LIETUVOS TELEKOMAS

# ANNUAL REPORT

# 2005

# CONTENT

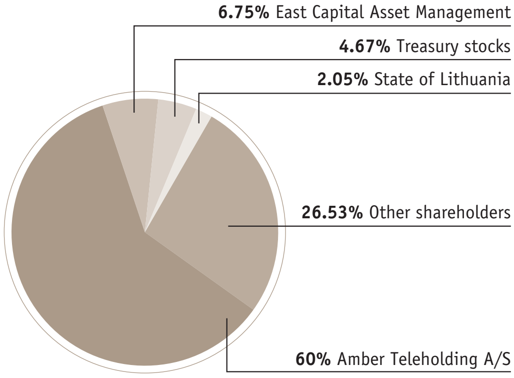
# KEY FIGURES OF LIETUVOS TELEKOMAS' GROUP

| | | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Revenue (a) | LTL million | 733 | 723 | 810 |
| EBITDA | LTL million | 357 | 337 | 388 |
| EBITDA margin | % | 48.6 | 46.7 | 47.9 |
| Profit before profit tax | LTL million | 109 | 41 | (38) |
| Net profit | LTL million | 84 | 34 | (35) |
| Total assets | LTL million | 1,261 | 1,280 | 1,542 |
| Shareholders' equity | LTL million | 1,104 | 1,121 | 1,136 |
| Return on capital employed | % | 9.6 | 3.7 | (0.8) |
| Return on shareholder's equity | % | 7.5 | 2.9 | (3.1) |
| Equity to assets ratio | % | 87.7 | 87.6 | 73.7 |
| Cash flow from operating activities | LTL million | 342 | 276 | 320 |
| Earnings per share | LTL | 0.11 | 0.04 | (0.05) |
| Weighted average number of shares (b) | 1,000 shares | 776,818 | 776,818 | 776,818 |
| Capital expenditure | LTL million | 74 | 75 | 51 |
| Personnel at the end of the year | | 3,005 | 3,120 | 3,586 |
| Number of fixed lines in service | | 798,617 | 819,147 | 828,318 |
| Penetration of lines per 100 residents (c) | % | 23.5 | 23.9 | 24.0 |
| Digitalisation rate | % | 93.5 | 92.7 | 91.2 |
| Number of lines per full-time employee employed in the core business | | 343 | 334 | 281 |

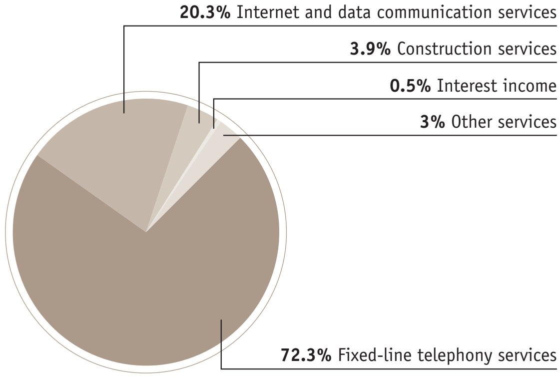
*On 31 December 2005, the official exchange rates were as follows: USD 1 = LTL 2.9102, 1 EUR = LTL 3.4528.*

*NOTES:*
*(a) Gain on disposal of property, plant and equipment is excluded, but interest income is included.*
*(b) Treasury stocks held by UAB Lintel are excluded.*
*(c) Calculated on the basis of the following population figures: in 2005 – 3,403 thousand, 2004 – 3,428 thousand, in 2003 – 3,446 thousand.*

## STRUCTURE OF AB LIETUVOS TELEKOMAS' SHAREHOLDERS AS OF 31 DECEMBER 2005




## REVENUE BREAKDOWN IN 2005



# IMPORTANT EVENTS IN 2005

## JANUARY

Lietuvos Telekomas launched an Internet dial-up access promotion campaign "The Whole Night on the Web for 1 Litas".

The operators of Directory Inquiry Services 118 of UAB Lintel have received the 50 millionth call. The callers from now on also can get information about medications and their availability in nearest drugstore.

## FEBRUARY

Lietuvos Telekomas outsourced its storage administration, logistics and procurements supervision functions.

The Board appointed the new Chief Operating Officer and Deputy General Manager of AB Lietuvos Telekomas.

## MARCH

Lietuvos Telekomas improved its Internet broadband access plans Takas iD1 and Takas iD2 by increasing amount of downloadable data for the same monthly fee and subscribers to Takas iD3 could browse the Internet round the clock for 45 litas a month.

The Board decided to convoke the Annual General Meeting of AB Lietuvos Telekomas' Shareholders on 22 April 2005 and proposed to pay 0.13 litas dividend per share.

## APRIL

Two members of the Board – Timo Virtanen and Kennet Rådne – resigned from their positions on the Board.

Directory Inquiry Service 118, provided by UAB Lintel, commenced the provision of information on the schedules and routes of urban public transport.

The Annual General Meeting of Shareholders approved the Company's activity report of the year 2004, annual financial statements as well as the profit allocation report, and elected two new members of the Board – Tomas Lenke and Valdo Kalm.

## MAY

The Company's newly reorganized Private Customers Department and the newly established Business Customers Department, which also took over the functions of UAB Lietuvos Telekomo Verslo Sprendimai, started their activities.

Lietuvos Telekomas offered a new Internet plan, ensuring 2 Mbps Internet speed rate.

Lietuvos Telekomas, Elion Ettevotted (Estonia) and Lattelekom (Latvia) signed the agreement on the acquisition of AS MicroLink Group.

Lietuvos Telekomas paid out dividends to its shareholders totalling 101 million litas for the year 2004.

## JUNE

Two Internet websites of AB Lietuvos Telekomas took the first places in the championship of Lithuanian WWW sites.

## JULY

The Company launched the pilot provision of public wireless Internet service in the main streets of the biggest cities of Lithuania.

Lietuvos Telekomas won the tender for the use of digital terrestrial television channels.

## AUGUST

The Company won the tender for the provision of Internet access services to the Academic and Research Network in Lithuania (LITNET).

Lietuvos Telekomas offered users, ordering the Takas iD0 Internet plan, to buy a PC for 1 litas.

## SEPTEMBER

The Company expanded its long-distance optical communication network with a new 60 Gbps capacity DWDM system.

## OCTOBER

Lietuvos Telekomas officially launched the provision of a new service – high-speed wireless Internet.

The Board approved the sales of the buildings owned by Lietuvos Telekomas' Group whose total book value amounted to 70 million litas.

The Company together with the Association of Local Authorities in Lithuania launched a project, aimed at promoting the expansion of Internet services and residents' education in thirty municipalities of Lithuania.

## NOVEMBER

Stefan Albertsson, Chief Commercial Officer and Deputy General Manager, left the Company.

AB Lietuvos Telekomas acquired a 100 per cent stake in UAB MicroLink Lietuva and a 100 per cent stake in UAB Baltijos Kompiuterių Akademija.

The Company offered to buy, together with Internet access service, a portable notebook PC with wireless Internet equipment for one litas.

## DECEMBER

UAB Comliet sold its 55 per cent stake in Estonian company Telegrupp AS.

Lietuvos Telekomas' Group sold its fitness center at Savanorių ave. 28, Vilnius as well as the real estate related to it.

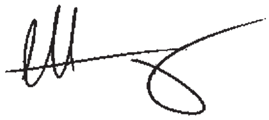
AB Lietuvos Telekomas signed an agreement on sales of 100 per cent shares of UAB Comliet.

Lietuvos Telekomas' Group sold its eight real estate units located in Vilnius.


Lietuvos Telekomas women basketball team, supported by the Company, is one of the best teams in Europe. It took the 4th place in the 2005/2006 Euroleague season.

Guard SANDRA VALUŽYTĖ

# ADDRESS BY THE CHAIRMAN OF THE BOARD



**Erik Hallberg**

Chairman of the Board
AB Lietuvos Telekomas

## Successful turnaround in all dimensions

During 2005 Lietuvos Telekomas showed that the measures, initiated in 2004 by the Board and management of the Company have continued to be successful both financially as well as with a view to the conditions on the market.

In 2005 we have strongly defended our position on the market at the same time as we have increased our customer focus. This resulted in a strong customer satisfaction index. Marketing activities have quickly resulted in a rapid growth in broadband. Through the acquisition of baltic Data Center at the gegining of 2006, we are now able to strongly focus on new corporate solutions that complement and add value to our existing portfolio.

The Company's swift expansion of WiFi hotspot for its broadband and corporate customers creates a new leading position in wireless broadband services. The Company will continue to find ways of enhancing its services through cooperation with other companies and its own processes for growth.

The licence that we obtained for terrestrial digital TV is proof of the Company's creativity. It also further increases an already great development opportunity for Lietuvos Telekomas. The Board sees great possibilities for the Company to have a strong presence in the market obtaining new local customers by offering new media services through TV-set-up box, IP TV or mobile TV in the future.

The selling of Comliet creates focus as the new owners will be in a better position to pay marked attention to it.

The Company's financial development is cause for great pride not only for the Board – each and one of Lietuvos Telekomas' employees has every reason to be proud too. It is a team achievement to get such a great and rapid change. I and the Board would also like to acknowledge the work carried out by the Company's management team with its CEO, Arūnas Šikšta, at the helm. They have dared to take up the gauntlet and showed that it is possible to succeed.

# GENERAL MANAGER'S REPORT

**Arūnas Vytautas Šikšta**
General Manager
AB Lietuvos Telekomas

## Dear Shareholders of Lietuvos Telekomas

In 2005, Lietuvos Telekomas' Group managed to achieve excellent performance results. Last year the Company fulfilled its promises both to the service users and shareholders much better than planned, which is reflected in its financial indicators.

After a fall in revenues over several years, the Company finally managed not only to stabilize its revenue, but also to achieve a small growth. During the last year, net profit increased by more than two times and we also succeeded in ensuring 48.6 per cent EBITDA margin – one of the highest among European telecommunications operators.

Good results had a positive impact on the price of the Company's shares, which grew by 26 per cent during the last year, while capitalization of the Company increased by 456 million litas.

The mutual goals for 2005 were among other things:

▲ Continue to secure the Company's position as the leading supplier of fixed-line telephony through active offers to the market,

▲ Continue further efforts to develop the broadband market,

▲ Focus on finding ways to add value to existing offers to the corporate market,

▲ Evaluate niches that both complement the Company's core business and increase its value,

▲ Phase out areas of business that are unprofitable for the Company,

▲ Strengthen the Company's financial position.

Last year Lietuvos Telekomas retained its leading position on the fixed-line telephony communication, Internet and data communication service markets.

We particularly succeeded in the area of Internet and data communication. During the year 2005, Lietuvos Telekomas even strengthened its leadership in that extremely competitive market segment. Compared to 2004, the Company's revenue from Internet and data communication services increased by 14.1 per cent. When calculated separately, the revenue from Internet services grew by 20 per cent, while revenue from data communication services went up by 5.5 per cent.

Market analysts paid attention to the active and innovative marketing activities launched by our Company to attract new customers. As a result of the successfully implemented strategy, during the year the number of Lietuvos Telekomas' broadband Internet service users doubled. In the rapidly growing broadband Internet market, last year the Company's share in terms of the number of users increased up to 43.7 per cent, while the share of the total Internet service providers' market in terms of revenue increased to 43.5 per cent.

During the last year, Lietuvos Telekomas was consistently and actively implementing the strategy of a customer-focused company. The public opinion surveys carried out at the end of the year confirmed the Company's obvious progress in that area as well: the loyalty of small and medium business enterprises to Lietuvos Telekomas rose from 41 per cent to 57 per cent. The Company became the country's business leader according to the customer care quality (the evaluation score – 9.1 out of 10 possible). The Company's general image improved by 5 points – from 7.1 to 7.6.

We have successfully completed the two-year performance improvement program and, having overcome the crisis, now we clearly know in which direction we have to go in the future.

I believe that the Company's strong financial, technological and communication base will be used in a proper manner in order that this year we can even more increase the volumes of the Company's activities, create added value for our service users and maximize the return to investors.

# STRUCTURE OF LIETUVOS TELEKOMAS' GROUP

**AB Lietuvos telekomas**

| | | | |
|---|---|---|---|
| **100%** | UAB Comliet | 100% | UAB Comliet Sprendimai |
| | | 5% | |
| | | 95% | OOO Comliet-Kaliningrad |
| **100%** | UAB Lintel | | |
| **100%** | UAB Lietuvos Telekomo Verslo Sprendimai | | |
| **100%** | UAB Voicecom | | |
| **100%** | VšĮ Lietuvos Telekomo Sporto Klubas | | |
| **60%** | UAB Baltic Data Center | 100% | Baltic Data Center SIA |
| **30%** | UAB Verslo Portalas* | | |
| **26%** | UAB TietoEnator Consulting | | |
| **100%** | UAB MicroLink Lietuva | | |
| **100%** | UAB Baltijos Kompiuterių Akademija | | |

*NOTES:*
*Group structure as of 31 December 2005*
**The Company is under liquidation.*

The largest provider of the Internet and public fixed-line telephony services in Lithuania, Lietuvos Telekomas Group, belongs to the leading Nordic and Baltic telecommunications group TeliaSonera.

