

TEO LT, AB

REPORT FOR THE THIRD QUARTER

OF 2006

(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 report has been prepared

The third quarter of the year 2006

2. Main data about the Issuer

Name of the Issuer	TEO LT, AB (hereinafter – TEO or “the Company”) (till 5 May 2006 was named AB Lietuvos Telekomas)
Authorised capital	814,912,760 litas
Registered office	Savanoriu ave. 28, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 15 11
Fax number	+370 5 212 66 65
E-mail address	info@teo.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.:	BI 98 - 195
Code in the Register of Enterprises	121215434
Administrator of Register of Legal Persons	State Enterprise Centre of Registers
Internet address	www.teo.lt

3. 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 TEO LT, AB headquarters at Savanoriu ave. 28, Vilnius, Lithuania 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 reorganization or liquidation of the Company, decisions of the General Meeting and the Board, other notices and documents which according to the laws of the Republic of Lithuania, these By-laws or 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 other 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.

4. Persons responsible for the accuracy of information in the report

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

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

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

4.2. -----

5. 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.

TEO LT, AB represented by Arūnas Šikšta, General Manager, and Jan-Erik Elsėrius, Chief Financial Officer and Deputy General Manager, 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.

General Manager of TEO LT, AB

Arūnas Šikšta

.....

17 October 2006

Seal

Chief Financial Officer and Deputy General
Manager of TEO LT, AB

Jan-Erik Elsėrius

.....

17 October 2006

The report is prepared in Vilnius, October 2006.

II. INFORMATION ABOUT MAJOR SHAREHOLDERS AND MEMBERS OF THE MANAGING BODIES

6. Shareholders

As on 30 September 2006, the total number of TEO LT, AB shareholders was 12,567. The number of shareholders on the day of the last Annual General Meeting of Shareholders, which was held on 24 April 2006, was 12,058.

The following shareholders hold more than 5 per cent of the Company's share capital as of 30 September 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 (a), c/o „Teliasonera Danmark A/S“, Holmbladsgade 139, DK-2300 Copenhagen S, Denmark, code 20758694	488,947,656	60.00	62.94	---
East Capital Asset Management AB, Norra Kungstornet, Kungsgatan 30, Box 1364, SE-111 93 Stockholm, Sweden, code 556564-5370	46,320,827	5.68	5.96	--

NOTE: (a) Amber Teleholding A/S is a fully owned subsidiary of Swedish Teliasonera AB.

On 12 June 2000, the Company launched the Global Depository Receipt (GDR) program. According to the program, one TEO GDR represents ten ordinary registered shares of TEO LT, AB. The program's Depository is Deutsche Bank Trust Company Americas, 60 Street, New York, NY 10005, U.S.A.

As on 30 September 2006, on the basis of 85,689,380 TEO LT, AB shares there were issued 8,568,938 Global Depository Receipts that amount for 10.52 per cent of the Company's share capital.

As on 30 September 2006, the State of Lithuania represented by the State Property Fund held 14,637,932 shares that amount for 1.80 per cent of the Company's share capital and 1.88 per cent of votes. State of Lithuania represented by the State Tax Inspectorate held 362,630 shares that amount for 0.044 per cent of the Company's share capital and 0.047 per cent of votes. In total, State of Lithuania held 15,001,755 shares that amount for 1.84 per cent of the Company's share capital and 1.93 per cent of votes.

In 2006, the State of Lithuania represented by State Property Fund reduced its shareholding in TEO LT, AB from 2.05 per cent (31 December 2005) to 1.80 per cent (30 September 2006) by continuously giving up shares of the Company as a compensation to Lithuanian citizens for the realty redeemable by the State of Lithuania.

As on 30 September 2006, UAB Lintel, a subsidiary of TEO LT, AB, held 12,698,412 ordinary registered shares of TEO LT, AB and 2,539,683 GDRs of the Company, i.e. 4.67 per cent of the Company's share capital. Following the Lithuanian Company Law TEO shares held by UAB Lintel are considered as treasury stocks.

7. Members of the managing bodies

The managing bodies of the Company are General Meeting, Board and General Manager. The Company does not have a Supervisory Council.

