

# **AB Lietuvos Telekomas**

## **Report for the First Half of the Year 2003**

**(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

First half of the year 2003.

### 2. Main data about the Issuer

Name of the Issuer	AB Lietuvos Telekomas
Authorised capital	814,912,760 litas
Registered office	Savanoriu ave. 28, 2600 Vilnius, Lithuania
Telephone number	+370 6 48 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.:	BI 98 - 195
Code in the Register of Enterprises	2121543
Administrator of the Register	State Enterprise Centre of Registers
Internet address	www.telecom.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 AB Lietuvos Telekomas' headquarters at Savanoriu ave. 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 Lietuvos Rytas daily or delivered personally to each Shareholder or any person to whom notification is required, by registered mail or by recorded delivery.

### 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:

Kjell-Ove Blom, General Manager of AB Lietuvos Telekomas  
tel. +370 5 236 76 00, fax. +370 5 212 66 65.

Jan-Erik Elserius, Chief Financial Officer and Director of the Finance Department of AB Lietuvos Telekomas, 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.**

AB Lietuvos Telekomas represented by Acting General Manager Romualdas Degutis and Chief Financial Officer and Director of the Finance Department Jan-Erik Elserius 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

Romualdas Degutis

.....

\_\_\_ August 2003

Seal

Chief Financial Officer and Director of the  
Finance Department of AB Lietuvos  
Telekomas

Jan-Erik Elserius

.....

\_\_\_ August 2003

The report is prepared in Vilnius, July 2003.

## II. INFORMATION ABOUT THE ISSUER'S SHARE CAPITAL, ISSUED SECURITIES AND MEMBERS OF THE MANAGING BODIES

### 6. The Issuer's share capital

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

The share capital of AB Lietuvos Telekomas registered in the Companies Register of the Republic of Lithuania 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 Litass)	Total nominal value (in Litass)	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 in.

Due to expiration of the term of the Company's Special Share on 1 January 2003 and following the provisions of the laws and other legal acts of the Republic of Lithuania, the General Meeting of Shareholders held on 28 April 2003 decided to cancel the status of the Company's special share and convert it into the Company's ordinary registered share. On 4 June 2003, amended By-laws of the Company were registered at the State Enterprise Registru Centras.

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

### 7. Shareholders

The following shareholders hold more than 5 per cent of the Company's share capital as of 30 June 2003:

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, Bredgade 26, Copenhagen, DK-1260, Denmark, no. 244.793 (a)	488,947,656	60.00	62.94	---
The State represented by the State Property Fund, Vilniaus st 16, LT- 2001 Vilnius, register code 1007315	73,621,795	9.03	9.48	---

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

As of 30 June 2003, the total number of AB Lietuvos Telekomas' shareholders was 9,399. The number of shareholders on the day of the last General Meeting of Shareholders, which was held on 28 April 2003, was 9,130.

On 12 June 2000, 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, 4 Albany Street, New York, NY 10006, USA.

As of 30 June 2003, on the basis of 111,837,950 AB Lietuvos Telekomas' shares there were issued 11,183,795 Global Depository Receipts that amount to 13,72 per cent of the Company's share capital.

As of 30 June 2003, UAB Lintkom, a subsidiary 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 Lintkom are considered as treasury stocks.

## 8. Securities, which do not certify the participation in the share capital, but which circulation is regulated by the Law on Securities Market

Securities of AB Lietuvos Telekomas, which are issued for non-public circulation of securities:

Name of security	Number	Nominal value (in Litas)	Total nominal value (in Litas)	Securities' registration number
10 year registered bonds with an annual coupon of 12 per cent	12,000	1,000	12,000,000	A54011422

On 28 September 2000, the Lithuanian Securities Commission registered for non-public circulation issue of 12,000 ten-year book-entry registered bonds, par value of 1,000 litas each, with an annual coupon of 12 per cent (act No. AB-4791).

The whole issue was placed on 12 October 2000. On each annual coupon payment day – each year on 13 October starting with 2001 till 2010 - bondholders have a right to receive 120 litas (interest) for each bond. The issue shall be redeemed on 13 October 2010 at the nominal value if the Company or investors do not exercise the premature redemption or sell-off rights. The Company paying the premium has the right to redeem the bonds on 29 August 2003 without the separate consent from investors. In case the EU monetary unit euro is approved as a local currency in the Republic of Lithuania, the Company is eligible to redeem and investors to sell the bonds prior 13 October 2010.

During the reporting period there were no payments made to the holders of those securities.

## 9. Secondary circulation of securities

The following securities of AB Lietuvos Telekomas are included into the Official List of the National Stock Exchange of Lithuania:

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

From 16 June 2000, no more than 28,549,990 Lietuvos Telekomas' Global Depository Receipts (1 GDR represents 10 ORS) are admitted to the Official List of the UK Listing Authority and could be quoted on the Stock Exchange Automated Quotations System ("SEAQ International") operated by the London Stock Exchange. Lietuvos Telekomas GDRs could be traded on the PORTAL market, a subsidiary of the Nasdaq Stock Market Inc.