**AB Lietuvos Telekomas,** the parent company of the Group, offers to private and business customers in Lithuania services within fixed-line telephony, Internet, data communication, networks interconnection. Lietuvos Telekomas also operates one of the most visited Internet portal named Takas.

**UAB Comliet** was a subsidiary of Lietuvos Telekomas that specialized in construction of external wide area and indoor telecommunications as well as other indoor engineering networks. On 28 February 2006, Lietuvos Telekomas sold all shares of UAB Comliet to Eltel Group Corporation, Finland. The transaction also included the sale of UAB Comliet subsidiary UAB Comliet Sprendimai.

On 30 December 2005, UAB Comliet sold its 55 per cent stake in Estonian company Telegrupp AS, and on 31 January 2006 UAB Comliet and UAB Comliet Sprendimai sold its 95 per cent and 5 per cent, respectively, stakes in OOO Comliet-Kaliningrad in Russian Federation to AB Lietuvos Telekomas. Now Lietuvos Telekomas owns a 100 per cent stake in OOO Comliet-Kaliningrad.

**UAB Lintel** is the largest provider of Contact Center services in Lithuania, it handles 16 million contacts per year. Lintel also provides Directory Inquiry Service 118, telemarketing and customer care services. UAB Lintel holds 4.67 per cent of Lietuvos Telekomas' shares (treasury stocks).

**UAB Lietuvos Telekomo Verslo Sprendimai** activities from 1 May 2005 were taken over by Business Customer Department of Lietuvos Telekomas. Currently UAB Lietuvos Telekomo Verslo Sprendimai is a dormant company.

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

**UAB Baltic Data Center** is providing IT infrastructure and a wide range of Service Desk services. TietoEnator Oyj, one of the biggest IT services providers in Nordic countries, owns 40 per cent of the company that serves customers in Lithuania and other Baltic states. UAB Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA (dormant company).

The main area of **UAB TietoEnator Consulting** consultancy activities is IT solutions related to telecommunications and other IT related services. The shareholders of TietoEnator Consulting are Lietuvos Telekomas (26 per cent of shares) and TietoEnator Oyj (74 per cent).

**VšĮ Lietuvos Telekomo Sporto Klubas,** a non-profit organization solely owned by Lietuvos Telekomas, supports professional sport and public fitness programs. The organization supports Lietuvos Telekomas' women basketball team, a multiple champion of Lithuania and Baltic States, and prizewinner in EuroLeague in 2005. VšĮ Lietuvos Telekomo Sporto Klubas also operates a fitness center in Vilnius.

In November 2005, AB Lietuvos Telekomas acquired a 100 per cent stake in UAB MicroLink Lietuva and a 100 per cent stake in UAB Baltijos Kompiuterių Akademija. UAB MicroLink Lietuva provides support and maintenance services of IT systems and private networks, develops software solutions, and UAB Baltijos Kompiuterių Akademija is engaged in the training of IT specialists. Lithuanian Competition Council allowed Lietuvos Telekomas to acquire MicroLink Lietuva under condition that the company later on will be disposed to the third party. Therefore, on 2 March 2006, Lietuvos Telekomas sold all shares of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija to AS Martinson Trigon.

AB Lietuvos Telekomas has 30 per cent and UAB Verslo Žinios 70 per cent of share of the company under liquidation, UAB Verslo Portalas.

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

Our team teaches us to be strong-willed, persistent and goal-seeking till the end

Forward JURGITA ŠTREIMIKYTĖ-VIRBICKIENĖ (right)

# LIETUVOS TELEKOMAS ON THE DOMESTIC TELECOMMUNICATIONS MARKET

AB Lietuvos Telekomas retains its leading positions on Internet, data communication and fixed-line telephony markets.

For 2005, Lithuania's telecommunications market, covering fixed-line telephony, mobile telephony, leased lines, Internet access and networks interconnection services, was valued at litas 2.5 billion. The Internet services remain the key driver for telecommunications market development.

According to the market research data, in autumn of 2005 over 37 per cent of the Lithuanian households had computers and almost 22 per cent - an access to the Internet. According to the data of the Communications Regulatory Authority, 234 thousand broadband Internet users existed in Lithuania at the end of 2005. 44.8 per cent of them connected to the Internet via the ADSL based technology, 21.2 per cent – via cable television networks, 20.2 per cent – via local area networks (LAN), 7.7 per cent – via wireless communication lines and 5.5 per cent – via optical communication lines.

Lietuvos Telekomas' share in terms of revenue of the total Internet service providers' market for the fourth quarter of 2005 was 43.5 per cent.

During 2005, the broadband Internet market share of Lietuvos Telekomas grew continuously and at the end of the year it reached 43.7 per cent of the total number of broadband Internet access users in Lithuania and, respectively, 45.9 per cent in terms of revenue.

At the end of 2005, there were 115 Internet service providers in Lithuania.

At the end of 2005, Lietuvos Telekomas had 105 thousand broadband Internet access users (via ADSL, leased lines and broadband optical access). The number of ADSL technology based service users reached 102 thousand, i. e. two times more than in the previous year. Last year, 2.7 thousand ADSL access services were sold on the wholesale market.

At the end of 2005, the total number of Lietuvos Telekomas' dial-up Internet service users was 21.3 thousand.

In 2005, Lietuvos Telekomas remained the main data communication service provider in Lithuania. According to the data of the Communications Regulatory Authority, in the fourth quarter of 2005 the Company's revenue from data communication services amounted to 54.9 per cent of the total data communication service providers' market.

According to the data of the Communications Regulatory Authority, in the fourth quarter of 2005 the Company had 53.7 per cent of the leased lines market in terms of revenue. In 2005, the number of leased lines in service slightly increased.

In 2005, Lietuvos Telekomas retained its leading position on the fixed-line telephony market. According to the data of the Communications Regulatory Authority, Lietuvos Telekomas' share of the fixed-line telephony market (excluding networks' interconnections) for the fourth quarter of 2005 in terms of revenue amounted to 93.6 per cent and in terms of the number of subscribers - 92.8 per cent. In the fourth quarter of 2005, the customers of Lietuvos Telekomas generated 94.9 per cent of the total calls traffic (98.3 per cent local, 86.4 per cent domestic long-distance, 67.9 per cent international and 83.2 per cent of calls from fixed-line to mobile networks). At the end of 2005, 40 companies provided international fixed-line telephony services in Lithuania, 20 of the aforementioned, including Lietuvos Telekomas also provided local and/or domestic long-distance calls services.

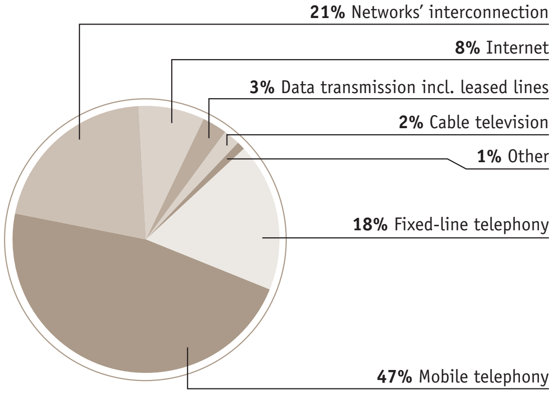
At the end of the fourth quarter of 2005, the penetration of fixed-line telephony reached 23.5 lines per 100 inhabitants of Lithuania, or 47.2 lines per 100 households.

At the end of 2005, Lietuvos Telekomas had 798.6 thousand main telephone lines or by 20.5 thousand less compared to 2004. The largest reduction in 2005 was seen in residential customers' lines, while the number of main lines used by business customers slightly increased.

For provision of services in rural and more remote areas Lietuvos Telekomas used mobile networks of GSM and NMT-450 standards. At the end of 2005, the Company had approximately 38.5 thousand lines connected to the network by using the GSM and NMT-450 technologies.

In 2005, the calls traffic of Lietuvos Telekomas was bigger than in the previous year. Compared with the year 2004, the total local calls traffic went up by 1.5 per cent, calls from the fixed-line to mobile networks up by 0.7 per cent, international calls up by 5.4 per cent, while domestic long-distance calls traffic went down by 7.6 per cent.

## BREAKDOWN OF TELECOMMUNICATION MARKET REVENUE IN 2005



# SERVICES FOR RESIDENTIAL CUSTOMERS

As on 31 December 2005, the residential customers of Lietuvos Telekomas used 618 thousand main telephone lines, including 2.3 thousand ISDN channels and 35 thousand lines, connected to the network by using the GSM and NMT-450 technologies. Compared with the year 2004, the number of main lines used by residential customers went down by 3.2 per cent.

During the last year, the Company's main focus was on the expansion and improvement of broadband Internet services. Seeking to offer the most up-to-date services to its customers, in 2005 Lietuvos Telekomas started installation of the network of wireless Internet hot-spots in the biggest cities of Lithuania.

## Internet Services

In 2005, the Company introduced a lot of new Internet services, presented various promotional offers, the target of which was to reduce Internet purchase barriers and to encourage residents to use Internet at home. During 2005, the number of Internet users increased by 65 per cent and at the end of the year it exceeded 100 thousand. At the end of 2005, 83.5 per cent of the total number of the Company's customers used the broadband, DSL technology-based Internet, while the remaining 16.5 per cent customers used the slower dial-up Internet. While at the end of 2004 the above-mentioned indicators were respectively 56 per cent and 44 per cent.

The most popular DSL technology-based Internet plan - Takas iD3. Users of this plan can use the Internet without any limitations during off-peak time and at weekends for 26 litas a month. During the year, the number of its users grew by 3.5 times up to 52 thousand.

In May 2005, Lietuvos Telekomas introduced to the market new-generation broadband Internet plans with the speed rate of up to 2 Mbps. The Company's customers can browse both Lithuanian and foreign websites at the same speed rate. At the end of 2005, the total number of the users of such Internet services was already more than 10 thousand.

In December 2004, Lietuvos Telekomas was the first on the Lithuanian market to offer customers to buy Internet together with a personal computer. Since the offer received great interest, such promotion campaigns were continued in 2005 as well.

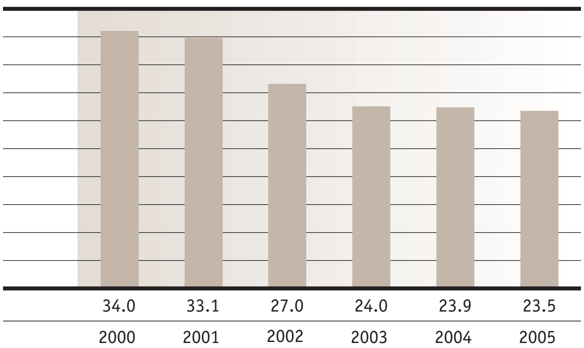
In October 2005, the Company started the intense installation of its WiFi technology-based wireless Internet service at abundantly visited public places: cafés, petrol stations, shopping centres, and educational institutions. By the end of the year 2005, almost 300 wireless Internet hot-spots were installed. At the hot-spots, it is possible to use wireless Internet access services of the highest speed in Lithuania (up to 2 Mbps). Wireless Internet hot-spots will be expanded in 2006 as well.

Lietuvos Telekomas' customers, having purchased appropriate equipment, can also use the high-speed DSL wireless Internet at home.

## Voice Telephony Services

In spite of tough competition, during 2005 the traffic of calls, generated by the residential customers of Lietuvos Telekomas, went up by 9.3%. The greatest increase was in the traffic volumes of international calls – 14.4 per cent, local calls – 8.4 per cent. The average duration of calls, made by one customer of the Company, was 145 minutes per month, i.e. by 15 minutes more than in 2004. That was induced by the growth in the number of payment plan users, who could make almost unlimited use of fixed-line telephony services.

PENETRATION (%)



## Payment Plans

At the end of 2005, payment plans were used by 67 per cent of the total number of the Company's residential customers. The most popular payment plan was Vietinis, providing the user 2 hours of free peak-time calls and 30 hours of free off-peak calls within the limits of a city or district. In October 2005, the Company launched a new payment plan Lietuvoje (In Lithuania), offering attractive conditions for making calls in the whole country. The former Šalies (Country) payment plan was replaced by Universalusis (Universal). Users of this plan have practically unlimited possibilities to make calls in the whole country and to use very favourable tariffs for calls to mobile networks and abroad.

During 2005, the number of users of the Pasaulis (World) payment plan (providing the possibility to make calls to a selected country or a group of countries at especially attractive tariffs) grew by almost two times. At the end of 2005, more than 40 thousand residential customers used the said plan.

## The Bičiuliai (Friends) Loyalty Program

Residential customers of the Company have an opportunity to avail themselves of the benefit provided by the Bičiuliai (Friends) long-term loyalty program. For using the services provided by the Company, a participant of the loyalty program gets loyalty points, which can be exchanged to discounts on the Company's services, telephone sets and prizes. In 2005, the program involved 228 thousand residential customers, who ordered various discounts and prizes.

