

AB Lietuvos Telekomas

Prospectus - report for 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 yearly prospectus - report has been prepared

Year 2003.

2. Main data about the Issuer

Name of the Issuer	AB Lietuvos Telekomas
Authorised capital	814,912,760 litas
Registered office	Savanorių pr. 28, LT-03501 Vilnius, Lithuania
Telephone number	+370 46 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 Register of Legal Persons	State Enterprise Centre of Registers
Internet address	www.telecom.lt

3. Nature of the Issuer's core business

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

Lietuvos Telekomas' Group provides fixed-line telephony, Internet-related and data communication services, wholesale services for other local and international telecommunications operators as well as other services. From 1 January 2003, Lietuvos Telekomas together with its subsidiaries is designated as an operator with significant market power (SMP) in the public fixed-line telephony network and services, leased line services and interconnection services markets.

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

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

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

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

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

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

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

5.2. -----

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

AB Lietuvos Telekomas represented by General Manager Arūnas Šikšta and Chief Financial Officer – Deputy General Manager Jan-Erik Elsėrius 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
AB Lietuvos Telekomas

Arūnas Šikšta

.....

___ May 2004

Seal

Chief Financial Officer – Deputy General
Manager of AB Lietuvos Telekomas

Jan-Erik Elsėrius

.....

___ May 2004

The report is prepared in Vilnius, May 2004.

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

7. The Issuer's share capital

7.1. Share capital registered in the companies' register

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

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

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

All shares of AB Lietuvos Telekomas are paid for.

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.

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

8. Shareholders

The following shareholders hold more than 5 per cent of the Company's share capital on the day of the ordinary General Meeting of Shareholders held on 23 April 2004:

Name and surname of the shareholder (name of enterprise, type and registered office, code in the register of enterprises)	Number of ordinary registered shares owned by the right of ownership	Part in the share capital (%)	Part of votes given by the shares owned by the right of ownership (%)	Part of votes held together with persons acting together (%)
Amber Teleholding A/S, c/o TeliaSonera Danmark A/S, Ejby Industrivej 135, 2600 Glostrup, Denmark, register code 244.793 (a)	488,947,656	60.00	62.94	--
The State represented by the State Property Fund, Vilniaus g. 16, LT- 01507 Vilnius, register code 1007315	64,627,064	7.93	8.32	--

NOTE: (a) From 9 December 2002 Amber Teleholding A/S is a fully owned subsidiary of TeliaSonera AB.

During the year 2003, the State of Lithuania reduced its shareholding in Lietuvos Telekomas from 10.03 per cent (31 Dec. 2002) to 8.12 per cent (31 Dec. 2003) by giving up shares of the Company as a compensation to Lithuanian citizens for the realty redeemable by the State of Lithuania.

As of 31 December 2003, the total number of AB Lietuvos Telekomas' shareholders was 9,861. The number of shareholders on the day of the last General Meeting of Shareholders, which was held on 23 April 2004, was 9,628.

As of 31 December 2003, UAB Lintkom, a daughter company of AB Lietuvos Telekomas' subsidiary UAB Lintel, held 12,698,412 ordinary registered shares of AB Lietuvos Telekomas and 2,539,683 Lietuvos Telekomas' GDRs, i.e. 4.67 per cent of Lietuvos Telekomas' share capital. Following the Lithuanian Company Law, AB Lietuvos Telekomas' shares held by UAB Lintkom are considered as treasury stocks.

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

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

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

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

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

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

On 17 August 2000, the Lithuanian Securities Commission annulled the registration of 40,465,212 employees' shares (Certificate No. AB-222) and registered 40,465,212 ordinary registered shares for public circulation from 23 August 2000. On 5 July 2000, AB Lietuvos Telekomas' General Meeting of Shareholders resolved to convert 40,465,212 employees' shares into ordinary registered shares. The amendments to the Company's By-laws concerning conversion of employees' shares into ordinary registered shares were registered on 23 August 2000.

On 28 April 2003, the General Meeting of Shareholders decided to cancel the status of the Company's special share and convert it into the Company's ordinary registered share. On 22 May 2003, the Securities Commission of Lithuania annulled registration of the special share (Certificate No. AB-866) and registered one ordinary registered share for public circulation (Act No. AB-5167). The amended By-Laws of the Company were registered on 4 June 2003.

