other taxes payable	6	560	-	-
Trade and other payables	79	3,017	-	-
Total liabilities directly associated with assets classified as held for sale	85	4,591	-	-

In 2006 the Group and the Company remeasured disposal groups at fair value less cost to sell with the following remeasurement charge to the income statement:

	2006	
	GROUP	COMPANY
UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija	1,879	879
OOO Comliet-Kaliningrad	-	136
Total charge net of tax	1,879	1,015

The effect of remeasurement of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija was included under discontinued operations as both acquired companies were considered as acquired with a view to resale. The Group acquired UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija from AS MicroLink (Estonia) in November 2005 as part of the acquisition of MicroLink group by companies of TeliaSonera group. As anticipated, the Lithuanian Competition Council obliged the Company to sell UAB MicroLink Lietuva. UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija were sold on 2 March 2006.

Operations of UAB MicroLink Lietuva, UAB Baltijos Kompiuterių Akademija for period January-February 2006 (November – December 2005) disclosed under discontinued operations. Analysis of the result is as follows:

	GROUP	
	2006	2005
Revenue	3,647	3,531
Expenses	(2,896)	(3,128)
Operating profit	751	403
Financial activity, net	13	(4)
Profit from discontinued - before tax	764	399
Income tax expenses	(137)	(9)
Profit from discontinued operations – after tax	627	390
Pre-tax loss recognised on the remeasurement of assets of disposal group	(2,320)	-
Tax	441	-
Loss recognised on the remeasurement of assets of disposal group – after tax	(1,879)	-
Profit for the year from discontinued operations	(1,252)	390

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**21 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.

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 the Company 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 the Company's 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 2006.

**22 Legal reserve**

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve reaches 10% of the share capital. The legal reserve can be used to cover the accumulated losses.

**23 Trade, other payables and accrued liabilities**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Trade payables	46,356	32,530	41,737	28,082
Trade payables to operators	4,001	2,405	4,086	2,439
Taxes, salaries and social security payable	25,090	24,177	20,834	17,625
Accruals to operators	4,384	4,201	4,384	4,212
Accrued liabilities	3,668	2,224	2,645	2,182
Derivative instruments (Note 28)	-	2,727	-	2,727
Other payables and deferred revenue	12,124	8,140	10,625	7,382
Amounts payable to related parties (Note 33)	1,701	3,446	7,086	7,656
	<u>97,324</u>	<u>79,850</u>	<u>91,397</u>	<u>72,305</u>
Less non-current portion	(2,634)	(1,664)	(1,885)	(1,664)
Current portion	<u>94,690</u>	<u>78,186</u>	<u>89,512</u>	<u>70,641</u>



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**24 Borrowings**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Current</b>				
Current portion of long-term bank borrowings	-	7,476	-	7,275
Finance lease liabilities	818	730	814	711
	818	8,206	814	7,986
<b>Non-current</b>				
Finance lease liabilities	7,764	7,863	7,764	7,860
	7,764	7,863	7,764	7,860
<b>Total borrowings</b>	8,582	16,069	8,578	15,846

As at 31 December 2006 no bank borrowings (2005: LTL 7.2 million) were guaranteed by the Lithuanian Government.

Fair value of borrowings approximate to their carrying values.

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

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

	<b>Due in 1 year</b>	<b>Due between 2 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
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 2006	1,146	4,524	4,582	10,252
Less future finance charges	(328)	(969)	(373)	(1,670)
Present value of minimum lease payments at 31 December 2006	818	3,555	4,209	8,582

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**24 Borrowings (continued)**

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)	(723)	(2,477)
Present value of minimum lease payments at 31 December 2005	711	3,183	4,677	8,571
Minimum lease payments at 31 December 2006	1,142	4,524	4,582	10,248
Less future finance charges	(328)	(969)	(373)	(1,670)
Present value of minimum lease payments at 31 December 2006	814	3,555	4,209	8,578

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	
	2006	2005	2006	2005
Premises	8,263	8,339	8,263	8,339
Passenger cars	130	202	127	178
	8,393	8,541	8,390	8,517

**25 Deferred income taxes**

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

	GROUP		COMPANY	
	2006	2005	2006	2005
At beginning of year	41,249	55,149	26,798	39,136
Income statement credit (Note 10)	(23,823)	(14,849)	(13,163)	(12,338)
Reclassification to assets held for sale	55	949	-	-
At end of year	17,481	41,249	13,635	26,798
Deferred income tax to be recovered after more than 12 months	4,742	23,328	5,703	13,637
Deferred income tax to be recovered within 12 months	12,739	17,921	7,932	13,161
	17,481	41,249	13,635	26,798

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**25 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:

<b>GROUP– deferred tax liabilities</b>	<b>Investment relief</b>	<b>Other</b>	<b>Total</b>
At 31 December 2005	91,682	-	91,682
Charged/ (credited) to net profit	(28,009)	109	(27,900)
At 31 December 2006	63,673	109	63,782

  

<b>GROUP – deferred tax assets</b>	<b>Accelerated depreciation</b>	<b>Other</b>	<b>Total</b>
At 31 December 2005	(48,501)	(1,932)	(50,433)
Charged/ (credited) to net profit	4,013	64	4,077
Reclassification to assets held for sale	-	55	55
At 31 December 2006	(44,488)	(1,813)	(46,301)

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 0.4 million (2005: 1.7 million) in respect of losses that can be carried forward against future taxable income and expires in 2010 - 2011.