## The Takas Internet Portal (www.takas.lt)

The Takas portal, owned by AB Lietuvos Telekomas, is one of the most frequently visited Internet portals in Lithuania. According to the data of the research company Gemius SA, the attendance of the portal rose by more than a third in 2005: the average number of Internet visitors to the portal was 45 thousand per day, the number of its visitors per month exceeded one-fourth of a million (comparison of data for December 2004 and December 2005).

In 2005, the design of the portal was updated, a more convenient structure was created and its content was expanded, and, owing to that, the Takas portal won the Best Information Portal Award in the Top.lt championship of Lithuanian WWW sites.

## Web Hosting

AB Lietuvos Telekomas remained one of the biggest providers of web site hosting services in Lithuania. The Company offered users four web hosting service packages. The Company designed a special "Susikurk pats" ("Do It Yourself") package for residential customers with the options of ordering, hosting and payment only over the Internet.

## Internaut Consulting

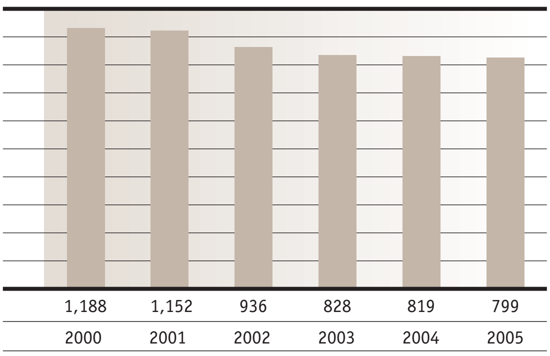
In December 2005, UAB Lintel launched a completely new service by telephone – consultations related to PC usage and information on using the Internet. The service is provided by the premium rate short number 1518, accessible from the telecommunications networks of AB Lietuvos Telekomas, UAB Omnitel and UAB Bitė Lietuva. In 2006, it is planned to start using this line for consulting customers regarding the issues related to the use of products sold by software and PC hardware retailers.

## Directory Inquiry Service 118

Directory Inquiry Service 118, provided by UAB Lintel, a subsidiary of Lietuvos Telekomas, has occupied the leading position on the market. In 2005, about 10 million directory service inquiries were answered. According to the data of the market research company UAB Baltijos Tyrimai, Directory Inquiry Service 118 holds a 79 per cent share of the Lithuanian market of directory services.

In 2005, co-operation agreements were signed with UAB Omnitel, UAB Bitė Lietuva, UAB Tele2 and UAB Nacionalinis Telekomunikacijų Tinklas on the provision of information on residential and business customers both through Directory Inquiry Service 118 and on the websites www.takas.lt and www.118.lt.

MAIN LINES (thou.)



# SERVICES FOR BUSINESS CUSTOMERS

In spite of tough competition, during the last year the number of fixed lines used by business customers increased by 0.5 per cent and at the end of the year 2005 amounted to 176 thousand main telephone lines, including 42.5 thousand ISDN channels. The number of companies using the services of Lietuvos Telekomas was stable.

During the year, the number of the Grupė (Group) (i.e. virtual private branch exchanges) service lines increased by 6 per cent. At the end of the year, Lietuvos Telekomas' business customers used 31.5 thousand Grupė (Group) lines.

In 2005, Lietuvos Telekomas paid big attention to small and medium business (SMB) customers. Seminars about the benefits and possibilities of Internet were arranged, each customer had a servicing manager appointed, and the services, meeting the needs of small and medium business, were offered. Traditionally good relations of the Company with business enterprises became even stronger last year. The year-end survey of the business customers showed that during 2005 the number of the loyal customers increased from 42 per cent to 57 per cent. The loyalty of SMB enterprises increased in particular.

## Internet Services

Seeking to retain its positions of the leading provider of services for business enterprises, in 2005 the Company offered the market a great deal of news: considerably increased Internet speed rates – the most demanding customers were provided with the possibility to choose a desirable Internet speed rate individually; changed the pricing of Internet services – granted special discounts on monthly fees, depending on the minimum duration of Internet use; offered value-added services – free e-mail boxes and space for web sites (web hosting).

A new service, Internet Solutions, was introduced to the market. The service changed many Internet services, based on different technologies and with different parameters. As a result, it became easier for customers to choose solutions tailored to their individual needs: access technology, speed of international Internet, multiplexing and other parameters.

The commenced changes of Internet plans will be completed in the first half of 2006.

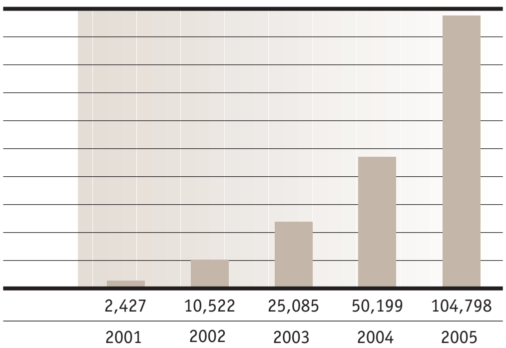
In 2005, the biggest increase (almost by one third) was in the number of the customers, using ADSL technology-based Internet, while the number of the enterprises, using slower dial-up lines for Internet access, decreased. Over the year the share of the latter customers went down from 40 per cent to 21 per cent.

## Voice Telephony

In 2005, business customers started using fixed lines for calls to mobile networks more frequently – the traffic of calls increased by about 4.5 per cent. Growing competition among fixed-line telephony service providers and increasing mobile penetration resulted in the decrease of the traffic of domestic calls. However, Lietuvos Telekomas managed to sustain the stability of international traffic volumes.

In 2005, the Company offered small and medium business enterprises new attractive payment plans for domestic long-distance, international and fixed-line to mobile calls. The number of the big business customers using payment plans continued to grow. The exceptional competitive advantage of Lietuvos Telekomas' payment plans – cheap long telephone calls, when the customer is charged only for the first 2-3 minutes of a call (when its duration is up to 15 minutes).

ADSL ACCESS POINTS



## Data Communication Solutions

In 2005, the customers gave a very positive evaluation to the new data communication services concept, the point of which – individual solutions tailored to the needs of specific customers. The sales of data communication solutions have grown substantially and Lietuvos Telekomas further retains the biggest share of the data communication market.

Developing that group of services, in autumn of 2005 the solution of remote access to the Company's network was offered which received great interest on the market.

For data communication access solutions Lietuvos Telekomas uses the technologies of digital leased line (DXX), asymmetrical digital subscriber line (ADSL), integrated services digital network (ISDN) and optical "Ethernet" network, whereas in the backbone network - those of internet protocol/multiprotocol label switching (IP/MPLS), asynchronous transfer mode (ATM / Frame relay), and synchronous digital hierarchy (SDH).

## Contact Center Services

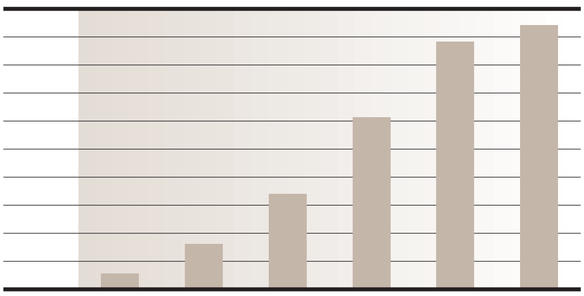
In 2005, UAB Lintel, providing the Contact Center services at contact centers in Kaunas, Panevėžys and Klaipėda, handled 5.4 million customer inquiries, the total duration of which was 12.2 million minutes.

In May 2005, implementation of a project for modernisation of the call/contact centers of UAB Lintel was commenced. The target of the project – to interconnect the Klaipėda, Panevėžys, Kaunas and Radviliškis centers into one virtual contact center, by implementing a centralized voice over IP (VoIP) technology-based contact center solution. In November 2005, a new contact distribution system was implemented at the call centers in Klaipėda and Panevėžys and they started operating as one virtual center. That allowed offering a wider package of services and a more flexible and efficient handling of heavy call volumes.

The Kaunas and Radviliškis call centers will be incorporated into to the new system in 2006 and the contact center will start functioning to the full extent.

In 2005, provision of services to the existing customers was expanded: long-term cooperation agreements were signed with several companies for the provision of services of customer care by telephone, telesales services, sale of databases and database updating services.

CENTREX LINES



| 1,743 | 5,336 | 11,291 | 20,519 | 29,604 | 31,531 |
|---|---|---|---|---|---|
| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |

# WHOLESALE SERVICES

## Wholesale Voice Services and Network Interconnection

During 2005, the network interconnection market was expanding and competition among voice service providers was increasing. At the end of 2005, there were 18 operators, purchasing wholesale telephony services from Lietuvos Telekomas on the market. Over the year 2005, the traffic of calls to the network of Lietuvos Telekomas increased by about 16 per cent, while the traffic of outgoing calls went up by more than 3 per cent.

One of the factors, which influenced the sales growth – flexible pricing, followed by especially successful activities in the business of traffic transit services. Lietuvos Telekomas remains one of the most active market players in the business of international transit in the Baltic States. In 2004 the calls traffic from one foreign country to another via Lithuania increased by more than 40 per cent and in 2005 it further increased by 10 per cent. An impressive increase was in the traffic volumes of domestic transit calls, which, compared with the year 2004, increased by more than 60 per cent. These actions ensured a steady growth of revenue from the above-mentioned activities.

## The Internet and Data Communication Services

In 2005, AB Lietuvos Telekomas, offering the Internet connection services, competed with six wholesale Internet service providers. The rapid growth of the Internet service market resulted in the increase of volumes of the connection to international Internet channels purchased from Lietuvos Telekomas by almost 2 times, while amount sold to Internet service providers increased by almost 3 times during the year 2005.

In 2005, the needs of mobile, Internet, data communication and cable TV service providers for high-capacity domestic long-distance connections continued to increase. For that purpose, last year Lietuvos Telekomas continued developing its network of backbone communication services, thus enabling provision of broadband communication services in smaller towns of the country as well. The network's transmission capacity was expanded. During 2005, there was a significant increase in the number of the customers, who, instead of leased lines, chose another access solution for connection to the wholesale Internet services of Lietuvos Telekomas.

In 2005, international high-speed data communication traffic services were sold. The Company sold seven 155 Mbps connections and one new 34 Mbps connection to international service operators.

As the international sales of data communication services were increasing, the data transmission capacity between Lietuvos Telekomas and many foreign operators was proportionally increased. For example, the data transmission capacity, available between Lietuvos Telekomas and Beltel (Belorus), was expanded by even 4 times - up to STM-16.

## The Projects for Domestic and International Customers

In 2005, AB Lietuvos Telekomas implemented more than one data communication project. One of the biggest projects in the Baltic region last year was the interconnection of shopping centres of the RIMI chain in Lithuania with the same chain's shopping centres in Latvia and Estonia.

## CUSTOMER CARE

Vision of AB Lietuvos Telekomas – leading communications service partner in Lithuania. In implementing this vision, customer care is based on the following guiding principles: to satisfy the customer's need for communication and information, to provide high-quality and simple-to-use communication services. The Company provides continuous training to a team of professionals, which openly and sincerely interacts with customers and works for the benefit of customers.

In 2005, the activities of different sales channels were developed successfully. The Company optimized the network of its sales partners. At present, the Company's customers are served and services are sold in different ways: at customer care units, located in 10 cities of Lithuania, at retail stores of the Company's sales partners in 42 cities of Lithuania, on the Internet (http://mano.telecom.lt), by telephone or through sales personnel, directly arriving at the customer's home or business office. In 2005, contact centers became one of the key channels for the sale of broadband Internet services. The number of DSL plans sold by telephone reached 22.3 thousand, which constituted 40.8 per cent of the total number of sold DSL plans.

For the customers' convenience, the working hours of customer care units were changed last year.

In 2005, the Company paid a lot of attention to the quality of services and customer care. During 2005, more than 1200 employees and managers from different areas and levels of the Company were trained to work according to the Customer Service Standard, which was introduced in 2004. The customer care quality improvement measures brought positive results – as the number of customer applications, orders and visits was increasing during the year, the high level of customer care was sustained which, according to the results of four "mystery shopping" and "mystery calling" researches reached, in average, 9.1 score with regard to customer service at customer care units and by telephone at contact centers.

According to the "mystery shopping" research, carried out by TNS Gallup in 2005, Lietuvos Telekomas is one of leaders in Lithuania and an undoubted leader among the telecommunications companies carrying out such researches (Lietuvos Telekomas' score is 9.1, while the general evaluation score is 8.3, and the average score of the telecommunications sector – 8.1). We are particularly distinguished from others for our communication skills and abilities to identify customer needs.

In 2005, the quality of customer service and work of the technical personnel, working at the customer premises, was evaluated as well. According to the customer surveys carried out, 95 per cent of customers were satisfied with service installation works and 93 per cent – with fault elimination works. The customer satisfaction was determined by knowledge and competence of the personnel.

