

# **AB Lietuvos Telekomas**

## **Prospectus - Report for the Year 2005**

**(Prepared according to the Rules on Periodic Disclosure of Information about Issuers' Activities and their Securities approved by the Securities Commission of Lithuania)**

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## I. GENERAL PROVISIONS

### 1. Accountable period for which the yearly prospectus - report has been prepared

Year 2005.

### 2. Main data about the Issuer

Name of the Issuer	AB Lietuvos Telekomas
Authorised capital	814,912,760 litas
Registered office	Savanorių ave. 28, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 15 11
Fax number	+370 5 212 66 65
E-mail address	info@telecom.lt
Legal and organisational form	public company (joint-stock company)
Date and place of registration	6 February 1992, Board of Vilnius City
Date and place of re-registration	8 July 1998, Ministry of Economy of the Republic of Lithuania
Registration No.:	BĮ 98 - 195
Code in the Register of Enterprises	1212 15434
Administrator of Register of Legal Persons	State Enterprise Centre of Registers
Internet address	www.telecom.lt

### 3. Nature of the Issuer's core business

The main business of AB Lietuvos Telekomas is provision of telecommunications services.

Lietuvos Telekomas' Group provides fixed-line telephony, Internet-related and data communication services, wholesale services for other local and international telecommunications operators as well as other services. From 1 January 2003, 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. From 29 December 2005 Lietuvos Telekomas together with related legal entities is declared as an operator with significant market power on the calls termination in public telephone line networks provided at fixed place market.

### 4. Information about where and how it is possible to get acquainted with the report and other documents on the basis whereof it was prepared and the name of the means of the mass media

Report and other documents on the basis whereof this report was prepared are available at AB Lietuvos Telekomas' headquarters at Savanorių pr. 28, Vilnius, on business days from 8 a.m. till 5 p.m.

The Company's notices, including information and other documents related to the General Meeting to be convened, as well as notices and information about reorganisation or liquidation of the Company, resolutions (decisions) of the General Meeting and the Board, other notices and document which according to the laws of the Republic of Lithuania, these By-laws or resolutions (decisions) of the Company's bodies must be announced to all Shareholders and/or other persons, shall be given in daily Lietuvos Rytas or delivered personally to each Shareholder or any person to whom notification is required, by registered mail or by recorded delivery.

Announcements about material events of the Company are submitted to daily Lietuvos Rytas, news agencies Baltic News Service and ELTA.

## 5. Persons responsible for the accuracy of information in the report

### 5.1. Members of the managing bodies of the Issuer, employees and the head of the administration responsible for the report:

Arūnas Šikšta, General Manager of AB Lietuvos Telekomas, tel. +370 5 236 76 00, fax. +370 5 212 66 65.

Jan-Erik Elsėrius, Chief Financial Officer and Deputy General Manager of AB Lietuvos Telekomas, tel. +370 5 236 76 03, fax. +370 5 231 38 60.

### 5.2. -----

## 6. Confirmation of the members of Issuer's managing bodies, its employees and head of administration responsible for the preparation of this report that information contained herein is true and there are no suppressed facts which could have an impact on investors' decisions to buy or sell the Company's securities, as well as the market price of those securities and their valuation.

AB Lietuvos Telekomas represented by Acting General Manager Chief Operating Officer and Deputy General Manager Darius Didžgalvis and Acting Chief Financial Officer Director of Accounting Department Dzintra Tamulienė hereby confirms that information contained in this report is true and there are no suppressed facts, which could have an impact on investors' decisions to buy or sell the Company's securities as well as on the market price of those securities and their valuation.

Acting General Manager of  
AB Lietuvos Telekomas

Darius Didžgalvis

.....

4 May 2006

Seal

Acting Chief Financial Officer of  
AB Lietuvos Telekomas

Dzintra Tamulienė

.....

4 May 2006

The report is prepared in Vilnius, May 2006.

## II. INFORMATION ABOUT THE ISSUER'S SHARE CAPITAL AND ISSUED SECURITIES

### 7. The Issuer's share capital

#### 7.1. Share capital registered in the companies' register

The share capital of AB Lietuvos Telekomas registered in the Register of Legal Persons is 814,912,760 litas.

According to the type of shares, the structure of AB Lietuvos Telekomas' share capital is as follows:

Type of shares	Number of shares	Nominal value (in litas)	Total nominal value (in litas)	Part in the share capital (%)
Ordinary registered shares (ORS)	814,912,760	1	814,912,760	100.00
Total:	814,912,760	-	814,912,760	100.00

All shares of AB Lietuvos Telekomas are paid for.

#### 7.2. Information about projected increase of the share capital by conversion or swap of issued debentures or derivatives into shares

### 8. Shareholders

The following shareholders hold more than 5 per cent of the Company's share capital on the day of the Annual General Meeting of Shareholders held on 24 April 2006:

Name and surname of the shareholder (name of enterprise, type and registered office, code in the register of enterprises)	Number of ordinary registered shares owned by the right of ownership	Part in the share capital (%)	Part of votes given by the shares owned by the right of ownership (%)	Part of votes held together with persons acting together (%)
Amber Teleholding A/S, c/o TeliaSonera Danmark A/S, Holmbladsgade 139, DK-2300 Copenhagen S, Denmark, register code 20758694 (a)	488,947,656	60.00	62.94	--
East Capital Asset Management AB, Norra Kungstornet, Kungsgatan 30, Box 1364, SE-111 93 Stockholm, Sweden, registre code 556564-5370	51,827,797(b)	6.36	6.67	--

NOTES: (a) Amber Teleholding A/S is a fully owned subsidiary of TeliaSonera AB, Sweden; (b) 23,477,797 ordinary registered shares and 2,835,000 Global Depository Receipts.

In June 2005, European Bank for Reconstruction and Development sold its 7.73 per cent stake in the Company's share capital which was acquired in 2000 during the Initial Public Offering and held in Global Depository Receipts (GDR).

On 2 August 2005, shareholding of East Capital Asset Management AB exceeded 5 per cent of the Company's share capital and as of 31 December 2005 it had 26,635,111 ordinary registered shares of AB Lietuvos Telekomas and 2,835,000 Lietuvos Telekomas' GDRs, i.e. 6.75 per cent of the Company's share capital and 7.08 per cent of votes.

During the year 2005, the State of Lithuania reduced its shareholding in Lietuvos Telekomas from 4.56 per cent (31 Dec. 2004) to 2.05 per cent (31 Dec, 2005) by giving up shares of the Company as a compensation to Lithuanian citizens for the realty redeemable by the State of Lithuania.

As of 31 December 2005, the State of Lithuania, represented by state enterprise State Property Fund, held 16,719,602 shares, i.e. 2.05 per cent of the share capital of the Company and 2.15 per cent of votes. On the day of the Annual General Meeting of Shareholders held on 24 April 2006 the State of Lithuania, represented by state enterprise State Property Fund had 14,868,888 shares, i.e. 1.82 per cent of the share capital of the Company and 1.91 per cent of votes.

As of 31 December 2005, the total number of AB Lietuvos Telekomas' shareholders was 11,389. The number of shareholders on the day of the last General Meeting of Shareholders, which was held on 24 April 2006, was 12,058.

As of 31 December 2005, UAB Lintel, a daughter company of AB Lietuvos Telekomas held 12,698,412 ordinary registered shares of AB Lietuvos Telekomas and 2,539,683 Lietuvos Telekomas' GDRs, i.e. 4.67 per cent of Lietuvos Telekomas' share capital. Following the Lithuanian Company Law, AB Lietuvos Telekomas' shares held by UAB Lintel are considered as treasury stocks.

## 9. Basic characteristics of shares issued into public circulation of securities

Shares of AB Lietuvos Telekomas issued into public circulation of securities:

Type of shares	Number of shares	Nominal value (in litas)	Total nominal value (in litas)	Issued into circulation
Ordinary registered shares	814,912,760	1	814,912,760	During reorganisation of the state enterprise into the stock company

On 20 June 1997, for public circulation the Lithuanian Securities Commission registered 814,912,760 ordinary registered shares of AB Lietuvos Telekomas, par value of one litas each (Act No. AB-3920). Shares were issued during the reorganisation of the state enterprise Lietuvos Telekomas into the stock company Lietuvos Telekomas.

On 6 August 1999, the Lithuanian Securities Commission annulled the registration of 40,465,212 ordinary registered shares (Certificate No. AB-45) and registered 40,465,212 ordinary registered employees' shares (Act No. AB-4595). Shares are registered following the Lithuanian Law on Privatisation of State and Municipal Property, AB Lietuvos Telekomas Privatisation Program announced on 11 May 1998 and Resolution of AB Lietuvos Telekomas' General Meeting of Shareholders held on 29 July 1999. The circulation of employees' shares was restricted (owners of employees' shares could not sell or otherwise transfer shares into the ownership of any person, who was not granted the right to acquire such shares, within one year after the day of shares' acquisition).

On 1 June 2000, the Lithuanian Securities Commission annulled the registration of one ordinary registered share (Certificate No. AB-181) and registered one special share for non-public circulation (Act No. AB-4713).

On 17 August 2000, the Lithuanian Securities Commission annulled the registration of 40,465,212 employees' shares (Certificate No. AB-222) and registered 40,465,212 ordinary registered shares

for public circulation from 23 August 2000. On 5 July 2000, AB Lietuvos Telekomas' General Meeting of Shareholders resolved to convert 40,465,212 employees' shares into ordinary registered shares. The amendments to the Company's By-laws concerning conversion of employees' shares into ordinary registered shares were registered on 23 August 2000.

On 22 May 2003, the Securities Commission of Lithuania annulled registration of the special share (Certificate No. AB-866) and registered one ordinary registered share for public circulation (Act No. AB-5167). The amended By-Laws of the Company were registered on 4 June 2003.

## 10. Information about the shares, which are registered and placed for non-public circulation of securities

## 11. Information about depository receipts issued on the basis of shares

On 12 June 2000, after sell-off of 203,728,190 ordinary registered shares, which were owned by the State, during the Initial Public Offering by the state enterprise State Property Fund, AB Lietuvos Telekomas launched the Global Depository Receipt (GDR) program.

According to the program, one Lietuvos Telekomas' GDR represents ten ordinary registered shares of AB Lietuvos Telekomas. The program's Depository is Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A.

Lietuvos Telekomas' GDR are listed on the Official List of the UK Listing Authority and are traded on the Main Market of London Stock Exchange. Lietuvos Telekomas GDRs could be traded on the PORTAL market, a subsidiary of Nasdaq Stock Market Inc.

On 24 April 2006, the day of the last Annual General Meeting of Shareholders, there were 10,164,751 Global Depository Receipts issued on the basis of 101,647,510 shares that amount for 12.47 per cent of the Company's share capital.

Number of deposited shares of AB Lietuvos Telekomas and number of depository receipts:

Date	Number of shares	Number of GDRs
31 March 2004	112,203,890	11,220,389
30 June 2004	112,803,890	11,280,389
30 September 2004	112,803,890	11,280,389
31 December 2004	112,483,890	11,248,389
31 March 2005	116,153,890	11,615,389
30 June 2005	115,969,710	11,596,971
30 September 2005	108,519,710	10,851,971
31 December 2005	105,719,870	10,571,987

## 12. The main characteristics of debt securities issued into public circulation of securities



**13. Information about debt securities, which are registered and placed for non-public circulation of securities**

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**14. Securities, which do not certify the participation in the share capital, but which circulation is regulated by the Law on Public Trading, except debt securities**

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### III. INFORMATION ABOUT SECONDARY CIRCULATION OF SECURITIES ISSUED BY THE ISSUER

#### 15. Securities included into trading lists of stock exchanges

The following securities of AB Lietuvos Telekomas are included into the Official List of the Vilnius Stock Exchange (VSE ticker: LTK1L):

Type of shares	Number of shares	Nominal value (in litas)	Total nominal value (in litas)	Issue Code
Ordinary registered shares	814,912,760	1	814,912,760	12391

32,596,510 Lietuvos Telekomas' Global Depository Receipts (1 GDR represents 10 ORS) are admitted to the Official List of the UK Listing Authority and could be traded on the Main Market of London Stock Exchange. Lietuvos Telekomas GDRs could be traded on the PORTAL market, a subsidiary of the Nasdaq Stock Market Inc.

Following the directives of European Union, the Company is informed that GDRs of Lietuvos Telekomas are included in Frankfurt Deutsche Börse Stock Exchange trading within the Open Market (*Freiverkehr*) and being traded on the Munich Stock Exchange.

#### 16. Trading in Issuer's securities on stock exchanges and other organised markets

Trading in AB Lietuvos Telekomas' ordinary registered shares on the Central Market of the Vilnius Stock Exchange:

Period	Price (in litas)		Turnover (in litas)	
	Highest	Lowest	Biggest	Smallest
01/01/2004 - 31/03/2004	2.29	1.58	1,017,707	43,301
01/04/2004 - 30/06/2004	2.35	1.80	611,295	14,271
01/07/2004 - 30/09/2004	1.91	1.70	7,397,045	8,721
01/10/2004 - 31/12/2004	2.16	1.89	2,400,812	68,272
01/01/2005 - 31/03/2005	2.37	2.16	2,590,295	8,918
01/05/2005 - 30/06/2005	2.40	2.15	2,386,064	24,740
01/07/2005 - 30/09/2005	2.81	2.15	4,710,499	17,096
01/10/2005 - 31/12/2005	2.84	2.63	3,624,841	25,029

Period	Last session		Total turnover	
	Price (in litas)	Turnover (in litas)	Number of shares	In litas
01/01/2004 - 31/03/2004	2.27	266,475	10,201,383	19,133,165
01/04/2004 - 30/06/2004	1.84	38,977	4,086,098	8,376,018
01/07/2004 - 30/09/2004	1.89	346,940	16,015,505	28,664,534
01/10/2004 - 31/12/2004	2.15	216,886	16,064,580	32,328,897
01/01/2005 - 31/03/2005	2.35	567,040	21,408,789	48,783,785
01/05/2005 - 30/06/2005	2.18	81,476	15,295,496	34,721,062
01/07/2005 - 30/09/2005	2.79	72,588	26,936,456	64,787,078
01/10/2005 - 31/12/2005	2.71	49,515	19,885,849	53,383,751

Trading in Lietuvos Telekomas' Global Depository Receipts on London Stock Exchange:

Period	Price (in US dollars)		Turnover (in GBP)	
	Highest	Lowest	Biggest	Smallest
01/01/2004 - 31/03/2004	8.125	5.255	231,773	0
01/04/2004 - 30/06/2004	8.175	6.425	176,894	0
01/07/2004 - 30/09/2004	6.83	5.975	382,821	0
01/10/2004 - 31/12/2004	8.50	6.70	939,649	0
01/01/2005 - 31/03/2005	9.10	8.25	268,421	0
01/05/2005 - 30/06/2005	9.05	7.50	149,540	0
01/07/2005 - 30/09/2005	9.70	7.45	1,529,806	0
01/10/2005 - 31/12/2005	9.82	9.00	738,764	0

Period	Last session		Total turnover	
	Price (in USD)	Turnover (in GBP)	Number of GDRs	In GBP
01/01/2004 - 31/03/2004	8.125	0	335,400	1,374,250
01/04/2004 - 30/06/2004	6.525	0	135,095	549,038
01/07/2004 - 30/09/2004	6.73	0	392,050	1,429,946
01/10/2004 - 31/12/2004	8.50	0	1,077,775	4,470,758
01/01/2005 - 31/03/2005	8.70	0	190,350	885,838
01/05/2005 - 30/06/2005	7.75	0	63,000	271,479
01/07/2005 - 30/09/2005	7.45	0	1,348,671	6,473,263
01/10/2005 - 31/12/2005	9.30	0	624,169	3,277,640

## 17. Market capitalisation of securities

Capitalisation of AB Lietuvos Telekomas' ordinary registered shares traded on the Vilnius Stock Exchange:

Date	Number of shares	Central market price (in litas)	Capitalisation (in litas)
31 March 2005	814,912,759	2.35	1,915,044,986
30 June 2005	814,912,760	2.18	1,776,509,817
30 September 2005	814,912,760	2.79	2,273,606,600
31 December 2005	814,912,760	2.71	2,208,413,580

## 18. Trading in Issuer's securities outside the stock exchange

## 19. Information about the buy-back of its own shares by the Issuer

On 12 June 2000, during the Initial Public Offering then a subsidiary of UAB Lintel, which is a subsidiary of AB Lietuvos Telekomas, UAB Lintkom acquired 12,698,412 ordinary registered shares of AB Lietuvos Telekomas (1 share price was LTL 3.15) and 2,539,683 Lietuvos Telekomas' Global Depository Receipts (1 GDR price was USD 7.875) (1 Lietuvos Telekomas' GDR represents

10 ordinary registered shares of the Company). Overall, UAB Lintkom held 4.67 per cent of Lietuvos Telekomas' share capital.