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

<b>COMPANY – deferred tax liabilities</b>	<b>Investment relief</b>	<b>Other</b>	<b>Total</b>
At 31 December 2005	77,022	-	77,022
Charged/ (credited) to net profit	(17,356)	109	(17,247)
At 31 December 2006	59,666	109	59,775

  

<b>COMPANY – deferred tax assets</b>	<b>Accelerated depreciation</b>	<b>Other</b>	<b>Total</b>
At 31 December 2005	(48,501)	(1,723)	(50,224)
Charged/ (credited) to net profit	4,013	71	4,084
At 31 December 2006	(44,488)	(1,652)	(46,140)

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**25 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	
	2006	2005	2006	2005
Deferred tax assets	(46,301)	(50,433)	(46,140)	(50,224)
Deferred tax liabilities	63,782	91,682	59,775	77,022
	17,481	41,249	13,635	26,798

**26 Grants**

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

	GROUP		COMPANY	
	2006	2005	2006	2005
<b>Balance at 1 January 2006</b>	7,080	9,280	7,080	9,280
New grants received	405	345	405	345
Amortization of deferred income to match related depreciation	(2,349)	(2,545)	(2,349)	(2,545)
Amortization of deferred income to match related expenses	(409)	-	(409)	-
<b>Balance at 31 December 2006</b>	4,727	7,080	4,727	7,080

**27 Provisions**

Provision for restructuring costs established by the Company was fully utilized during 2006.

**28 Financial instruments**

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. All contracts expired by 31 December 2006.

**29 Contingent liabilities**

Guarantees

As at 31 December 2006 the aggregate of tender and agreement performance guarantees provided by AB SEB Vilniaus Bankas on behalf of the Company amounts to LTL 7 million (2005: LTL 2.1 million).

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**29 Contingent liabilities (continued)**

*Investigations*

In January 2006, the Communications Regulatory Authority (CRA) designated the Company as an operator with Significant Market Power (SMP) in wholesales broadband access market, and in February 2006 – as an operator with SMP in national and international transit services provided on the fixed public telephone network market. According to these decisions, regulatory obligations to the Company were imposed. The Company has appealed these decisions to the court requesting revocation of the designations of the Company as SMP in wholesales broadband access and national and international transit markets. In case of unfavourable final outcome, the Company may need to invest in additional telecommunication equipment to meet the requirement of CRA relating to SMP.

**30 Commitments**

*Capital commitments*

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Property, plant and equipment	74,269	3,389	74,269	3,029
Intangible assets	-	36	-	-
	<b>74,269</b>	<b>3,425</b>	<b>74,269</b>	<b>3,029</b>

Majority of commitments of the Group and the Company relates to the contracts concluded in relation to the construction of new headquarters building.

*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 the Company) for sales of eight properties in 2005. Ownership of five properties was transferred to the third party in December 2005 and three remaining in June 2006. In 2005 the Company entered into a leaseback agreement for aforementioned premises at four locations for 2 years (lease of three of these locations commenced in July 2006) and leaseback of technical premises at seven different locations for 10 years (lease of three of these locations commenced in July 2006).

Two year lease agreements were concluded in order to rent office space for the period until new headquarters building will be constructed. 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. New headquarters building is planned to be available for use in the second half of 2008.

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Minimum lease payments	4,808	2,307	4,040	1,673

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**30 Commitments (continued)**

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Not later than 1 year	6,337	4,011	5,761	3,986
Later than 1 year but not later than 5 years	9,729	11,637	7,335	11,568
Later than 5 years	5,195	6,464	3,323	6,464
	21,261	22,112	16,419	22,018

**31 Acquisition of minority interest**

On 7 April 2006 the Company acquired remaining 40% of the share capital of UAB Baltic Data Center from TietoEnator Oyj for the total consideration of LTL 5,062 thousand.

Details of minority interest of UAB Baltic Data Center acquired and related goodwill arising on the acquisition are as follows:

Purchase consideration	5,062
Minority interest acquired	(2,404)
Goodwill	2,658

**32 Disposal of subsidiaries**

On 28 February 2006 entire holding in UAB Comliet was disposed together with its wholly owned subsidiary UAB Comliet Sprendimai. During 2006 the disposed business contributed revenue of LTL 2,595 thousand (2005: LTL 37,204 thousand) and loss of LTL 188 thousand (2005: LTL 5,601 thousand).

For results contributed by disposed UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija see Note 20.

The assets and liabilities disposed of all above entities at the moment of their disposal are as follows:

	<b>Disposed carrying amounts</b>
Cash and cash equivalents	2,174
Property, plant and equipment	3,696
Intangible assets	87
Other non-current assets	1,055
Inventory	1,814
Receivables, prepayments, and accrued revenue	6,829
<b>Total assets</b>	<b>15,655</b>

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**32 Disposal of subsidiaries (continued)**

Equity	10,135
Borrowings	942
Trade, other payables and accrued liabilities	4,578
<b>Total equity and liabilities</b>	<b>15,655</b>

Disposed consideration settled in cash:

Total disposal consideration	14,184
Less cash not received	(3,626)
<b>Cash inflow from disposal</b>	<b>10,558</b>

Cash and cash equivalents in subsidiaries disposed were classified as assets held for sale, therefore for cash flow purposes inflow from disposal was not deducted by cash and cash equivalents in the subsidiaries disposed.

**33 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 States of Sweden and Finland. The following transactions were carried out with related parties:

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	50,817	47,709	48,425	46,159
Subsidiaries of the Company	-	-	4,610	5,131
Associate of the Company	58	541	45	375
<b>Total sales of telecommunication and other services</b>	<b>50,875</b>	<b>48,250</b>	<b>53,080</b>	<b>51,665</b>

**Purchases of assets and services:**

*Purchases of assets from:*

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	483	-	-	-
Subsidiaries of the Company	-	-	7,700	6,105
Associate of the Company	366	1,467	366	1,467
	849	1,467	8,066	7,572

*Purchases of services from:*

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	45,751	52,672	45,167	52,019
Subsidiaries of the Company	-	-	39,246	46,925
Associate of the Company	991	4,838	960	4,792
	46,742	57,510	85,373	103,736
<b>Total purchases of assets and services</b>	<b>47,591</b>	<b>58,977</b>	<b>93,439</b>	<b>111,308</b>