The tendencies of growth in the traffic of calls to the centers of customer care by telephone and increase in the duration of calls were observed in 2005. Therefore, seeking to further improve the quality of service, the customer care by telephone is being transformed. There is an ongoing implementation of one single common customer service telephone number for residents and one – for business.

In order to improve customer care quality and increase performance efficiency, internal reforms were carried out within the Company. Servicing of all customers by telephone was centralized in one single unit - UAB Lintel, while sales and service units were reorganized in such a way as to provide better service to individual customer groups; related sales and customer care forces of the business customers and wholesale units were joined together.


At difficult moments, the leaders, who take the initiative in their own hands, are crucial.

Forward KATIE DOUGLAS

# NETWORK INFRASTRUCTURE

In 2005, the development of the telecommunications network of AB Lietuvos Telekomas was oriented towards the implementation of high-speed access and new technological solutions of backbone transmission networks, which enable provision of high-speed data communication and Internet services. The Ethernet-based network was developed, a new-type IP DSL network, ensuring the functionality of ADSL2+ interfaces, was constructed.

## Transmission Network

In 2005, Lietuvos Telekomas expanded its long-distance optical transmission network with a new DWDM (Dense Wavelenght Division Multiplexing) system of up to 400 Gbps capacity, interconnecting Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys and Marijampolė. The employed ring structure ensures uninterrupted service provision, even in the event of a fault on a long-distance fiber optic cable. Upon the implementation of the DWDM technology, enabling to transmit digital traffic at the speed rate of up to 10 Gbps, the transmission capacity of the international transmission network was also increased. The implemented central Network Management System allows to manage the new ring in an efficient way, to perform continuous monitoring of the transmission network's operation and to conduct remote management of services. The universal system, developed on the basis of the DWDM technology, provides the possibility to offer the market the very best and the most efficient platform for the transmission of communication signals.

## Switching Network

In 2005, AB Lietuvos Telekomas continued the digitalization of exchanges, partially replacing analogue exchanges in rural areas. During 2005, the network digitalization level increased from 92.7 per cent at the beginning of the year up to 93.5 per cent at the end of the year.

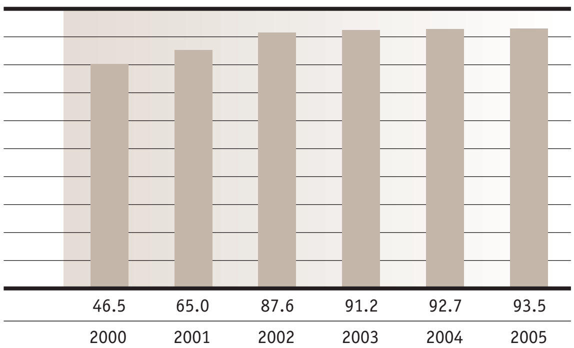
In 2005, the Company implemented the number portability service. When implementing the number portability service project, in its switching networks AB Lietuvos Telekomas installed a new Intellectual Network (IN) platform, the resources of which allow to handle about 20-30 times bigger calls traffic, to develop and provide new services.

In 2005, Lietuvos Telekomas started implementing the Voice over Internet Protocol (VoIP) technology for the provision of voice services in newly constructed residential quarters of cities and districts. In December 2005, basic installation of a VoIP platform and its integration into the Company's telecommunications network was carried out in the network of Lietuvos Telekomas, thus providing the possibility to provide traditional voice telephony services over the data communication network, and also to offer fundamentally new services to users.

## Network Management and Information Systems

In 2005, the Network Information System (NIS) was developed and optimised, the functionality of management systems was expanded by adapting them for configuration and management of DSL services.

DIGITALISATION (%)



In 2005, an automated networks troubleshooting system was implemented, which enabled to more quickly respond to service interruptions and to eliminate them.

In 2005, new DSL and WiFi network management systems, enabling a more efficient management of the above-mentioned networks, were implemented.

## Data Communication and Access Network

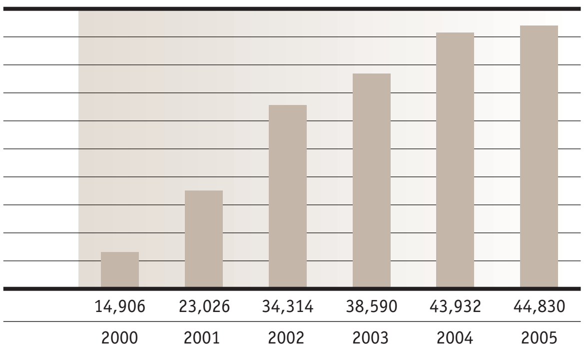
The big demand for Internet network access services resulted in the increased pace and volumes of the ADSL network construction as well as its geographical coverage, compared to the past 2001 – 2004 years. The number of installed ADSL lines increased from 62.5 thousand at the beginning of the year up to 141.4 thousand at the end of the year. In 311 new rural areas and small towns the Company started providing Internet services via ADSL access.

WiFi technologies have been started to be applied for the connection of customers to the Internet in suburban areas, gardens, i.e. in places, where copper access networks are undeveloped.

In 2005, the Company launched a new-generation backbone Metro Ethernet network with transmission capacity of 10 Gbps. The network's main elements and aggregating equipment in the biggest cities are interconnected into a ring-type structure and ensure higher reliability. In 2005, as the Metro-Ethernet network was being expanded in Lithuania, the geographical coverage of new-type ADSL network nodes, aggregated by the Ethernet technology, was rapidly expanding.

The development of the Ethernet technology enabled the provision of Internet services via local area network (LAN). In 2005, LANs were installed in the newly constructed residential quarters of the biggest cities of Lithuania.

ISDN CHANNELS



# THE ORGANIZATION AND PEOPLE

The year 2005 was marked not only by the business development but also by further significant changes in the Group's organisational structure, management, culture of the organisation, services and customer care quality. Focusing on development of the core business and concentration of customer care and service sales channels resulted in continued growth of management efficiency, reduction of administration costs, and more rational use of the Company's resources. At the end of 2005, the total number of employees in Lietuvos Telekomas' Group was 3,005 (including 89 employees of UAB Microlink Lietuva and 4 employees of UAB Baltijos Kompiuterių Akademija, the companies that were acquired November 2005). For comparison, in December 2004 the number of employees was 3,120.

The Company strived not only for essential improvement of the quality of customer care and the Company's performance in general, but also for strengthening of cooperation between the units. At the end of the year, as a year ago, the management again had the possibility to evaluate the quality of performance of all the units and to discuss peculiarities of cooperation.

Also, in order to evaluate management quality, managers' needs for development, and to better understand employees' expectations, a management competence survey, involving all the managers, was carried out. The Company also focused on the development of its managers: managers from all levels of the Company participated in a leadership and change management program, a good few of them attended training courses, seminars and conferences in Lithuania and abroad. Overall, more than 2800 employees were involved in various training programs, including about 1,200 employees and managers from different levels of the Company who were trained to work according to the Customer Service Standard of AB Lietuvos Telekomas, while 320 specialists improved their knowledge and skills in the sales area. The employees' studies in different universities of Lithuania were further sponsored; the fifth High Potential Development Program was finished.

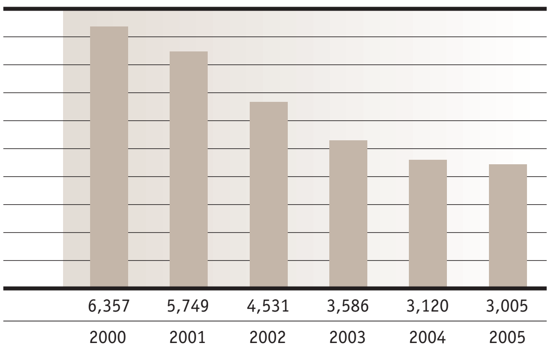
Developing the performance-oriented culture of the organisation and motivating the employees to reach the financial and non-financial targets of the Company, a balanced system of performance efficiency indicators, relating the human resources' activities evaluation system, training and development plans, and bonus principles to the achievement of the corporate, business unit and individual targets, was developed and implemented.

In order that the staff performance would be in compliance with the values and principles as well as general moral norms of the organization, the Code of Ethics was developed and introduced, and the regulations of the Committee of Ethics were approved.

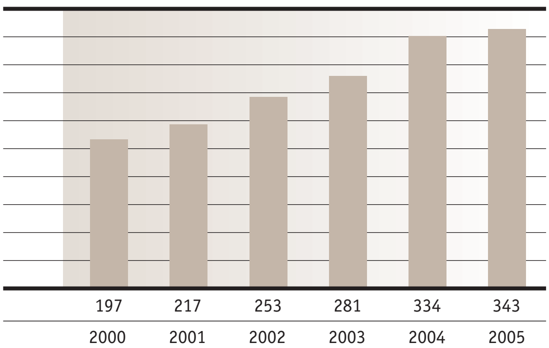
Competence Development Center of Lietuvos Telekomas, having expanded the scopes of high technologies, project management and management training, successfully provided training services to external customers as well. Contributing to the training of specialists of Lithuanian state institutions and business organisations, the Centre successfully executed the projects for the training of technical specialists of the Lithuanian Customs, improvement of management skills of staff of the Ministry of Education and Science of the Republic of Lithuania, training of employees of Lithuanian small and medium businesses, and other projects.

In 2006, efforts in the human resources management area will be focused on further increasing of management efficiency, increasing of responsibility of the managers and employees, development of their professional competence, motivation, as well as on performance quality and improvement of the motivational system.

EMPLOYEES




LINES PER EMPLOYEE



# SPONSORSHIP

## Social Partnership

In 2005, Lietuvos Telekomas remained faithful to the principle of socially responsible business – to actively execute not only its business mission, but also the social one. The Company allocated more than 3 million litas for sponsorship and charity projects. In providing support, the Company paid the biggest attention to supporting projects of educational and science institutions, information society development, disabled and socially disadvantaged people and their organisations, music, culture and sports.

## Education, Information Society

In 2005, Lietuvos Telekomas allocated more than 670 thousand litas for the implementation of educational and information society development projects. Several large-scale projects, comprising the whole educational system of Lithuania, received support from Lietuvos Telekomas last year. The Company supported the project for the introduction of the "Electronic Grade-book" at secondary schools of Lithuania aimed at the provision of all the information, related to school students' grades and progress, over the Internet. Lietuvos Telekomas also rendered support to the National Examination Center – the organisation, providing information on examination results to secondary school graduates of the country via telecommunications channels, as well as "nesiparink.egzaminai.lt/su žiniomis į Europą" (don't trip.exams.lt/with knowledge to Europe"), "Mokyklon? Pakeliui!" ("On the Way to School") campaigns, arranged by the Ministry of Education and Science. The goal of another "Drąsinkime ateitį" national project, supported by the Company – to establish relations of schools with their graduates, who have achieved a lot in science, culture, business, politics and other areas.

For the fourth year in a row the Company, on its own initiative arranged the elections of the best teachers of the country, where teachers were nominated by the school-graduates who had received the best evaluations for secondary school graduation examinations.

Together with Lithuanian local authorities, in 31 municipalities Lietuvos Telekomas implemented the Digital Divide Reduction Project, during which computer literacy and Internet Starter courses were arranged.

In 2005, Lietuvos Telekomas took part in the activities of the "Langas į ateitį" ("Window to the Future") alliance and provided free-of-charge access to 100 Lithuanian Internet websites.

## Support to Local Communities

AB Lietuvos Telekomas contributed to development of the society's culture and upholding of its welfare. In 2005, the Company paid big attention to cultural life in cities and small towns and to supporting of local communities' festivities, social and sports projects.

In 2005, the Company sponsored 56 culture projects, the biggest of which were the AURA Modern Dance Theatre, Kaunas Jazz Festival and festivals of the biggest cities – the Sea Festival in Klaipėda, the days of the cities of Vilnius, Panevėžys, Šiauliai and Kaunas. The total amount allocated to the local communities' development and culture projects during 2005 was about 309 thousand litas.

## Social Projects

A part of last year's sponsorship budget funds was allocated to healthcare and social projects: the Lithuania's psychological telephone aid services association, "Nedelsk!" ("Do not Delay!") project against breast cancer, the Lithuanian AIDS Center, projects of the Ministry of Social Security and Labour, related to the integration of the disabled into the society, "Save the children Lithuania/Gelbėkit vaikus" children's rights protection organization, Children Support Centre, Lithuanian Library for the Blind for publishing of books in Braille. In 2005, about 150 thousand litas were allocated for such projects.

## Sports

For many years Lietuvos Telekomas consistently supports Lithuanian women basketball. The Company is the main sponsor of Lietuvos Telekomas women basketball team, a multiple champion of Lithuania and Baltic States. The team sponsored by the Company won the third place in the prestigious EuroLeague Women Tournament 2004-2005.

# RECENT EVENTS

## January

AB Lietuvos Telekomas took over control of OOO Comliet-Kaliningrad from UAB Comliet (held a 95 per cent stake) and UAB Comliet Sprendimai (held a 5 per cent stake).

## February

The Board of Lietuvos Telekomas decided to construct a new head-office of the Company in Vilnius at Lvovo str. 21a.