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

Period	Price (in Litas)		Turnover (in Litas)	
	Highest	Lowest	Biggest	Smallest
01/01/2003 - 31/03/2003	1.01	0.83	240,131	0
01/04/2003 - 30/06/2003	1.41	1.00	902,134	0

Period	Last session		Total turnover	
	Price (in Litas)	Turnover (in Litas)	Number of shares	In Litas
01/01/2003 - 31/03/2003	1.00	30,695	3,408,355	3,092,293
01/04/2003 - 30/06/2003	1.41	98,764	10,108,348	11,569,524

Block trading in AB Lietuvos Telekomas' ordinary registered shares:

Period	Average price (in Litas)	Total turnover	
		Number of shares	In Litas
01/01/2003 - 31/03/2003	0.90	4,120,410	3,695,785
01/04/2003 - 30/06/2003	1.11	1,375,643	1,526,385

Trading in Lietuvos Telekomas' Global Depository Receipts on SEAQ International operated by the London Stock Exchange:

Period	Price (in US dollars)		Turnover (in GBP)	
	Highest	Lowest	Biggest	Smallest
01/01/2003 - 31/03/2003	3.075	2.650	666,716	0
01/04/2003 - 30/06/2003	4.525	3.075	812,318	0

Period	Last session		Total turnover	
	Price (in USD)	Turnover (in GBP)	Number of GDRs	In GBP
01/01/2003 - 31/03/2003	3.075	0	1,371,382	2,362,294
01/04/2003 - 30/06/2003	4.525	35,004	1,071,400	2,340,382

## 10. Agreements with intermediaries of public trading in securities

On 1 December 2000, AB Lietuvos Telekomas and AB Vilniaus Bankas, Gedimino ave. 12, 2600 Vilnius, made an agreement on accounting of the Company's securities and services related to the accounting of securities.

## 11. Members of the managing bodies

The managing bodies of AB Lietuvos Telekomas' are as follows:

- General Meeting of Shareholders;
- Board;
- General Manager.

### Board (as of 30 June 2003)

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

**Gintautas Zintelis** – Chairman of the Board since 7 July 1998 (re-elected for the two-year term on 26 April 2002; nominated by Amber Teleholding A/S), Senior Expert on IT and Telecommunications issues in AB Lietuvos Telekomas. In 1965, graduated from Kaunas University of Technology as an engineer in computer science. In 1970, he became Doctor of Science, in 1980 – Habilitated Doctor of Science, in 1983 – Professor and since 1991 is a correspondent member of the Lithuanian Academy of Science. From 1964 till 1992 he worked in Kaunas University of Technology, where in 1982 - 1992 he was Head of Computer Science Department. In 1992 – 1996, he held a position of Minister of Communications and Informatics of the Republic of Lithuania. In 1996-2002 he was working as Head of the Information System Protection Division and Advisor of the President of AB Vilniaus Bankas. Has no interest in the share capital of AB Lietuvos Telekomas.

**Morgan Ekberg** – a member of the Board since 30 April 2001 (re-elected for the two-year term on 26 April 2002; nominated by Amber Teleholding A/S), Senior Advisor and Vice President, Norway, Denmark and Baltic Countries, TeliaSonera AB. 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.

**Erik Hallberg** – a member of the Board since 28 April 2003 (nominated by Amber Teleholding A/S), Senior Vice President and Head of Baltic Countries, TeliaSonera AB, Norway, Denmark and 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.

**Matti Hyyrynen** – a member of the Board since 26 April 2002 (elected for the two-year term; nominated by Deutsche Bank Trust Company Americas), 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 Supervisory Board of AB Drobe. He does not have interest in the share capital in other Lithuanian companies.

**Kennet Radne** – a member of the Board since 26 April 2002 (elected for the tow-year term; nominated by Amber Teleholding A/S), Senior Vice President responsible for Corporate Fixed Voice Products and Services, Marketing, Products and Services, TeliaSonera AB. 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 Sukys** – a member of the Board since 26 April 2002 (elected for the two-year term; nominated by State Property Fund), Director of Asset Management at State Property Fund. Has no interest in the share capital of AB Lietuvos Telekomas. Chairman of the Supervisory Board of AB Lietuvos Juru Laivininkyste, AB Klaipedos Transporto Laivynas and AB Lietuvos Avialinijos, member of the Board of AB Lietuvos Dujos. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

**Timo Virtanen** – a member of the Board since 5 July 2000 (re-elected for the two-year term on 26 April 2002; nominated by Amber Teleholding A/S), Senior Adviser, Norway, Denmark and Baltic



Countries, TeliaSonera AB 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.

Ingmar Jonsson, Mikko Pirinen and Jaakko Nevanlinna have resigned from the Board from 28 April 2003. On 28 April 2003, for the current term of the Board the following members of the Board were elected Annika Christiansson, Erik Hallberg and Mats Salomonsson. Annika Christiansson and Mats Salomonsson have resigned from the Board from 28 May 2003.

### General Manager

On 30 April 2003, **Tapio Paarma** left the position of General Manager. He worked as General Manager and President of AB Lietuvos Telekomas since 8 July 1998. From 1 May until 31 December 2003 he will work as Senior Advisor to the Company.