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**33 Related party transactions (continued)**

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

**Total receivables and accrued revenue from related parties**

*Receivables from related parties:*

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	1,329	1,013	1,054	777
Subsidiaries of the Company	-	-	888	1,230
Associate of the Company	-	36	-	32
	<u>1,329</u>	<u>1,049</u>	<u>1,942</u>	<u>2,039</u>

*Accrued revenue from related parties:*

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	668	183	668	183
Associate of the Company	-	66	-	-
	<u>668</u>	<u>249</u>	<u>668</u>	<u>183</u>
Total receivables and accrued revenue from related parties	<u>1,997</u>	<u>1,298</u>	<u>2,610</u>	<u>2,222</u>

**Payables and accrued expenses to related parties**

*Payables to related parties:*

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	1,522	1,973	1,437	1,938
Subsidiaries of the Company	-	-	5,467	4,204
Associate of the Company	-	878	-	871
	<u>1,522</u>	<u>2,851</u>	<u>6,904</u>	<u>7,013</u>

*Accrued expenses to related parties:*

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
TeliaSonera AB and its subsidiaries	179	595	179	584
Associate of the Company	-	-	3	59
	<u>179</u>	<u>595</u>	<u>182</u>	<u>643</u>
Total payables and accrued expenses to related parties:	<u>1,701</u>	<u>3,446</u>	<u>7,086</u>	<u>7,656</u>

**Loans to related parties:**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Beginning of the year	-	-	46,986	11,003
Loans advanced during year	150,000	-	150,700	53,800
Loan repayments received	-	-	(41,416)	(18,000)
Interest charged	2,018	-	2,387	1,594
Interest received	(1,435)	-	(1,974)	(1,411)
End of the year	<u>150,583</u>	<u>-</u>	<u>156,683</u>	<u>46,986</u>



**TEO LT, AB**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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

**33 Related party transactions (continued)**

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

Name of the related party	Loan granted	Balance	Maturity	Interest rate
		outstanding as at 31 December 2006		
UAB Voicecom	200	84	due on 31 October 2007	2.05%
UAB Lintel	45,000	6,000	due on 3 May 2010	2.10%
TeliaSonera AB	150,000	150,000	due on 22 February 2007	3.50%

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)**

	2006	2005
Remuneration of key management personnel	3,089	3,270

The total amount including remuneration and annual compensations (tantiems) paid to the seven members of the Board of the Company during 2006 amounted to LTL 808 thousand (2005: LTL 802 thousand).

**34 Events after the balance sheet date**

In December 2006, the Company, signed a Memorandum of Understanding with shareholders of UAB Mikrovisatos TV, regarding acquisition of 100 percent stake in UAB Mikrovisatos TV and submitted an application to Lithuanian Competition Council to obtain permission for market concentration. On 12 February 2007 owners of UAB Mikrovisatos TV cancelled the preliminary share purchase agreement. The reason for termination was stated as the undue delay from the Competition Council resulting significant risks to the business of UAB Mikrovisatos TV. The termination of the agreement will not have any major impact on the future business of the Company.

In February 2007 the Company concluded the agreement to sell 100 percent stake in OOO Comliet-Kaliningrad. This transaction was completed on 15 February 2007.

Arūnas Šikšta  
General Manager

Jan-Erik Elsérius  
Jan-Erik Elsérius  
Chief Financial Officer

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**TEO LT, AB**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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

Approved by the Board  
as at 14 March 2007

## **CONSOLIDATED ANNUAL REPORT**

### **TO THE SHAREHOLDERS OF TEO LT, AB**

The year 2006 was especially significant to the Company. In May, implementing the shareholders' meeting decision of 24 April 2006, the Company changed its name from AB Lietuvos Telekomas to TEO LT, AB (hereinafter 'TEO' or 'the Company'). The Company have closed a page of outstanding history, involving number of decades, and opened a new one full of challenges and determination.

In 2006, TEO and its subsidiaries (hereinafter 'TEO Group' or 'the Group') from fixed telephony and internet services operator became an integrated telecommunications, IT and television service provider. TEO Group is a part of the largest telecommunication corporation in Nordic and Baltic Country TeliaSonera AB.

Last year the changed Company daringly entered into new areas of activities – started provisions of digital terrestrial and digital internet television services, and to business customers offered integrated voice, data communication, internet and IT services from one reliable source.

In 2006, changes that occurred in the activities along side with the Company's name change inspired to formulate a new vision and mission of the Company. Renewed TEO vision and mission reflects the Company's growth and change, its new name and new markets that were entered in 2006.

TEO vision is to be the best partner in communicating with the constantly changing world. By employing the most modern technologies we enable our customers to reach people, knowledge and entertainment. TEO mission is to create value for shareholders and customers by providing professional and high-quality telecommunications, TV and IT services.

Communication Regulatory Authority (CRA) of Lithuania has designated TEO together with its related legal entities as an operator with significant market power (SMP) in 14 markets. As TEO and UAB Omnitel as members of TeliaSonera Group are regarded as related entities, TEO is considered as SMP in the market of voice call termination at public mobile network of UAB Omnitel.

In 2006, TEO 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.

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

Consolidated TEO Group revenue for the year 2006 was up by 0.7 per cent over the total revenue of LTL 730 million for the year 2005 and amounted to LTL 735 million. Consolidated revenue excluding UAB Comliet revenue grew by 4.6 per cent over the year. Profit before income tax in 2006 was up by 49.2 per cent and amounted to LTL 162 million (LTL 109 million in 2005). Profit for the period in 2006 (including minority interest and profit from discontinued operations) amounted to LTL 131 million, an increase by 55.3 per cent over LTL 84 million in 2005.