Wireless internet access service of Lietuvos Telekomas became available in all 59 gas stations of Statoil in Lithuania.

Lietuvos Telekomas sold its all shares of UAB Comliet.

## March

A new governing structure of Lietuvos Telekomas came into force, and new Chief Marketing Officer and Deputy General Manager Nerijus Ivanauskas and new Chief Sales Officers and Deputy General Manager Darius Gudačiauskas started their work.

AB Lietuvos Telekomas sold all shares of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija.

The Board decided to convoke the Annual General Meeting of AB Lietuvos Telekomas' Shareholders on 24 April 2006 and proposed to pay a dividend of 0.16 litas per share.

AB Lietuvos Telekomas singed agreements on acgnisition of remaining 40% stake in UAB Baltic Data Center and on disposal of 26% stake in UAB TietoEnator Consulting.

Completed liquidation of UAB Verslo Portalas.

# MANAGEMENT AND CORPORATE GOVERNANCE

The By-laws of AB Lietuvos Telekomas provide that the managing bodies of the Company are the General Meeting of Shareholders, the Board and the General Manager.

The Annual General Meeting of Shareholders is convened within four months after the end of the financial year. Financial year of the Company ends on 31st of December.

The Board of Lietuvos Telekomas consists of seven members that are elected during General Meetings of Shareholders for a two-year term. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The Company has its own internal auditor. Independent external auditor is elected by the Annual General Meeting.

Auditors from UAB PricewaterhouseCoopers have audited the financial statements of AB Lietuvos Telekomas and its consolidated subsidiaries for the years ended 31st December 2001, 2002, 2003, 2004 and 2005.

## Board

**Erik Hallberg** – Chairman of the Board since 16 June 2004, member of the Board since 28 April 2003 (re-elected for the two-year term on 23 April 2004; nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board, Senior Vice President responsible for TeliaSonera Baltic Countries at TeliaSonera AB Norway, Denmark and Baltic Countries. Has no interest in the share capital of AB Lietuvos Telekomas.

**Gintautas Žintelis** – Deputy Chairman of the Board since 27 July 2004, member of the Board since 7 July 1998 (re-elected for the two-year term on 23 April 2004; nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board, Adviser-Consultant to Lietuvos Telekomas' General Manager and the Board. Has no interest in the share capital of AB Lietuvos Telekomas.

**Morgan Ekberg** - a member of the Board since 30 April 2001 (re-elected for the two-year term on 23 April 2004; nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board, Head of Network & Technology and Marketing & Products for TeliaSonera operations in Norway, Denmark and Baltic Countries. Has no interest in the share capital of AB Lietuvos Telekomas.

**Matti Hyyrynen** – a member of the Board since 26 April 2002 (re-elected for the two-year term on 23 April 2004; nominated by Deutsche Bank Trust Company Americas), member of the Audit Committee of the Board, Head of Vilnius Representative Office of European Bank for Reconstruction and Development. Has no interest in the share capital of AB Lietuvos Telekomas.

**Tomas Lenke** – a member of the Board since 22 April 2005 (elected for the current term of the Board; nominated by Amber Teleholding A/S), member of the Audit Committee of the Board, Network Manager at TeliaSonera AB, Norway, Denmark and Baltic Countries. Has no interest in the share capital of AB Lietuvos Telekomas.

**Valdo Kalm** – a member of the Board since 22 April 2005 (elected for the current term of the Board; nominated by Amber Teleholding A/S), Chairman of the Board and General Manager (CEO) of AS EMT, Estonia. Has no interest in the share capital of AB Lietuvos Telekomas.

**Andrius Šukys** – a member of the Board since 26 April 2002 (re-elected for the two-year term on 23 April 2004; nominated by Amber Teleholding A/S), member of Remuneration Committee of the Board, Attorney at Law of Lawyers company Lina Šikšniutė and Partners LRF Juridiska Byran. Has no interest in the share capital of AB Lietuvos Telekomas.

On 22 April 2005, the shareholders of the Company during the Annual General Meeting of Shareholders instead of resigned members of the Board - Kennet Rådne and Timo Virtanen – for the current term of Board following the proposal of Amber Teleholding A/S elected Tomas Lenke and Valdo Kalm as new members of the Board.

## General Manager (CEO)

**Arūnas Šikšta** (born 1968) from 2 January 2004 took the office of General Manager (CEO) of AB Lietuvos Telekomas. He has a degree in Management (1995).

As of 31 December 2005 Arūnas Šikšta was Chairman of the Board of UAB Lintel and UAB Voicecom, member of the Board of UAB Comliet and UAB Lietuvos Telekomo Verslo Sprendimai. Has no interest in the share capital of AB Lietuvos Telekomas.

## Chief Sales Officer and Deputy General Manager

**Darius Gudačiauskas** (born 1975) From 1 March 2006 took the newly established office of Chief Sales Officer and Deputy General Manager of AB Lietuvos Telekomas. He is Bachelor of Business Administration (1997), Master of Business Administration (1999) and Doctor of Social Sciences, Economics (2004). Has no interest in the share capital of AB Lietuvos Telekomas.

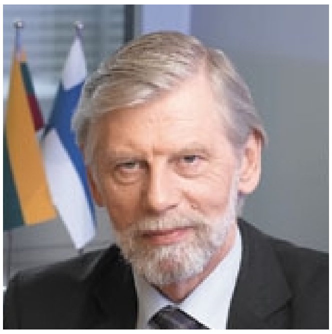
## Chief Commercial Officer and Deputy General Manager

**Nerijus Ivanauskas** (born 1970) From 1 March 2006 took the office of Chief Marketing Officer (previously Chief Commercial Officer) and Deputy General Manager of AB Lietuvos Telekomas. He is Bachelor of Econometrics (1993), Candidate Master of Business Administration (1995) and Master of Business Administration (1996). Has no interest in the share capital of AB Lietuvos Telekomas.

### Chief Operating Officer and Deputy General Manager

**Darius Didžgalvis** (born 1969) From 9 February 2005 was appointed to the position of Chief Operating Officer and Deputy General Manager of AB Lietuvos Telekomas. He has Diploma in Radio Electronics Engineering (1993), Master of Science in Telecommunications Engineering (2001) and International Executive MBA (2003). He has been employed in various positions within the Company since 1993.

As of 31 December 2005, Darius Didžgalvis was Chairman of the Board of UAB Comliet, member of the Board of UAB Voicecom and UAB Baltic Data Center. As of 31 December 2005, he had 4,669 shares of AB Lietuvos Telekomas that accounts for 0.0005 per cent of the share capital and gives 0.0006 per cent of votes.



### Chief Financial Officer and Deputy General Manager

**Jan-Erik Elsérius** (born 1943) From 1 March 2004 holds offices of Chief Financial Officer and Deputy General Manager and Head of Treasury and Investor Relations Unit of AB Lietuvos Telekomas. He is a BA in Management, Managerial Economy, Political Economy and Statistics (1967). From 29 March 1999 till 1 March 2004 he held the position of Chief Financial Officer and Director of Finance Department of AB Lietuvos Telekomas.

As on 31 December 2005, Jan-Erik Elserius was member of the Board of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Voicecom, UAB Baltic Data Center and VšĮ Lietuvos Telekomo Sporto Klubas. As of 31 December 2005, he had 90,000 shares of AB Lietuvos Telekomas that accounts for 0.011 per cent of the share capital and 0.0116 per cent of votes.

## Sales Division

**Gediminas Mažeika,**
Director of Private Customers Department

**Remigijus Šeris,**
Director of Business Customers Department and Director of UAB Lietuvos Telekomo Verslo Sprendimai

**Arnoldas Žukauskas,**
Director of Carrier Business Department

## Marketing Division

**Nerilė Dovidonytė,**
Director of Service Development Department

**Aleksas Naudžiūnas,**
Acting Director of Market Segmentation Department

**Mantas Katinas,**
Director of Advertising Department

## Technology Division

**Genadijus Simanovas,**
Director of Network Department

**Haroldas Šulčinskas,**
Director of Service Installation and Maintenance Department

**Gintaras Monkevičius,**
Director of IT and Process Department

## Finanse Division

**Aldona Galdikaitė,**
Director of Economics Department

**Dzintra Tamulienė,**
Director of Accounting Department

## Main Units

**Eglė Gudelytė-Harvey,**
Director of Corporate and Legal Affairs Unit

**Edis Kasperavičius,**
Director of Human Resources Unit

**Giedrius Vegys,**
Director of Risk Management Unit

**Kastytis Kmitas,**
Director of Internal Audit Unit

**Vygandas Jūras,**
Director of Strategic Development and Research Unit

**Saulius Markūnas,**
Director of IT Business Development unit

**Rimantas Šerkšnas,**
Director of Administration Unit

**Valdas Kaminskas,**
Director of Corporate Communication Unit

## Advisors to General Manager

**Ariana Rastauskaitė,**
Corporate Image
Formation Advisor

**Jonas Ūsas,**
Strategic Projects Advisor

**Vytautas Bučinskas,**
Quality Management Advisor

**Rosvaldas Gorbačiovas,**
Press Officer

## Subsidiares

**Daiva Urbanavičienė,**
Director of UAB Lintel

**Justas Dargužas,**
Director of
UAB Baltic Data Center

**Arvydas Tamašauskas,**
Director of VšĮ Lietuvos
Telekomo Sporto Klubas

*Note: Organizational structure and personnel as of 10 April 2006.*


The fight on the basketball field is won by the one who chooses proper strategy and is capable of correcting it right on cue

Team Head Coach ALGIMANTAS PAULAUSKAS (center)

# FINANCIAL REVIEW

## Highlights

- During the year 2005 the total revenue of the Group increased by 1.5 per cent or 10.5 million litas to 733.5 million litas over the restated revenue of 723 million litas for the year 2004.
- The total operating expenses for the year 2005 amounted to 387.6 million litas, a decrease by 1.6 per cent over 393.7 million litas for the year 2004.
- EBITDA for the year 2005 increased by 5.7 per cent and amounted to 356.7 million litas (337.3 million litas a year ago) and EBITDA margin reached 48.6 per cent (46.7 per cent a year ago).
- Profit before income tax for the year 2005 was 108.6 million litas (40.6 million litas for the year 2004) and profit for the period increased by 2.5 times and amounted to 84 million litas, while for the year 2004 profit for the period amounted to 33.6 million litas.
- Net cash flow from operating activities for the year 2005 amounted to 342 million litas (275.6 million litas for the year 2004). In spite of payout of dividends of 101 million litas and investments into financial instruments of 124 million litas cash and cash equivalents increased by 61 million litas.
- Capital investments for the year 2005 amounted to 74 million litas (75 million litas in 2004).

The consolidated financial statements of Lietuvos Telekomas' Group have been prepared according to International Financial Reporting Standards. Following the latest International Accounting Standards income statement for the year 2004 is restated.

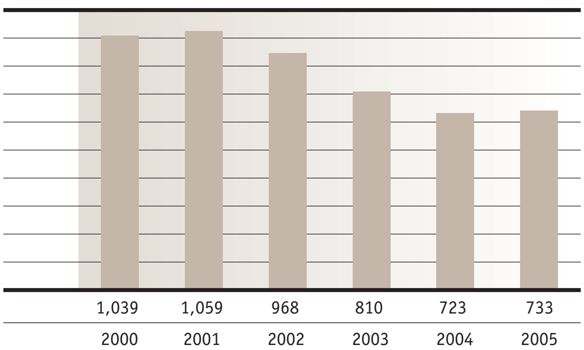
## Revenue

A 14.1 per cent yearly growth of revenue from Internet and data communication up to 149 million litas fully offset a moderate decline of 3.1 per cent in revenue from fixed-line telephony services to 530 million litas. Revenue from construction activities (UAB Comliet business) decreased by 5 per cent to 28 million litas but revenue from other services increased by 54.7 per cent up to 22 million litas and income from interest went up by 3.5 times to 3.6 million litas. As a result total revenue of Lietuvos Telekomas' Group for the year 2005 went up by 1.5 per cent to 733.5 million litas. Starting from the second quarter of 2005 total revenue figures were above the corresponding revenue figure for the year 2004.

During the year 2005, share of revenue from Internet and data communication services increased up to 20.3 per cent of total Group's revenue, while revenue for fixed-line telephony still representing the largest portion of total revenue shrank to 72.3 per cent, while revenue from the construction activities amounted to 3.9 per cent, revenue from other activities to 3 per cent and interest income comprised 0.5 per cent of total revenue.

In 2005, Lietuvos Telekomas managed to slow down the annual decline rate of revenue from fixed-line telephony services from 13.2 per cent (year 2004) to 3.1 per cent while substitution of fixed voice communication with mobile and voice over IP communication even intensified. In spite of 2.5 per cent decrease in number of main lines revenue from subscription fees declined by only 1 per cent (6 per cent in 2004). Revenue from traffic charges, which

TOTAL REVENUE (in million litas)



accounts for the largest portion of fixed-line telephony revenue, went down by 8.8 per cent (21 per cent in 2004) and revenue from interconnection services increased by 5.4 per cent (decrease of 8.7 per cent a year ago). Revenue from value-added services increase by 3.3 per cent (3.5 per cent in 2004).