The decisions of the General Meeting made regarding the matters of competence of General Meeting, are binding upon the Shareholders, the Board, General Manager and other officials of the Company. The Shareholders of the Company that at the end of the date of record of the General Meeting are Shareholders of the Company have the right to participate in the General Meeting. The date of record of General Meeting of the Shareholders of the Company is the fifth business day prior to the General Meeting or the repeated General Meeting. The person, participating in the General Meeting and having the right to vote shall deliver his/her identification proving document. In case the person is not a shareholder he/she is to present a document, proving his/her right to vote at the General Meeting.

The Members of the Board serving on the Board of the Company are acting jointly as a governing body of the Company. The Board consists of seven Members of the Board. The Members of the Board are elected for a term of two years. The Chairman of the Board is elected by the Board from its members for two years. The Members of the Board are elected by the General Meeting in the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The Board elects and recalls the General Manager, sets his/her remuneration and other conditions of the employment agreement, approves his/her office regulations, induces and applies penalties to him/her. The General Manager is the Head of the Company. The Head of the Company is a one-man management body of the Company and, within his scope of authority, organizes the day-to-day operation of the Company. The work regulations of the Administration approved by the General Manager defines the duties and authority of the General Manager and his/her Deputies as well as other officers of the Company in more details.

Board (as of 30 September 2006)



Erik Hallberg (born in 1956) – Chairman of the Board, member of the Board since 28 April 2003 (re-elected for the two-year term on 24 April 2006; nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board. Education – Technical engineer in mechanical construction (1976).

From 2003 Senior Vice President and Head of Market Area Baltic Countries at TeliaSonera AB, Baltic Countries. 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 Council of AS Eesti Telekom, Estonia; Member of Supervisory Council 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 TEO LT, AB. 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 in 1943) – member of the Board since 7 July 1998 (re-elected for the two-year term on 24 April 2006; nominated by Amber Teleholding A/S), member of the Remuneration Committee of the Board.

Adviser-Consultant to General Manager and the Board of TEO LT, AB.

Has no interest in the share capital of TEO LT, AB. 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 in 1945) – a member of the Board since 30 April 2001 (re-elected for the two-year term on 24 April 2006; 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 Council of Latttelekom SIA, Latvia, member the Board of NetCom AS, Norway, Chess AS, Norway, Nextgentel, 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 TEO LT, AB. 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 in 1966) - a member of the Board since 22 April 2005 (re-elected for the two-year term on 24 April 2006; nominated by Amber Teleholding A/S).

Chairman of the Board and General Manager (CEO) of AS EMT, Estonia.

Member of the Supervisory Council of Elion Enterprises AS, Estonia.

Has no interest in the share capital of TEO LT, AB. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.



Brita Hanberger (born in 1972) – a member of the Board since 24 April 2006 (elected for the two-year term; nominated by Amber Teleholding A/S), member of the Audit Committee of the Board.

Business Controller Baltic Countries at TeliaSonera AB, Baltic Countries.

Has no interest in the share capital of TEO LT, AB. 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 in 1954) – a member of the Board since 26 April 2002 (re-elected for the two-year term on 24 April 2006; nominated by East Capital through Amber Teleholding A/S),

Head of Vilnius and Riga Representative Offices of European Bank for Reconstruction and Development.

Has no interest in the share capital of TEO LT, AB. 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 in 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), member of the Audit Committee of the Board.

Responsible for the start-up and management of the Baltic Office of East Capital in Tallinn.

Member of Supervisory Council of Tallinn Stock Exchange, Estonia, Baltika AS, Estonia, Arco Varavalitsemise AS, Estonia, Cantik Enterprises Ltd., Ukraine, Pervomayskaya Zarya Ltd, Russian Federation, and Russian Real Estate Investment Company AB, Sweden.

Has no interest in the share capital of TEO LT, AB. 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 in 1968) from 2 January 2004 took the office of General Manager (CEO) of the Company.

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. Chairman of UAB Voicecom.

He has no interest in the share capital of TEO LT, AB, 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 Sales Officer and Deputy General Manager



Darius Gudačiauskas (born in 1975) from 1 March 2006 took the office of Chief Sales Officer and Deputy General Manager of the Company.