In September 2002, Lietuvos Telekomas acquired all shares of UAB Lintkom from UAB Lintel. In December 2003, Lietuvos Telekomas transferred all UAB Lintkom shares to UAB Lintel. In March 2004, reorganisation of Lintel and Lintkom by merger of UAB Lintkom into UAB Lintel was started and in May 2004 was over. After reorganisation UAB Lintel continues its operations while UAB Lintkom terminated its operations. Now AB Lietuvos Telekomas' subsidiary UAB Lintel holds 4.67 per cent of the Company's shares that following the Lithuanian Company Law are considered as treasury stocks of Lietuvos Telekomas.

As of 31 December 2005, UAB Lintel held 12,698,412 ordinary registered shares of AB Lietuvos Telekomas and 2,539,683 Lietuvos Telekomas' GDRs, i.e. 4.67 per cent of Lietuvos Telekomas' share capital.

AB Lietuvos Telekomas has never acquired any shares from the management of Lietuvos Telekomas.

## **20. Announcement of the official tender offer**

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## **21. Issuer's paying agents**

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## **22. Agreements with intermediaries of public trading in securities**

On 1 December 2000, AB Lietuvos Telekomas and AB SEB Vilniaus Bankas, Gedimino ave. 12, LT-01103 Vilnius, made an agreement on accounting of the Company's securities and services related to the accounting of securities.

## IV. INFORMATION ABOUT THE ISSUER'S ACTIVITIES

### 23. Legal basis for Issuer's activities

In conducting its business AB Lietuvos Telekomas follows the Company Law, Law on Telecommunications, Law on Securities Market and other laws and legal acts of the Republic of Lithuania and Company's By-laws.

### 24. Membership in associated structures

After merger of Telia AB, Sweden, and Sonera Oy, Finland, into one company - TeliaSonera AB, registered in Sweden, on 9 December 2002, Amber Teleholding A/S, the largest shareholder of AB Lietuvos Telekomas that hold 60 per cent of Lietuvos Telekomas' shares, became a fully owned subsidiary of TeliaSonera AB, and AB Lietuvos Telekomas became an indirectly owned subsidiary of TeliaSonera AB.

From December 2002 financial statements of Lietuvos Telekomas' Group are consolidated into consolidated financial statements of TeliaSonera AB.

In Lithuania TeliaSonera AB through its subsidiary Amber Mobile AB holds 100 per cent of UAB Omnitel shares.

### 25. Brief description of the Issuer's history

The state enterprise Lietuvos Telekomas, which share capital was entirely owned by the State, was registered on 6 February 1992. The Company provided services of local, long-distance and international automatic telephone communication, telegraph and telex, wire radio broadcasting, sounding of public events, as well as other communication services on the whole territory of the Republic of Lithuania.

On 16 June 1997, by the resolution of the Government of the Republic of Lithuania, the state enterprise Lietuvos Telekomas was reorganised into the stock company Lietuvos Telekomas. The share capital of the Company (814,912,760 litas) was fully owned by the State.

On 9 June 1998, the Law on Telecommunications of the Republic of Lithuania was passed. The Law granted Lietuvos Telekomas an exclusive right to provide fixed-line telephony services until 31 December 2002.

On 7 July 1998, the state enterprise State Property Fund sold 488,947,656 shares of AB Lietuvos Telekomas (60 per cent of the Company's share capital), which were owned by the State, to the consortium Amber Teleholding A/S, Denmark, established by Swedish Telia AB and Finish Sonera Oy.

In August 1999, during implementation of the privatisation programme of AB Lietuvos Telekomas 7,194 employees of the Company acquired from the State 40,465,212 ordinary registered employees' shares (4.97 per cent of the Company's share capital). On 23 August 2000, the employees' shares were converted into ordinary registered shares.

On 12 June 2000, during the Initial Public Offering the state enterprise State Property Fund sold 203,728,190 AB Lietuvos Telekomas' shares (25 per cent of the Company's share capital), which were owned by the State. Since then Lietuvos Telekomas shares are traded on the Vilnius Stock Exchange and Global Depository Receipts issued on the basis of the Company's shares are traded on the London Stock Exchange.

Pursuant to the new Law on Telecommunications, 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, as well as on the calls termination in public telephone line networks provided at fixed place markets.

## 26. Characteristics of the production (services)

Lietuvos Telekomas Group is the largest provider of the Internet, public fixed-line telephony, network interconnection and other services in Lithuania. The Company is indirectly owned by the Nordic and Baltic telecommunications leader TeliaSonera.

From 1 January 2003, 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. From 29 December 2005 Lietuvos Telekomas together with related legal entities is declared as an operator with significant market power on the calls termination in public telephone line networks provided at fixed place market.

In 2005, following the amendments to International Financial Reporting Standards gain on sales of property, plant and equipment was excluded from other revenue for all reporting periods, and interest income was included into total revenue.

### Breakdown of revenue of Lietuvos Telekomas' Group:

	2005		2004		2003	
	in thousand of litas	%	in thousand of litas	%	in thousand of litas	%
Fixed-line telephony services:						
Subscription, installation and other charges	186,981	25.5	188,857	26.1	200,856	24.8
Traffic revenue	211,050	28.8	231,300	32.0	294,681	36.4
Value added services	15,333	2.1	14,839	2.1	14,341	1.8
Interconnection and wholesales services	117,094	15.9	112,232	15.5	120,258	14.8
Fixed-line telephony revenue, total	530,458	72.3	547,228	75.7	630,136	77.8
Internet and data communication	148,787	20.3	130,414	18.1	119,846	14.8
Construction services	28,432	3.9	29,932	4.1	40,363	5.0
Interest income	3,563	0.5	1,018	0.1	1,366	0.2
Other revenue	22,255	3.0	14,386	2.0	18,168	2.2
Total revenue	733,495	100.0	722,978	100.0	809,879	100.0

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

UAB Comliet was the largest 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 its subsidiary UAB Comliet to Finish Eltel Group Corporation. This transaction also included the sale of UAB Comliet subsidiary, UAB Comliet Sprendimai (UAB Comliet owns 100 per cent of UAB Comliet Sprendimai shares).

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 100 per cent stake in OOO Comliet-Kaliningrad.

## Key Lietuvos Telekomas' Group figures:

	2005	2004	2003
Revenue (in thousand of litas) (a)	733,495	722,978	809,879
EBITDA (in thousand of litas)	356,685	337,306	387,674
EBITDA margin (%)	48.6	46.7	47.9
Depreciation, amortisation and impairment charge (in thousand of Litas)	247,970	290,816	397,495
Operating profit (loss) (in thousand of litas)	108,715	46,490	(9,821)
Operating profit (loss) margin (%)	14.8	6.4	(1.2)
Finance costs (in thousand of litas)	(163)	(6,357)	(28,866)
Profit (loss) before tax (in thousand of litas)	108,647	40,552	(38,231)
Net profit (loss) (in thousand of litas)	84,073	33,642	(34,618)
Net profit (loss) margin (%)	11.5	4.7	(4.3)
Return on capital employed (%)	9.6	3.7	(0.8)
Return on average assets (%)	6.5	2.3	(2.1)
Return on shareholders' equity (%)	7.5	3.0	(3.1)
Gearing ratio (%)	(26.1)	(9.3)	6.1
Debt to equity ratio (%)	1.5	1.2	16.5
Current ratio (%)	521.6	306.0	93.3
Rate of turnover of assets (%)	57.8	54.4	47.3
Equity to assets ratio (%)	87.7	87.6	73.7
Cash flow from operating activities (in thousand of litas)	341,983	275,640	320,349
Capital investments (in thousand of litas)	73,828	74,530	51,348
Personnel at the end of the year	3,005	3,120	3,486
Share book value (in litas)	1.42	1.44	1.46
Earnings per share (in litas)	0.11	0.04	(0.05)
Number of shares (thousand) (b)	776,818	776,818	776,818
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
Digitisation rate (%)	93.5	92.7	91.2
Number of lines per full time employee, related to fixed-line telephony	343	334	281

NOTES: (a) Following the amendments to International Financial Reporting Standards gain and loss from sales of property, plant and equipment is excluded from total revenue and expenses into separate line of profit (loss) statement, and interest income are included into total revenue; (b) Excluding treasury stocks held by UAB Lintel (before reorganisation - UAB Lintkom); (c) Calculated on the basis of the following population: in 2005 - 3,403 thousand, in 2004 - 3,428 thousand, in 2003 - 3,446 thousand.

EBITDA - earnings before interest, tax, depreciation and amortisation.

UAB Lintel 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. Also UAB Lintel holds 4.67 per cent of Lietuvos Telekomas' shares (treasury stocks).

From 1 May 2005 UAB Lietuvos Telekomo Verslo Sprendimai ceased provision of services on behalf of Lietuvos Telekomas and services provided by the company now are provided by Business Customer department of Lietuvos Telekomas. At present company is dormant.

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.

On 29 March 2006, AB Lietuvos Telekomas signed agreements on acquisition of 40 per cent stake in UAB Baltic Data Center from TietoEnator Oyj and sale of its 26 per cent stake in UAB TietoEnator Consulting to TietoEnator Oyj. On 7 April 2006, the transaction on acquisition of remaining 40 per cent stake in UAB Baltic Data Center and sale of 26 per cent stake in UAB TietoEnator Consulting was completed. From 7 April 2006 AB Lietuvos Telekomas owns a 100 per cent stake in UAB Baltic Data Center and TietoEnator Oyj - a 100 per cent stake in UAB TietoEnator Consulting.

UAB Baltic Data Center is providing IT infrastructure and a wide range of Service Desk services. Till 7 April 2006 TietoEnator Oyj, one of the biggest IT services providers in Nordic countries, owned 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).

Till 7 April 2006 AB Lietuvos Telekomas had 26 per cent and TietoEnator Oyj - 74 per cent of shares of UAB TietoEnator Consulting that provides companies in the Baltic region with high-value-added IT-related consulting services.

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 at Lukšio str. 24 in Vilnius. On 30 December 2005, VšĮ Lietuvos Telekomo Sporto Klubas and UAB Neo Aljansas together with UAB Minoleta signed documents regarding the transfer of rights and obligations as well as assets related to the fitness center activities provided at Savanorių ave. 28. in Vilnius and UAB Lintel, a subsidiary of AB Lietuvos Telekomas, signed an agreement on sales of building (sport palace), located at Savanoriu ave. 28, Vilnius, to UAB Minoleta.

In November 2005, AB Lietuvos Telekomas acquired a 100 per cent stake in UAB MicroLink Lietuva and 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.

On 28 March 2006, liquidation of UAB Verslo Portalas (J. Jasinskio str. 16a, LT-01112 Vilnius) was completed. In March 2004, the shareholders of Verslo Portalas - AB Lietuvos Telekomas held 30 per cent and UAB Verslo Žinios 70 per cent of shares - started liquidation of UAB Verslo Portalas, a business-to-business portal verslas.com.

## **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 2.5 billion litas. 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 third 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.

## Services to 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 reduced 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 launched 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 launched 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.

### 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](http://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](http://www.takas.lt) and [www.118.lt](http://www.118.lt).

## 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).

### 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.

## **Wholesales 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 (Belarus), 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.

### **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 Wavelength 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.

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.

## 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.

### **Tariffs for the services**

In February 1998, the Company introduced local call tariffs and started rebalancing of tariffs for its services. Tariffs were rebalanced following the price cap formula provided in the Telecommunications Activities Licence No. 174/97. According to it, AB Lietuvos Telekomas had a right to increase its tariffs by 10 per cent plus an inflation rate. By tariff rebalancing, the Company was seeking to achieve better correspondence between revenue from services and expenses of services. Tariffs for telecommunication services were rebalanced in April 1999, February 2000, January 2001 and July 2002.

From 1 August 2001 all calls in the fixed telephony network and calls from the fixed-line network to mobile networks are calculated on the second-rounding basis and a call set-up charge is introduced.

Socially disadvantaged customers (from 1 August 2001 until 31 December 2001) and retired customers (from 1 September 2001 until 31 December 2001) (around 400,000 customers in total) were paying a reduced monthly subscription fee of 17 litas. From the beginning of 2002 till the year end the fee was further reduced to 16 litas.

From January 2003, Lietuvos Telekomas stopped applying the lower subscription fee of 16 litas for socially disadvantaged and retired residential customers. This group of customers was offered the *Vietinis (Local)* payment plan at a discount of 5 litas.

On 1 September 2003, tariffs for off-peak local and long-distance calls were cut down significantly. Off-peak local call price was reduced from 0.08 litas to 0.03 litas per minute, and off-peak long-distance call price went down from 0.30 litas to 0.09 litas per minute. In January 2004 peak long-distance call price was reduced from 0.40 litas to 0.26 litas.

On 1 February 2003, calls to Bitė GSM and Tele2 mobile networks became cheaper due to new interconnection fees. Additionally, prices for fixed-to-mobile calls (to Omnitel, Bitė GSM and Tele2 networks) were cut from 1 June and 1 September. On the average, tariffs for calls to mobile networks in 2003 decreased by 45 per cent. From 1 March 2004 Lietuvos Telekomas cut tariffs for calls to the mobile network of Tele2.

In 2003, Lietuvos Telekomas continued reducing international call tariffs. In July, tariffs for calls to the most popular destinations (the Russian Federation, Poland, Belarus, U.S.A., Canada, Moldova, Ukraine and others) were cut by around 30 per cent. Moreover, as of 1 October, the



Company cut tariffs for calls to more than 70 countries. On the average, international call tariffs were reduced by 30 per cent, with the most marked decrease in prices for calls to the Russian Federation, U.S.A. and European Union countries.

**Tariffs for the main Lietuvos Telekomas' telecommunications services (litas, VAT included):**

Services	1 Jan 2004- 31 Dec 2005	1 Sep 2003- 31 Dec 2003	1 July 2002- 1 Sep 2003	1 Sep 2001- 1 July 2002	1 Aug 2001- 1 Sep 2001
Call set-up charge	0.14	0.14	0.14	0.12	0.12
Local calls (a):	0.12	0.12	0.12	0.11	0.11
Off-peak time (b)	0.03	0.03	0.08	0.06	0.08
Night time (c)	--	--	0.03	0.03	0.04
Long-distance calls (a)	0.26	0.40	0.40	0.40	0.40
Off-peak time (b)	0.09	0.09	0.30	0.30	0.30
Night time (c)	--	--	0.12	0.12	0.12
International calls (average price of one off-peak minute)	1.39	1.84	2.41	2.68	2.85
Calls to mobile networks (average price of one off-peak minute)	0.75	0.85	1.55	1.55	1.54
Installation of line to residents	249.99 (d)	1.00	250.00	250.00	250.00
Installation of line to business customers	249.99 (d)	1.00	250.00	250.00	250.00
Subscription fee for residents	23.00	23.00	23.00	19.00	19.00
Subscription fee for business customers	28.00	28.00	28.00	28.00	28.00

NOTES: (a) From 1 January 2001 peak time is from 7 a.m. till 8 p.m. on business days; (b) From 1 January 2001 off-peak time was from 6 a.m. till 7 a.m. and from 8 p.m. till 12 p.m. on business days, and from 6 a.m. till 12 p.m. on holidays and weekends. From 1 September 2003 off-peak time is from 8 p.m. till 7 a.m. on business days and all 24 hours on holidays and weekends; (c) Night time is from 12 p.m. till 6 a.m. 7 days a week; (d) from 1 July 2004 to 31 December 2004 - 20.00 litas, from 2005 depending on duration of the contract discounts for standard installation fees applies.