During 2006 the total assets of TEO Group remained almost unchanged and decreased by 0.8 per cent to LTL 1,249 million, whereof cash, trading investment and held-to-maturity investments represented almost quarter of the total assets and amounted to LTL 307 million. In 2006, TEO granted a short-term loan amounting LTL 150 million to its major shareholder TeliaSonera AB. Despite of dividend payout and sale of associates and subsidiaries shareholders' equity increased by 0.3 per cent and amounted to LTL 1,110 million. In December 2006, TEO fully repaid its loan to European Bank for Reconstruction and Development. At the end of the year the total amount of borrowings included only financial liabilities related to financial leasing of premises and vehicles, and amounted to

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**TEO LT, AB**  
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LTL 8.6 million.

Due to increase in inventories (DSL modems, IP TV set-up-boxes, etc.) and in accounts receivables net cash flow from operating activities in 2006 was by 14.5 per cent lower than net cash from operating activities a year ago and amounted to LTL 295 million. During the first half of 2006 proceeds from sale of buildings and stakes in subsidiaries were received. Remaining 40 per cent stake in UAB Baltic Data Center was acquired, the loan granted and dividends from UAB TietoEnator Consulting were received. In 2006 capital investments amounted to LTL 98 million (LTL 74 million in 2005). Majority of capital investments (65 per cent) went to expansion and modernisation of core and access network including LTL 14.8 million investments into development of new functionalities (digital TV, LAN, VoIP, etc.). Overall, net cash during 2006 used in investment activities amounted to LTL 77 million and in financing activities – LTL 135 million. Nevertheless, cash and cash equivalents during 2006 increased by LTL 83 million (LTL 61 million in 2005).

As on 31 December 2006 TEO Group consists of the parent company, TEO LT, AB, and its subsidiaries UAB Lintel (100 per cent), UAB Baltic Data Center (100 per cent), UAB Voicecom (100 per cent), UAB Kompetencijos Ugdymo Centras (until June 2006 named as UAB Lietuvos Telekomo Verslo Sprendimai) (100 per cent), OOO Comliet-Kaliningrad (100 per cent), VšĮ TEO Sportas (100 per cent) and Baltic Data Center SIA (100 per cent). TEO is the sole founder of its wholly-owned non-profit organisation VšĮ TEO Sportas (until June 2006 named VšĮ Lietuvos Telekomo Sporto Klubas). UAB Baltic Data Center has a dormant subsidiary Baltic Data Center SIA (100 per cent) in Latvia.

During the last year the Group's structure was completely streamlined by divesting non-core activities and focusing on the core telecommunications and IT businesses.

During 2006 total number of employees (headcounts) in TEO Group went up from 3,005 to 3,098. Sale of subsidiaries (UAB Comliet, UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija) reduced total number of Group employees by 269. During 2006 total number of employees (headcounts) in parent company, TEO, increased by 164, UAB Lintel – by 190, UAB Baltic Data Center and UAB Kompetencijos Ugdymo Centras by 12 and 17 persons, respectively, while VšĮ TEO Sportas due to sale of its main fitness club reduced its staff by 21 employees.

On 28 February 2006, the Company sold all shares of its subsidiary 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. This transaction also included the sale of UAB Comliet subsidiary, UAB Comliet Sprendimai (UAB Comliet owned 100 per cent of UAB Comliet Sprendimai shares).

On 31 January 2006 UAB Comliet and UAB Comliet Sprendimai sold their respective 95 per cent and 5 per cent stakes in OOO Comliet-Kaliningrad (domiciled in Russian Federation) to the Company. The Company acquired 100 per cent stake in OOO Comliet-Kaliningrad whose authorised capital as of 31 January 2006 amounted to RUB 4 million (LTL 403 thousand). During 2006 authorised capital of OOO Comliet-Kaliningrad was reduced to RUB 2.634 million (as of 31 December 2006 it amounted to LTL 267 thousand). On 15 February 2007 the dormant subsidiary was sold to legal and private persons of Russian Federation.

On 2 March 2006, following the obligation of the Lithuanian Competition Council of 27 October 2005 the Company sold 100 per cent of UAB MicroLink Lietuva and 100 per cent of UAB Baltijos Kompiuterių Akademija to the third party. The Company acquired 100 per cent of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares in November 2005 as a part of the three Baltic telecoms' deal on acquisition of MicroLink Group.

On 28 March 2006, liquidation of UAB Verslo Portalas was completed. In March 2004, the shareholders of Verslo Portalas – the Company held 30 per cent and UAB Verslo Žinios 70 per cent of shares - started liquidation of UAB Verslo Portalas, a business-to-business portal verslas.com.

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

On 29 March 2006, the Company signed agreements on acquisition of 40 per cent stake in UAB Baltic Data Center from TietoEnator Oyj and sale of its 26 per cent stake in UAB TietoEnator Consulting to TietoEnator Oyj. On 7 April 2006, the transaction on acquisition of remaining 40 per cent stake in UAB Baltic Data Center and sale of 26 per cent stake in UAB TietoEnator Consulting was completed. From 7 April 2006 the Company owns a 100 per cent stake in UAB Baltic Data Center and TietoEnator Oyj – a 100 per cent stake in UAB TietoEnator Consulting. In 2006, UAB TietoEnator Consulting paid to the Company LTL 47 thousand in dividends for the year 2005.

A letter of intent for acquisition of 100 per cent stake in UAB Mikrovisatos TV signed in December 2006 was terminated by the initiative of UAB Mikrovisatos TV shareholders in February 2007.

TEO LT, AB (until 5 May 2006 named as AB Lietuvos Telekomas), the parent company of the Group, offers to residential and business customers in Lithuania voice telephony, Internet, digital television, data communication and telecommunication networks interconnection services. In May 2006, together with the changed name of the Company new secondary brands of the major Company's activities were introduced to the market. VOX – voice services for residential customers, ZEBRA – internet services, GALA – digital television services and TEO VERSLAS – voice, internet, data communication and IT services for business customers. TEO also operates one of the most visited Internet portal [www.zebra.lt](http://www.zebra.lt) (until May 2006 named as [www.takas.lt](http://www.takas.lt)).