He has a Bachelor degree of Business Administration (1997), Master of Business Administration (1999) and Doctor of Social Sciences, Economics (2004), at Vilniaus 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.

Chairman of UAB Lintel.

He has 13,719 shares of TEO LT, AB 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 in 1970) from 1 March 2006 took the Office of Chief Marketing Officer and Deputy General Manager of the Company.

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 TEO LT, AB, 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 in 1969) from 9 February 2005 holds an office of Chief Operating Officer and Deputy General Manager of the Company.

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.

Chairman of UAB Baltic Data Center and member of the Board of UAB Voicecom.

He has 4,669 shares of TEO LT, AB 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 in 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 the Company.

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.

Member of the Board of UAB Lintel and UAB Voicecom.

He has 90,000 shares of TEO LT, AB 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.

III. FINANCIAL STATUS

The following consolidated financial statements of TEO LT, AB Group are prepared in accordance with the International Financial Reporting Standards. From the year 2000 the Company's Group uses International Accounting Standards in its accounting.

TEO Group financial statements for the reporting period are not audited. TEO Group financial statements for the year ended 31 December 2005 are audited by the auditors.

8. Balance Sheet (LTL thousand)

ASSETS	2006-09-30	2005-12-31	2005-09-30
Non-current assets			
Property, plant and equipment	638,382	721,528	820,712
Intangible assets	26,622	40,696	45,414
Investments in associates	--	1,182	1,065
Other non-current assets	2,082	20	32
	667,086	763,426	867,223
Current assets			
Inventories	7,057	4,492	4,776
Receivables, prepayments and accrued revenue	99,477	106,613	97,764
Loans	100,000	--	--
Current profit tax receivable	640	4,824	13,846
Held-to-maturity investments	79,958	120,151	29,923
Trading investments	34,495	34,769	--
Cash and cash equivalents	206,584	149,601	189,296
Assets held for sale	3,460	74,829	291
	531,671	495,279	335,896
TOTAL ASSETS	1,198,757	1,258,705	1,203,119

EQUITY	2006-09-30	2005-12-31	2005-09-30
Shareholders' equity			
Share capital	814,913	814,913	814,913
Treasury shares	(120,000)	(120,000)	(120,000)
Legal reserve	81,499	81,499	81,499
Translation differences	8	(21)	(7)
Retained earnings	302,057	327,171	304,276
	1,078,477	1,103,562	1,080,681
Minority interest	--	2,329	3,035
Total equity	1,078,477	1,105,891	1,083,716
LIABILITIES			
Non-current liabilities			
Borrowings	7,973	7,863	2,258
Deferred income tax liabilities	20,724	41,249	46,863
Grants	5,314	7,080	7,668
Deferred revenue	2,065	--	--
Provisions	768	1,664	--
	36,844	57,856	56,789
Current liabilities			
Trade, other payables and accrued liabilities	63,958	76,186	51,792
Current income tax liabilities	14,930	2,575	48
Borrowings	2,504	8,206	7,210
Provisions	1,871	3,400	3,564
Liabilities related to assets held for sale	173	4,591	--
	83,436	94,958	62,614
Total liabilities	120,280	152,814	119,403
TOTAL EQUITY AND LIABILITIES	1,198,757	1,258,705	1,203,119

9. Profit (Loss) Statement (LTL thousand)

	Third quarter of		Nine months of	
	2006	2005	2006	2005
Revenue	184,440	181,615	546,599	542,564
Operating expenses	(97,036)	(91,920)	(278,174)	(277,933)
Other income	1,425	1,257	6,912	5,111
Other expenses	(2,309)	144	(3,633)	(921)
Depreciation, amortisation and impairment charge	(45,811)	(58,066)	(152,029)	(190,649)
Operating profit	40,709	33,030	119,675	78,172
Financial income	1,841	963	4,292	2,604
Financial expenses	(240)	(278)	(1,404)	(698)
Share of result of associates	--	57	41	(22)
Profit before income tax	42,310	33,772	122,604	80,056
Income tax	(8,088)	(10,247)	(23,910)	(19,309)
Profit for the period from continuing operations	34,222	23,525	98,694	60,747
Discontinued operations:				
Profit for the period from discontinued operations	--	--	611	--
Profit for the period	34,222	23,525	99,305	60,747
Attributable to:				
Equity holders of the Company	34,222	23,318	99,177	60,226
Minority interest	--	207	128	521
	34,222	23,525	99,305	60,747
Earnings per share for profit attributable to the equity holders of the Company (in litas)	0.04	0.03	0.13	0.08