During the last year 45 thousand new fixed-line telephony lines were installed while 65 thousand were disconnected. Number of main lines used by business customers increased and at the end of 2005 amounted to almost 176 thousand or 22 per cent of total number of lines. As of 31 December 2005 number of Lietuvos Telekomas' main lines in service was 798,617.

Wide usage of payment plans resulted in almost stable traffic volumes for the year 2005. Compared with the year 2004, the total local calls traffic went up by 1.5 per cent, calls from fixed-line to mobile networks up by 0.7 per cent, international calls up by 5.4 per cent (in spite of tough competition with alternative fixed-line operators in this segment), while long-distance calls traffic went down by 7.6 per cent and Internet dial-up by 11 per cent due to broadband substitution.

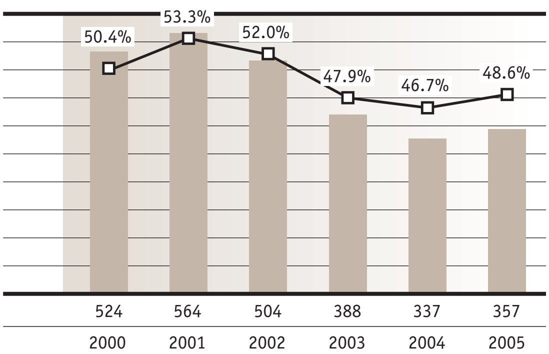
Fast development of broadband Internet market in Lithuania and sales promotion campaigns especially during the second half of 2005 resulted in surge of revenue from Internet and data communication services by 14.1 per cent amounting to 149 million litas (130 million litas in 2004). Revenue from internet services alone grew by 20 per cent and revenue from data communication services went up by 5.5 per cent. Major revenue growth came from development of broadband Internet access while Internet dial-up services declined.

During the year the number of Lietuvos Telekomas' broadband Internet access services users doubled. At the end of December 2005 the total number of DSL Takas service users was 102,117 (47,465 a year ago) and 2,681 ADSL connections were sold as wholesales.

Due to broadband Internet access substitution effect number of dial-up Internet access service users went down to 21.3 thousand (35.7 thousand in 2004).

Revenue from UAB Comliet construction activities for the year 2005 decreased by 5 per cent to 28 million litas from revenue of 30 million litas for the year 2004. During the year revenue from other services (IT services, Call Centers, fitness centers, etc.) increased by 15 per cent from 14 million litas in 2004 to 22 million litas in 2005. Following the latest International Accounting Standards revenue from financial investment activities (interest income) are included into total revenue of the Group. In 2005, interest income amounted to 3.6 million litas (1 million litas in 2004).

EBITDA (in million litas) and EBITDA margin (%)



## Operating Expenses

In 2005, Lietuvos Telekomas continued to control its expenses and improve the efficiency of its activities. As a result total operating expenses of the Group went down by 1.6 per cent to 387.6 million litas over operating expenses of 393.7 million litas for the year 2004. During 2005 employee-related expenses decreased by 5 per cent as total number of employees went down from 3,120 to 3,005 (including employees of MicroLink Lietuva and Baltijos Kompiuterių Akademija, the companies that were acquired by Lietuvos Telekomas in November 2005). The number of main lines per one core business employee increased from 334 (31 Dec. 2004) to 343 (31 Dec. 2005).

Compared with the year 2004, the interconnection expenses slightly increased by 1.1 per cent while other expenses slightly decreased by 0.3 per cent.

Net gain on disposal of fixed assets, investments and activities for the year 2005 was higher than in 2004 by 34.1 per cent and amounted to almost 11 million litas. In December 2005, Lietuvos Telekomas' Group signed an agreement on sale of eight real estate units located in Vilnius provided that the Group lease back required premises according to its needs. Part of ownership rights was transferred on 31 December 2005; the rest will be transferred till the end of June 2006. Also, in December 2005, Lietuvos Telekomas' Group sold the fitness center premises in Vilnius at Savanorių ave. together with the rights and obligations related to this fitness center activities.

Increase in revenue and continued reduction of operating expenses resulted in an increase of EBITDA by 5.7 per cent to 356.6 million litas over EBITDA of 337.3 million litas for the year 2004 and EBITDA margin stood high at 48.6 per cent (46.7 per cent in 2004).

## Profit for the Period

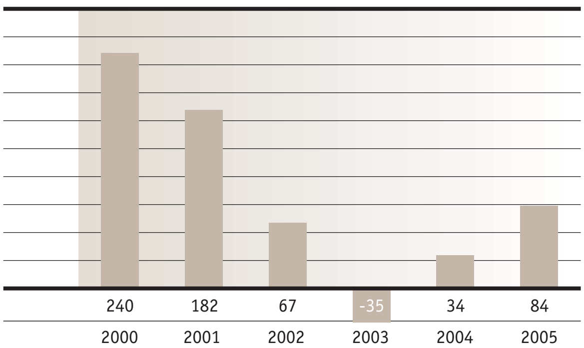
As investments levels has decreased significantly since the peak in 1998 – 2001, depreciation and amortisation charges continue to decline. Following International Accounting Standards in the second half of 2005 the Company reassessed the useful live of its assets. An impact of reassessment was a decrease of deprecation and amortisation charges by 6.9 million litas. Overall, in 2005 depreciation and amortisation charges went down by 14.7 per cent. As a result the part of depreciation and amortisation charges in total revenue shrunk from 40 per cent in 2004 to 34 per cent in 2005 having a positive effect on profitability of the Company.

Operating profit for the year 2005 went up by 2.3 times to 108.7 million litas over 46.5 million litas for the previous year and operating profit margin reached 14.8 per cent (6.4 per cent for the year 2004). Since the Company has repaid its major loans Lietuvos Telekomas' financial cost in 2005 amounted to just 163 thousand litas (6.4 million litas in 2004). As a result the profit before profit tax for 2005 was 108.6 million litas, an increase by 2.7 times over 40.6 million litas for the year 2004.

In June 2005, Lithuanian Parliament passed a law on temporary social tax of 4 per cent for the year 2006 and 3 per cent for the year 2007 in addition to regular profit tax of 15 per cent. Following the International Accounting Standards the Company made an additional provision for deferred profit tax liabilities of 6.2 million litas and by this amount increased profit tax expenses for the year 2005.

In November 2005, Lietuvos Telekomas acquired 100 per cent of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares. Lithuanian Competition Council allowed to acquire those companies but obliged Lietuvos Telekomas to sell

PROFIT FOR THE PERIOD (in million litas)



MicroLink Lietuva within certain period of time. Therefore following International Financial Reporting Standards the result of those companies activities for November and December of 2005 were not consolidated in Lietuvos Telekomas' Group results but classified as profit from discontinued activities which amounted to 390 thousand litas.

The net profit for the period (including minority interest and profit from discontinued activities) of Lietuvos Telekomas' Group for the year 2005 was 84 million litas while a year ago it amounted to 33.6 million litas, an increase by 2.5 times. Profit margin improved from 4.7 per cent to 11.5 per cent and earnings per share amounted to almost 0.11 litas.

## Investments

In 2005, capital investments of Lietuvos Telekomas' Group amounted to 74 million litas (75 million litas in 2004). Major part of the amount was invested into development of data transmission and internet access network as well as upgrade of information technology systems.

On 31 December 2005 Lietuvos Telekomas' number of main lines in service was 798,617 or 23.5 lines per 100 inhabitants of Lithuania. Digitalisation rate of the network at the end of 2005 was 93.5 per cent (92.7 per cent a year ago), total number of xDSL access connections (including the ones sold to other Internet Service Providers) doubled from 50,199 to 104,798, total number of ISDN channels in service reached almost 45 thousand (44 thousand a year ago), and number of MPLS VPN (Multiprotocol Label Switching Virtual Private Network) access points grew from 940 to 1,690. Also, by the end of the year 287 wireless internet access points based on WiFi technology were installed.

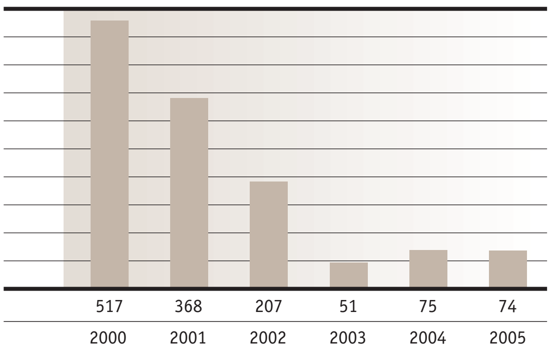
In 2005, the Company continued to streamline the whole Group's structure and reorganised its sales units. From May all business customers care activities are concentrated in a new Business Customers Department of Lietuvos Telekomas. Also, the new department took over activities earlier provided by UAB Lietuvos Telekomas Verslo Sprendimai on behalf of Lietuvos Telekomas.

On 29 July 2005 the Communications Regulatory Authority confirmed Lietuvos Telekomas as one of the winners of the tender for the provision of terrestrial digital television services. According to the schedule the first terrestrial digital television transmitters should be installed in 2006. The Company plans to invest over 10 million litas into this project depending on the needs and requirements.

On 16 May 2005, Lietuvos Telekomas signed the Forward Share Purchase agreement with AS Elion Ettevotted and SIA Lattelekom regarding the acquisition of pan Baltic IT company, AS MicroLink Group. In November 2005, AB Lietuvos Telekomas acquired from AS MicroLink 100 per cent stake in UAB MicroLink Lietuva and 100 per cent stake in UAB Baltijos Kompiuterių Akademija (IT training), and from SIA MicroLink Latvia 100 per cent stake in UAB Fortek Informacinės Technologijos. AB Lietuvos Telekomas immediately sold all shares of UAB Fortek Informacines Technologijos to the third party. Lithuanian Competition Council ruled out that Lietuvos Telekomas has to sell UAB MicroLink Lietuva to the third party, too. On 2 March 2006, all shares of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija were sold to Estonian company AS Martinson Trigon.

On 22 December 2005 AB Lietuvos Telekomas and Eltel Group Corporation, Finland, signed an agreement on sales of 100 per cent shares of UAB

INVESTMENTS (in million litas)



Comliet, a Lietuvos Telekomas' subsidiary specializing in construction of external wide area and indoor telecommunications as well as other indoor engineering networks. The transaction was completed on 28 February 2006.

On 30 December 2005 UAB Comliet sold its 55 per cent stake in Estonian company Telegrupp AS. On 31 January 2006 UAB Comliet and UAB Comliet Sprendimai sold its 95 per cent and 5 per cent, respectively, stakes in OOO Comliet-Kaliningrad in Russian Federation to AB Lietuvos Telekomas. Now Lietuvos Telekomas owns 100 per cent stake in OOO Comliet-Kaliningrad.

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

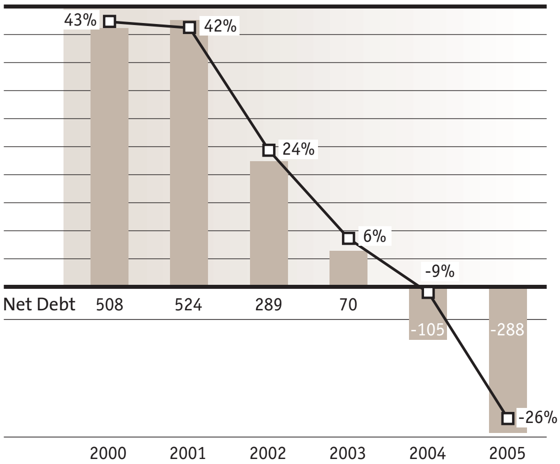
## Balance Sheet and Cash Flow

During the year 2005, the total assets of Lietuvos Telekomas' Group decreased by 1.4 per cent from 1,280 million litas (31 Dec. 2004) to 1,261 million litas (31 Dec. 2005). Due to depreciation and amortisation of the assets and sale of buildings (including eight real estate units and fitness center in Vilnius at Savanorių ave.) non-current assets decreased by 25.6 per cent while current assets (mainly cash and cash equivalents together with financial investments as well as assets held for sale that includes not yet transferred buildings, Comliet Group, UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija) increased by 96.2 per cent. Due to strong cash flow Lietuvos Telekomas' short term financial investments during the year 2005 increased from 30 million litas to 155 million litas, cash and cash equivalents – from 89 million litas to 150 million litas. At the end of 2005 non-current assets amounted to 60.5 per cent of the total assets while current assets amounted to 39.5 per cent whereof cash and held-to-maturity investments represented 24.1 per cent of the total assets.