During 2006 TEO retained its leading position on fixed voice telephony and broadband internet markets. According to the Report of Communications Regulatory Authorities (CRA) for the third quarter of 2006, the Company's market share on fixed-line telephony market in terms of customers amounted to 92.3 per cent and in terms of revenue – to 96 per cent. The Company's market share on total internet providers market in terms of revenue amounted to 41.6 per cent while share on broadband internet access market was 48 per cent. In terms of revenue TEO had 19 per cent of networks' interconnection, 49 per cent of leased lines and 51.5 per cent of data communications markets.

During the year total number of main telephone lines in service decreased by 13.6 thousand lines or 1.7 per cent to 784,958 lines. Although starting from September number of lines was not decreasing but increasing due to attractive internet and IP TV offerings. During 2006 there were installed 53 thousand new telephone lines, while 66.6 thousand lines were disconnected. Also in 2006 number of revenue generating lines increased.

Total calls traffic in 2006 compared to 2005 declined by 2.1 per cent. Traffic of local calls decreased by 3.1 per cent, calls from fixed to mobile network by 3.1 per cent and international calls by 3.0 per cent but traffic from long distance domestic calls increased by 1.8 per cent and partly offset the decline in other calls.

In 2006, the Company simplified its products portfolio by replacing previous internet plans for residential customers with three major plans: Basic Internet, Optimum Internet and Premium Internet. During 2006 number of ADSL access users increased by 76 thousand. Out of total 180.8 thousand ADSL access points 176.1 thousand are sold to retail customers, 2.2 thousand to wholesales customers and 2.5 thousand to LAN (local area network) users. The first ADSL access points using LAN were installed in February 2006. In August 2006, TEO introduced VoIP service for its ZEBRA internet services users. At the end of 2006 number of ZEBRA voice over IP service users was 1,135.

During the last year TEO rapidly developed its wireless broadband internet access points network (based on WiFi technology), where services since July 2005 were provided free of charge. During the year number of wireless internet access points increased from 287 to 804. In July connection speed was increased up to 4 Mb/s and more.

In 2006, the Company started new television business. In July, TEO turned on its first transmitter of digital terrestrial television (DVB-T) signals in Vilnius city area and in October, started provision of digital television over internet (IP TV) service GALA. At the end of 2006 there were 4,902 users of IP TV.

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**TEO LT, AB**  
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(All amounts are in LTL '000 unless otherwise stated)

Information technology services are another strategic area of TEO Group development. In September 2006, in addition to IT infrastructure services offered by Baltic Data Center the Company started provision of PC maintenance services to small and medium size companies. Another TEO subsidiary, Lintel, from July provides professional consultancy service on PC and internet usage by short number all around the clock.

During 2006 in order to better satisfy customers' needs and remain competitive on the market organisation structure of TEO was continuously improved by focusing on sales organisation, quality management and development of IT services. In March a separate Sales and Marketing Division and new Information Technology Business Development Unit were established within the Company. In December 2006, TEO started formation of a new Process and Quality Management Department.

In 2006, the share capital of TEO LT, AB remained unchanged and consisted of 814,912,760 ordinary registered shares of LTL 1 nominal value each. Amber Teleholding A/S (registered in Denmark), a wholly-owned subsidiary of Swedish TeliaSonera AB, held 60 per cent of TEO shares. At the end of 2006 Swedish investment fund East Capital Asset Management held 5.57 per cent of the Company's shares (in 2005 – 6.75 per cent). The State of Lithuania continued to give up shares of the Company as compensation to Lithuanian citizens for realty redeemable by the State of Lithuania, so its shareholding went down from 2.05 per cent (31 Dec. 2005) to 1.66 per cent (31 Dec. 2006).

UAB Lintel, a subsidiary of TEO LT, AB, the same as in 2005 held 12,698,412 ordinary registered shares of TEO LT, AB and 2,539,683 GDRs of the Company, i.e. 4.67 per cent of the Company's share capital. Following the Lithuanian Company Law TEO shares held by UAB Lintel are considered as treasury stocks. The treasury stocks were acquired during the Initial Public Offering in the year 2000. The remaining 28.1 per cent of the Company's shares are held by more than 12 thousand Lithuanian and foreign investors.

At the end of 2006, 10.5 per cent of TEO LT, AB shares were converted into Global Depository Receipts (1 GDR represents 10 ordinary shares). TEO shares are traded on the Vilnius Stock Exchange (from May 2006 TEO shares' ticker on VSE is TEO1L) and GDR's on London Stock Exchange (from May 2006 ticker on LSE is TEOL).

At the beginning of 2006 the price of one share of the Company on Vilnius Stock Exchange was 2.71 litas and at the end – 2.76 litas. The lowest share price during the year was 2.10 litas and the highest – 2.80 litas. Shares' turnover on Vilnius Stock Exchange in 2006, compared to the year 2005, increased by 59 per cent and amounted to 132.8 million shares or LTL 318 million. At the end of 2006 TEO market capitalisation amounted to LTL 2,249 million (LTL 2,208 million in 2005).

At the beginning of the year the price of one GDR of the Company on London Stock Exchange was 9.3 US dollar and at the end – 10.6 US dollar. The lowest GDR price during 2006 was 7.7 US dollar and the highest – 10.6 US dollar. Turnover of Global Depository Receipts amounted to 4.2 million GDRs or GBP 19 million.

In 2006, the Company paid out to the shareholders LTL 124,291 thousand of dividends or 0.16 litas per share for the year 2005.