From 1 May 2003 **Kjell-Ove Blom** (born in 1943) holds an office of General Manager and President (from 1 July 2003 - General Manager) of the Company. He graduated from Chalmers Technical Higher School (1963–1967) with a degree in Civil Engineering. In 1984, he was awarded a PhD degree at the University of Gothenburg, Sweden. Kjell-Ove Blom started his career in the IT and data processing fields. His first workplace (1968–1973) was IBM, Stockholm, where he was employed as sales representative to corporate customers. In 1974–1978, he worked in a data centre. In 1985–1987, he held a position of CEO at another data centre. Since 1988 Kjell-Ove Blom has been working in the telecommunications sector. In 1988–1992, he was Director at Telia Stockholm, a member of some Boards of Directors. In 1993, worked as Director at the headquarters of the Networks Unit in Telia. In 1994–1995 he was Marketing Director of Unisource Voice Services. In 1996 - Deputy CEO responsible for strategies and business planning at Unisource HQ in Zurich, Switzerland. In 1997, he became Deputy CEO and COO at Unisource Carrier. In 1998–2001, he worked as Deputy CEO and COO at Netia in Warsaw, Poland, a member of many Boards of Directors. In 2002, he became CEO of Netia. From October until December 2002, he worked in Telia Networks International. He is Chairman of the Board of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom and UAB Baltijos Informaciniu Duomenu Valdymo Centras, and member of the Board of UAB TietoEnator Consulting. Has no interest in the share capital of the Company. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

### Deputy General Manager

From 1 June 1999 **Romualdas Degutis** (born in 1961) holds an office of Chief Operating Officer and Deputy General Manager (till 1 July 2003 called Executive Vice President) of AB Lietuvos Telekomas. In 1984 he graduated from Kaunas University of Technology as Electric Communication Engineer. Romualdas Degutis employed in the Company since 1984. In 1993, he was appointed to the office of Klaipeda Branch Director of AB Lietuvos Telekomas. He is member of the Board of UAB Lietuvos Telekomo Verslo Sprendimai, UAB Comliet, UAB Lintel and UAB Lintkom. As of 30 June 2003, he had 10,866 shares of the Company that accounts for 0.0013 per cent of the share capital and gives 0.0014 per cent of votes.

### Chief Financial Officer

From 29 March 1999 **Jan-Erik Elserius** (born in 1943) holds an office of Chief Financial Officer and Director of Finance Department 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, Jan-Erik Elserius 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, Mr. Elserius was appointed as the Deputy Managing Director of the new company Securitas Larm AB. Jan-Erik Elserius is General Manager of UAB Lintkom, Chairman of the Board of UAB Voicecom, member of the Board of UAB Lietuvos Telekomo Verslo Sprendimai, UAB Comliet, UAB Baltijos Informaciniu Duomenu Valdymo Centras, Datu Tikli SIA and Telegrupp AS. As of 30 June 2003, he had 90,000 shares of the Company that accounts for 0.011 per cent of the share capital and 0.0116 per cent of votes.

### III. FINANCIAL STATUS

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

Lietuvos Telekomas' Group financial statements for the reporting period are not audited. Lietuvos Telekomas' Group financial statements for the year ended 31 December 2002 are audited by the auditors.

#### 12. Balance Sheet (in thousand of Litas)

	30 June 2003	31 December 2002	30 June 2002 (a)
<b>Non-current assets</b>			
Property, plant and equipment	1,294,537	1,423,286	1,478,963
Intangible assets	173,321	202,113	219,264
Prepayments for non-current assets	198	142	194
Investments	1,017	879	629
Non-current receivables	78	68	54
<b>Total</b>	<b>1,469,151</b>	<b>1,626,488</b>	<b>1,699,104</b>
<b>Current assets</b>			
Inventories	7,869	4,111	2,151
Assets held for sale	9,764	10,192	28,934
Receivables, prepayments and accrued revenue	138,089	150,193	189,856
Trading investments	1,975	1,287	--
Cash and cash equivalents	127,186	83,759	41,674
<b>Total</b>	<b>284,883</b>	<b>249,542</b>	<b>262,615</b>
<b>TOTAL ASSETS</b>	<b>1,754,034</b>	<b>1,876,030</b>	<b>1,961,719</b>
<b>Shareholders' equity</b>	<b>1,173,081</b>	<b>1,218,541</b>	<b>1,189,856</b>
Minority interest	3,076	2,354	640
<b>Non-current liabilities</b>			
Borrowings	20,623	194,230	358,311
Deferred tax liability	93,066	113,844	130,050
Grants	13,160	14,492	15,624
<b>Total</b>	<b>126,849</b>	<b>322,566</b>	<b>503,985</b>
<b>Current liabilities</b>			
Borrowings	284,884	178,799	125,323
Trade, other payables and accrued liabilities	166,144	153,770	141,915
<b>Total</b>	<b>451,028</b>	<b>332,569</b>	<b>267,238</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,754,034</b>	<b>1,876,030</b>	<b>1,961,719</b>

NOTE. (a) Due to changed principles of accounting payments for international operators, accrued revenue for an amount of 23,572 thousand of litas were netted against accrued liabilities in the balance sheet of 30 June 2002.

**13. Profit (Loss) Statement (in thousand of Litass)**

	April - June 2003	January - June 2003	April - June 2002	January - June 2002
Revenues	203,958	407,914	243,601	491,514
Expenses	(108,090)	(210,338)	(119,336)	(232,887)
EBITDA	95,868	197,576	124,265	258,627
Depreciation and amortisation	(89,074)	(179,100)	(94,726)	(195,933)
Gain on sales of investments	-	-	7,016	7,016
Operating profit	6,794	18,476	36,555	69,710
Finance costs, net	(7,987)	(16,010)	(12,055)	(20,763)
Share of result before tax of associates	180	356	18	18
Profit before profit tax	(1,013)	2,822	24,518	48,965
Profit tax	749	(640)	(7,266)	(10,305)
Group profit before minority interest	(264)	2,182	17,252	38,660
Minority interest	(605)	(1,018)	(134)	(134)
NET PROFIT	(869)	1,164	17,118	38,526
Earning per share (Litas)	(0.001)	0.002	0.022	0.05

**14. Explanatory letter**

Lietuvos Telekomass' Group provides fixed-line telephony services, Internet-related and data communication services, wholesale services to other local and international telecommunication operators as well as other services. From 1 January 2003 AB Lietuvos Telekomass 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.