NOTES: Other income includes gain on sales of investments and fixed assets, interest income from financial investments and other nonrecurring gains. Other expenses include loss on sales of investments, unrealised loss on financial investments and other nonrecurring losses. Discontinued operations include result of activities of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija for the period from January to February 2006.

10. Explanatory letter

TEO LT, AB (till 5 May 2006 was named 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 AB.

TEO together with its related legal entities is designated as an operator with significant market power (SMP) on the following markets of:

- publicly available local and/or national telephone services provided at fixed location for residential customers;
- publicly available international telephone services provided at fixed location for residential customers;
- publicly available local and/or national telephone services provided at fixed location for non-residential customers;
- publicly available international telephone services provided at fixed location for non-residential customers;
- calls origination on public telephone network provided at fixed location;
- calls termination on public telephone network provided at fixed location;
- national transit on public telephone network provided at fixed location;
- international transit on public telephone network provided at fixed location;
- wholesale broadband access;
- wholesale unbundled access for provision of broadband and voice services.

As TeliaSonera AB through Amber Mobile Teleholding AB owns 100 per cent of UAB Omnitel shares, TEO is regarded as an entity related to UAB Omnitel, therefore TEO is considered as SMP on the market of voice call termination on public mobile network together with Omnitel.

As on 30 September 2006, TEO Group consisted of the parent company, TEO LT, AB, (Savanorių ave. 28, LT-03501 Vilnius) and its daughter companies: UAB Lintel (J. Galvydžio str. 7/Žygio str. 97, LT-08222 Vilnius; 100 per cent of shares), UAB Baltic Data Center (Žirmūnų str. 141, LT-09128 Vilnius; 100 per cent of shares), UAB Kompetencijos Ugdymo Centras (formerly Lietuvos Telekomo Verslo Sprendimai) (Palangos str. 4, LT-01117 Vilnius; 100 per cent of shares), UAB Voicecom (Savanorių ave. 28, LT-03501 Vilnius; 100 per cent of shares) and OOO Comliet-Kaliningrad (ul. Pugachiova 14a, RUS-236000 Kaliningrad, Kaliningrad Region, Russian Federation; 100 per cent of capital). TEO is a sole founder and owner of a non-profit organisation VšĮ TEO Sportas (formerly Lietuvos Telekomo Sporto Klubas) (Savanorių ave. 28, LT-03116 Vilnius).

On 28 February 2006, the Company sold all shares of its subsidiary UAB Comliet (Lvovo str. 21a, LT-09313 Vilnius). UAB Comliet specializes in construction of external wide area and indoor telecommunications as well as other indoor engineering networks. 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 31 January 2006, the Company acquired from UAB Comliet and UAB Comliet Sprendimai 95 per cent and 5 per cent stakes in OOO Comliet-Kaliningrad, Russian Federation, respectively. Now TEO has 100 per cent of OOO Comliet-Kaliningrad capital.

On 2 March 2006, following the obligation of the Lithuanian Competition Council of 27 October 2005 the Company sold 100 per cent of UAB MicroLink Lietuva (A. Juozapavičiaus str. 6/2, LT-09310 Vilnius) and 100 per cent of UAB Baltijos Kompiuterių Akademija (Šeimyniškių str. 1A, LT-09312 Vilnius) to the third party. The Company acquired 100 per cent of UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija shares in November 2005 as a part of the three Baltic telecoms' deal on acquisition of 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 – the Company held 30 per cent and UAB Verslo Žinios 70 per cent of shares - started liquidation of UAB Verslo Portalas, a business-to-business portal verslas.com.

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

On 5 May 2006, following the decision of the Annual General Meeting held on 24 April 2006 the Company's name was changed from AB Lietuvos Telekomas to TEO LT, AB.