UAB Lintel is the largest subsidiary in terms of business volumes and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. It handles around 16 million contacts per year. Lintel also provides Directory Inquiry Service 118, telemarketing and customer care services. UAB Lintel also holds 4.67 per cent of treasury stocks of the Company's. In 2006, UAB Lintel paid to the Company LTL 40 million dividends for the year 2005.

UAB Baltic Data Center is one of the most rapidly growing IT services to enterprise customer providers in Lithuania. Services provided by UAB Baltic Data Center comprise a complex enterprise systems maintenance package that implies Server, Data Base and data streams as well as IT Service Desk services.

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In December 2005, UAB Voicecom took over from UAB Comliet the permission to use the national network of mobile analogue cellular radio communication of the NMT-450 standard. Permission is valid until 31 October 2007.

UAB Kompetencijos Ugdymo Centras (until June 2006 named as UAB Lietuvos Telekomo Verslo Sprendimai) provides training and consultancy services, organises certified trainings. UAB Kompetencijos Ugdymo Centras employees people from former Competence Development Center of the Company. Kompetencijos Ugdymo Centras is one of the largest employees' development institutions in Lithuania.

In June 2006, VšĮ Lietuvos Telekomo Sporto Klubas changed its name to VšĮ TEO Sportas. Institution supports TEO (formerly Lietuvos Telekomas) women basketball team, a multiple champion of Lithuania and Baltic States, and operates a fitness center ZEBRA SPORT at P. Lukšio str. 34 in Vilnius. TEO is the sole founder of non-profit organisation VšĮ TEO Sportas.

In December 2006, TEO received support of LTL 2 million from European Union Structural Fund for implementation of research and development project Creation of prototype of IP TV interactive services and content management and provision systems. This project will last until September 2008.

In 2007, TEO Group will seek to increase consolidated revenue by increasing number of broadband internet services users, by maintaining existing voice service customers and revenue as well as looking for new revenue streams from IT and other new business areas. The Group should maintain high EBITDA margin and increase consolidated profit.

In 2007 the Company will continue to develop IP TV services by creating new service functionalities, expanding number of TV channels and packages. From March 2007 TEO will introduce charges for using ZEBRA wireless internet access service and will continue a rapid development of its wireless internet network by 2009 investing up to LTL 35 million and increasing number of hot-spots until 20 thousand.

In 2007, the strategic priority will be given to development of IT services, wireless internet access network and fibre to the user (FTTx) projects.

TEO subsidiaries should increase their external revenue; look for new markets and business areas. In 2007, Baltic Data Center is planning to invest LTL 1.9 million into new IT service management system. In total TEO Group in 2007 plans to devote LTL 164 million for capital investments.

The Group's and the Company's activities expose it to a variety of financial risks. Foreign exchange risk arising from various currency exposures primarily with respect to US Dollar (USD) and Special Drawing Rights (SDR) is controlled by hedging the foreign currency exposure of its purchase contracts and debt commitments. The Group has no significant concentrations of credit risk outside TeliaSonera Group. The Group has policies that limit the amount of credit exposure to any one financial institution. 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's income and operating cash flows are substantially independent of changes in market interest rates. 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 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.

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TEO LT, AB essentially follows a new recommendatory Corporate Governance Code for the Companies Listed on the Vilnius Stock Exchange (hereinafter 'the Governance Code') adopted in August 2006. According to the Articles of Association of TEO LT, AB the governing bodies of the Company are the General Shareholder's Meeting, the Board and the General Manager. There is no Supervisory Council in the Company. The Board consists of seven Members that are elected for the period of two years. Following the Governance Code six members of the Board are considered non-executive directors and one is executive director, whereby two out of seven members represent minority shareholders. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee. The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code that is attached as an appendix to this Consolidated Annual Report

Arūnas Šikšta  
General Manager



Jan-Erik Elsėrius  
Chief Financial Officer



DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2006

APPENDIX TO THE CONSOLIDATED ANNUAL REPORT

TEO LT, AB DISCLOSURE CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON THE REGULATED MARKET IN 2006

TEO LT, AB (hereinafter 'TEO' or 'the Company') following paragraph 3 of Article 21 of the Law of the Republic of Lithuania on Public Trading in Securities and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main TEO development directions and strategies are publicized in the Annual and Interim Reports and the Company's performance presentations, that are available on the Company's webpage, and are regularly discussed during conference calls with investors and etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the Company are acting in order to implement TEO mission (renewed in 2006) – to create value for shareholders and customers by providing professional and high-quality telecommunications, TV and IT services.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company has the Board that represents the shareholders of the Company, is responsible for strategic management of the Company, supervises activities of CEO of the Company, on a regular basis convokes meetings of the Board, where top management of TEO on a regular basis informs the Board about the Company's performance.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's policy towards employees, customers and local community is set up in the Company's Corporate Social Responsibility Policy and will be described in the Company's Corporate Social Responsibility Report for the year 2006.



**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
FOR THE YEAR ENDED 31 DECEMBER 2006**

<b>Principle II: The corporate governance framework</b>		
<b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but minority shareholder as well, and its members are not involved in daily activities of the Company except one member of the Board who is advisor to the Company. Regular meetings of the Board when the administration of the Company reports on the Company's performance ensures effective supervision of the Company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the recommendation are fulfilled by the Board of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Following the By-Laws of the Company, the Board consists of seven Board members elected for a two-year term. At the end of 2006 TEO Board had seven members, whereof six out of seven were non-executive directors and one was executive director.

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**TEO LT, AB**  
**APPENDIX TO THE CONSOLIDATED ANNUAL REPORT**

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
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2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	Following the By-Laws of the Company, Board members are elected for a two-year term, not limiting number of the terms. Thus one member of the Board has been working in the Board since 1998, the other one – since 2001, the third one – since 2002, the fourth one – since 2003, the fifth one – since 2005, the six and the seventh ones – since 2006. The By-Laws of the Company does not provide possibility to recall a member of the Board. This can be done following the Laws.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	Chairman of the Board represents majority shareholder of the Company and is not involved in any daily activities of the Company, and has not been working in the Company. Former general managers of the Company are neither working in the Company nor in collegial body.