In January 2004, Lietuvos Telekomas cut its long-distance call price during peak hours by 35 per cent and introduced a new long-distance call payment plan, *Miestai* (Cities). In February, the Company improved its most popular Local and Country payment plans by providing subscribers with additional 30 hours of free-of-charge calls during off-peak time and on weekends. In September, Lietuvos Telekomas reduced tariffs for users of international calls payment plan, *Pasaulis* (The World), for calls to Latvia and Estonia.

In 2005, tariffs for main Lietuvos Telekomas' telecommunication services remained unchanged. 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.

## 27. Sales markets

AB Lietuvos Telekomas provides telecommunications services in the whole territory of the Republic of Lithuania.

Till 1 May 2005 the Customer Service Department of AB Lietuvos Telekomas served residential and small and medium size business customers, and the Company's daughter company, UAB Lietuvos Telekomo Verslo Sprendimai, on behalf of Lietuvos Telekomas provided services and solutions to major business and public sector customers. From 1 May 2005 newly established

Private Customers Department and Business Customers Department serve residential and business customers, respectively. Business Customers Department also serves customers that earlier on behalf of Lietuvos Telekomas were served by UAB Lietuvos Telekomo Verslo Sprendimai.

The majority of Lietuvos Telekomas' services are provided following the long-term agreements with its subscribers.

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, 9.2 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 9.2, 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.

## 28. Procurement

The following companies were major suppliers of the network and telecommunications equipment and providers of services to AB Lietuvos Telekomas in 2005: UAB Omnitel (mobile telecommunication services, network interconnection), UAB Lintel (lease of premises, Call Center and telemarketing services), UAB Bitè GSM (telecommunication services), UAB Ericsson Lietuva (telecommunication equipment and installation), UAB Tele 2 (telecommunication services), UAB Comliet (network construction and maintenance, wireless access), UAB Siemens (telecommunication equipment and installation, technical maintenance of the systems), UAB Baltic Data Center (computer equipment and IT system maintenance), UAB Itella (printing and delivery of invoices), UAB IBM Lietuva (IT equipment), UAB Blue Bridge (PCs, computer equipment and maintenance), UAB TietoEnator Consulting (applied IT systems maintenance and development), TeliaSonera International Carrier (Sweden) (telecommunication services), Rostelecom (Russia) (telecommunication services), Latvijas Mobilais Telefons SIA (Latvia) (telecommunication services), UAB Lietuvos Telekomo Verslo Sprendimai (sales of Lietuvos Telekomas' services), UAB Rubicon City Service (maintenance and repair of buildings, maintenance of payphones network), AB Lietuvos Paštas (payment collection, press subscription).

AB Lietuvos Telekomas usually concludes single agreements for provision of the network and telecommunications equipment.

## 29. Real estate and other fixed assets

On 31 December 2005, by the right of ownership, UAB Lintel, a subsidiary of AB Lietuvos Telekomas, owned a land plot of 1.5041 ha in Vilnius at Savanoriu ave. 28. Lietuvos Telekomas leases this land plot from UAB Lintel.

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 and land plot at Savanoriu ave. 28 to third party. 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 (including land plot) will be transferred on 30 June 2006. In the balance sheet all these assets are accounted as assets for sale. After selling Lietuvos Telekomas' Group will lease back needed space in seven real estate units from the third party.

On April 2004, AB Lietuvos Telekomas by the right of ownership acquired a land plot of 0.017 ha for construction and operation of telecommunication equipment at Bendoriai village, Vilnius region. The remaining land under buildings and telecommunications equipment of Lietuvos Telekomas' Group is leased from the State and private owners. Due to specifics of the Company's activities, leased land plots are spread all over Lithuania. The total area of from the State leased land is 38.94 ha.

On 30 December 2005, UAB Lintel, a subsidiary of AB Lietuvos Telekomas, signed an agreement on sales of building (sport palace), located at Savanoriu 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 Savanoriu ave. 28 to UAB Neo Aljansas and UAB Minoleta.

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.

Fixed assets of AB Lietuvos Telekomas' Group:

Category	Number of items	Book value as of 31 December 2005 (in thousand of litas)
Land	0.017 ha	10
Buildings	n/a	86,476
Machinery and equipment:		
Constructions	n/a	111,772
Transmission equipment	n/a	207,383
Switching equipment	n/a	235,085
PCs and equipment	n/a	20,775
Other machinery and equipment	n/a	37,220
Machinery and equipment, total		612,235
Means of transportation	n/a	10,363
Other tangible fixed assets	n/a	8,069
Construction in progress (machinery and equipment)		4,374
Fixed assets, total		721,527

### 30. Risk factors associated with the Issuer's activities

The main risk factors associated with the activities of AB Lietuvos Telekomas are as follows:

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- General economic situation in the Republic of Lithuania.
- Fluctuation of currencies' exchange rates.
- Changes in the Lithuanian legislation.
- Changes in the regulation of accounting and taxation systems.
- As of 31 December 2005 total amount of borrowings of Lietuvos Telekomas' Group amounted to 16 million litas whereof 8.2 million litas was short-term borrowings and 7.8 million litas - long-term borrowings. Bank borrowings of 7.3 million litas were guaranteed by the Lithuanian Government.

Borrowings of Lietuvos Telekomas' Group

Borrower	Lender	Currency	Book value as of 31 December 2005 (in thousand litas)
AB Lietuvos Telekomas	European Bank for Reconstruction and Development (a)	USD	7,275
VšĮ Lietuvos Telekomo Sporto Klubas	AB Vilniaus Bankas	LTL	201
UAB Baltic Data Center	UAB Sampo Banko Lizingas (car leasing)	LTL	22
AB Lietuvos Telekomas	UAB Nordea Finance Lithuania (car leasing)	LTL	232
AB Lietuvos Telekomas	AB Invalidos Nekilnojamo Turto Fondas (premises leasing)	LTL	8,339
			<b>16,069</b>

NOTE: Loan is guaranteed by the Lithuanian Government.

### **31. Termination or reduction of production, which has had a material impact on the Issuer's results during the last two fiscal (business) years**

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### **32. Patents, licences, contracts**

Telecommunications activities in the Republic of Lithuania are not subject to licensing. Entities, that hold licenses issued before the year 2003, could continue their activities if they do not contradict the Law on Telecommunications.

The Telecommunications Activities Licence No. 174/97 issued by the Ministry of Transport and Communications of the Republic of Lithuania on 31 October 1997 and amended on 29 June 1998 grants the right to the Company to provide the following telecommunications services: international, long-distance and local public fixed-line telephony services, telegraph and telex services, data communication services, wired radio broadcasting services, construction and operation of the public switched telecommunications network used for provision of the above-mentioned services. The licence is valid till 31 October 2007. According to the system of general permissions and following general requirements for provision of telecommunication activities set by the Communication Regulatory Authority, the Company on 30 January 2003 informed Communication Regulatory Authority about provision of leased lines services.

The Lithuanian Law on Telecommunications (passed on 9 June 1998) and the Telecommunications Activities Licence granted the Company an exclusive right to be the only operator and provider of public fixed-line telephony services until 31 December 2002, and an exclusive right to operate the telecommunications network switching and other equipment for provision of voice telephony services and to provide connection to the public switched telecommunications network of other countries, which are used for provision of voice telephony services. On 1 January 2003 a new edition of Law on Telecommunication came into force and public fixed-line telecommunications market became liberalised.

On 16 December 2005, Communications Regulatory Authority permitted UAB Comliet, a subsidiary of AB Lietuvos Telekomas, to transfer to another subsidiary of AB Lietuvos Telekomas, UAB Voicecom, a right to use radio frequencies (channels) from radio frequencies' bands of 452.9875-457.4875 MHz and 462.9875-467.4875 MHz, to provide services of mobile analogue cellular radio communications, to construct and operate mobile analogue cellular (European NMT standard) radio communications national network using radio frequency band of 450 MHz.

Copyright and other intellectual property rights (licences) are obtained following the agreements. The trade marks of main Lietuvos Telekomas' services and products are registered following the procedure established by the laws of the Republic of Lithuania.

### **33. Litigation and arbitration**

In 2005, an investigation was started by the Lithuanian Competition Council regarding the abuse of domination power in the broadband internet market which is based on complaints received from other internet service providers (UAB MicroLink Lietuva, UAB Baltnetos komunikacijos, UAB Tele2, UAB Penki Kontinentai, UAB Elneta and VĮ Infostruktūra). The investigation was not completed in 2005 and will be continued in 2006.

### 34. Personnel

Number of AB Lietuvos Telekomas' Group employees at the end of the year:

31 December 2005	31 December 2004	31 December 2003
3,005	3,120	3,586

The breakdown of Lietuvos Telekomas' Group employees as of 31 December 2005:

Name of the company	Number of employees
AB Lietuvos Telekomas	2,099
UAB Lintel	500
UAB Comliet' Group	175
UAB Baltic Data Center	80
VšĮ Lietuvos Telekomo Sporto Klubas	56
UAB Lietuvos Telekomo Verslo Sprendimai	1
UAB MicroLink Lietuva	89
UAB Baltijos Kompiuterių Akademija	5
<b>Total</b>	<b>3,005</b>

As from 1 May 2005 UAB Lietuvos Telekomo Verslo Sprendimai ceased its activities, its employees were transferred to AB Lietuvos Telekomas. In 2006, Lietuvos Telekomas sold UAB Comliet together with UAB Comliet Sprendimai, and UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija which were acquired in November 2005.

Information about employees of AB Lietuvos Telekomas as of 31 December 2005:

Group of employees	Average number of employees	Education				Average monthly salary (in litas)
		University	College	High school	Not completed high school	
Leading Managers	20	20	--	--	--	18,398
Operation Level Managers	133	127	4	2	--	5,035
Leading Specialist	178	152	19	7	--	3,560
Specialists	1,667	801	434	421	11	1,943
Technicians	101	23	42	36	--	1,458
<b>Total</b>	<b>2,099</b>	<b>1,123</b>	<b>499</b>	<b>466</b>	<b>11</b>	

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.

### **Collective Bargaining Agreement**

On 20 December 2004, a new Collective Bargaining Agreement between AB Lietuvos Telekomas, as the employer, and employees of AB Lietuvos Telekomas, represented by joint representation of joined of Trade Unions, was signed and on 1 January 2005 it came into force. The Agreement is valid upon signing a new agreement. This Collective Bargaining Agreement applies only to employees of AB Lietuvos Telekomas. If provisions of Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of Agreement shall apply. If provisions of Agreement are more favourable than new legislation imposed during the period of Agreement validity, provisions of Agreement shall apply.

In the Collective Bargaining Agreement AB Lietuvos Telekomas grants a number of additional social guarantees to its employees:

1. In case when public holiday is Tuesday or Thursday, employer has a right to move business day that goes before or after public holiday to another holiday or set it as additional holiday.
2. Christmas Eve (December 24) is a holiday at the Company and it is not paid for.
3. Additional 30 calendar days of unpaid vacation can be granted because of family circumstances, get sanatorium treatment, or for other important reasons in case business conditions are favourable.
4. In case of death of employee's father, mother, wife, husband, child, brother or sister, or birth of a child the employee gets additional 3 calendar days of paid vacations.
5. Vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference
6. Wage of Lietuvos Telekomas' employees consist of main salary and bonus that are paid from wage fund following the rules set by the Company.
7. During the validity of this Collective Bargaining Agreement the following minimal average salary is set: for full time employee with permanent employment contract the minimal average salary for the fully worked month is 1,000 litas or 5.88 litas per hour.
8. AB Lietuvos Telekomas employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00).
9. At the end of financial year employees can be paid bonus for the Company's yearly results from the wage fund following the rules set by the Company.
10. If the employee falls ill, the employer for first two days of illness pays 90 percent of the employee's average remuneration.
11. Development of the Company's employee's competence and payment for it is executed following the annual competence development plans set after evaluation of agreements reached by unit managers and employers in respect of training needs and with regards to Company's development directions and financial abilities.
12. Setting an amount of payment for study's vacations, the manager of the employer should evaluated how employer's studies programs and individual studies plans are in line with his/her individual competence development needs.
13. The Employer shall support the retraining possibilities of the employees, who have been notified about their intended dismissal, and shall provide all relevant information.
14. The Employer may provide conditions for the employees to be dismissed to attend professional training courses arranged by labour exchanges and, upon mutual agreement between the parties, to pay for them without exceeding the limit of 500 litas including VAT.
15. The employee, who has been notified about his intended dismissal, during the period of notification, at his/her request, shall be entitled to unpaid educational leave.
16. During the period of notification, the employee, who has been notified about his/her intended dismissal, may be granted by the Employer up to 50 per cent of time off from work (the employee shall retain his/her average wage for this time) to seek for a new job or to retrain.
17. The Employer commits itself to additionally insure the Company employees against accidents at work and on the way to/from work with its own funds; with the Company's funds to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in a timely



manner and free of charge in accordance with the requirements established by regulatory acts on safety and health at work.

18. The Company has established a Social Needs Fund. Its purpose is to improve the organisation's culture and to meet the social needs of the employees in accordance with the regulations of the Fund. The Fund shall be managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.
19. In case of death of the employee's father, mother, wife, husband or child, he/she shall be paid an allowance amounting to 1,000 litas from the Social Needs Fund; in case of death of the Company employee, his/her family members shall be paid all funeral expenses, excluding a funeral dinner, and his/her spouse or children maintained by him/her shall be paid a relief amounting to 1,250 litas.
20. The Fund also commits itself to buy Christmas presents to the employees' children (under 10 years of age), to allocate a bonus amounting to 1,500 litas on the occasion of 20 years of continuous record of service in telecommunications and a bonus amounting to 1,000 litas on the occasion of 50 years birthday anniversary.
21. The Fund may grant an allowance if, due to difficult financial situation of the employee or his/her family, the employee or his/her family has incurred substantial material loss.
22. The Fund shall allocate funds to improve health of the employees: rent of sports premises and grounds, support of sports and culture events arranged on the Company level. The Fund shall organize and finance a culture and sports event of AB Lietuvos Telekomas' employees.

### 35. Investment policy

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 23.4 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 on behalf of Lietuvos Telekomas provided by UAB Lietuvos Telekomas Verslo Sprendimai.

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 first terrestrial digital television transmitters should be installed next year. The Company plans to invest over 10 million litas into this project depending on the needs and requirements.