TEO comprises all the activities carried out by the Company – voice, internet, television and data communication services. Respectively, these four activities have their secondary brands: VOX – voice services for residential customers; ZEBRA – internet services for residential customers; GALA – digital television services; TEO VERSLAS – voice, internet, data communication and IT services for business customers. TEO also operates an Internet portal ZEBRA.

UAB Lintel is the largest provider of Call Center services in Lithuania that handles 16 million contacts per year. Lintel also provides Directory Inquiry Service 118. From June 2004 UAB Lintel holds 4.67 per cent of the Company's shares (treasury stocks).

From 7 April 2006 the Company owns all shares of UAB Baltic Data Center. UAB Baltic Data Center provides IT infrastructure and various IT help-desk services. UAB Baltic Data Center also has its subsidiary in Latvia – Baltic Data Center SIA, which is a dormant company

In June 2006, UAB Lietuvos Telekomo Verslo Sprendimai changes its name to UAB Kompetencijos Ugdymo Centras and now provides training and consultancy services. UAB Kompetencijos Ugdymo Centras employees people from former Competence Development Centre of the Company.

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.

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

TEO Group accounting

Subsidiaries are all entities over which TEO 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.

Key figures of TEO Group

Financial figures	Nine months of 2006	Nine months of 2005	Change (%)
Revenue (LTL thousand)	546,599	542,564	0.7
EBITDA (LTL thousand)	271,704	268,821	1.1
EBITDA margin (%)	49.7	49.5	
Operating profit (LTL thousand)	119,675	78,172	53.1
Operating profit margin (%)	21.9	14.4	
Profit before income tax (LTL thousand)	122,604	80,056	53.1
Profit for the period (LTL thousand)	99,305	60,747	63.5
Profit for the period margin (%)	18.2	11.2	
Earnings per share (LTL)	0.13	0.08	
Number of shares excluding treasury stocks (thousand)	776 818	776 818	
Net cash from operating activities (LTL thousand)	210,912	233,797	(9.8)
Capital investments (LTL thousand)	51,871	43,079	20.4

Financial ratios			
Return on capital employed (%)	11.2	7.2	
Return on average assets (%)	9.7	6.3	
Return on shareholders' equity (%)	9.1	5.5	
Gearing ratio (%)	-28.8	-19.4	
Debt to equity ratio (%)	1.0	0.9	
Current ratio (%)	637.2	281.3	
Rate of turnover of assets (%)	44.5	43.7	
Equity to assets ratio (%)	90.0	90.1	
Operating figures			
Number of fixed lines in service	781,773	802,462	(2.6)
Penetration of lines per 100 residents	23.0	23.5	(2.1)
Digitalisation rate (%)	93.8	93.2	(0.6)
Number of subscribed payment plans	602,748	435,688	38.3
Number of ADSL access points	156,803	84,606	85.3
Number of wireless internet (WiFi) access points	689	0	100.0
Number of lines per full-time employee	325	342	(5.0)
Number of personnel at the end of period	2,963	2,978	(0.5)

In spite of sale of UAB Comliet in February 2006 that generated LTL 19.8 million during nine months of 2005, total Group revenue for nine months of 2006 was up by 0.7 per cent over the total revenue a year ago and amounted to LTL 546.6 million. Total revenue excluding Comliet grew by 4.2 per cent over the year. Total revenue for the third quarter of 2006 increased by 1.6 per cent over the third quarter revenue a year ago (6.4 per cent growth excluding Comliet revenue) and by 1.5 per cent over the revenue for the second quarter of 2006.

Revenue from internet and data communication services as well as IT services continued to grow and fully compensated the loss of revenue from Comliet construction activities and fixed voice services. In the third quarter of 2006 the Company excluded revenue from IT services out of revenue from other services into a separate revenue line as IT services become an increasingly important part of TEO services portfolio. For nine months of 2006 revenue from IT services amounted to LTL 8.2 million, including a LTL 3.4 million IT infrastructure lease deal executed by TEO subsidiary, Baltic Data Center. Revenue from other services, excluding Comliet activities and IT services, for nine months of 2006 over the year increased by 7.4 per cent.