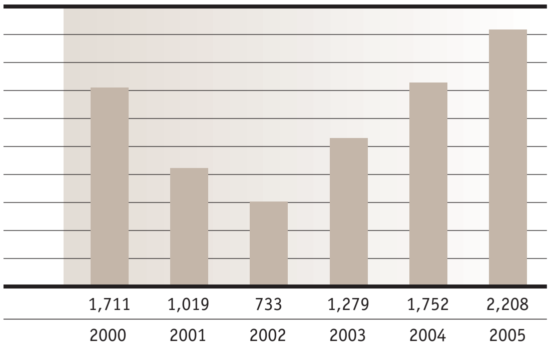
In spite of payout of dividends in May the shareholders' equity in 2005 declined by just 1.6 per cent and amounted to 1,104 million litas at the end of December. On 22 April 2005, during the Annual General Meeting shareholders of the Company decided to payout 0.13 litas dividend per share for the year 2004 (in total 101 million litas) and allocate 378 thousand litas for tantiems for the members of the Board.

Following the agreements on sale of eight real estate units in Vilnius and consequent lease back of premises required for the Group's activities additional financial liabilities regarding the future financial leasing of 8.3 million litas were recorded on both side of the balance sheet. At the end of 2005 the amount of real borrowings amounted to 7.7 million litas (13.5 million litas in 2004). Also, liabilities related to assets held for sale (Comliet Group, UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija) of 4.6 million litas were included into liabilities side of the balance sheet. As a result, during the year amount of total liabilities increased by 1 million litas and amounted to 155 million litas. At the end of 2005 total liabilities amounted to 12.3 per cent and shareholders' equity – to 87.7 per cent of total equity and liabilities of the Group. Net debt (including held-to-maturity investments) was negative and amounted to -288 million litas. The net debt to equity ratio was also negative and stood at -26.1 per cent.

NET DEBT (in million litas) AND GEARING RATIO (%)




MARKET CAPITALIZATION OF LIETUVOS TELEKOMAS AT THE END OF THE PERIOD (in million litas)



In 2005, the net cash flow from operating activities was 342 million litas (276 million litas in 2004). The net cash flow after investing activities went down from 202 million litas in 2004 to 174 million litas due to investments into financial instruments (124 million litas). As major loans were repaid in previous years, net cash used in financing activities (including payout of dividends of 101 million litas) in 2005 amounted to 113 million litas (231 million litas in 2004). Overall, during the year 2005 cash and cash equivalents of Lietuvos Telekomas' Group increased by 61 million litas, while in 2004 they decreased by 29 million litas.

## Shares and Shareholders

In 2005, the State of Lithuania continued to give up shares of AB Lietuvos Telekomas as compensation to the Lithuanian citizens for realty redeemable by the State of Lithuania and as a result its shareholding in the Company went down from 4.56 per cent (31 Dec. 2004) to 2.05 per cent (31 Dec. 2005).

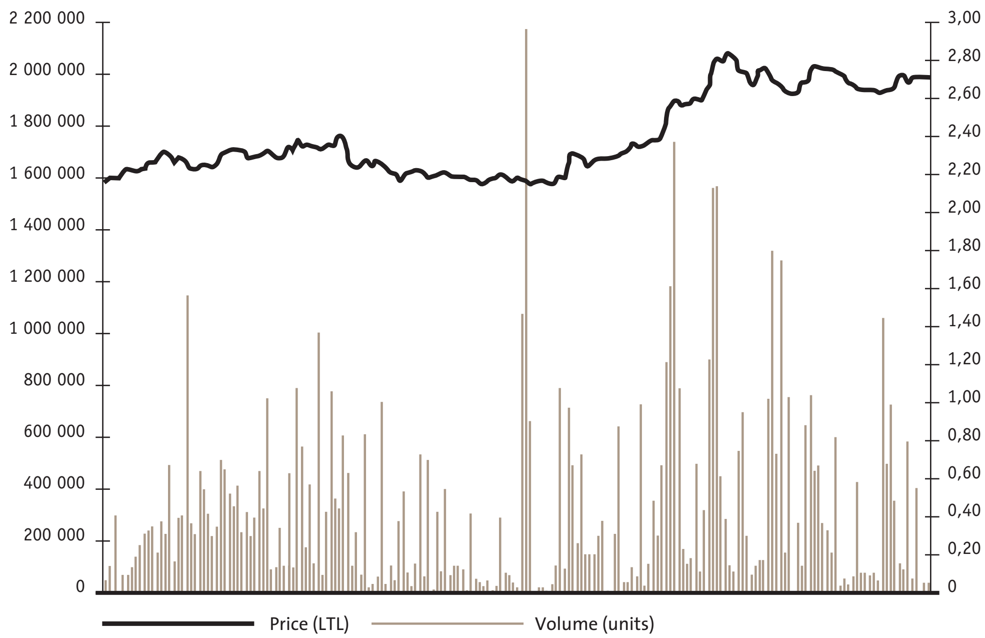
In July, European Bank for Reconstruction and Development sold its 7.73 stake in Lietuvos Telekomas that was acquired in 2000 during Initial Public Offering and was held in the form of Global Depository Receipts.

By the end of 2005 East Capital Asset Management (Sweden) owned 6.75 per cent of the Company's shares and was the second largest shareholder after TeliaSonera's subsidiary Amber Teleholding holding 60 per cent of Lietuvos Telekomas' share capital. 4.67 per cent of shares are treasury stocks held by UAB Lintel, a member of Lietuvos Telekomas' Group.

The total share capital of Lietuvos Telekomas consists of 814,912,760 ordinary registered shares of one litas nominal value each. Shares of the Company are listed on the Official List of the Vilnius Stock Exchange (VSE ticker: LTK).

In 2005, the turnover in Lietuvos Telekomas' shares on the central market of the Vilnius Stock Exchange increased by 1.8 times and made up a total of 83.5 million shares (46.4 million in 2004) with a more than doubled total value of 201.7 million litas (88.5 million litas in 2004). On the last trading day of 2005, the closing share price was 2.71 litas, an increase by 26 per cent compared with 2.15 litas as of 31 December 2004. The lowest share price during 2005 was 2.15 litas, the highest 2.84 litas. At the end of 2005, the Company's market capitalization amounted to 2,208 million litas (1,752 million litas in 2003).

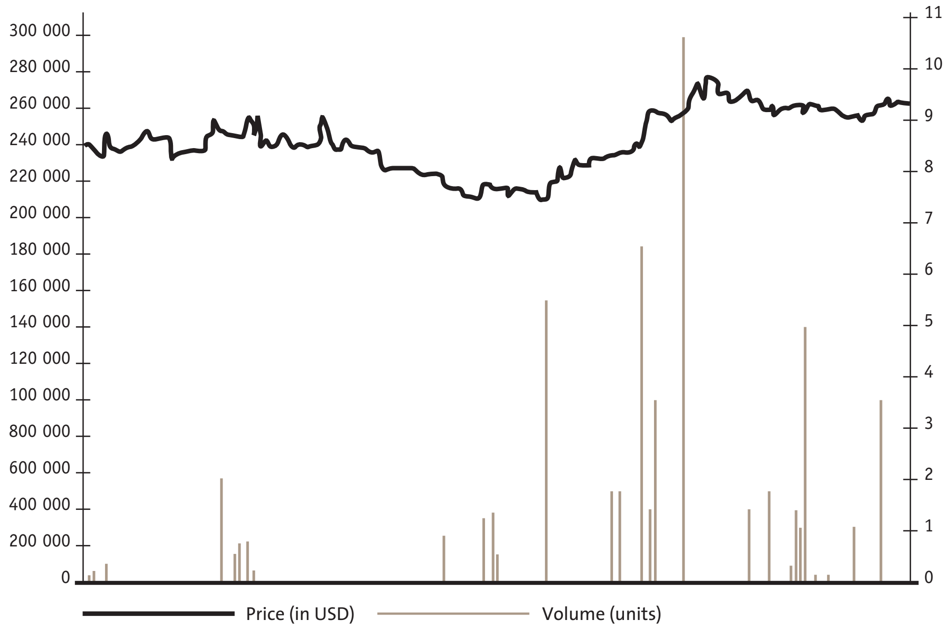
TRADING IN AB LIETUVOS TELEKOMAS' SHARES ON VILNIUS STOCK EXCHAGE IN 2005



Since the year 2000 Lietuvos Telekomas runs a Global Depository Receipt (GDR) program where one GDR represents 10 ordinary registered shares of the Company. As of 31 December 2005, 105,719,870 ordinary shares of AB Lietuvos Telekomas (12.97 per cent of all shares) were converted into 10,571,987 GDRs and held by depository bank Deutsche Bank Trust Company Americas. Lietuvos Telekomas' GDRs are traded on the London Stock Exchange (LSE ticker: LITD).

In 2005, the turnover of Company's GDRs on the London Stock Exchange amounted to 2.2 million GDRs (1.9 million in 2004) with a total value of 17.6 million British pounds (7.8 million British pounds in 2004). On the last trading day of 2005, the closing GDR price was 9.3 US dollar, while a year ago 8.5 US dollar. The lowest GDR price during 2005 was 7.45 US dollar and the highest was 9.82 US dollar.

TRADING IN LIETUVOS TELEKOMAS GDR ON LONDON STOCK EXCHANGE IN 2005



# INFORMATION TO INVESTORS

## Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of AB Lietuvos Telekomas will be held at the head-office of Lietuvos Telekomas at Savanorių ave. 28, Vilnius, Lithuania, at 1 p.m. on Monday, 24 April 2006.

Shareholders who at the end of the shareholders' meeting record day, 13 April 2006, will be on the Shareholders' List of the Company have the right to participate and vote in the Annual General Meeting.

One ordinary registered share (ORS) of Lietuvos Telekomas gives one vote in the General Meeting of Shareholders. Share capital of Lietuvos Telekomas consists of 814,912,760 ordinary registered shares of one litas nominal value each.

According to the Lietuvos Telekomas' Global Depository Receipt (GDR) program one GDR represents 10 ordinary registered shares. Depository bank - Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A.

## Dividends

Dividends will be paid to the shareholders who on the dividend record day, 24 April 2006, i.e. the day of the Annual General Meeting of Shareholders, will be on the Shareholders' List of the Company.

The Trading Rules of the Vilnius Stock Exchange stipulate that the right of ownership of securities transferred via transactions on the central market is to be passed on the day of settlement for the transaction on the central market, i.e. the third business day after conclusion of the transaction. Trading in Lietuvos Telekomas shares on the central market of the Vilnius Stock Exchange will be stopped on 24 April 2006, i.e. the day of the Annual General Meeting of Shareholders.

The Company Law of the Republic of Lithuania provides that dividends are to be paid within one month from the day of making a decision on profit distribution. Following the Lithuanian legislation, dividends for the year 2005 are subject to the withholding tax of 15 per cent.

## Financial Reports

The Annual Report of Lietuvos Telekomas for the year 2005 in the English and Lithuanian languages as well as other Company's financial reports and press releases are available online at: www.telecom.lt.

In 2005, Lietuvos Telekomas' Group financial results will be released on the following dates:

- Results for the first quarter of 2006: April 20
- Results for the first half of 2006: July 20
- Results for the third quarter and nine months of 2006: October 17.

## Equity Research

The following banks and securities brokerage houses analyzed Lietuvos Telekomas as a portfolio investment in 2005:

**CA IB**
Tel +44 207 309 78 40

**Hansabank Markets**
Tel + 372 6 131 664

**Orion Analyse AS**
Tel + 47 21 00 29 00

**Suprema Securities**
Tel + 372 640 57 00

**SEB Vilniaus Bankas**
Tel + 370 5 268 24 27

## Investor Relations

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Investor Relations Officer
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LT- 08222 Vilnius, Lithuania
Tel +370 5 236 83 01
Fax +370 5 278 33 22
www.lintel.lt

## UAB Lietuvos Telekomo Verslo Sprendimai

J. Galvydžio str. 7/Žygio str. 97
LT- 08236 Vilnius, Lithuania
Tel +370 5 273 09 70
Fax +370 5 273 09 59

## UAB Voicecom

Savanorių ave. 28
LT-03501 Vilnius, Lithuania
Tel +370 5 238 88 38
Fax +370 5 278 33 54

## UAB Baltic Data Center

Žirmūnų str. 141
LT- 09128 Vilnius, Lithuania
Tel +370 5 274 83 60
Fax +370 5 278 33 99
www.bdc.lt

## VšĮ Lietuvos Telekomo Sporto Klubas

Savanorių ave. 28
LT-03116 Vilnius, Lithuania
Tel +370 5 278 89 44
Fax +370 5 278 88 21
www.telecomsportclub.lt

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Team Captain RIMA VALENTIENĖ

AB LIETUVOS TELEKOMAS

FINANCIAL STATEMENTS AND PERFORMANCE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

# CONTENTS

**PricewaterhouseCoopers UAB**
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Facsimile +370 (5) 239 2301
E-mail vilnius@lt.pwc.com
www.pwc.com/lt

# AUDITOR'S REPORT

To the shareholders of AB Lietuvos Telekomas

**1.** We have audited the accompanying balance sheet of AB Lietuvos Telekomas ("the Company") and together with its consolidated subsidiaries ("the Group") as at 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 4 – 49 and the performance report set out on pages 50 - 53 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to assess whether the information disclosed in the performance report is consistent with the financial statements.

**2.** We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

**3.** In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2005 and of the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**4.** In addition, in our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2005 and of the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards as issued by the IASB.