Companies in which AB Lietuvos Telekomas as of 31 December 2005 held more than 30 per cent of their share capital:

	UAB Lietuvos Telekomo Verslo Sprendimai	UAB Lintel	UAB Comliet (b)
Official address	J. Galvydžio g. 7/ Žygio g. 97, LT-08236 Vilnius	J. Galvydžio g. 7/ Žygio g. 97, LT-08222 Vilnius	Lvovo g. 21a, LT-09313 Vilnius
Activities	Till 1 May 2005 services and solutions to business customers	Directory Inquiry Service 118, Call Center and telemarketing services	Construction of telecommunication and indoor networks
Share capital (in litas)	1,000,000 (a)	28,000,000	10,000,000
Not paid-in part of Lietuvos Telekomas in share capital	0	0	0
Net profit (loss) for the year 2005 (in thousand of litas)	387	669	(5,601)
Ratio of current liabilities to current assets (%)	0.8	66.5	19.7
Ratio of total liabilities to total assets (%)	0.8	38.0	38.5
Type of shares that are owned by Lietuvos Telekomas	ORS	ORS	ORS
Number of shares that are owned by Lietuvos Telekomas	20,000	2,800,000	1,000
Nominal value of shares that are owned by Lietuvos Telekomas (in litas)	1,000,000	28,000,000	10,000,000
Part of the votes held by Lietuvos Telekomas (%)	100	100	100
Part of the votes owned by Lietuvos Telekomas (%)	100	100	100
Part of the votes held by Lietuvos Telekomas and other entities acting together (%)	100	100	100
Dividends for the year 2005 paid to Lietuvos Telekomas (in thousand of litas)	--	40,000	--
Loans provided by Lietuvos Telekomas as of 31 December 2005 (in thousand of litas)	--	44,000	2,800
Loans provided to Lietuvos Telekomas as of 31 December 2005 (in thousand of litas)	--	--	--
Debt securities acquired by Lietuvos Telekomas	--	--	--

NOTES: (a) On 27 April 2005 the share capital of UAB Lietuvos Telekomo Verslo Sprendimai was reduced by 7 million litas (from 8 million litas to 1 million litas) and free cash was paid to sole shareholder, AB Lietuvos Telekomas;

(b) Data of UAB Comliet Group. As of 31 December 2005 Comliet Group consisted of the main company, UAB Comliet, and its subsidiaries: UAB Comliet Sprendimai (100 per cent of shares) and OOO Comliet-Kaliningrad (Russian Federation) (95 per cent of shares owned by Comliet and 5 per cent shares owned by Comliet Sprendimai). On 30 December 2005 Comliet sold a 55 per cent stake in Telegrupp AS (Estonia).

	UAB Baltic Data Center (a)	UAB Voicecom	VšĮ Lietuvos Telekomo Sporto Klubas
Official address	Žirmūnų g. 141, LT-09128 Vilnius	Savanorių pr. 28 LT-03501 Vilnius	Savanorių pr. 28, LT-03116 Vilnius
Activities	IT infrastructure services	From December 2005 NMT-450 network	Fitness club facilities
Share capital (in litas)	1,000,000	10,000	--
Not paid-in part of Lietuvos Telekomas in share capital	0	0	--
Net profit (loss) for the year 2005 (in thousand of litas)	2,067	(53)	(128)
Ratio of current liabilities to current assets (%)	57.9	421.4	47.2
Ratio of total liabilities to total assets (%)	24.0	98.7	37.6
Type of shares that are owned by Lietuvos Telekomas	ORS	ORS	--
Number of shares that are owned by Lietuvos Telekomas	6,000	60	--
Nominal value of shares that are owned by Lietuvos Telekomas (in litas)	600,000	10,000	--
Part of the votes held by Lietuvos Telekomas (%)	60	100	100
Part of the votes owned by Lietuvos Telekomas (%)	60	100	100
Part of the votes held by Lietuvos Telekomas and other entities acting together (%)	60	100	100
Dividends for the year 2005 paid to Lietuvos Telekomas (in thousand of litas)	--	--	--
Loans provided by Lietuvos Telekomas as of 31 December 2005 (in thousand of litas)	--	--	--
Loans provided to Lietuvos Telekomas as of 31 December 2005 (in thousand of litas)	--	--	--
Debt securities acquired by Lietuvos Telekomas	--	--	--

NOTES: (a) UAB Baltic Data Center has 100 per cent shares of Baltic Data Center SIA in Latvia. In the year 2005 Baltic Data Center SIA was not operating.

In November 2005, following the Forward Share Purchase agreement with AS Elion Ettevottet and SIA Lattelkom of 16 May 2005 regarding the acquisition of pan Baltic IT company, AS MicroLink Group, 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 Informacinės 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 Kompiuteriu 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 Comliet, a Lietuvos Telekomas' subsidiary specializing in construction of external wide area and indoor telecommunications as well as other indoor engineering networks. This transaction also includes the sale of UAB Comliet subsidiary UAB Comliet Sprendimai. 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, stake 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.

On 28 March 2006, UAB Verslo Portalas was registered out of the Legal Persons' Register following the decision of the Annual General Meeting of UAB Verslo Portalas' Shareholders of 24 February 2004 and being registered as company under liquidation since 18 March 2004. AB Lietuvos Telekomas had 30 per cent and UAB Verslo Žinios - 70 per cent of UAB Verslo Portalas' shares. Investment into UAB Verslo Portalas and associated goodwill were written off already in consolidated financial statements of AB Lietuvos Telekomas' Group as of 31 December 2003.

On 7 April 2006, the transaction on acquisition of remaining 40 per cent stake in UAB Baltic Data Center from TietoEnator Oyj and sale of 26 per cent stake in UAB TietoEnator Consulting to TietoEnator Oyj was completed. Now AB Lietuvos Telekomas owns a 100 per cent stake in UAB Baltic Data Center and TietoEnator Oyj - a 100 per cent stake in UAB TietoEnator Consulting. Agreements on sales/purchase of shares were signed on 29 March 2006.

In April 2006, UAB TietoEnator Consulting paid 47.3 thousand litas dividends for the year 2005 to AB Lietuvos Telekomas.

In 2005, Lietuvos Telekomas plans to invest 75 million litas.

## 36. Competitors

On 1 January 2003, when new Telecommunication Laws came into force Lietuvos Telekomas lost its exclusive right to be the sole public fixed-line telephony network operator and provider of fixed-line telephony services in Lithuania. Following the Law from 1 January 2003 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.

The main competitors of Lietuvos Telekomas are mobile operators UAB Omnitel, UAB Bitė Lietuva and UAB Tele2, which also provide data communication and internet services.

According to the data of Communications Regulatory Authority at the end of 2005 40 legal entities were providing fixed-line telephony services. 18 legal entities indicated that they provided public fixed-line telephony services using IP protocol, whereof 7 were using cable television networks. 34 enterprise was providing international calls services, whereof 20 (UAB Apdera, UAB Alytaus Kabelinė Televizija, UAB Balticum TV, UAB Eurocom, UAB FCL, VĮ Infostruktūra, A. Judickas' personal enterprise, AB Lietuvos Geležinkeliai, AB Lietuvos Radijo ir Televizijos Centras, AB Lietuvos Telekomas, UAB Nacionalinis Telekomunikacijų Tinklas, UAB Neltė, AB Ogmios Centras, UAB Omnitel, UAB Penki Kontinentai, UAB Remo Televizija, UAB Socius Tuus, UAB Tele2 Fiksuotas Ryšys, UAB Telerena, UAB Teletinklas) also were providing national calls services, UAB Transcom WorlWide Vilnius was providing call center services, the rest were providing only wholesales (transit) services. At the end of the fourth quarter of 2005 the number of subscribers of alternative operators was 50.8 thousand (in 2004 - 43.3 thousand) or 7.22

per cent of total number of subscribers. The rest 92.78 per cent of subscribers were customers of AB Lietuvos Telekomas.

In the fourth quarter of 2005 Lietuvos Telekomas' part of revenue from local calls amounted to 96.8 per cent, from long distance domestic calls - 87.4 per cent (UAB Omnitel - 9.3 per cent, UAB Eurocom - 2.5 per cent), from international calls - 74.5 per cent (UAB Omnitel - 3.9 per cent, UAB Cubio - 2.7 per cent, UAB Eurocom - 3.6 per cent, UAB Linkotelus - 2.1 per cent, UAB Telekomunikaciju Grupa - 3.4 per cent), from calls to mobile networks - 90.4 per cent (UAB Omnitel - 5.4 per cent, UAB Eurocom - 2.8 per cent).

According to the data of Communications Regulatory Authority at the end of 2005 fifteen entities were providing leased line services in Lithuania. In the fourth quarter of 2005, Lietuvos Telekomas revenue from leased line services amounted to 53.7 per cent of total revenue from leased line services market. Major Company's competitors in the area of leased lines are AB Lietuvos Energija (24.3 per cent of market revenue), AB Lietuvos Geležinkeliai (6.9 per cent), UAB Skaidula (5.4 per cent) and VĮ Infostruktūra (3.8 per cent).

At the end of 2005 internet access services were provided by 115 internet service providers (ISP). According to the data of Communications Regulatory Authority in the fourth quarter of 2005 the number of Lietuvos Telekomas' internet access services users amounted to 11.5 per cent of all internet access users in Lithuania. Number of UAB Omnitel internet access users amounted for 42.1 per cent, Bitė Lietuva - 25.6 per cent and UAB Tele2 - 8.4 per cent. But the number of broadband internet subscriber of Lietuvos Telekomas amounted to 43.7 per cent of the total number of broadband internet users and 97.4 per cent of all broadband internet access users via xDSL lines were customers of Lietuvos Telekomas. In the fourth quarter of 2005, Lietuvos Telekomas' revenue from internet access services amounted for 43.5 per cent, UAB Omnitel - 9.5 per cent, UAB Bitė Lietuva - 7.2 per cent, UAB Dokeda - 4.5 per cent, UAB Balticum TV - 3.3 per cent, UAB MicroLink Lietuva (from November 2005 till March 2006 was a part of Lietuvos Telekomas' Group) - 2.8 per cent of the total revenue from internet services of all Lithuanian ISP.

Other data communication services at the end of the fourth quarter of 2005 were provided by 9 legal entities. According to the data of Communication Regulatory Authority AB Lietuvos Telekomas' market share in terms of revenue for the fourth quarter of 2005 amounted to 54.9 per cent, UAB Omnitel - 14.5 per cent, UAB Bitė Lietuva - 16.7 per cent, UAB MicroLink Lietuva (from November 2005 till March 2006 was a part of Lietuvos Telekomas' Group) - 6.3 per cent, VĮ Infostruktūra - 3.4 per cent, AB Lietuvos Energija - 2.9 per cent.

### 37. Dividends paid

Year	Dividends (in litas)	Amount of dividends per share (in litas)	Part of share's nominal value (%)
2001	89,640,404	0.11	11.0
2002 (a)	46,609,051	0.06	6.0
2003 (a)	46,609,051	0.06	6.0
2004 (a)	100,986,277	0.13	13.0
2005 (a)	124,290,803	0.16	16.0

NOTE: (a) Following the Lithuanian Company Law, dividends should not be paid for the treasury stocks, therefore dividends are distributed for 776,817,518 shares.

On 24 April 2006 during the Annual General Meeting Shareholders of the Company decided to allocate 124,290,803 litas, i.e. 0.16 litas per share, of dividends for the year 2005. The Company plans to pay out dividends for the year 2005 on 23 May 2006.

## V. FINANCIAL STATUS

### 38. Financial reports

The following consolidated and audited financial statements of Lietuvos Telekomas' Group are prepared in accordance with the International Financial Reporting Standards (International Accounting Standards). From the year 2000 Lietuvos Telekomas' Group handles its accounts in accordance with the International Accounting Standards.

#### 38.1. Balance Sheet (in thousand of litas)

	31 December 2005	31 December 2004	31 December 2003
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	721,528	941,027	1,120,443
Intangible assets	40,696	83,575	142,879
Investments in subsidiaries and associates	1,182	1,294	1,173
Other non-current assets	20	55	60
	763,426	1,025,951	1,264,555
<b>Current assets</b>			
Inventories	4,492	6,561	11,923
Receivable, prepayments and accrued revenue	106,613	114,706	136,234
Current income tax receivable	4,824	11,960	596
Held-to-maturity investments	120,151	30,115	--
Trading investments	34,769	--	--
Cash and cash equivalents	149,601	88,514	117,629
Assets held for sale	74,829	1,813	10,990
	495,279	253,669	277,372
<b>Total assets</b>	<b>1,258,705</b>	<b>1,279,620</b>	<b>1,541,927</b>
<b>EQUITY</b>			
<b>Shareholders' equity</b>			
Share capital	814,913	814,913	814,913
Treasury stocks	(120,000)	(120,000)	(120,000)
Legal reserves	81,499	81,499	81,499
Translation differences	(21)	(33)	(6)
Retained earnings	327,171	345,036	359,455
	1,103,562	1,121,415	1,135,861
<b>Minority interest</b>	2,329	3,899	3,536
<b>Total equity</b>	<b>1,105,891</b>	<b>1,125,314</b>	<b>1,139,397</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	7,863	6,990	14,893
Deferred tax liability	41,249	55,149	78,422
Grants	7,080	9,280	11,832
Provisions	1,664	--	--
	57,856	71,419	105,147
<b>Current liabilities</b>			
Trade, other payables and accrued liabilities	76,186	72,806	95,487
Current income tax liabilities	2,575	1,927	27,903
Borrowings	8,206	6,464	172,870
Provisions	3,400	1,690	1,123
Liabilities related to assets held for sale	4,591	--	--
	94,958	82,887	297,383
<b>Total liabilities</b>	<b>152,814</b>	<b>154,306</b>	<b>402,530</b>
<b>Total equity and liabilities</b>	<b>1,258,705</b>	<b>1,279,620</b>	<b>1,541,927</b>

**38.2. Profit (Loss) Statement (in thousand of litas)**

	2005	2004	2003
Revenue (a)	733,495	722,978	809,879
Operating expenses	(387,645)	(393,749)	(425,845)
Other gain/loss, net (b)	10,835	8,077	3,640
Depreciation, amortisation and impairment charge	(247,970)	(290,816)	(397,495)
<b>Operating profit</b>	<b>108,715</b>	<b>46,490</b>	<b>(9,821)</b>
Finance costs	(163)	(6,357)	(28,866)
Share of result of associates	95	419	456
<b>Profit before income tax</b>	<b>108,647</b>	<b>40,552</b>	<b>(38,231)</b>
Income tax expenses	(24,964)	(6,910)	3,613
<b>Profit for the period from continuing operations</b>	<b>83,683</b>	<b>33,642</b>	<b>(34,618)</b>
<b>Discontinued operations:</b>			
Profit for the period from discontinued operations (c)	390	--	--
<b>Profit for the period</b>	<b>84,073</b>	<b>33,642</b>	<b>(34,618)</b>
<b>Attributable to:</b>			
Equity holders of the Company	83,121	32,190	(36,095)
Minority interest	952	1,452	1,477
	<b>84,073</b>	<b>33,642</b>	<b>(34,618)</b>
Basic and diluted Earning per share for profit attributable to the equity holders of the Company (Litas)	0.11	0.04	(0.05)

NOTES: Income statement for reporting periods is presented according to the amendments to International Financial Reporting Standards implemented as of 1 January 2005.

(a) Interest income is included into total revenue.

(b) Net gain/loss on sale of fixed assets, activities and investments.

(c) Result of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija activities for the period of November – December 2005. Both companies were acquired by AB Lietuvos Telekomas in November 2005, but following the decision of Lithuanian Competition Council both should be sold to the third party.