Breakdown of TEO Group revenue (LTL thousand)

	Third quarter of		Change (%)	Nine months of		Change (%)
	2006	2005		2006	2005	
Voice telephony services	131,213	131,780	(0.4)	392,645	401,361	(2.2)
Internet and data communication services	44,481	37,095	19.9	131,526	107,183	22.7
IT services	5,131	1,271	303.7	8,215	2,519	226.1
Other services:	3,615	11,469	(68.5)	14,213	31,501	(54.9)
- construction activities (Comliet)	--	8,258		1,651	19,808	(91.7)
- other revenues	3,615	3,211	12.6	12,562	11,693	7.4
Total	184,440	181,615	1.6	546,599	542,564	0.7
Total excluding revenue from construction activities	184,440	173,357	6.4	544,948	522,756	4.2

Over the year revenue from voice telephony services declined by 2.2 per cent while number of main telephone lines decreased by 2.6 per cent or 20.7 thousand lines. This is due to increased number of revenue generating lines. During the nine months of 2006 number of new telephone lines installed was 35.8 thousand, while number of disconnected lines was 52.4 thousand.

Total call traffic for nine months of 2006 compared to the call traffic for the same period a year ago declined by 2.2 per cent. Traffic of local calls decreased by 3.1 per cent, calls from fixed to mobile network by 3.8 per cent and international call by 2.8 per cent but traffic from long distance domestic calls increased by 2.0 per cent and partly offset the decline in other calls.

Revenue from subscription fees increased by 0.5 per cent, value added services by 27.1 per cent and network interconnection services by 0.3 per cent, while revenue from traffic charges and wholesales services went down by 7.5 and 26.4 per cent, respectively.

Nevertheless, according to the Report of Communications Regulatory Authorities (CRA) for the second quarter of 2006, an average TEO customer invoice slightly increased to 53 litas. The Company's market share on fixed-line telephony market in terms of customers amounted to 92.6 per cent and in terms of revenue - to 95.9 per cent. In terms of revenue TEO had 19.5 per cent of networks' interconnection market.

In August TEO introduced VoIP service for its ZEBRA internet services users. Calls among TEO broadband services users are free of charge; tariffs for calls to TEO network are LTL 0.09 per minute, to networks of other Lithuanian operators – LTL 0.50 per minute and to fixed networks of foreign operators – starting from LTL 0.19 per minute. Each service user is assigned a phone number so he or she could make and receive calls anywhere in Lithuania by connecting to fixed or wireless ZEBRA broadband internet.

During July – September number of ADSL access users increased by 21.5 thousand and over the year by 72.2 thousand. Out of total 156.8 thousand ADSL access points 152.6 thousand are sold to retail customers, 2.4 thousand to wholesales customers and 1.8 thousand to LAN (local area network) users.

Revenue from internet broadband access services went up by 33.7 per cent while revenue from dial-up internet service users went down by 38.2 per cent as number of dial-up internet service users over the

year went down from 24.8 thousand to 12.7 thousand. Revenue from data communication services and network capacity sale increased by 15.6 and 18.0 per cent, respectively.

During the third quarter number of ZEBRA wireless broadband internet access point (based on WiFi technology) increased by 212 to 689 at the end of September and connection speed was increased up to 4 Mb/s and more. Till the end of 2006 service is provided free of charge and by then number of access points should reach 1,000.

According to the Report of CRA the Company's market share on total internet providers market in terms of revenue during the second quarter of 2006 amounted to 41.9 per cent. On 30 June 2006 internet broadband penetration per 100 residents of Lithuania was 8.4 per cent. In terms of revenue the TEO had 51.3 per cent of leased lines and 49.6 per cent of data communications markets.

In July, following the schedule TEO turned on first transmitter of digital terrestrial television (DVB-T) signals in Vilnius city area. From the beginning of October the Company entered into digital television over internet (IP TV) business. For basic monthly fee of LTL 35 TEO customers are offered 38 TV programs of digital video and sound quality as well as electronic program guide, choice of program's language, internet and e-mail on TV screen. Also additional four TV packages are offered for additional fee. More interactive IP TV functionalities will be added in spring of 2007.