**DISCLOSURE OF THE COMPLIANCE WITH THE GOVERNANCE CODE  
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<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>		
<b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</b>		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	<p>While electing the collegial body, the Company's shareholders well before or during the Annual General Meeting could get acquainted with the detailed information about the nominees.</p> <p>In the Company, there exists the practice that minority shareholders through the majority shareholder may nominate candidates to the collegial body. As a result the current Board contains two out of seven members of the Board that were nominated by the minority shareholder. Annual compensations (tantiems) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last five years the same amount of annual compensation (tantiem) (LTL 54 thousand) was allocated to each member of the Board.</p>
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	<p>CVs of the candidates to the Board (including information about candidate's participation in activities of other companies) are included into the material for the Annual General Meeting (AGM) and shareholders may get acquainted with such information in advance. For instance, names of candidates to the Board in 2006 were announced on 12 April 2006 and since 14 April 2006 shareholders might get acquainted with material for the AGM. The AGM took place on 24 April 2006.</p> <p>Information about employment of the Board member as well as their participation in the activities of other companies is continuously monitored and collected, and at the end of each quarter corrected and updated by contacting each member of the Board. Then information is provided in periodic and interim Company's reports, and placed on the webpage of the Company.</p>

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3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	CVs of Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence. In periodic and annual reports for each preceding year of the Company information about the composition of the Board is presented.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	In 2006, there were three members of the Board having financial education and working in finance area, two members were top level managers in telecommunication area, and two – specialists in telecommunication technologies. All three Board members, having financial education and working in international finance area, were members of the Audit Committee.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and other shareholders have less than 10 per cent of votes, TEO Board consists of five dependent (four members are employees of the majority shareholder and one is an employee of the Company) and two independent members of the Board, in order to ensure proper resolution of conflicts of interest.

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<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1Part 1);</li> </ol>	<p>Yes</p>	<p>According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body.</p> <p>Four members of the Board are employees of the majority shareholder and represent interest of the majority shareholder.</p> <p>One member of the Board works as advisor to the Company and is nominated to the Board by the majority shareholder.</p> <p>TEO Board work regulations do not provide criteria for Board members' independence, but in 2006, when electing the Board, the unformalized independence criteria were taken into account.</p>
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<p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	<p>Not applicable</p>	

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3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Till now, the Company was not applying the practice of Board members' independence evaluation and public announcement.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	In its periodic disclosure the Company regularly discloses the Board members' relations with the Company, even though till now the Company was not applying the practice of Board members' independence evaluation and public announcement.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Annual compensations (tantiems) to the members of the Board are approved by the Annual General Meeting of Shareholders. During the last five years the same amount of annual compensation (tantiem) (LTL 54 thousand) was allocated to each member of the Board. Following International Financial Reporting Standards annual compensations (tantiems) to the members of the Board are considered as operating expenses.

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<b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>		
<b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</b>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Annual Report. Also, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the administration of the Company provides information about the Company's performance.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information possessed by the Company, all members of the Board are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2006 there was quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.



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4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	<p>The collegial body is mainly dependent on the majority shareholder that operates in the same business area but in decision-making acts in the interest of the Company.</p> <p>The Company provides the Board and its Committees with the resources needed for fulfillment of their functions (for instance, the Board member are reimbursed for expenses of traveling to the Board meetings), and employees of the Company who are responsible for the discussed area participate in the meetings of the Board and the Committees and provide all necessary information to the Board.</p> <p>The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.</p>

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

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<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>No</p>	<p>Six out of seven members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All three members of the Audit Committee are non-executive directors and two of them are independent ones. Two non-executives and one executive director work in the Remuneration Committee.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes</p>	<p>Responsibilities and work regulations of the Board committees are approved by the Board. The names of the Committee members are announced in the periodic Company's reports and on the webpage of the Company. In 2006, four Remuneration and six Audit Committees' meetings were held. All the Remuneration Committee's meetings were attended by all members of the Committee and chairman of the meeting was elected for each meeting. Following the Remuneration Committee work regulation, secretary of the meetings was Director of Human Resources Unit of the Company. All the Audit Committee's meetings, except one when one member was missing, were attended by all members of the Committee. Chairman of the meetings and the Committee was independent non-executive member of the Board. Following the Audit Committee work regulation, secretary of the meetings was Chief Financial Officer of the Company.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.</p>

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<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</li> <li>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</li> <li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>4) Properly consider issues related to succession planning;</li> <li>5) Review the policy of the management bodies for selection and appointment of senior management.</li> </ol> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>No</p>	<p>In TEO, the function of the Nomination Committee is performed by the Remuneration Committee.</p>
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> </ol>	<p>Yes</p>	<p>The Remuneration Committee makes recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.</p> <p>Twice per year the Committee presents updated information to the Board about the Committee's activities.</p> <p>The Remuneration Committee reviews and establishes the general compensation goals and guidelines for the Company's employees and the criteria by which bonuses are determined, reviews and makes recommendation for compensation for executives and management, plans for executive development and succession, supports the Chairman of the Board in the recruitment of the General Manager and supports the General Manager in recruitment of the managers directly</p>

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<p>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</p> <p>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p>		<p>reporting to the General Manager.</p>
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</li> <li>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> <li>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</li> <li>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ol> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In</p>	<p>Yes</p>	<p>The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and internal orders.</p>
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<p>such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	In the Company there was no practice of the Board performance evaluation and/or of informing about it.