**38.3. Cash Flow Statement (in thousand of litas)**

	2005	2004	2003
<b>Operating activities</b>			
Profit for the period	83,683	33,642	(34,618)
Adjustments for:			
Income tax	24,964	6,910	(3,613)
Depreciation and amortisation and impairment charge	247,970	290,816	397,495
Share of result of associates	(95)	(419)	(456)
Write-off of PPE and intangible assets	514	3,779	2,038
Other gain and losses	(10,835)	(8,077)	(3,640)
Interest income	(3,563)	(1,018)	(1,366)
Interest expenses	687	5,760	24,747
Other non cash transactions	(1,734)	1,026	24
	341,591	332,419	380,611
Changes in working capital:			
Inventories	306	5,858	(6,840)
Trade and other accounts receivable	17,893	23,052	14,916
Trade and other accounts payable	15,756	(1,161)	3,949
<b>Cash generated from operations</b>	<b>375,546</b>	<b>360,168</b>	<b>392,636</b>
Interest paid	(721)	(17,726)	(26,238)
Income tax paid	(32,842)	(66,802)	(47,336)
<b>Net cash from operating activities</b>	<b>341,983</b>	<b>275,640</b>	<b>319,062</b>
<b>Investing activities</b>			
Purchase of PPE and intangible assets	(73,828)	(74,530)	(51,348)
Proceeds from disposal of PPE and intangible assets	35,665	29,054	13,290
Acquisition of held-to-maturity investments	(129,726)	(29,815)	--
Acquisition of held-for-trading investments	(34,528)	--	1,287
Disposal of held-to-maturity investments	40,172	--	--
Acquisition of subsidiaries	(9,225)	--	--
Disposal of subsidiaries	107	(11)	(686)
Change in prepayments for non-current assets	--	(47)	55
Dividends received	207	298	162
Interest received	2,915	931	1,366
<b>Net cash from investing activities</b>	<b>(168,241)</b>	<b>(74,120)</b>	<b>(35,874)</b>
<b>Net cash before financing activities</b>	<b>173,742</b>	<b>201,520</b>	<b>283,188</b>
<b>Financing activities</b>			
Proceeds from borrowings	--	109,380	--
Repayment of borrowings	(10,283)	(142,249)	(190,414)
Repayment of bonds issued	--	(150,000)	(12,000)
Minority contribution to share capital of subsidiary	--	--	21
Dividends paid to minority shareholders	(1,386)	(1,157)	(316)
Dividends paid to shareholders of the Company	(100,986)	(46,609)	(46,609)
<b>Net cash used in financing activities</b>	<b>(112,655)</b>	<b>(230,635)</b>	<b>(249,318)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>61,087</b>	<b>(29,115)</b>	<b>33,870</b>
<b>Movement in cash and cash equivalents</b>			
<b>At start of the period</b>	<b>88,514</b>	<b>117,629</b>	<b>83,759</b>
Increase (decrease) during the period	61,087	(29,115)	33,870
<b>At end of the period</b>	<b>149,601</b>	<b>88,514</b>	<b>117,629</b>



## Statement of changes in shareholder's equity of AB Lietuvos Telekomas' Group (in thousand of Litas)

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share capital	Treasury stocks	Legal reserves	Translation differences	Retained earnings		
<b>Balance at 1 January 2003</b>	814,913	(120,000)	81,499	(30)	442,159	2,354	1,220,895
Dividends paid for 2002	--	--	--	--	(46,609)	(316)	(46,925)
Net profit	--	--	--	--	(36,095)	1,477	(34,618)
Currency translation differences	--	--	--	24	--	--	24
Other movements	--	--	--	--	--	21	21
<b>Balance at 31 December 2003</b>	<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>(6)</b>	<b>359,455</b>	<b>3,536</b>	<b>1,139,397</b>
<b>Balance at 1 January 2004</b>	814,913	(120,000)	81,499	(6)	359,455	3,536	1,139,397
Dividends paid for 2003	--	--	--	--	(46,609)	(1,157)	(47,766)
Net profit	--	--	--	--	32,190	1,452	33,642
Currency translation differences	--	--	--	(27)	--	--	(27)
Other movements	--	--	--	--	--	68	68
<b>Balance at 31 December 2004</b>	<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>(33)</b>	<b>345,036</b>	<b>3,899</b>	<b>1,125,314</b>
<b>Balance at 1 January 2005</b>	814,913	(120,000)	81,499	(33)	345,036	3,899	1,125,314
Dividends paid for 2004	--	--	--	--	(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)
<b>Balance at 31 December 2005</b>	<b>814,913</b>	<b>(120,000)</b>	<b>81,499</b>	<b>(21)</b>	<b>327,171</b>	<b>2,329</b>	<b>1,105,891</b>

### 38.4. Profit (Loss) Allocation Statement (in litas)

The Profit (Loss) Distribution Statements of AB Lietuvos Telekomas for the year 2003 and 2004 are prepared following the laws of the Republic of Lithuania and based on the financial statements prepared following the Lithuanian Accounting Principles (Lithuanian Business Accounting Standards). The Profit (Loss) Distribution Statement of AB Lietuvos Telekomas for the year 2005 is prepared following the laws of the Republic of Lithuania and based on the financial statements prepared following the International Financial Reporting Standards.

	2005	2004	2003
Retained result - profit (loss) at the beginning of the period	28,491,587(a)	312,846,422,(b)	372,549,446
Current year net result - profit (loss)	139,994,361	32,188,298	(36,095,465)
Result - profit (loss) to be appropriated at the end of the period	168,485,948	345,034,720	336,453,981
Shareholders' contribution to cover losses	--	--	--
Transfers from reserves	--	--	4,075,090
Profit to be appropriated	168,485,948	345,034,720	340,529,071
Appropriation of the profit:	(124,290,803)	(100,986,277)	(46,609,051)
to legal reserves	--	--	--
to other reserves	--	--	--
dividends (c)	(124,290,803)	(100,986,277)	(46,609,051)
other appropriation	--	--	--
Retained result - profit (loss) at the end of the period	44,195,145	244,048,443	293,920,020

NOTES: (a) Due to changed by Parent Company accounting principles of its subsidiaries and associates from equity method to accounting at cost financial statements of the Parent Company for the year 2004 were restated and retained earnings were reduced by LTL 215,558 thousand.

(b) Due to unification of Lithuanian Business Accounting Standards and International Financial Reporting Standards reserves of 65,517,453 litas showed in the report for the year 2003 according to Lithuanian Accounting Principles were added to retained profit at the beginning of 2004, and dividends for the year 2003 paid out in the year 2004 (46,609,051 litas) were deducted from retained profit at the beginning of 2004.

(c) Following the Company Law dividends for treasury stocks are not allocated. Dividends for the year 2001 were allocated but not paid for the treasury stocks (4,190,477 litas).

On 24 April 2006 the Annual General Meeting of shareholders decided to allocate for dividends 124,290,803 litas. Dividends of 0.16 litas per share for the year 2005 will be paid for 776,817,518 shares (for treasury stocks dividends are not appropriable). For the tantiems for the year 2005 to the members of the Board it was allocated 378,000 litas. Following the International Accounting Standards, tantiems to the members of the Board are considered as operating expenses of the period when they are paid out.

### 39. Comments of Financial Statements

As on 31 December 2005, Lietuvos Telekomas' Group consisted of the parent company, AB Lietuvos Telekomas, (Savanorių ave. 28, LT-03501 Vilnius) and its daughter companies: UAB Comliet (Lvovo str. 21a, LT-09313 Vilnius; 100 per cent shares), UAB Lietuvos Telekomo Verslo Sprendimai (J. Galvydžio str. 7/Žygio str. 97, LT-08236 Vilnius; 100 per cent shares), UAB Lintel (J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius; 100 per cent shares), UAB Voicecom

(Savanorių ave. 28, LT-03501 Vilnius; 100 per cent shares) and UAB Baltic Data Center (Žirmūnų str. 141, LT-09128 Vilnius; 60 per cent shares). AB Lietuvos Telekomas is sole founder and owner of non-profit organisation VšĮ Lietuvos Telekomo Sporto Klubas (Savanorių ave. 28, LT-03116 Vilnius). As on 31 December 2005, AB Lietuvos Telekomas also owned 30 per cent stake of company under liquidation UAB Verslo Portalas (J. Jasinskio str. 16a, LT-01112 Vilnius) and 26 per cent stake of UAB TietoEnator Consulting (Žirmūnų str. 141, LT-09128 Vilnius) shares. The result of UAB MicroLink Lietuva (A. Juozapavičiaus str. 6/2, LT-09310 Vilnius; 100 per cent shares) and UAB Baltijos Kompiuterių Akademija (Šeimyniškių str. 1A, LT-09312 Vilnius; 100 per cent shares), the companies that were acquired in November 2005, activities were accounted as result from discontinued operations as Lithuanian Competition Council decided that UAB MicroLink Lietuva should be sold to the third party.

Till 30 December 2005 UAB Comliet owned a 55 per cent stake in Telegrupp AS (Estonia). As on 31 December 2005, UAB Comliet owned 100 per cent of UAB Comliet Sprendimai and 95 per cent of OOO Comliet-Kaliningrad (Russian Federation) shares. The remaining 5 per cent of OOO Comliet-Kaliningrad shares were held by UAB Comliet-Sprendimai.

UAB Baltic Data Center owns a 100 per cent stake in Baltic Data Center SIA (Latvia) which is dormant company.

On 31 January 2006, UAB Comliet and UAB Comliet Sprendimai sold their stakes in OOO Comliet-Kaliningrad to AB Lietuvos Telekomas and now Lietuvos Telekomas owns a 100 per cent stake in the company of Russian Federation.

On 28 February 2006, Lietuvos Telekomas sold all share of UAB Comliet. This transaction also included sale of UAB Comliet Sprendimai. On 2 March 2006, following the obligation of the Lithuanian Competition Council of 27 October 2005 AB Lietuvos Telekomas sold all shares of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija to the third party. Lietuvos Telekomas acquired 100 per cent of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares in November 2005 as a part of the three Baltic telecoms' deal on acquisition of AS MicroLink Group.

On 28 March 2006, liquidation of UAB Verslo Portalas (J. Jasinskio str. 16a, LT-01112 Vilnius) was completed. In March 2004, the shareholders of Verslo Portalas - AB Lietuvos Telekomas held 30 per cent and UAB Verslo Žinios 70 per cent of shares - started liquidation of UAB Verslo Portalas, a business-to-business portal verslas.com.

On 29 March 2006, AB Lietuvos Telekomas signed agreements on acquisition of 40 per cent stake in UAB Baltic Data Center from TietoEnator Oyj and sale of its 26 per cent stake in UAB TietoEnator Consulting to TietoEnator Oyj. On 7 April 2006, the transaction on acquisition of remaining 40 per cent stake in UAB Baltic Data Center and sale of 26 per cent stake in UAB TietoEnator Consulting was completed. From 7 April 2006 AB Lietuvos Telekomas owns a 100 per cent stake in UAB Baltic Data Center and TietoEnator Oyj - a 100 per cent stake in UAB TietoEnator Consulting.

### **Lietuvos Telekomas' Group accounting**

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities

assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

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.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent 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.

Consolidated financial statements of Lietuvos Telekomas' Group for the year 2005 combine financial statements of AB Lietuvos Telekomas, UAB Comliet Group, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Baltic Data Center, UAB Voicecom and VSI Lietuvos Telekomo Sporto Klubas. Consolidated financial statements of UAB Comliet Group combine financial statements of UAB Comliet, UAB Comliet Sprendimai, OOO Comliet-Kaliningrad and Telegrupp AS. In 2005, UAB Baltic Data Center's subsidiary Baltic Data Center SIA was not operating. All statements are prepared on the basis of the same accounting principles. Consolidated financial statements of Lietuvos Telekomas' Group are prepared according to International Financial Reporting Standards.

### **Financial Highlights in 2005**

- 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).

## 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.

### Reclassified Breakdown of the Groups' Revenue (in thousand of litas)

	2005					2004	Change (%)
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	Full Year	
Fixed-line Telephony Services	132,632	136,319	131,416	130,091	530,458	547,228	(3.1)
Internet and Data Communication Services	35,045	35,043	37,095	41,604	148,787	130,414	14.1
Construction Services	4,289	7,261	8,258	8,624	28,432	29,932	(5.0)
Interest Income	585	790	943	1,245	3,563	1,018	250.0
Other Revenue	4,730	5,769	4,945	6,811	22,255	14,386	54.7
<b>Total</b>	<b>177,281</b>	<b>185,182</b>	<b>182,657</b>	<b>188,375</b>	<b>733,495</b>	<b>722,978</b>	<b>1.5</b>

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 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 xDSL 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).

### 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 depreciation 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 40.5 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 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 23.4 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, 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 Informacinės 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 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 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 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.

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.

## **40. Report prepared by the Issuer's Board or other managing body**

### **Report on Company's Activities for the year 2005 reviewed by auditors and approved by the Annual General Meeting of Shareholders on 24 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

#### **41. Audit – related information**

Auditors from UAB PricewaterhouseCoopers audited the balance sheet of AB Lietuvos Telekomas and together with its consolidated subsidiaries for the years ended 31 December 2001, 2002, 2003, 2004 and 2005, and the related statements of income, cash flows and changes in shareholders' equity for the years then ended.

UAB PricewaterhouseCoopers, enterprise code No. 111473315, official address: J. Jasinskio g. 16B, LT-01112 Vilnius, is registered in Register of Legal Persons of the Republic of Lithuania. Enterprise was registered on 29 December 1993.

On 31 October 2003, the Chamber of Auditors of Lithuania issued a certificate No. 000421 which certifies UAB PricewaterhouseCoopers is enrolled in the list of audit companies and could perform audit activities.

On 23 April 2004, the shareholders of AB Lietuvos Telekomas during the Annual General Meeting of Shareholders elected UAB PricewaterhouseCoopers as the Company's audit company for two years for the audit of financial statements for the years 2004 and 2005, and inspection of the Activities Report of the Company for the year 2004 and 2005.

On 17 March 2005, Securities Commission of the Republic of Lithuania decided to approve the candidacy of Ona Armalienė, auditor of the audit company UAB PricewaterhouseCoopers, to conduct the audit of AB Lietuvos Telekomas financial statements for the year 2005.

Audit according to the International Standards of Auditing of financial statements of AB Lietuvos Telekomas' Group for the year 2005 prepared according to International Financial Reporting Standards was completed on 20 March 2006. Auditor's report on behalf of UAB PricewaterhouseCoopers was signed by Christopher C. Butler, partner of UAB PricewaterhouseCoopers, and Ona Armalienė, auditor (auditors' certificate No. 000008).

**PricewaterhouseCoopers UAB**

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**Auditor's Report**

To the shareholders of AB Lietuvos Telekomas

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

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
20 March 2006

Ona Armalienė  
Auditor's Certificate No.000008

## VI. INFORMATION ABOUT THE MANAGING BODIES OF THE ISSUER

### 42. Members of the managing bodies

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 (as on 31 December 2005)

The By-laws of AB Lietuvos Telekomas provide that the Company's Board shall consist of seven members and shall be elected for the two-year term.



**Erik Hallberg** (born 1956) – 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. From 2003 Senior Vice President and Head of Market Are Baltic Countries at TeliaSonera AB Baltic Countries. Education – Technical engineer in mechanical construction (1976). From 1990 to 1994 was CEO of Diners Club Sweden AB. 1994 - 1999 - CEO and Senior Vice President Corporate Communications at NETnet International SA. From 1999 to 2001 was Vice President Marketing and Sales, BA Telia Mobile. 2001 - 2002 - President of Speedy Tomato, BA Telia Mobile. From 2002 to 2003 was acting Country Manager, TM Finland, BA Telia Mobile, and Vice President and Head of Unit Partner Services Nordic, BA Telia Mobile. Chairman of the Supervisory Board of AS Eesti Telekom, Estonia; Member of Supervisory Board of Elion Enterprises AS, Estonia, and AS EMT, Estonia; Chairman of the Board of Latvijas Mobilais Telefons SIA, Latvia, Amber Teleholding A/S, Denmark, Tilts Communication A/S, Denmark, Telia Lithuania AB, Sweden, and Confidence AB, Sweden; member of the Board of Amber Mobile Teleholding AB, Sweden, Baltic Tele AB, Sweden, Lattelekom SIA, Latvia, Drutt Corporation, Sweden, Paynova AB, Sweden, and Prevas AB, Sweden. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Gintautas Žintelis** (born 1943) – 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. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Morgan Ekberg** (born 1945) - 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 AB operations in Norway, Denmark and Baltic Countries. Member of the Supervisory Board of Latt Telekom SIA, Latvia, member the Board of NetCom AS, Norway, TeliaSonera Networks A/S, Denmark, Telia Mobile A/S, Denmark, and Telia Stofa A/S, Denmark. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Matti Hyrynen** (born 1954) - 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), Chairman 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. Member of the Supervisory Board of AB Drobe. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Tomas Lenke** (born 1958) - 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. Member of the Supervisory Board of AS Eesti Telekom, Estonia, and Latvijas Mobilais Telefons SIA, Latvia. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Valdo Kalm** (born 1966) - 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. Member of the Supervisory Board of Elion Enterprises AS, Estonia. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Andrius Šukys** (born 1973) - 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 Šikšniūtė and Partners LRF Juridiska Byran. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

On 24 April 2006, the shareholders of the Company during the Annual General Meeting of Shareholders upon termination in the year 2006 of the term of the Board elected on 23 April 2004 recalled all member of the Board: Erik Hallberg, Morgan Ekberg, Matti Hyyrynen, Tomas Lenke, Valdo Kalm, Gintautas Žintelis and Andrius Šukys and for new term of the Board (for 2 years) elected the following members of the Board: Erik Hallberg, Gintautas Žintelis, Morgan Ekberg, Valdo Kalm and Brita Hanberger, which were proposed by Amber Teleholding A/S, and Matti Hyyrynen and Gert Tiivas, which were proposed by East Capital through Amber Teleholding A/S.