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

Total operating expenses of the Group for the nine months of 2006 were by 0.1 per cent higher than total operating expenses for the same period a year ago. Slight increase in operating expenses was due to higher marketing expenses and costs of sold telecommunication equipment (telecommunication and IT equipment) while employee expenses went down by 2.5 per cent, networks interconnection by 2.8 per cent and maintenance and service costs by 0.2 per cent.

During July – September total number of employees in TEO Group went up from 2,826 to 2,963. Parent company TEO employed more than 100 new sales people.

Gain on sale of fixed assets and interest income from financial investments were driving forces behind increase in other income by 35.2 per cent.

In 2005, an investigation was started by the Lithuanian Competition Council regarding the abuse of dominant position in the broadband access 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). On 5 October 2006 Competition Council after examining investigation results and taking into account arguments of TEO representatives, decided that the Company have violated provisions of the Article No. 9 of the Law on Competition that prohibits abuse of domination position. The decision obliged TEO to cease actions contradicting the Law on Competition and during provided timeframe to change terms of ADSL access service provision in the manner that would not directly or indirectly set unfair prices or other conditions for purchase of this service. For violation of the Law on Competition the Company got the fine of LTL 3.011 million. The fine was charged to other expenses for the third quarter of 2006.

EBITDA for the nine months of 2006 went up by 1.1 per cent to LTL 271.7 million over LTL 268.8 million for the same period a year ago and EBITDA margin was 49.7 per cent (49.5 per cent in 2005).

Depreciation and amortisation charges went down by 20.3 per cent year-on-year and in nine months period of 2006 amounted to 27.8 per cent of total revenue. Consequently operating profit was 53.1 per cent higher than year ago and operating profit margin was 21.9 per cent (14.4 per cent a year ago). Financial income was 64.8 per cent higher than year ago and by three times exceeded financial expenses.

As a result profit before income tax for January – September of 2006 was up by 53.1 per cent and amounted to LTL 122.6 million (LTL 80 million a year ago). Profit for the period of the nine months of 2006 (including minority interest and profit from discontinued operations) amounted to LTL 99.3 million, an increase by 63.5 per cent over LTL 60.7 million in 2005. Over the year the profit margin went up from 11.2 per cent to 18.2 per cent.

Discontinued operations imply profit of LTL 611 thousand generated by UAB MicroLink Lietuva and UAB Baltijos Kompiuterių Akademija during January – February of 2006.

During January – September 2006 the total assets of TEO Group decreased by 4.8 per cent mainly due to depreciation of fixed assets. Non-current assets decreased by 12.6 per cent and amounted to 55.6 per cent of the total assets. In spite of dividend payout for the year 2005 current assets increased by 7.3 per cent and amounted to 44.4 per cent of total assets whereof cash, trading investment and held-to-maturity investments represented 26.8 per cent of the total assets.

During the nine months of 2006 shareholders' equity decreased by 2.3 per cent due to dividend payout and amounted to 90.0 per cent of the total assets. At the end of September 2006 the total amount of borrowings (including financial liabilities related to financial leasing) amounted to LTL 10.5 million and net debt was LTL –310.6 million. The net debt to equity ratio was –28.8 per cent.

Borrowings of TEO Group

Borrower	Lender	Currency	Book value as of 30 September 2006 (LTL thousand)
TEO LT, AB	European Bank for Reconstruction and Development	USD	1,696
UAB Baltic Data Center	UAB Sampo Banko Lizingas (car leasing)	LTL	5
TEO LT, AB	UAB Nordea Finance Lithuania (car leasing)	LTL	200
TEO LT, AB	AB Invaldos Nekilnojamo Turto Fondas (premises leasing)	LTL	8,576
Total			10,477

Net cash flow from operating activities for nine months of 2006 was by 9.8 per cent lower than net cash from operating activities a year ago.

Capital investments increased by 20.4 per cent to LTL 51.9 million (LTL 43.1 million in 2005). Majority of capital investments went to expansion of access network and LTL 8.7 million were invested into development of digital television services (including development of LAN, internet broadband and TV networks). During the third quarter the term of LTL 100 million loan granted to TeliaSonera AB was prolonged till November 2006.