As of 30 June 2003, Lietuvos Telekomass' Group consisted of the parent company, AB Lietuvos Telekomass, (Savanoriu ave. 28, LT-2600 Vilnius) and its daughter companies: UAB Comliet (Palangos str. 4, LT-2001 Vilnius), UAB Lietuvos Telekomo Verslo Sprendimai (Galvydzio str. 7/Zygio str. 97, LT-2042 Vilnius), UAB Lintel (Galvydzio str. 7/Zygio str. 97, LT-2042 Vilnius), UAB Lintkom (Galvydzio str. 7/Zygio str. 97, LT-2042 Vilnius) and VsI Lietuvos Telekomo Sporto Klubas (Savanoriu ave. 28, LT-2600 Vilnius). AB Lietuvos Telekomass also owned 60 per cent stake of UAB Baltijos Informaciniu Duomenu Valdymo Centras (Zirmunu str. 141, LT-2012 Vilnius), 60 per cent stake of UAB Voicecom (Eiguliu str. 14, LT-2049 Vilnius), 30 per cent stake of UAB Verslo Portalas (A. Gostauto str. 12a, LT-2001 Vilnius) and 26 per cent stake of UAB TietoEnator Consulting (Zirmunu str. 141, LT-2600 Vilnius) shares. UAB Comliet owns 75 per cent of Latvian company Datu Tikli SIA, 55 per cent of Estonian company Telegrupp AS and 95 per cent of Comliet-Kaliningrad (Russian Federation) shares.

The core business of the parent company, AB Lietuvos Telekomas, includes fixed-line telephony, data communication, fixed-line network, wholesale and Internet-related services. It also operates an Internet portal, *Takas*.

UAB Comliet provides such services as designing and construction of fixed-line and wireless telecommunications networks, installation and maintenance of low voltage networks, as well as telecommunications network maintenance, service installation and fault elimination services.

On 13 January 2003, UAB Comliet and UAB Sonex Group signed a Memorandum of Understanding. According to the Memorandum, UAB Comliet intends to acquire a 100 per cent stake in UAB Sonex Komunikacijos, a company owned by Sonex Group. The Competition Council of Lithuania approved the intended acquisition of UAB Sonex Komunikacijos by UAB Comliet. The acquisition was completed in July 2003.

UAB Lietuvos Telekomo Verslo Sprendimai provides services and complex telecommunications solutions as well as technical consultancy services on telecommunications issues to around 600 major business customers of Lietuvos Telekomas.

UAB Lintel focuses on provision of the Directory Inquiry Service 118, telemarketing and contact center solutions services as well as property management of Lietuvos Telekomas' Group. From 1 March 2003 UAB Lintel took over a function of Lietuvos Telekomas' customer care by telephone.

UAB Lintkom holds 4.67 per cent of Lietuvos Telekomas' shares (treasury stocks) acquired during the Initial Public Offering (IPO) in 2000.

UAB Baltijos Informaciniu Duomenu Valdymo Centras provides IT infrastructure management services to Lietuvos Telekomas and other major companies in Lithuania and the Baltic region. AB Lietuvos Telekomas owns 60 per cent and TietoEnator Oyj - 40 per cent of shares of the company.

UAB Voicecom provides voice over IP (Internet Protocol) services. AB Lietuvos Telekomas owns 60 per cent and Nexcom Telecommunication LLC (USA) - 40 per cent of shares of the company.

UAB Verslo Portalas operates a business-to-business portal *verslas.com*. AB Lietuvos Telekomas owns 30 per cent and UAB Verslo Zinios - 70 per cent of shares of the company.

UAB TietoEnator Consulting (before 30 January 2003 known as Baltijos Telekomunikaciju Konsultaciniu Centras) provides companies in the Baltic region with high-value-added IT-related consulting services. AB Lietuvos Telekomas owns 26 per cent and TietoEnator Oyj - 74 per cent of shares of the company.

Lietuvos Telekomas is a sole founder of the non-profit organization Vsi Lietuvos Telekomo Sporto Klubas.

Consolidated financial statements of Lietuvos Telekomas' Group combine financial statements of AB Lietuvos Telekomas and its daughter companies: UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Baltijos Informaciniu Duomenu Valdymo Centras, UAB Voicecom and Vsi Lietuvos Telekomo Sporto Klubas added together on a line-by-line basis, eliminating the book value of the related investments against the Group's share of equity, and, in the case of not fully owned subsidiaries, the Group recognises a minority interest consisting of the portion of net income and net assets attributable to the interest owned by the third party. Investments in associated undertakings, where AB Lietuvos Telekomas has between 20 and 50 per cent, are accounted for by the equity method of accounting. Consolidated financial statements of UAB Comliet combine financial statement of UAB Comliet, Datu Tikli SIA, Telegrupp AS and Comliet-Kaliningrad. All statements are prepared on the basis of the same accounting principles.