The new members of the Board elected on 24 April 2006:



**Brita Hanberger** (born 1972) - a member of the Board since 24 April 2006 (elected for the two-year term; nominated by Amber Teleholding A/S). Business Controller Baltic Countries at TeliaSonera AB, Baltic Countries. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



**Gert Tiivas** (born 1973) - a member of the Board since 24 April 2006 (elected for the two-year term; nominated by East Capital through Amber Teleholding A/S). Responsible for the start-up and management of the Baltic Office of East Capital in Tallinn. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

### 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 from Natural Science Faculty of Klaipėda University (1995). From 1992 to 1993 he worked as program coordinator at Lithuanian Open Society Fund. Between 1993 and 1996 he was employed by Lithuanian - Dutch joint venture Seceurtronics Technicom as Executive Director. In the period from 1996 to 1997 he held a position of Director of Marketing Department of Lithuanian Agricultural Bank, and from 1997 to 1999 he was Lithuanian Project Manager at International Relations and Network Department of AS Hansapank (Estonia). From May 1999 till June 2001 he was appointed to the position of Chairman of the Board of the bank AB Hansabankas. From June 2001 till 1 November 2003 he was Chairman of the Board of the bank AB Hansa-LTB and member of the Board of Hansabank Group (Estonia). As on 31 December 2005 he was Chairman of UAB Voicecom and UAB Lintel, member of the Board of UAB Comliet and UAB Lietuvos Telekomo Verslo Sprendimai. He has no interest in the share capital of AB Lietuvos Telekomas, and is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



### Chief Operating Officer and Deputy General Manager



**Darius Didžgalvis** (born 1969) from 9 February 2005 holds an office of Chief Operating Officer and Deputy General Manager of AB Lietuvos Telekomas. He is engineer in radio electronics (1993), MSc in Telecommunication Engineering (2001) and International Executive MBA (2003). In 1993 he started working in Lietuvos Telekomas as engineer in Kretinga. From 1996 till 1998 he worked as Manager of Technical Operation Unit at Klaipėda Branch of Lietuvos Telekomas. During 1998 - 1999 he was Director of West Region Technical Center of Network Operation Department, during 1999 - 2001 worked as Director of Operation Sector and Services Delivery Sector at Network Department. From 2001 to 2005 he was Director of Wholesales Department. As on 31 December 2005 he was the Chairman of the Board of UAB Comliet, member of the Board of UAB Voicecom and UAB Baltic Data Center. He has 4,669 shares of the Company that accounts for 0.0005 per cent of the share capital and gives 0.0006 per cent of votes. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

### Chief Financial Officer and Deputy General Manager



**Jan-Erik Elsérius** (born 1943) from 1 March 2004 holds an office of Chief Financial Officer and Deputy General Manager, and also he is a Head of Treasury and Investor Relations Unit of AB Lietuvos Telekomas. In 1967, he graduated from Uppsala University as BA in Management, Managerial Economy, Political Economy and Statistics. Between 1969 and 1972, he was employed by Stockholm City/County Council in the Financial Division. From 1972, he was Head of the Public Office of Financial Division of the Swedish Telecom Administration (Telia). From 1975, he was responsible for the Long term Planning and accountable to the Director General. In the period from 1976 to 1980, he worked for the Swedtel. In July 1982, he was appointed to the position of the Finance Director of TeleLarm AB, where he occupied various managerial positions, in September 1997 he was appointed as the Director General. Following the merger with the Securitas Teknik AB in 1998, he was appointed as the Deputy Managing Director of the new company Securitas Larm AB. In 29 March 1999, he was appointed to the position of Chief Financial Officer and Director of Finance Department of AB Lietuvos Telekomas. As on 31 December 2005 he 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. He has 90,000 shares of the Company that accounts for 0.011 per cent of the share capital and 0.0116 per cent of votes. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

From 1 March 2004 till 2 February 2005 **Romualdas Degutis** (born 1961) held an office of Chief Operating Officer and Deputy General Manager of AB Lietuvos Telekomas. In 1984 he graduated from Kaunas University of Technology as Electric Communication Engineer. He was employed in the Company since 1984. In 1993, he was appointed to the office of Klaipėda Branch Director of AB Lietuvos Telekomas. On 1 June 1999 he became Executive Vice President of AB Lietuvos Telekomas. From 1 July 2003 till 1 March 2004 he held a position of Executive Director and Deputy General Manager of the Company.

From 1 March 2004 till 31 October 2005 **Stefan Albertsson** (born 1963) was appointed to the position of Chief Commercial Officer and Deputy General Manager of AB Lietuvos Telekomas. He is a BSc in Business Administration and Economics and an MSc in Mechanical Engineering

(1990). In the period from 1990 to 1996 he worked in various positions at Telia AB, Sweden. Between 1996 and 1999 lead various units at Netia Telekom (Poland) and from 1999 to 2001 was Change Management Director at Eircom, Ireland. In August 2001, he came back to Netia Telekom and till September 2003 held a position of Vice President Marketing. From 3 November 2003 till 1 March 2004 he held a position of Chief Marketing and Sales Officer of AB Lietuvos Telekomas.

On 8 February 2006, the Board of AB Lietuvos Telekomas approved a new governing structure of AB Lietuvos Telekomas that came into force as of 1 March 2006. From Marketing Division to newly established Sales Division was transferred Private Customers Department, Business Customers Department and Carrier Business Department and three new departments - Service Development Department, Market Segmentation Department and Advertising Department - were established in Marketing Division. Also a new Corporate IT Business development unit, directly reporting to General Manager, was established.

#### Chief Sales Officer and Deputy General Manager



**Darius Gudačiauskas** (born 1975) from 1 March 2006 took the office of Chief Sales Officer and Deputy General Manager of AB Lietuvos Telekomas. He has a Bachelor degree of Business Administration (1997), Master of Business Administration (1999) and Doctor of Social Sciences, Economics (2004), at Vilnius Gedimino Technical University. From 1999 till 2001 he worked as Marketing Manager (Coordinator) Baltics at McDonald's Baltics and Brand Manager at Philip Morris Baltics. During the period of 2001-2004 he was Director of Marketing and Public Relations Department at AB bankas Hansabankas. From February 2004 till February 2006 he held a position of Sales Director and member of the Board of AB Lietuvos Draudimas. As on 31 March 2006 he was a Chairman of UAB Lintel. He has 13,719 shares of AB Lietuvos Telekomas that accounts for 0.0017 per cent of the share capital and gives 0.0018 per cent of votes. He is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

#### Chief Marketing Officer and Deputy General Manager



**Nerijus Ivanauskas** (born 1970) from 1 March 2006 took the Office of Chief Marketing Officer and Deputy General Manager of AB Lietuvos Telekomas. He has Bachelor of Econometrics from Vilnius University (1993), Candidate Master of Business Administration at International Management School, Budapest, Hungary (1995), and Master of Business Administration at Emory University, Atlanta, U.S.A. (1996). From 1996 till 1998 he worked as Marketing Director of UAB Lintel, during January - October of 1998 - Deputy Marketing Director at AB Lietuvos Telekomas, from November 1998 till October 2001 - Marketing and Product Development Director of UAB Lietuvos Telekomo Verslo Sprendimai. During November 2001 and June 2002 he worked as Director of Voice Sector at Lietuvos Telekomas. In July 2002 he left the Company and for one year worked as Territory Manager of Oracle East Central Europe Limited Vilnius Branch. In July 2003 he returned to Lietuvos Telekomas and held positions of Deputy Chief Marketing and Sales, Director of Sales Department and Director of Marketing Department. He has no interest in the share capital of AB Lietuvos Telekomas, and is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

AB Lietuvos Telekomas has no information about existing conviction of members of managing bodies for the crimes against property, economic procedures or finance.

### 43. Information about remunerations and loans to members of the managing bodies

#### 43.1. Information about the total and average amount per person of the remunerations, tantiemes and other payments from the profit by the Issuer during the reporting period

	Remuneration (in litas)	Tantiemes for 2004 (in litas)	Dividends for 2004 (in litas)	Total (in litas)
On the average per member of Lietuvos Telekomas' Board (a)	60,640	54,000	--	114,640
Total amount for all members of Lietuvos Telekomas' Board (a)	424,480	378,000	--	802,480
On the average per member of the Administration of Lietuvos Telekomas (b)	817,528	--	3,077	820,605
Total amount for all members of the Administration of Lietuvos Telekomas (b)	3,270,112	--	12,308	3,282,420

NOTES: (a) The Board consist of seven members; (b) In 2005, members of AB Lietuvos Telekomas' Administration were General Manager, Chief Commercial Officer and Deputy General Manager, Chief Operating Officer and Deputy General Manager and Chief Financial Officer and Deputy General Manager.

On 24 April 2006, the Annual General Meeting of AB Lietuvos Telekomas' Shareholders resolved to assign 378 thousand litas for the payment of tantiemes for the year 2005 (as of 31 December 2005 the Board of the Company consisted of seven Board members). The tantiemes will be paid during the second quarter of 2006.

#### 43.2. Remunerations, tantiemes and other payments from the profit paid during the reporting period by the companies, where the Issuer holds more than 20 per cent of their share capital, to the members of the Issuer's Supervisory Board, Board of Directors and Administration

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#### 43.3. Loans, guarantees and warranties, which ensure the fulfilment of their obligations extended to the members of managing bodies during the reporting period

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### 44. Transactions with related parties

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## VII. RECENT EVENTS IN THE ISSUER'S ACTIVITIES AND ITS PROSPECTS

### 45. Recent events in the Issuer's activities

On 3 January 2006, the Company announced that on 29 December 2005 by Order of Director of Communications Regulatory Authority, AB Lietuvos Telekomas together with its associates, namely UAB Comliet, UAB Comliet Sprendimai, UAB Baltic Data Center, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Omnitel, UAB Lintel, UAB Verslo Portalas, UAB Voicecom and Vsi Lietuvos Telekomo Sporto Klubas is declared as an operator with significant market power on the calls termination in public telephone line networks provided at fixed place market. Communications Regulatory Authority permitted UAB Comliet, a subsidiary of AB Lietuvos Telekomas, to transfer to another subsidiary of AB Lietuvos Telekomas, UAB Voicecom, a right to use radio frequencies (channels) from radio frequencies' bands of 452.9875-457.4875 MHz and 462.9875-467.4875 MHz, to provide services of mobile analogue cellular radio communications, to construct and operate mobile analogue cellular (European NMT standard) radio communications national network using radio frequency band of 450 MHz.

On 3 January 2006, the Company announced that on 30 December 2005, UAB Comliet, a subsidiary of AB Lietuvos Telekomas, sold its 55 per cent stake in Estonian company Telegrupp AS to the third party. Letter of Intent regarding the sale of Telegrupp AS shares was signed on 22 November 2005. On 4 July 2002 UAB Comliet together with Estonian company Merko Ehitus Ltd. acquired all shares of Telegrupp AS. UAB Comliet owned 55 per cent and Merko Ehitus Ltd. 45 per cent of Telegrupp AS shares. This announcement disclosed the content of confidential announcement of material event of 23 November 2005.

On 1 February 2006, the Company announced that AB Lietuvos Telekomas from its subsidiary, UAB Comliet, acquired 95 per cent and from UAB Comliet Sprendimai, a subsidiary of UAB Comliet, 5 per cent of OOO Comliet-Kaliningrad shares. From now all shares of OOO Comliet-Kaliningrad, Russian Federation, are owned by AB Lietuvos Telekomas.

On 8 February 2006, the Board of AB Lietuvos Telekomas approved preliminary unaudited consolidated financial statements of Lietuvos Telekomas' Group for the year ended 31 December 2005 prepared according to International Financial Reporting Standards. During the year 2005 the total revenue of the Group increased by 1.2 per cent or almost 9 million litas to 730 million litas over the revenue of 721 million litas for the year 2004. The total operating expenses for the year 2005 amounted to 387 million litas, a decrease by 1.6 per cent over 393 million litas for the year 2004. EBITDA for the year 2005 increased by 5.2 per cent and amounted to 353 million litas (336 million litas a year ago) and EBITDA margin reached 48.4 per cent (46.6 per cent a year ago). Profit before income tax for the year 2005 was 109 million litas (41 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 34 million litas. Net cash flow from operating activities for the year 2005 amounted to 340 million litas (276 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.

On 8 February 2006, the Board of AB Lietuvos Telekomas decided: (1) To sell to Eltel Group Corporation 2,000 of ordinary registered shares of UAB Comliet with nominal value of 5,000 litas each, which constitutes 100 per cent of the share capital of the company. This transaction also includes the sale of UAB Comliet subsidiary, UAB Comliet Sprendimai. An agreement on sale of UAB Comliet shares was signed on 22 December 2005. The transaction should be completed in February 2006. (2) To construct a new head-office of the Company in Vilnius at Lvovo str.21a. (3) To approve a new governing structure of AB Lietuvos Telekomas that will come into force as of 1 March 2006. From current Marketing Division to newly established Sales Division will be transferred Private Customers Department, Business Customers Department and Carrier

Business Department and three new departments - Service Development Department, Market Segmentation Department and Advertising Department - will be established in Marketing Division. Also a new Corporate IT Business development unit, directly reporting to General Manager, will be established.

On 13 February 2006, the Company announced that from 1 March 2006 Nerijus Ivanauskas is appointed to the position of Chief Marketing Officer and Deputy General Manager. Nerijus Ivanauskas (age 35) has been working in Lietuvos Telekomas since 1998 and currently occupies a position of Director of Marketing Department. As a Chief Marketing Officer he will be in charge of Service Development, Market Segmentation and Advertising Departments. From 1 March 2006 Darius Gudačiauskas is appointed to the position of Chief Sales Officer and Deputy General Manager. Doctor of Economical Science Darius Gudačiauskas (age 30) recently worked as Sales Director and Member of the Board of insurance company AB Lietuvos Draudimas. As a Chief Sales Officer he will be in charge of Private Customers, Business Customers and Carrier Business Departments.

On 20 February 2006, AB Lietuvos Telekomas, following the obligation of the Lithuanian Competition Council of 27 October 2005 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. Lietuvos Telekomas acquired 100 per cent of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares in November 2005 as a part of the three Baltic telecoms' deal on acquisition of AS MicroLink Group. This announcement disclosed the content of confidential announcement of material event of 18 January 2006 and 9 February 2006.

On 28 February 2006, AB Lietuvos Telekomas sold to Finnish Eltel Group Corporation 2,000 of ordinary registered shares of UAB Comliet with nominal value of 5,000 litas each, which constitutes 100 per cent of the share capital of the company. This transaction also includes the sale of UAB Comliet subsidiary, UAB Comliet Sprendimai. An agreement on sale of UAB Comliet shares was signed on 22 December 2005. UAB Comliet provides telecommunications and indoor network design, installation and construction services.

On 2 March 2006, AB Lietuvos Telekomas sold 14,000 ordinary registered shares of UAB MicroLink Lietuva with nominal value of 50 litas each, which constitutes 100 per cent of the share capital of the company, and 1,100 ordinary registered shares of UAB Baltijos Kompiuterių Akademija with nominal value of 100 litas each, which constitutes 100 per cent of the share capital of the company, to Estonian company AS Martinson Trigon. On 20 February 2006, AB Lietuvos Telekomas, following the obligation of the Lithuanian Competition Council of 27 October 2005 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. Lietuvos Telekomas acquired 100 per cent of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares in November 2005 as a part of the three Baltic telecoms' deal on acquisition of AS MicroLink Group.