Due to payment of dividends of LTL 124 million in May 2006 net cash used in financing activities increased by 20.3 per cent. Nevertheless, cash and cash equivalents during the nine months of 2006 increased by LTL 57 million (LTL 100.8 million in 2005).

Cash Flow Statement of TEO Group (LTL thousand)

	Nine months of 2006	Nine months of 2005
Operating activities		
Profit for the period from continuing operations	98,694	60,747
Adjustments for:		
Income tax	23,910	19,309
Depreciation, amortisation and impairment charge	152,029	190,649
Share of result of associates	(41)	22
Gain and losses	(3,279)	(3,584)
Interest income	(5,581)	(2,319)
Interest expenses	468	567
Other non cash transactions	(22)	1,286
	266,178	266,677
Changes in working capital:		
Inventories	(2,564)	1,785
Trade and other accounts receivable	(11,341)	13,207
Trade and other accounts payable	(13,013)	(15,195)
Cash generated from operations	239,260	266,474
Interest paid	(453)	(588)
Tax paid	(27,895)	(32,089)
Net cash from operating activities	210,912	233,797

Investing activities		
Purchase of PPE and intangible assets	(51,871)	(43,079)
Proceeds from disposal of PPE and intangible assets	75,306	17,477
Net change in held-to-maturity investments	41,960	382
Acquisition of shares	(5,062)	--
Disposal of subsidiaries and shares	12,420	--
Loans granted	(100,000)	--
Dividends received	47	207
Interest received	5,717	2,128
Net cash from investing activities	(21,483)	(22,885)
Financing activities		
Repayment of borrowings	(8,154)	(7,758)
Dividends paid to shareholders	(124,291)	(100,986)
Dividends paid to minority shareholders	--	(1,386)
Net cash from financing activities	(132,445)	(110,130)
Increase (decrease) in cash and cash equivalents	56,984	100,782
Movement in cash and cash equivalents		
At start of the period	149,601	88,514
Increase (decrease) during the period	56,984	100,782
At end of the period	206,585	189,296

Statement of Changes in Shareholder's Equity of TEO Group (in thousand of litas)

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share Capital	Treasury Shares	Legal reserves	Translation differences	Retained earnings		
Balance at 1 January 2005	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	--	--	--	--	60,226	522	60,748
Currency translation differences	--	--	--	26	--	--	26
Balance at 30 September 2005	814,913	(120,000)	81,499	(7)	304,276	3,035	1,083,716
Balance at 1 January 2006	814,913	(120,000)	81,499	(21)	327,171	2,329	1,105,891
Dividends paid for 2005	--	--	--	--	(124,291)	--	(124,291)
Net profit	--	--	--	--	99,177	128	99,305
Currency translation differences	--	--	--	29	--	--	29
Minority of sold subsidiary	--	--	--	--	--	(2,457)	(2,457)
Balance at 30 September 2006	814,913	(120,000)	81,499	8	302,057	--	1,078,477

IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY

11. Material events in the Issuer's activity

On 20 July 2006, the Board of TEO LT, AB (hereinafter – TEO or “the Company”) approved unaudited financial statements of TEO Group for the first half of 2006, prepared according to International Financial Reporting Standards. Total Group revenue for six months of 2006 was up by 0.3 per cent over the total revenue a year ago and amounted to 362 million litas. EBITDA for the first half of 2006 went up by 4.2 per cent to 185 million litas over 178 million litas for the same period a year ago and EBITDA margin reached 51.1 per cent (49.2 per cent in 2005). Profit before income tax for January - June of 2006 was up by 73.5 per cent and amounted to 80 million litas (46 million litas a year ago). Profit for the period of the six months of 2006 (including minority interest and discontinued operations) amounted to 65 million litas, an increase by 74.9 per cent over 37 million litas in 2005.

On 1 October 2006, TEO LT, AB (hereinafter – TEO or “the Company”) launched digital television based on IP technology service, GALA. Digital television provides superior video and audio quality and TV content management possibilities. GALA television will be available almost all over the Lithuania and to the customers premises will be provided through the same fixed line which is used for provision of TEO voice and internet services. Monthly fee for basic TV program package (at present 38 TV programs) is 35 Lit.

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.teo.lt.