**5.** We did not identify material inconsistencies in the performance report with the audited financial statements.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Ona Armalienė
Auditor's Certificate No.000008

Vilnius, Republic of Lithuania

20 March 2006

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

# INCOME STATEMENT

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

| | Notes | GROUP 2005 | GROUP 2004 | COMPANY 2005 | COMPANY 2004 (restated) |
|---|---|---|---|---|---|
| **Revenues** | 5 | 733,495 | 722,978 | 754,560 | 706,332 |
| Employee related expenses | | (129,738) | (136,558) | (100,891) | (94,968) |
| Interconnection expenses | | (104,828) | (103,685) | (104,828) | (103,362) |
| Depreciation and amortisation charge | 12 | (247 970) | (290 816) | (233 459) | (273,875) |
| Other expenses | 6 | (153,079) | (153,506) | (159,869) | (183,266) |
| Other gains/(losses) - net | 7 | 10,835 | 8,077 | 8,946 | 5,336 |
| Impairment of investments in subsidiaries | 14 | - | - | (2,757) | (7,171) |
| **Operating profit** | | 108,715 | 46,490 | 161,702 | 49,026 |
| Finance costs | 8 | (163) | (6,357) | (192) | (6,142) |
| Share of result of associates | 14 | 95 | 419 | - | - |
| **Profit before tax** | | 108,647 | 40,552 | 161,510 | 42,884 |
| Income tax | 9 | (24,964) | (6,910) | (21,516) | (5,571) |
| **Profit for the year from continuing operations** | | 83,683 | 33,642 | 139,994 | 37,313 |
| Discontinued operations: | | | | | |
| Profit for the period from discontinued operations | 19 | 390 | - | - | - |
| **Profit for the year** | | 84,073 | 33,642 | 139,994 | 37,313 |
| | | | | | |
| Attributable to: | | | | | |
| Equity holders of the Company | | 83,121 | 32,190 | 139,994 | 37,313 |
| Minority interest | | 952 | 1,452 | - | - |
| | | 84,073 | 33,642 | 139,994 | 37,313 |
| | | | | | |
| Basic and diluted earnings per share for profit attributable to the equity holders of the Company (LTL) | 10 | 0,11 | 0,04 | 0,18 | 0,05 |

Year ended 31 December

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

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

**Arūnas Šikšta**
General Manager

**Jan-Erik Elsérius**
Chief Financial Officer

Jan-E Elsérius

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

# BALANCE SHEET

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

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

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

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

# STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

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

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

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

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

**Arūnas Šikšta**
General Manager

**Jan-Erik Elsérius**
Chief Financial Officer

Jan-E Elsérius

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

# CASH FLOW STATEMENT

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

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | **GROUP** | | **COMPANY** | |
| | **Notes** | **2005** | **2004** | **2005** | **2004 (restated)** |
| **Operating activities** | | | | | |
| Profit for the year from continuing operations | | 83,683 | 33,642 | 139,994 | 37,313 |
| Income tax | 9 | 24,964 | 6,910 | 21,516 | 5,571 |
| Depreciation and amortisation charge | 12 | 247,970 | 290,816 | 233,459 | 273,875 |
| Elimination of dividends received from subsidiaries | | - | - | (57,757) | (11,478) |
| Share of results of associates | 14 | (95) | (419) | - | - |
| Write-off of property, plant and equipment and intangible assets | | 514 | 3,779 | 287 | 3,546 |
| Elimination of other gains and losses | 7 | (10,835) | (8,077) | (8,946) | (5,336) |
| Elimination of impairment for investments in subsidiaries | 14 | - | - | 2,757 | 7,171 |
| Interest income | 5 | (3,563) | (1,018) | (3,871) | (732) |
| Interest expenses | 8 | 687 | 5,760 | 672 | 5,569 |
| Other non-cash transactions | | (1,734) | 1,026 | 163 | 680 |
| Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries): | | | | | |
| Inventories | | 306 | 5,858 | (745) | 4,199 |
| Trade and other accounts receivable | | 17,893 | 23,052 | 24,490 | 25,940 |
| Trade and other accounts payable and deferred revenue | | 15,756 | (1,161) | 6,436 | 17,645 |
| Cash generated from operations | | 375,546 | 360,168 | 358,455 | 363,963 |
| Interest paid | | (721) | (17,726) | (706) | (17,535) |
| Tax paid | | (32,842) | (66,802) | (27,244) | (61,553) |
| Net cash from operating activities | | 341,983 | 275,640 | 330,505 | 284,875 |

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

# CASH FLOW STATEMENT (CONTINUED)

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

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

**Arūnas Šikšta**
General Manager

**Jan-Erik Elsérius**
Chief Financial Officer

Jan-E Elsérius

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1 General information

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

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

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

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

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

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

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

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

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

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

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

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

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

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

*Adoption of New or Revised Standards and Interpretations*

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

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

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

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

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

## 2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

## 2.1 Basis of preparation (continued)

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

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

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

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

*New Accounting Pronouncements*

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

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

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

### 2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

## 2.1 Basis of preparation (continued)

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

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

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

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

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

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

## 2.2 Group accounting

*Subsidiaries*

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

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

## 2.2 Group accounting (continued)

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

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

*Transactions and minority interests*

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

*Associates*

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

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

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

## 2.3 Foreign currency translation

*Functional and presentation currency*

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

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

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

### 2.3 Foreign currency translation (continued)

*Transactions and balances*

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

*Group companies*

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

### 2.4 Property, plant and equipment

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

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

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

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

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

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

## 2.4 Property, plant and equipment (continued)

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement.

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

## 2.5 Intangible assets

*Goodwill*

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

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

*Other intangible assets*

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

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

## 2.6 Impairment of non-financial assets

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

## 2.7 Financial assets

The Group classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. During the current period the Group and the Company did not hold any investments in available-for-sale category. Regular way of purchases and sales of financial assets are accounted at trade date.

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

### 2.7 Financial assets (continued)

*Financial assets at fair value through profit or loss*

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

*Loans and receivables*

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

*Held to maturity investments*

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

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

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

### 2.8 Derivative financial instruments - *Fair value hedge*

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

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

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted at cost less impairment provision.

### 2.10 Accounting for leases - where Group is the lessee

*Finance lease*

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term. If sale and leaseback transaction results in a finance lease, any excess or shortfall of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term.

*Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction was established at fair value, any profit or loss is recognised immediately, except that if loss is compensated for by future lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

### 2.11 Inventories

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

### 2.12 Construction contracts

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

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

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

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

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

### 2.13 Trade receivables

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

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

### 2.14 Cash and cash equivalents

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

### 2.15 Treasury shares

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

### 2.16 Borrowings

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

### 2.17 Income tax

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

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

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

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

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

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

### 2.17 Income tax (continued)

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.

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

### 2.18 Grants relating to purchase of property, plant and equipment

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

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

### 2.19 Provisions

Provisions are recognised when the Group or the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group and the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

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

### 2.20 Revenue recognition

*Sales of services and goods*

Revenue is recognised as earned. Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly related to the sales. Other revenues are recognised when products are delivered or services are rendered to customers.  At the end of each accounting period a revenue accrual is made to record amounts not yet billed.

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

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

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

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

### 2.20 Revenue recognition (continued)

*Multiple element arrangements*

The Company offers certain arrangements whereby a customer can purchase a personal computer together with a defined period of servicing agreement. When such multiple element agreements exits, the amount recognised as revenue upon the sale of the personal computer is the fair value of the computer in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement, is recognised over service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately. Where there is a risk related to the collection of receivables under multiple element arrangements, the Company uses the residual value method. Under this method, the Company determines the fair value of the delivered element by deducting the fair value of the undelivered element from the from the contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract is such manner as to reflect fair value of the elements.

### 2.21 Interest income

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

### 2.22 Dividend income

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

### 2.23 Employee benefits

*Social security contributions*

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

*Termination benefits*

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

### 2.24 Dividend distribution

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

### 2.25 Earnings per share

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

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

### 2.26 Segment information

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

## 3 Financial risk management

*Financial risk factors*

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

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

*Market risk:* Foreign exchange risk

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

Credit risk

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

Liquidity risk

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

Cash flow and fair value interest rate risk

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

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

## 4 Critical Accounting Estimates

*Useful lives of telecommunication equipment and software*

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

*Impairment provision for investments in subsidiaries and associates*

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

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

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

*Impairment provision for accounts receivable*

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

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

## 5 Revenues

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

## 6 Other operating expenses

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

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

## 7 Other gains/(losses) - net

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

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

## 8 Finance costs

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

## 9 Income tax

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

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

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

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

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

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

## 10 Earnings per share

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

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

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

## 11 Dividends per share

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

## 12 Property, plant and equipment

Property, plant and equipment consists of following items:

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

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

## 12 Property, plant and equipment (continued)

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

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

## 12 Property, plant and equipment (continued)

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

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

## 12 Property, plant and equipment (continued)

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

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

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

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

## 13 Intangible assets

Balance of intangible assets consists of following items:

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

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

## 13 Intangible assets (continued)

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

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

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

## 13 Intangible assets (continued)

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

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

(All tabular amounts are in LTL ʹ000 unless otherwise stated)

## 14 Investments in subsidiaries and associates

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

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

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

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

## 15 Receivables, prepayments and accrued revenue

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

## 16 Held-to-maturity investments

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

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

## 17 Trading investments

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

## 18 Cash and cash equivalents

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

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

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

## 19 Assets held for sale and discontinuing operations

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

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

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

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

## 19 Assets held for sale and discontinued operations (continued)

Major classes of assets classified as held for sale:

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

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

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

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

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

## 19 Assets held for sale and discontinued operations (continued)

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

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

## 20 Share capital and treasury shares

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

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

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

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

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

## 21 Legal reserve

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

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

## 22 Trade, other payables and accrued liabilities

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

## 23 Borrowings

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

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

Fair value of borrowing approximates to their carrying values.

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

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

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

## 23 Borrowings (continued)

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

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

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Bank borrowings | 4.37% | 4.18% | 4.40% | 4.21% |

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

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

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

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

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

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

## 23 Borrowings (continued)

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

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

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

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

## 24 Deferred income taxes

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

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

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

## 24 Deferred income taxes (continued)

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

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

| GROUP– deferred tax liabilities | Investment relief | Other | Total |
|---|---|---|---|
| At 31 December 2004 | 110,001 | - | 110,001 |
| Charged/ (credited) to net profit | (18,319) | - | (18,319) |
| At 31 December 2005 | 91,682 | - | 91,682 |

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

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of LTL 1.7 million (2004: 0.9 million) in respect of losses that can be carried forward against future taxable income and expires in 2009 - 2010.

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

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

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

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

## 24 Deferred income taxes (continued)

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

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

## 25 Grants

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

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

## 26 Provisions

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

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

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

## 26 Provisions (continued)

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

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

| | |
|---|---|
| Within 1 year | 2,000 |
| After 1 year | 1,664 |
| | 3,664 |

## 27 Financial instruments

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

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

## 28 Contingent liabilities

*Guarantees*

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

*Investigations*

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

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

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

## 29 Commitments

*Capital commitments*

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

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

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

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

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

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

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

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

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

## 30 Change in accounting policy

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

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

## 30 Change in accounting policy

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

## 31 Business combination

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

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

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

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

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

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

## 31 Business combination (continued)

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

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

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

**Disposals**

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

The assets and liabilities disposed are as follows:

| | **Disposed carrying amounts** |
|---|---|
| Cash and cash equivalents | 1,846 |
| Property, plant and equipment | 435 |
| Intangible assets | 45 |
| Other non-current assets | 13 |
| Inventory | 498 |
| Receivables, prepayments, and accrued revenue | 2,709 |
| **Total assets** | **5,546** |
| Equity | 2,523 |
| Borrowings | 20 |
| Trade, other payables and accrued liabilities | 2,926 |
| Provisions for other liabilities | 77 |
| **Total equity and liabilities** | **5,546** |

Disposed consideration settled in cash:

| | |
|---|---|
| Cash received | 1,395 |
| Cash and cash equivalents in subsidiary disposed | (1,846) |
| Cash inflow from disposal | **(451)** |

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

## 32 Related party transactions

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

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

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

**Purchases of assets and services:**

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

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

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

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

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

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

## 32 Related party transactions (continued)

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

**Payables and accrued expenses to related parties**

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

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

**Loans to subsidiaries:**

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

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

## 32 Related party transactions (continued)

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

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

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

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

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

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

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

## 33 Events after the balance sheet date

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

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

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

Jan-E Elsérius

**Arūnas Šikšta**
General Manager

**Jan-Erik Elsérius**
Chief Financial Officer

LIETUVOS TELEKOMAS

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

**To the shareholders of AB Lietuvos Telekomas**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 8 February 2006, the Board of AB Lietuvos Telekomas approved construction of a new head-office of the Company in Vilnius at Lvovo str. 21a and approved a new governing structure of AB Lietuvos Telekomas that will come into force as of 1 March 2006.

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

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

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

**Erik Hallberg**
Chairman of the Board