## Consolidated Cash Flow Statements of Lietuvos Telekomas' Group (in thousand of Litas)

	January - June 2003	January - June 2002
<b>Operating activities</b>		
Net profit for period	1,164	38,526
Profit tax	640	10,305
Minority interest	1,018	134
Share of result before tax of associates	(356)	(18)
Depreciation and amortisation and impairment charge	179,100	195,933
Provision and write off of doubtful accounts receivable	2,262	7,296
Profit of sale of property, plant and equipment	(2,293)	(1,545)
Gain on sale of investment	-	(7,016)
Change in restructuring provision	7,990	(5,457)
Interest income	(698)	(232)
Interest expenses	13,843	16,595
Other non-cash items	139	(1,599)
Changes in working capital:		
Inventories and assets held for sale	(3,330)	454
Trade and other accounts receivable	13,268	18,116
Trading investments	(688)	-
Trade and other accounts payable and deferred revenue	(6,004)	(20,912)
Cash generated from operations	206,055	250,580
Interest paid	(20,942)	(23,264)
Net cash from operating activities	185,113	227,316
<b>Investing activities</b>		
Purchase of property, plant and equipment and intangible assets, net	(24,168)	(100,717)
Change in prepayments for tangible fixed assets	(56)	(163)
Investments into subsidiaries, net of cash acquired	(741)	5,797
Dividends received from associates	162	-
Interest received	698	232
Net cash used in investing activities	(24,105)	(94,851)
<b>Financing activities</b>		
Changes in borrowings, net	(70,656)	(53,243)
Dividends paid to Group shareholders	(46,609)	(85,450)
Dividends paid to minority shareholders	(316)	-
Net cash used in financing activities	(117,581)	(138,693)
<b>Increase (decrease) in cash and cash equivalents</b>		
Movement in cash and cash equivalents		
At start of the period	83,759	47,902
Increase (decrease) during the period	43,427	(6,228)
At end of the period	127,186	41,674

## Key figures of Lietuvos Telekomas' Group (in thousand of Litas)

	January - June 2003	January - June 2002 (a)	Change (%)
Revenue	407,914	491,514	-17.0
EBITDA	197,576	258,627	-23.6
EBITDA margin (%)	48.4	52.6	
Depreciation and amortisation	179,100	195,933	-8.6
Operating profit (EBIT)	18,476	69,710	-73.5
Operating profit EBIT margin (%)	4.5	14.2	
Financial income and expenses, net	(16,010)	(20,763)	-22.9
Profit before profit tax	2,822	48,965	-94.2
Net profit	1,164	38,526	-97.0
Net profit margin (%)	0.3	7.8	
Cash provided by operating activities	185,113	227,316	-18.6
Number of personnel at the end of period	4064	4866	-16.5
Earning per share (in litas)	0.002	0.05	
Average number of shares at the end of period (in thousand) (b)	776,818	776,818	
Number of fixed lines in service	859,179	1,062,838	-19.2
Penetration of lines per 100 residents (%) (c)	24.9	30.6	-18.6
Digitisation rate (%)	89.7	73.8	21.5
Number of lines per full time employee, related to fixed telephony	261	252	3.6

NOTES: (a) Comparable EBITDA (excluding the total redundancy expenses of LTL 15.6 million) for the first half of 2003 was LTL 213 million, comparable EBITDA margin was 52.3 per cent, comparable profit before profit tax was LTL 18.4 million and comparable net profit amounted to LTL 16.8 million; (b) excluding treasury stocks held by UAB Lintkom; (c) calculated on the basis of the following population: on 30 June 2002 - 3,469 thousand, on 30 June 2003 - 3,456 thousand..

EBITDA - earnings before interest, tax, depreciation and amortisation

EBIT - earning before interest and tax

## Revenue

The total consolidated Group's revenue in the second quarter of the year 2003 remained at the same level of LTL 204 million as in the previous quarter. An increase in the revenue from Internet and data communication services by 2.4 per cent as well as from other (IT, telecommunications and low voltage networks construction, etc.) services by 44.9 per cent off set a 4.2 per cent decline in revenue from fixed-line telephony services.

The total consolidated Group's revenue for the six months of 2003 amounted to LTL 408 million, a decrease by 17 per cent compared with the total revenue of LTL 492 million a year ago. This mainly came as a result of a 25.1 per cent drop of the revenue from fixed-line telephony services.

**Breakdown of the Groups' revenue (reclassified in the first quarter of 2003, in thousand of Litas)**

	Second Quarter of 2002	Second Quarter of 2003	Change	First Half of 2002	First Half of 2003	Change
Fixed-line Telephony Services	202,225	151,982	-24.8%	414,592	310,611	-25.1%
Internet and Data Communication Services	30,777	32,983	7.2%	59,345	65,200	9.9%
Other Services	10,599	18,993	79.2%	17,577	32,103	82.6%
<b>Total</b>	<b>243,601</b>	<b>203,958</b>	<b>-16.3%</b>	<b>491,514</b>	<b>407,914</b>	<b>-17.0%</b>

The number of main lines in service continued to decline during the second quarter of 2003, but at a slower pace. During April – June 2003 the number of main lines decreased by 33 thousand, while during January – March it decreased by 43 thousand. The Company made further steps in order to stop the customers' churn by offering more attractive payment plans and services.

As of 30 June 2003, the number of subscribers using one of payment plans reached 308 thousand (293 thousand as of 31 March 2003) or more than a third of all customers of Lietuvos Telekomas. From July, the Company is offering the Minimum payment plan that provides customers with 23 free minutes of local and long-distance calls for a basic monthly subscription fee of 23 litas.