On 6 March 2006, the Company announced that AB Lietuvos Telekomas appealed to the Vilnius District Administrative court requesting to cancel Order of Director of Communications Regulatory Authority of 29 December 2005 on AB Lietuvos Telekomas including its associated entities as entity having significant market power on the market of calls termination in public telephone line network of AB Lietuvos Telekomas provided at fixed place and Order on the definition of the market of calls termination in individual public telephone line networks provided at fixed place. AB Lietuvos Telekomas also appealed to the court requesting to cancel Order of Director of Communications Regulatory Authority of 18 January 2006 on AB Lietuvos Telekomas including its associated entities as entity having significant market power on the wholesales broadband access market and paragraph No. 2 of Order of 18 January 2006 on the definition of wholesales broadband access market. The court has accepted the appeal and on 24 February 2006 satisfied Company's request to invoke interim measures - to suspend the effect of

appealed orders till the litigation is settled. On 20 February 2006 by the Orders of Director of Communications Regulatory Authority AB Lietuvos Telekomas and its associated entities were designated as having a significant market power on the market of national and international transit services on public telephone line network provided at fixed place.

On 16 March 2006, the Board of AB Lietuvos Telekomas decided to convoke the Annual General Meeting of AB Lietuvos Telekomas' Shareholders on 24 April 2006. The record day for Shareholders' Meeting is 13 April 2006. The Board approved audited financial statements of Lietuvos Telekomas' Group for the year 2005 prepared according to International Financial Reporting Standards. Following the International Accounting Standards interest income from financial activities is included into total revenue, therefore consolidated revenue of Lietuvos Telekomas' Group for the year 2005 was LTL 733,495 thousand (EUR 212,435 thousand) (LTL 722,978 thousand (EUR 209,389 thousand) for the year 2004). Also following the International Accounting Standards the Parent Company changed accounting principles of its subsidiaries and associates from equity method to accounting at cost. Therefore financial statements of the Parent Company for the year 2004 were restated (retained earnings were reduced by LTL 215,558 thousand (EUR 62,430 thousand)). It had no effect on net result of Lietuvos Telekomas' Group for the reporting periods: profit for the year 2005 was LTL 84,073 thousand (EUR 24,349 thousand) and profit for the year 2004 was LTL 33,642 thousand (EUR 9,743 thousand). The Board proposes for the Annual General Meeting to allocate from the Company's distributable profit LTL 124,291 thousand (EUR 35,997 thousand) for the dividend payment for the year 2005 or LTL 0.16 (EUR 0.046) dividend per share. The Board approved Company's activities report for the year 2005. The Board elected UAB Pricewaterhouse Coopers as the Company's auditor for two years to audit the Company's financial statements for the year 2006 and 2007, and inspect the Company's activities reports for the year 2006 and 2007.

On 16 March 2006, the Company announced that The Annual General Meeting of AB Lietuvos Telekomas' (code 1212 15434, registered address: Savanorių pr. 28, Vilnius, Lithuania) Shareholders will be held at room 157 of Lietuvos Telekomas' headquarters, Savanorių pr. 28, Vilnius, Lithuania, at 13.00 on 24 April 2006. Registration will take place from 12.00 till 12.45. The meeting is convened by initiative of the Board and following the decision of the Board adopted on 16 March 2006. The record day of the General Meeting of Shareholders is 13 April 2006. Proposed Agenda: 1) Information of the Company's auditors. 2) Approval of the Company's activity report of the year 2005. 3) Approval of the Company's annual financial statements. 4) Allocation of 2005 Company's profit. 5) Election of the Company's auditor. 6) Change of the By-laws of the Company. 7) Recall of the Company's Board members. 8) Election of the Company's Board members. Shareholders who at the end of the record day of the General Meeting of Shareholders, i.e. 13 April 2006, will be on the shareholders list of the Company have a right to participate and vote at the General Meeting of Shareholders personally or by proxy, or represented by the person with whom an agreement on the transfer of voting rights is concluded. All persons attending the General Meeting of Shareholders and having a voting right must bring with them a person's identification document. Shareholders' representative must present to the General Meeting an original proxy issued in the form and content established by the Law. From 14 April 2006 shareholders could get familiarised with the documents possessed by the Company related to the agenda of the Meeting, including draft resolutions, at the headquarters of AB Lietuvos Telekomas, Savanoriu ave. 28, Vilnius, Lithuania, tel: +370 5 236 78 78.

On 30 March 2006, the Company announced that on 28 March 2006, UAB Verslo portalas was registered out of the Legal Persons' Register following the decision of the Annual General Meeting of UAB Verslo Portalas' Shareholders of 24 February 2004 and being registered as company under liquidation since 18 March 2004. In August 2001, AB Lietuvos Telekomas acquired 30 per cent of UAB Verslo Portalas from UAB Verslo Žinios. Verslo Portalas was providing services of business-to-business internet portal verslas.com.

On 30 March 2006, the Company announced that following the decision of the Board of AB Lietuvos Telekomas of 8 February 2006, AB Lietuvos Telekomas signed agreements on acquisition of 40 per cent stake in UAB Baltic Data Center from TietoEnator Oyj and sale of its 26 per cent stake in UAB TietoEnator Consulting to TietoEnator Oyj. At present Lietuvos Telekomas owns 60 per cent of UAB Baltic Data Center. Transactions are planned to be completed in April 2006. At the end of 2001, Lietuvos Telekomas reorganised its Information Systems Department into a separate subsidiary then called Baltijos Informacinių Duomenų Valdymo Centras (from July 2004 called UAB Baltic Data Center) to provide IT infrastructure services. In May 2002, Lietuvos Telekomas sold 40 per cent of the company's shares to TietoEnator Oyj as well as 74 per cent stake in another subsidiary established in March 2002 and then called Baltijos Telekomunikacijų Konsultacinis Centras (from January 2003 - UAB TietoEnator Consulting). UAB TietoEnator Consulting provides related to IT consultancy services. This announcement disclosed the content of confidential announcement of material event of 9 February 2006.

On 7 April 2006, the transaction on acquisition of remaining 40 per cent stake in UAB Baltic Data Center from TietoEnator Oyj and sale of 26 per cent stake in UAB TietoEnator Consulting to TietoEnator Oyj was completed. Now AB Lietuvos Telekomas owns a 100 per cent stake in UAB Baltic Data Center and TietoEnator Oyj - a 100 per cent stake in UAB TietoEnator Consulting. Agreements on sales/purchase of shares were signed on 29 March 2006.

On 12 April 2006, the Company announced that following the resolution of the Board of AB Lietuvos Telekomas (hereinafter - "the Company") of 16 March 2006 on convocation of the Annual General Meeting of AB Lietuvos Telekomas' (code 1212 15434, registered address: Savanorių pr. 28, Vilnius, Lithuania) Shareholders at room 157 of Lietuvos Telekomas' headquarters, Savanorių pr. 28, Vilnius, Lithuania, at 1 p.m. on 24 April 2006 and decision of the Company's Board of 6 April 2006 to supplement the Agenda of the meeting with a new Agenda item "On the change of AB Lietuvos Telekomas" name, the following supplemented Agenda of the meeting is proposed: 1) Information of the Company's auditors. 2) Approval of the Company's activity report of the year 2005. 3) Approval of the Company's annual financial statements. 4) Allocation of 2005 Company's profit. 5) Election of the Company's auditor. 6) On the change of AB Lietuvos Telekomas name. 7) Change of the By-laws of the Company. 8) Recall of the Company's Board members. 9) Election of the Company's Board members. The record day of the General Meeting of Shareholders is 13 April 2006.

On 12 April 2006, the Company announced about Draft Agenda and draft decisions for the Annual General Meeting of AB Lietuvos Telekomas' Shareholders (hereinafter referred to as "the Company") to be held on 24 April 2006 proposed by the Company's Board: (1) Information of the Company's auditor. Taken for the information. (2) Approval of the Company's activity report of the year 2005. Draft decision: To approve the Company's activity report of the year 2005, inspected by the Company's auditor UAB PricewaterhouseCoopers. (3) Approval of the Company's annual financial statements. Draft decision: To approve audited Company's annual financial statements for year 2005, prepared according to the International Financial Reporting Standards. (4) Allocation of 2005 Company's profit. Draft decision: To allocate the Company's profit of the year 2005 according the draft of profit allocation presented for Annual General Meeting of Shareholders. The Board proposes for the Annual General Meeting to allocate from the Company's distributable profit LTL 124,291 thousand (EUR 35,997 thousand) for the dividend payment for the year 2005 or LTL 0.16 (EUR 0.046) dividend per share. (5) Election of the Company's auditor. Draft decision: 1) To elect UAB PricewaterhouseCoopers as the Company's audit enterprise for two years to make the audit of the 2006 and 2007 Company's financial statements and to make the inspection of the reports on the activity of the Company in 2006 and 2007. 2) To authorize the Company's General Manager to conclude the Agreement for audit services, paying for services the price agreed between the parties but in no case more than 460,000 (four hundred sixty thousand) litas (VAT excluded) for the audit of the Company's financial statements for two years and reports on the activity of the Company (e.g. 230,000 (two hundred thirty thousand) litas (VAT excluded) per one year). (6) On the change of AB Lietuvos Telekomas

name. Draft decision: To change Company's name from Akcinė bendrovė „Lietuvos telekomas“ to TEO LT, AB. (7) Change of the By-laws of the Company. Draft decision: 1) To change the Company's name, stated in the by-laws, from Akcinė bendrovė „Lietuvos telekomas“ to TEO LT, AB and to correct the text of the by-laws accordingly and to indicate that the legal form of the Company is Public limited liability company. 2) To change Subarticle 7 e) of the Article 9.4 of the Company's By-laws by deleting the words “and standards” and to lay down the text as follows: “e) decisions concerning the method of calculation of depreciation of tangible and intangible assets applied in the Company”. 3) To amend Article 10.4 of the Company's By-laws with the new item No.13 and to lay it down as follows: “13) set the rates used for calculating asset depreciation in the Company”. 4) To approve the new edition of the Company's By-laws with the changes listed in the parts 1, 2 and 3 of this decision. 5) To authorize the General Manager on behalf of the Company to sign approved new edition of the By-laws and to obligate General Manager on its own discretion to authorize the respective employee of the Company to register them under the order specified in the laws of the Republic of Lithuania. (8) Recall of the Company's Board members. Draft decision: To recall from the Board of the Company all members of the Board: Erik Hallberg, Morgan Ekberg, Matti Hyyrynen, Tomas Lenke, Valdo Kalm, Gintautas Žintelis and Andrius Šukys. (9) Election of the Company's Board members. Draft decision: To elect to the Board of the Company for new term of the Board (for 2 years): 1. \_\_\_\_\_, proposed by \_\_\_\_\_, 2. \_\_\_\_\_, proposed by \_\_\_\_\_, 3. \_\_\_\_\_, proposed by \_\_\_\_\_, 4. \_\_\_\_\_, proposed by \_\_\_\_\_, 5. \_\_\_\_\_, proposed by \_\_\_\_\_, 6. \_\_\_\_\_, proposed by \_\_\_\_\_, 7. \_\_\_\_\_, proposed by \_\_\_\_\_. As a shareholder of AB Lietuvos Telekomas, Amber Teleholding A/S proposes to the Annual General meeting of shareholders to be held on 24 April 2006 in Vilnius, Lithuania, the following nominees to be elected to the Board of Directors of AB Lietuvos Telekomas: 1) Mr Erik Hallberg, 2) Mr Gintautas Žintelis, 3) Mr Morgan Ekberg, 4) Mr Valdo Kalm, 5) Miss Brita Hanberger, 6) Mr Matti Hyyrynen as proposed to Amber Teleholding A/S by East Capital, 7) Mr Gert Tiivas as proposed to Amber Teleholding A/S by East Capital. This announcement disclosed the content of confidential announcement of material event of 6 April 2006.

On 20 April 2006, the Board of AB Lietuvos Telekomas approved unaudited financial statements of AB Lietuvos Telekomas' Group for the first quarter of 2006, prepared according to International Financial Reporting Standards. Revenue for the first quarter of 2006 amounted to 180 million litas, an increase by 2.1 per cent over the revenue of 177 million litas for the first quarter of 2005. Lietuvos Telekomas' Group operating expenses for January - March 2006 were a bit below of operating expenses of 89 million litas a year ago. EBITDA for the three months' period of 2006 went up by 5.3 per cent to 94 million litas over 89 million litas for the same period a year ago and EBITDA margin reached 52 per cent (50.4 per cent in 2005). Profit before income tax for the first quarter of 2005 was up by 78 per cent and amounted to 40 million litas (22 million litas a year ago). Profit for the period of the first three months of 2006 (including minority interest and discontinued operations) amounted to 32 million litas, an increase by 85 per cent over 17 million litas in 2005. Capital investments in the first quarter of 2006 amounted to 11 million litas (15 million litas in 2005). During the three months' period cash and cash equivalents increased by 52 million litas (65 million litas in 2005).

On 24 April 2006, the Annual General Meeting of AB Lietuvos Telekomas' Shareholders decided: (1) To approve the Company's activity report of the year 2005, inspected by the Company's auditor UAB PricewaterhouseCoopers. (2) To approve audited Company's annual financial statements for year 2005, prepared according to the International Financial Reporting Standards. (3) To allocate the Company's profit of the year 2005 according the draft of profit allocation presented for Annual General Meeting of Shareholders: from distributable profit of 168,485,948 litas (48,796,903 euro) to allocate 124,290,803 litas (35,997,105 euro) for dividends for the year 2005 which is 0,16 litas (0,046 euro) dividend per share. For tantiems to the members of the Board for



the year 2005 to allocated 378,000 litas (109,476 euro). (4) To elect UAB PricewaterhouseCoopers as the Company's audit enterprise for two years to make the audit of the 2006 and 2007 Company's financial statements and to make the inspection of the reports on the activity of the Company in 2006 and 2007. (5) To change Company's name from Akcinė bendrovė „Lietuvos telekomas“ to TEO LT, AB. (6) To approve the new edition of the Company's By-laws. (7) To recall from the Board of the Company all members of the Board: Erik Hallberg, Morgan Ekberg, Matti Hyyrynen, Tomas Lenke, Valdo Kalm, Gintautas Žintelis and Andrius Šukys. (8) To elect to the Board of the Company for new term of the Board (for 2 years): Erik Hallberg, Gintautas Žintelis, Morgan Ekberg, Valdo Kalm and Brita Hanberger, which were proposed by Amber Teleholding A/S, and Matti Hyyrynen and Gert Tiivas, which were proposed by East Capital through Amber Teleholding A/S.

#### **46. Material events in the Issuer's activities**

On 1 February 2005, the Company announced that the Employment Contract with Romualdas Degutis, Chief Operating Officer and Deputy General Manager of AB Lietuvos Telekomas, upon his proposal is being terminated as of 2 February 2005 upon mutual agreement.

On 8 February 2005, the Board of AB Lietuvos Telekomas decided from 9 February 2005 to appoint Darius Didžgalvis to the position of Chief Operating Officer - Deputy General Manager of AB Lietuvos Telekomas. The Board decided to approve the following members of the Board as members of the Remuneration committee for the new term: Gintautas Žintelis, Morgan Ekberg and Andrius Šukys.

On 8 February 2005, the Board of AB Lietuvos Telekomas approved the draft of unaudited financial statements of AB Lietuvos Telekomas' Group for the year 2004 prepared according to International Financial Reporting Standards. In 2004, the total revenue of Lietuvos Telekomas' Group amounted to 730 million litas, a decrease by 10.1 per cent over the revenue of 812 million litas in the year 2003. The total operating expenses for the year 2004 amounted to 394 million litas, a decrease by 7.4 per cent over 426 million litas for the year 2003. EBITDA for the year 2004 amounted to 336 million litas (386 million litas a year ago) and EBITDA margin was 46 per cent (47.6 per cent). Profit before profit tax for the year 2004 was 41 million litas and net profit amounted to 32 million litas, while for the year 2003 net result was a loss of 36 million litas due to assets revaluation in the third quarter of 2003. Net cash flow after investment activities for the year 2004 amounted to 202 million litas (283 million litas for the year 2003). During the year cash and cash equivalents decreased by 29 million due to payout of dividends (47 million litas) and repayment of loans (183 million litas).