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<b>Principle V: The working procedure of the company's collegial bodies</b>		
<b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b>		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company's Board meetings are chaired by the Chairman of the Board. By the proxy of the Chairman, the information about convocation of the Board meetings is disseminated by executive member of the Board. Director of Corporate and Legal Affairs of the Company assists in organizing activities of the Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The meetings of TEO Board are convoked following the schedule, preliminary agreed and approved by the Board. Not less than two meetings are convoked per quarter. It is publicly announced about the Board meetings that are approving financial statements and then, accordingly, financial statements are made publicly available.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Following the Board work regulation, information about the meeting convocation, agenda and all materials related to the agenda issues should be provided to each Board member not later than seven days before the meeting. The meeting agenda should not be changed during the meeting, unless all members present at the meeting agree or absentees inform that they agree with the changed agenda.



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5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	TEO could not fulfill this recommendation as only the Board is instituted at the Company.
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<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b>		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The share capital of the Company consists of 814,912,760 ordinary registered shares of one litas nominal value each. All shareholders of the Company's shares (except treasury stocks) are given equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The By-Laws of the Company that stipulates all the rights of shareholders are publicly available on the Company's webpage.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The shareholders approve transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	TEO shareholders' meetings are convened at the head-quarters of the Company in Vilnius. The Annual General Meetings are held in the second half of April. The AGM in 2006 was convened on 24 April 2006 at 1 p.m. The shareholders have a right to get acquainted with meeting materials not later than 10 days before the meeting. In the notice of the meeting the Company provides phone number for additional information about issues proposed for the meeting and etc.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are	Yes	On 12 April 2006 draft decisions proposed by the Board to the AGM were publicly announced and draft documents were placed on the webpage of the Company. Accordingly, after the AGM documents (financial statements, the Company's activities report, Annual Report, new By-Laws) were approved by the shareholders, they were placed on the webpage of the Company. All information and documents for investors are presented in Lithuanian and English in stock exchanges information systems and on the Company's webpage.

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not revealed.		
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of TEO may exercise their right to vote in the General Shareholders' Meeting in person or through a representative upon issuance of proper proxy or having concluded an agreement on transfer of voting right in the manner compliant with the legal regulations, also the shareholder may vote by completing the general voting ballot in the manner provided by the Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.

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

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<b>Principle VIII: Company's remuneration policy</b>		
<b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential. General information about the remuneration policy, total employee-related expenses, average salaries of certain employee groups and the total amount of salaries paid over the year to the top managers of the Company is publicly announced in the Company's annual report-prospectus.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Yes	Information about the total amount of salaries paid over the year to the top managers of the Company is publicly announced in the Company's annual report-prospectus.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	Agreements with top managers of the Company are concluded and approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Agreements with top managers of the Company are concluded and approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. Before submitting for the Board's approval nominees to the administration of the Company and their remuneration terms, nominees at first are discussed and approved at the Remuneration Committee.

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8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Company does not publicly announce its remuneration policy as such document is regarded internal and confidential.
<p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>2) The number of shares options exercised during the relevant financial year and, for each of them, the</li> </ol>	No	<p>In the annual report-prospectus the Company discloses information about the total and average amounts of salaries, annual compensations (tantiems) and other payouts paid to each member of the Board and to each member of the administration of the Company during the reporting period. Information about the Board and the administration is provided separately.</p> <p>Also the annual report-prospectus provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the administration of the Company as well as whether subsidiaries paid salaries or other payouts to the members of the Board or the administration of the Company for being members of their managing bodies.</p> <p>The Company annual report-prospectus is publicly available on the Company's webpage.</p> <p>The Company does not have any share options system for employees' remuneration. Also, there are no pension-related schemes.</p>

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<p>number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>No</p>	<p>The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.</p>

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<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.</li> </ol> <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>	Not applicable	
<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	Not applicable	
<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	Not applicable	
<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>	Not applicable	



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Principle IX: The role of stakeholders in corporate governance		
<p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	<p>The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement which obligates the management of the Company to inform employees, on a regular basis, about implementation of the Collective Agreement, the Company’s performance, changes in the market and etc.</p> <p>In 1999, following the Company’s privatization program, almost 5 per cent of the Company’s shares were sold to its employees. The current and former employees of the Company actively participate in the shareholders meetings, show interest in the Company’s performance and results. Every year the Company pays dividends to the shareholders. The Company has approved Principles for Sponsorship and Support and, on the basis of them, builds its relations with society and local communities.</p> <p>The Company prepares the Report on Social Responsibility for the year 2006 which will discuss principles and practices in relation to the cooperation with investors, employees, clients and local communities.</p>
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

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10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	<p>Since 2000 the Company has been submitting information (both in English and Lithuanian) to the information system operated by the Vilnius Stock Exchange in order that the latter can publish the received information on its webpage and the trading system simultaneously, thus ensuring dissemination of the information simultaneously to everyone interested. Also, the Company at the same time provides information to the London Stock Exchange.</p> <p>TEO always strives to announce information before or after trading hours on the Vilnius Stock Exchange and disseminate information to the all markets where the Company's securities are traded at the same time.</p> <p>The Company strictly follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.</p>
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	<p>All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage, thus ensuring fair, timely and cost-efficient access to relevant information.</p>
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	<p>The Company's webpage contains the Company's annual reports, annual reports-prospectuses and all other interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on the Vilnius Stock Exchange in both Lithuanian and English.</p>

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<b>Principle XI: The selection of the company's auditor</b>		
<b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent audit firm carries out an audit of the annual stand alone financial statements of the Company and consolidated financial statements of the Company together with its subsidiaries prepared in accordance with International Financial Reporting Standards as adopted by the EU. This independent audit firm also reviews annual reports for any inconsistencies with audited financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Board proposes the candidacy of an independent audit firm to the Annual General Meeting of Shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	No	Information about non-audit services provided to the Company by the audit firm following the laws is annually presented to the Lithuanian Securities Commission for approval of the audit firm's candidacy together with the audit firm's confirmations that non-audit services provided will not affect auditors' independence. Such information is not presented to the Company's shareholders.