New interconnection agreements with mobile operators and, consequently, lower tariffs for calls from fixed to mobile networks had a positive effect on the increase in the fixed-to-mobile traffic and revenue. First revenue streams were generated by the wholesale fixed-line telephony services.

Compared with the first half of 2002, during the same period this year the revenue from fixed-line telephony services decreased by 25.1 per cent due to a decrease in the number of main lines in service by 204 thousand to 859 thousand (30 June 2003). An increase in the revenue from other services was mainly driven by growing activities of the largest subsidiary of Lietuvos Telekomas, UAB Comliet Group, in the area of construction and maintenance of telecommunications and low voltage networks. A noticeable contribution came from IT infrastructure and consultancy services provided by two other subsidiaries – UAB Baltijos Informaciniu Duomenu Valdymo Centras and UAB TietoEnator Consulting – that started their activities in June 2002.

In April, the Company offered to its residential customers a new Internet service plan, *Takas iD2*, which is based on the ADSL technology. For a monthly fee of 39 litas, customers are offered 30 free hours of Internet access with the data download rate of 256 kbit/s and upload rate of 128 kbit/s. ADSL services are among the fastest growing services of Lietuvos Telekomas. At the end of the first half of 2003, the total number of ADSL service subscribers was more than 14 thousand and there were more than 32 thousand users of the Internet dial-up service.

**Expenses**

In order to improve the performance efficiency of its structural units, Lietuvos Telekomas' Group continued to regulate the number of staff. During the six-month period, employee redundancy expenses amounted to LTL 7 million and the total number of employees (headcounts) decreased from 4,531 (1 January 2003) to 4,064 (30 June 2003). Also, in the second quarter of 2003, the Group made a provision of LTL 8.6 million for future redundancy expenses following the Board's decision that the number of employees recalculated into the equivalent of full-time employees should stand at 3,400 by the end of 2003 (as of 30 June 2003 the number of employees recalculated into the equivalent of full-time employees was 3,913). As of 30 June 2003, the number of main lines per one full-time employee in the core business was 261, while a year ago this figure stood at 252.

The total operating expenses (including employee redundancy expenses) for the six months of 2003 decreased by 9.7 mainly due to the reduction of network interconnection expenses.



Comparable EBITDA (excluding the total redundancy expenses of LTL 15.6 million) for the first half of 2003 was LTL 213 million, a decline by 17.6 per cent over EBITDA for the same period of 2002. Comparable EBITDA margin was 52.3 per cent, while actual EBITDA margin stood at 48.4 per cent.

### Net Result

Heavy depreciation and amortisation charges amounting to more than 40 per cent of the total revenue continued to have a negative effect on the overall results of the Company. Depreciation and amortisation charges for the first half of 2003 compared with the same period last year decreased by 8.6 per cent.

In the second quarter of 2002, Lietuvos Telekomas recorded a gain on sales of investment of LTL 7 million. The Company sold a 74 per cent stake in UAB Baltijos Telekomunikaciju Konsultacinis Centras (now renamed TietoEnator Consulting) and a 40 per cent stake in UAB Baltijos Informaciniu Duomenu Valdymo Centras to TietoEnator Oyj.

As a result, the profit before profit tax for the first half of 2003 was LTL 2.8 million (comparable profit before profit tax was LTL 18.4 million), a decrease by 94.2 per cent over LTL 49 million for the same period last year.

Due to the decline in the revenue, additional redundancy expenses, high depreciation and amortisation charges, the net profit of Lietuvos Telekomas' Group for January - June 2003 was LTL 1.2 million. Comparable net profit (excluding employee redundancy expenses) amounted to LTL 16.8 million.

### Balance Sheet and Cash Flow

On 30 June 2003, the total assets of Lietuvos Telekomas' Group amounted to LTL 1,754 million and the shareholders' equity was LTL 1,173 million. In spite of payout of dividends for the year 2002, the net debt decreased to LTL 178 million (30 June 2003) from LTL 289 million (31 December 2002). The net debt to equity ratio was 15.2 per cent (23.7 per cent on 31 December 2002). On 29 August 2003, the Company will exercise an early redemption option and will redeem its 12 million litas bonds that were issued in October 2000.

During the six months of 2003 the net cash flow from operating activities was LTL 185 million (LTL 227 million during the same period a year ago). The cash flow after investing activities was LTL 161 million (LTL 132 million in 2002). An amount of LTL 70.7 million was used for repayment of loans and LTL 46.6 million for payout of dividends for the year 2002. Overall, during the first half of 2003 cash and cash equivalents of Lietuvos Telekomas' Group increased by LTL 43.4 million.

### Investments

During January - June 2003 the total amount of investments made by Lietuvos Telekomas' Group amounted to LTL 30 million (LTL 109 million in 2002).

On 30 June 2003, the digitalisation rate of Lietuvos Telekomas' network stood at 89.7 per cent (73.8 per cent a year ago) and the number of main lines per 100 inhabitants of Lithuania was 24.9 (30.6 a year ago). The total number of ISDN channels in service was 36 thousand, an increase by almost 13 per cent, year-on-year. During the year the number of total ADSL access connections more than doubled and amounted to 14,289 at the end of June 2003. During the first half of 2003 Lietuvos Telekomas expanded its access bandwidth to the TeliaSonera's IP network and now the overall access bandwidth to the international IP network is 444 Mbps.