On 18 March 2005, the Board of AB Lietuvos Telekomas decided to convoke the Annual General Meeting of AB Lietuvos Telekomas' Shareholders on 22 April 2005. The record day for Shareholders' Meeting is 15 April 2005. The Board approved audited financial statements of Lietuvos Telekomas' Group for the year 2004 prepared according to International Financial Reporting Standards and Lithuanian Business Accounting Standards. Consolidated revenue of Lietuvos Telekomas' Group for the year 2004 was 721,039 thousand litas (808,200 thousand litas for the year 2003). Following the amendments to International Financial Reporting Standards revenue (and/or loss) on disposal of property, plant and equipment is moved from total revenue (and/or expenses) to separate new gain (loss) on property, plant and equipment line in profit (loss) statement for the years 2004 and 2003. It had no effect on net result for reporting periods: net profit for the year 2004 was 32,190 thousand litas and net loss for the year 2003 was 36,095 thousand litas. The Board proposes for the Annual General Meeting to allocate from the Company's distributable profit 100,986 thousand litas for the dividend payment for the year 2004. Thus dividend per share would amount for 0.13 litas. The Board approved a new organisational structure of AB Lietuvos Telekomas. From 1 May 2005 instead of Sales Department will be Private Customers Department and Business Customers Department. Business Customers

Department would also provide activities currently on behalf of Lietuvos Telekomas provided by UAB Lietuvos Telekomo Verslo Sprendimai.

On 18 March 2005, the Company announced that the Annual General Meeting of AB Lietuvos Telekomas' (code 121215434, registered address: Savanorių pr. 28, Vilnius, Lithuania) Shareholders will be held at room 157 of Lietuvos Telekomas' headquarters, Savanorių pr. 28, Vilnius, Lithuania, at 3 p.m. on 22 April 2005. Registration will take place from 2 p.m. till 2.45 p.m. The meeting is convened by initiative of the Board and following the decision of the Board adopted on 18 March 2005. The record day of the General Meeting of Shareholders is 15 April 2005. Proposed Agenda: (1) Information of the Company's auditors; (2) Approval of the Company's activity report of the year 2004; (3) Approval of the Company's annual financial statements; (4) Allocation of 2004 Company's profit; (5) Election of the Company's Board member. Shareholders who at the end of the record day of the General Meeting of Shareholders, i.e. 15 April 2005, will be on the shareholders list of the Company have a right to participate and vote at the General Meeting of Shareholders personally or by proxy, or represented by the person with whom an agreement on the transfer of voting rights is concluded. All persons attending the General Meeting of Shareholders and having a voting right must bring with them a person's identification document. Shareholders' representative must present to the General Meeting an original proxy issued in the form and content established by the Law. From 12 April 2005 shareholders could get familiarised with the documents possessed by the Company related to the agenda of the Meeting, including draft resolutions, at the headquarters of AB Lietuvos Telekomas, Savanoriu ave. 28, Vilnius, Lithuania.

On 30 March 2005, the Company announced that from 21 April 2005 Timo Virtanen, member of the Board of AB Lietuvos Telekomas, resigns from his position. Timo Virtanen is a member of the Board since 5 July 2000 (re-elected for the two-year term on 23 April 2004; nominated by Amber Teleholding A/S), member of the Audit Committee of the Board, Senior Adviser at TeliaSonera Finland Oyj. Has no interest in the share capital of AB Lietuvos Telekomas.

On 7 April 2005, the Company announced that from 21 April 2005 Kennet Rådne, member of the Board of AB Lietuvos Telekomas, resigns from his position. Kennet Rådne (born in 1957) is 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 the Audit Committee of the Board, Senior Vice President responsible for Corporate Products and Services at TeliaSonera AB. Has no interest in the share capital of AB Lietuvos Telekomas.

On 8 April 2005, the Board of AB Lietuvos Telekomas decided to adjust the draft agenda of the Annual General Meeting of AB Lietuvos Telekomas' (code 1212 15434, registered address: Savanorių pr. 28, Vilnius, Lithuania) Shareholders to be held at room 157 of Lietuvos Telekomas' headquarters, Savanorių pr. 28, Vilnius, Lithuania, at 3 p.m. on 22 April 2005. Proposed adjusted Agenda: (1) Information of the Company's auditors; (2) Approval of the Company's activity report of the year 2004; (3) Approval of the Company's annual financial statements; (4) Allocation of 2004 Company's profit; (5) Election of the Company's Board members. The meeting is convened by initiative of the Board and following the decision of the Board adopted on 18 March 2005. The record day of the General Meeting of Shareholders is 15 April 2005. Amber Teleholding A/S (has 60 per cent of the Company's shares) proposes to elect Mr Tomas Lenke and Mr Valdo Kalm as new members of the Board of AB Lietuvos Telekomas for the current term of the Board. Mr Tomas Lenke (born 1958) is Network Manager at TeliaSonera AB, Norway, Denmark and Baltic Countries. Mr Valdo Kalm is Chief Executive Officer (CEO) of Estonian company AS EMT.

On 19 April 2005, the Board of AB Lietuvos Telekomas approved unaudited financial statements of Lietuvos Telekomas' Group for the first quarter of 2005 prepared according to International Financial Reporting Standards. Revenue for the first quarter of 2005 amounted to 177 million litas, a decline by 3.8 per cent over the revenue of 184 million litas for the first quarter of 2004. Lietuvos Telekomas' Group expenses, year-on-year, went down by 10.3 per cent from 99 million litas to 89 million litas. EBITDA for the three months' period went up by 3.9 per cent to 89 million litas over

86 million litas for the same period a year ago and EBITDA margin reached 50.3 per cent (46.6 per cent in 2004). Profit before income tax for the first quarter of 2005 was almost 4 times higher than a year ago and amounted to 22 million litas (5.6 million litas a year ago). Profit for the period of the first three months of 2005 (including minority interest) amounted to 17 million litas, being 4 times higher than in 2004 when it amounted to 4 million litas. Net cash flow after investment activities for the three months' period amounted to 68 million litas (51 million litas for the same period a year ago). During the three months' period cash and cash equivalents increased by 65 million litas.

On 22 April 2005, Annual General Meeting of AB Lietuvos Telekomas decided: (1) to approve the Company's activity report of the year 2004, inspected by the Company's auditor UAB PricewaterhouseCoopers; (2) to approve audited Company's annual financial statements for the year 2004, prepared according to the Lithuanian Business Accounting Standards and according to International Financial Reporting Standards; (3) to allocate the Company's profit of the year 2004 in the following way: 100,986,277 litas for dividends (0.13 litas dividend per share) and 378,000 litas for tantiems for members of the Board; (4) to elect the Board as the members of the Board of the Company for current term of the Board Tomas Lenke, proposed by Amber Teleholding A/S, and Valdo Kalm, proposed by Amber Teleholding A/S.

On 17 May 2005, the Company announced that for the purpose of development of cooperation relations between telecoms of the Baltic states AB Lietuvos Telekomas is planning to participate in the international transaction on acquisition of AS MicroLink company. On 16 May 2005 AB Lietuvos Telekomas signed the Forward Shares Purchase agreement with Estonian telecommunication company AS Elion Ettevotted and Latvian telecommunication operator SIA Lattelekom, according to which AB Lietuvos Telekomas acquired the right of option regarding the purchase of 100 per cent of shares of UAB Microlink Lietuva, UAB Baltijos Kompiuteriū Akademija and UAB Fortek Information Technologies. After signing of the agreement the telecoms will execute the due diligence of the purchased company, after which the final decision regarding acquisition of the shares of MicroLink and their price will be taken. The competition regulatory authorities of Baltic States will also analyze the transaction and present their opinion. In case of positive resolution of the Board of Lietuvos Telekomas the shares purchase process is foreseen to be completed within 3-4 months. This announcement disclosed a content of confidential announcements of the material event of 11 January 2005.

On 26 July 2005, the Board of AB Lietuvos Telekomas approved unaudited financial statements of Lietuvos Telekomas' Group for the first half of 2005 prepared according to International Financial Reporting Standards. Revenue for the six months of 2005 was at the same level as a year ago and amounted to 361 million litas. Revenue for the second quarter of 2005 increased by 4.4 per cent over the revenue for the first quarter of 2005. Operating expenses for the first half of 2005 went down by 3.1 per cent compared with operating expenses year ago and amounted to 186 million litas (2004: 192million litas). As a result EBITDA for the six months' period went up by 3.2 per cent to 178 million litas over 172 million litas for the same period a year ago and EBITDA margin stood at 49.2 per cent (47.7 per cent in 2004). Profit before profit tax for the first half of 2005 was 46 million litas and profit for the period amounted to 37 million litas, an increase by 2.7 times over the profit for the same period a year ago. Net cash flow after investment activities for the six months' period of 2005 amounted to 158 million litas (116 million litas in 2004). In spite of payout of dividends (101 million litas) cash and cash equivalents during the first half of 2005 increased by 51 million litas. Investments for the six months of 2005 amounted to 28 million litas (22 million litas in 2004).

On 18 October 2005, the Board of AB Lietuvos Telekomas approved unaudited financial statements of Lietuvos Telekomas' Group for the third quarter and nine months of 2005 prepared according to International Financial Reporting Standards. During the third quarter of 2005 revenue went up by 2.1 per cent to 182 million litas over the revenue of 178 million litas a year ago. Total revenue for nine months of 2005 was also higher by 0.7 per cent than year ago and amounted to 543 million litas (539 million litas in 2004). Operating expenses for nine months of

2005 continuously went down by 2.7 per cent and amounted to 278 million litas (286 million litas in 2004). EBITDA for the nine months' period went up by 4.2 per cent to 268 million litas (257 million litas in 2004) and EBITDA margin was 49.4 per cent (47.8 per cent in 2004). Profit before profit tax for January - September of 2005 was 80 million litas (31 million litas in 2004) and net profit for the period amounted to 61 million litas, an increase by 2.4 times over 26 million litas during the same period a year ago. Net cash flow after investment activities for the nine months' period of 2005 increased by 44.4 per cent and amounted to 211 million litas (146 million litas in 2004). In spite of payout of dividends (101 million litas) cash and cash equivalents during January - September of 2005 increased by 101 million litas while in 2004 decreased by 72 million litas. Investments for nine months of 2005 amounted to 43 million litas (45 million litas in 2004).

On 18 October 2005, the Board of AB Lietuvos Telekomas approved the sales of buildings owned by AB Lietuvos Telekomas' Group whose total book value is 70 million litas for an amount of not less than 70 million litas provided that the buyer will lease to the Company the premises in the sold buildings according to the needs presented by the Company.

On 28 October 2005, the Company announced that as Employment Contract of Stefan Albertsson, Chief Commercial Officer and Deputy General Manager of AB Lietuvos Telekomas, is coming to an end it will be terminated on 31 October 2005 upon mutual agreement. From 3 November 2003 till 1 March 2004 Stefan Albertsson (born 1963) held a position of Chief Marketing and Sales Officer of AB Lietuvos Telekomas. From 1 March 2004 he was appointed to the position of Chief Commercial Officer - Deputy General Manager of the Company.

On 15 November 2005, the Company announced that following the Forward Share Purchase agreement with AS Elion Ettevotted and SIA Lattelekom of 16 May 2005 regarding the acquisition of AS MicroLink Group AB Lietuvos Telekomas acquired from AS MicroLink 100 per cent stake in UAB MicroLink Lietuva and 100 per cent stake in UAB Baltijos Kompiuteriu Akademija, and from SIA MicroLink Latvia 100 per cent stake in UAB Fortek Informacines Technologijos. AB Lietuvos Telekomas immediately sold all shares of UAB Fortek Informacines Technologijos to the third party.

On 8 December 2005 Lietuvos Telekomas' Group members, AB Lietuvos Telekomas and UAB Lintel, and AB Invalidos Nekilnojamo Turto Fondas signed agreements on sale of eight real estate units of Lietuvos Telekomas' Group located in Vilnius to AB Invalidos Nekilnojamo Turto Fondas for an amount of 70.2 million litas. The ownership right for five real estate units from Lietuvos Telekomas' Group to AB Invalidos Nekilnojamo Turto Fondas will be transferred on 30 December 2005 and for remaining three - on 30 June 2006. After selling Lietuvos Telekomas' Group will lease back needed space in seven real estate units from AB Invalidos Nekilnojamo Turto Fondas.

On 14 December 2005, the Company announced that Arūnas Šikšta, General Manager of AB Lietuvos Telekomas, resigned from the position of member of the Supervisory Board of Latvian telecommunications company Lattelekom SIA. On 10 December 2004, Arūnas Šikšta during an extraordinary meeting of shareholders of Lattelekom SIA was elected a member of Supervisory Board of Lattelekom SIA. Swedish company TeliaSonera AB indirectly owns 60 per cent of AB Lietuvos Telekomas and 49 per cent of Lattelekom SIA shares.

On 22 December 2005, AB Lietuvos Telekomas and Eltel Group Corporation, Finland, signed an agreement on sales of 100 per cent shares of UAB Comliet owned by AB Lietuvos Telekomas. It is planned that transaction will be completed in February 2006. This announcement disclosed the content of confidential announcement of material event of 3 December 2004.

On 30 December 2005, UAB Lintel, a subsidiary of AB Lietuvos Telekomas, signed an agreement on sales of building (sport palace), located at Savanoriu ave. 28, Vilnius, to UAB Minoleta. On 30 December 2005, VšĮ Lietuvos Telekomo Sporto Klubas and UAB Neo Aljansas together with UAB Minoleta signed documents regarding the completion of transaction of 1 December 2005 on transfer of rights and obligations as well as assets related to the fitness center activities provided at Savanoriu ave. 28, Vilnius. On 18 October 2005, the Board of AB Lietuvos Telekomas approved the sales of non core business of Lietuvos Telekomas' Group - fitness center and premises used

for those activities, and belonging to the Group. This announcement disclosed the content of confidential announcements of material event of 19 October 2005 and 1 December 2005.

All material events related to the activity of the Company have been submitted to Lithuanian Securities Commission, Vilnius Stock Exchange, Lietuvos Rytas daily, BNS and ELTA news agencies and posted on the Company's internet page [www.telecom.lt](http://www.telecom.lt).

#### **47. Business strategy and its foreseen changes during the next financial (economic) year**

- Vision of the Company - to become a leading communication service partner in Lithuania.
- In 2006 the Company will further optimise its product portfolio and simplify it, will develop segment specific product packages and long-term loyalty programs.
- The Company will develop new business areas such as broadcasting and transmission of digital content and TV programs; will develop and promote wireless internet and IT services combined with data communication services.
- Special attention will be given to direct sales, quality of customer care and focus on enhancing client's commitment.
- The Company will seek to increase the share of revenue from internet services in total revenue and increase Company's share on internet services market in terms of revenue.
- The Company will implement a new organisation structure of Lietuvos Telekomas with new Sales division.
- It is important for the Company to continuously increase efficiency of operations, maintain revenue and costs balance.
- In pursue of efficiency of the Group's performance it is planned in 2006 to start construction of the new head-office building that would accommodate units currently spread in several different parts of Vilnius.
- The capital investments (excluding construction of new head-office) for the year 2006 shall amount to 100 million litas.
- In 2006 should be completed streamlining of the Group's structure by giving up of non-core business.
- The Company will remain faithful to its principle of socially responsible business - actively execute not only its business mission, but also the social one.
- Upon the shareholders' approval to change the Company's name, introduce new corporate brand and sub-brands of major groups of services.

#### **Uncertainties in the future**

*The present annual prospectus - report contains certain forward-looking statements with respect to the financial situation, performance results and business of Lietuvos Telekomas' Group. These forward-looking statements represent Lietuvos Telekomas' Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, such as those that include the words "potential", "estimated" and similar expressions or variations on such expressions, may be considered as "forward-looking statements".*