On 13 January 2003, UAB Comliet and UAB Sonex Group signed a Memorandum of Understanding. According to the Memorandum, UAB Comliet intends to acquire a 100 per cent stake in UAB Sonex Komunikacijos, a company owned by Sonex Group. The Competition Council of Lithuania approved the intended acquisition of UAB Sonex Komunikacijos by UAB Comliet. The acquisition was completed in July 2003.

### Management Change

Tapio Paarma, General Manager of AB Lietuvos Telekomas from 8 July 1998, resigned from his position as of 30 April 2003. From 1 May 2003 the Board of Lietuvos Telekomas appointed Kjell-Ove Blom as the new General Manager of the Company. The Board appointed Tapio Paarma to the temporary position of the Senior Advisor of the Company for the period from 1 May 2003 until 31 December 2003. The Company also started the search for a Lithuanian national to finally take office of the Company's General Manager.

On 28 April 2003, the shareholders elected Annika Christiansson, Erik Hallberg and Mats Salomonsson to the Board of AB Lietuvos Telekomas. Annika Christiansson and Mats Salomonsson resigned from the Board from 28 May 2003.

### Share Capital

On 1 January 2003, the term of Lietuvos Telekomas' Special Share owned by the State of Lithuania came to an end. Following the shareholders' decision made on 28 April 2003, the Company changed its By-laws and reregistered its Special Share into the Ordinary Registered Share. As of 30 June 2003, the total share capital of AB Lietuvos Telekomas consists of 814,912,760 Ordinary Registered Shares.

### Information about borrowings of AB Lietuvos Telekomas

Creditor	Currency	Book value as of 30 June 2003 (in thousand of Litass)
Swedbank	USD	42,971
Nordic Investment Bank	USD	20,550
European Bank for Reconstruction and Development (a)	USD	26,422
AB Vilniaus Bankas	LTL	49,800
Ericsson	DEM	1,182
AB Vilniaus Bankas (a)	DKK	2,454
10 year bond (annual coupon - 12 per cent)	LTL	12,000
3 year bond (annual coupon - 10.15 per cent)	LTL	150,000
		<b>305,379</b>

NOTE: (a) the loans are guaranteed by the Republic of Lithuania.

## 15. Information about the audit

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## IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY

### 16. Material events in the Issuer's activity.

On 6 January 2003, the Company announced that by the order of Director of the Communications Regulatory Authority, from 1 January 2003 AB Lietuvos Telekomas together with its associates, namely UAB Baltijos Informaciniu Duomenu Valdymo Centras, UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Voicecom, VSI Lietuvos Telekomo Sporto Klubas, is declared as an operator with significant market power in the public fixed-line telephony services and network market, and is obliged to fulfil the requirements for legal entities with a significant market power in the public fixed-line telephony services and network market set by Articles 11, 12, 13, 14, 15, 16, 21, 22, 24 of the Law on Telecommunications of the Republic of Lithuania. Also, from 1 January 2003 Lietuvos Telekomas together with its associates is designated as a local loop operator.

On 14 January 2003, the Company announced that By the order of Director of the Communications Regulatory Authority, AB Lietuvos Telekomas together with its associates, namely UAB Baltijos Informaciniu Duomenu Valdymo Centras, UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Voicecom, VSI Lietuvos Telekomo Sporto Klubas, is declared as an operator with a significant market power on the national interconnection market, and is obliged to fulfil the requirements for legal entities with a significant market power on the national interconnection market set by Articles 11, 13, 14, 15, 21, 22, 24 of the Law on Telecommunications of the Republic of Lithuania. Also, Lietuvos Telekomas together with its associates is declared as a legal entity with a significant market power on the leased line services market, and is obliged to fulfil the requirements for legal entities with a significant market power on the leased line services market set by Articles 11, 13, 14, 15, 16, 21, 22, 24, 28 of the Law on Telecommunications of the Republic of Lithuania.

On 14 January 2003, the Company announced that UAB Comliet, a subsidiary of AB Lietuvos Telekomas, and UAB Sonex Grupe signed a Memorandum of Understanding. According to it UAB Comliet intends to acquire a 100 per cent stake in UAB Sonex Komunikacijos, a subsidiary of UAB Sonex Grupe.

On 17 January 2003, the Company announced that AB Lietuvos Telekomas and UAB Tele2 have agreed to change the interconnection fees and due to this reason, tariffs for calls from the Company's fixed-line network to the mobile network of Tele2 will be reduced from 1 February 2003. In order to make the price for the calls from the fixed-line network to the mobile network of Tele2 to be in line with the requirements of the Resolution of the Government on Establishment of the Price Limits for Public Fixed-line Telephony Services dated 6 December 2001 and the Order of Director of the Communications Regulatory Authority on Establishment of the Temporary Price Limits for Public Fixed Telephony Services and Public Fixed Telephone Network Services Provided by AB Lietuvos Telekomas and its Associated Legal Entities dated 20 December 2002, during the first quarter of 2003 the Company will recalculate the amounts paid by its customers for the calls from the fixed-line network to the mobile network of Tele2 for the period from 5 December 2002 until 1 February 2003.

On 24 January 2003, the Company announced that AB Lietuvos Telekomas and Tele2 have signed an amendment to the interconnection agreement.

On 19 February 2003, the Company announced that AB Lietuvos Telekomas' Board approved the draft of non-audited financial statements for the year 2002 prepared by the Company's administration according to International Accounting Standards. Revenue of AB Lietuvos Telekomas' Group for the year 2002 was LTL 968,212 thousand, net profit for the year 2002 was LTL 67,032 thousand.

On 27 March 2003, the Board of AB Lietuvos Telekomas decided to convoke the Annual General Meeting of AB Lietuvos Telekomas' Shareholders on 28 April 2003 and proposed the following agenda: (1) Information of the Company's auditor; (2) Approval of the Company's activity report of the year 2002; (3) Approval of the annual financial statements; (4) Allocation of 2002 Company's profit; (5) Election of the Company's auditor; (6) Conversion of the Company's Special Share into the Company's Ordinary Registered Share; (7) Change of the By-laws of the Company; (8) Election of the Company's Board members. Company's Board approved audited financial statements of Lietuvos Telekomas' Group of the year 2002. According to International Accounting Standards consolidated Lietuvos Telekomas' revenue in the year 2002 was 968,212 thousand litas and net profit in the year 2002 was 67,032 thousand litas. According to Lithuanian Accounting Principles the Company's revenue in the year 2002 was 927,468 thousand litas and net profit in the year 2002 was 67,032 thousand litas. The Board proposes for the Annual General Meeting to allocate from the Company's net profit 46,609 thousand litas for the dividend payment for the year 2002. Thus dividend per share would amount for 0.06 litas. The Board proposes for the Annual General Meeting to change the By-laws of the Company. The Board of AB Lietuvos Telekomas proposes for the Annual General Meeting to elect UAB PriceWaterhouseCoopers as a Company's auditors.

On 3 April 2003, the Board of AB Lietuvos Telekomas approved General Manager's Mr. Tapio Paarma request for resignation from the Company's General Manager position as of 30 April 2003 and appointed Mr. Kjell-Ove Blom as a new General Manager of AB Lietuvos Telekomas from 1 May 2003. The Board appointed Mr. Tapio Paarma to the temporary position of Senior Advisor of the Company from 1 May 2003 until 31 December 2003. Announcement is not considered confidential and discloses the content of the confidential announcement of the material event of 27 March 2003.

On 28 April 2003, the Company announced that the Board of AB Lietuvos Telekomas has approved unaudited financial statements of AB Lietuvos Telekomas' Group for the first quarter of 2003 prepared according to International Accounting Standards. Consolidated Lietuvos Telekomas' Group revenue for the first quarter of 2003 was LTL 203,956 thousand and net profit for the first quarter of 2003 was LTL 2,033 thousand.

Decisions of the Annual General Meeting of AB Lietuvos Telekomas' Shareholders, held on 28 April 2003: (1) To approve the Report on the Activities of the Company for the year 2002; (2) To approve audited Company's annual financial statement for the year 2002, prepared according to the Accounting Rules of the Republic of Lithuania (LAP) and according to International Accounting Standards. According to IAS, the consolidated revenue of Lietuvos Telekomas' Group in the year 2002 was 968,212 thousand litas and consolidated net profit amounted to 67,032 thousand litas. According to LAP, the revenue of the parent company, AB Lietuvos Telekomas, was 927,468 thousand litas and net profit amounted to 67,032 thousand litas; (3) To allocated the profit of the year 2002 in the following way: 46,609,051 litas for dividends (0.06 litas dividend per share) and 486,000 litas for tantiems for members of the Board; (4) To elect UAB PricewaterhouseCoopers as the Company's auditor to make the audit of the Company's financial statements and to make inspection of the reports on the activities of the Company; (5) To cancel the status of Company's Special Share and to convert this Share into 1 (one) Company's Ordinary Registered Share because of expiration of the term of the Company's Special Share on 1 January 2003; (6) To change the By-laws of the Company; (7) To elect Ms Annika Christiansson, Mr Erik Hallberg and Mr Mats Salomonsson to the Board of the Company for current term of the Board.

On 22 May 2003, following the resolution of the General Meeting of AB Lietuvos Telekomas' shareholders held on 28 April 2003, the Lithuanian Securities Commission cancelled the special status of one share of AB Lietuvos Telekomas by reregistering it into one ordinary registered share.

On 23 May 2003, the Company announced that AB Lietuvos Telekomas and UAB Omnitel have signed an amendment to the agreement on interconnection of networks. Under the agreement, from 1 June tariffs for the calls from Lietuvos Telekomas' network to the mobile network of

Omnitel will be reduced by more than a third, i.e. 34 per cent. Announcement is not considered confidential and discloses the content of the confidential announcement of the material event of 15 May 2003.

On 7 June 2003, the Company informed its shareholders that dividends for the year 2002 will be paid on 9 June 2003.

On 10 June 2003, the Board of AB Lietuvos Telekomas took a decision on the number of the Company's employees. By the end of the year the number of employees at Lietuvos Telekomas' Group is planned to be 3,400.

All material events related to the activity of the Company have been announced in the Lietuvos Rytas daily.

## **17. Litigation and arbitration**

During the first half of the year 2003, there were no litigations, which could have or had a material impact on the financial results of AB Lietuvos Telekomas.

On 21 February 2002, the Lithuanian Competition Council adopted a decision stating that Lietuvos Telekomas had violated requirements of the Law on Competition and imposed a fine amounting to 0.2 per cent of the Company's total annual revenue. On 22 March 2002, the Company lodged an appeal against this decision. On 11 June 2003, Superior Administrative Court of Lithuania passed a final and inappealable decision that dismissed the Company's appeal on fine of 2,077 million Litas imposed by Competition Council. Funds for payment of the fine were set aside in the final accounts of 2001.