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

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

On 26 April 2000, the General Meeting of the Company's Shareholders resolved to grant a status of the special share to one ordinary registered share owned by the State and held by the state enterprise State Property Fund, which acts as a trustee. It has been established that the status of the special share will come into force immediately after the part of all AB Lietuvos Telekomas' ordinary registered shares issued at that time owned by the State and held by the state enterprise State Property Fund, which acts as a trustee, becomes less than 25 per cent, and, therefore, the state enterprise State Property Fund will cease exercising the blocking minority rights following the Lithuanian Company Law. The By-laws of the Company, which were amended on 5 July 2000 by the resolution of the General Meeting of Shareholders and registered on 26 July 2000, provide that from 1 January 2003 or if the special share is transferred to an entity, which is not a Lithuanian state institution or enterprise, special non-property rights granted by such share will be automatically forfeited and the special share becomes an ordinary registered share.

Until 1 January 2003, the holder of the special share had the following rights: (1) to veto resolutions of the General Meeting of Company's Shareholders on the status of the special share, termination, reorganisation or liquidation of the Company's activities, (2) to express its opinion on any agenda issue of the General Meeting of Shareholders (3) to convene the General Meeting of Shareholders and propose the agenda issues for such a meeting.

On 28 April 2003, the General Meeting of Shareholders decided to cancel the status of the Company's special share and convert it into the Company's ordinary registered share. On 22 May 2003, the Securities Commission of Lithuania annulled registration of the special share (Certificate No. AB-866) and registered one ordinary registered share for public circulation (Act No. AB-5167). The amended By-Laws of the Company were registered on 4 June 2003.

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

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

According to the program, one Lietuvos Telekomas' GDR represents ten ordinary registered shares of AB Lietuvos Telekomas. The program's Depository is Deutsche Bank Trust Company Americas, 4 Albany Street, New York, NY 10006, U.S.A.

Lietuvos Telekomas' GDR are listed on the Official List of the UK Listing Authority and are 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 Nasdaq Stock Market Inc.

On 23 April 2004, the day of the last Annual General Meeting of Shareholders, there were 11,280,389 Global Depository Receipts issued on the basis of 112,803,890 shares that amount for 13.84 per cent of the Company's share capital.

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

Date	Number of shares	Number of GDRs
31 March 2002	122,849,890	12,284,989
30 June 2002	123,617,950	12,361,795
30 September 2002	123,867,950	12,386,795
31 December 2002	118,537,950	11,853,795
31 March 2003	113,887,950	11,388,795
30 June 2003	111,837,950	11,183,795
30 September 2003	111,652,950	11,165,295
31 December 2003	110,928,170	11,092,817

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

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

On 28 September 2000, for non-public circulation the Lithuanian Securities Commission registered the 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, Securities' Registration No. A54011422).

The whole issue was placed on 12 October 2000. On each annual coupon payment day – each year on 13 October starting with 2001 until 2010 - bondholders have a right to receive 120 litas (interest) for each bond. The Information Memorandum for Bonds Issue provided that 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. In case that the EU monetary unit euro is approved as the local currency in the Republic of Lithuania, the Company is eligible to redeem and investors to sell the bonds prior 13 October 2010. The Company paying the premium has the right to redeem the bonds on 29 August 2003 without a separate consent from investors.

On 30 July 2003, the Board of AB Lietuvos Telekomas decided to authorise General Manager of the Company to undersign all the documents related to the early redemption of 12 per cent coupon 12 million Litass bond on 29 August 2003 and execute other related actions.

On 29 August 2003, AB Lietuvos Telekomas redeemed all 12,000 ten-year book-entry registered bonds, par value 1,000 litas each paying 1,146.07 litas for each bond. Total bonds' redemption amount including premium was 13,752,840 litas.

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

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

15. Securities included into trading lists of stock exchanges

The following securities of AB Lietuvos Telekomas are included into the Official List of the 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.

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

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

Period	Price (in litas)		Turnover (in litas)	
	Highest	Lowest	Biggest	Smallest
01/01/2002 - 31/03/2002	1.52	1.17	645,908	3,823
01/04/2002 - 30/06/2002	1.53	1.12	547,620	0
01/07/2002 - 30/09/2002	1.16	0.80	371,224	3,270
01/10/2002 - 31/12/2002	0.98	0.75	376,685	0
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
01/07/2003 - 30/09/2003	1.74	1.30	765,230	29,495
01/10/2003 - 31/12/2003	1.58	1.43	828,834	13,005

Period	Last session		Total turnover	
	Price (in litas)	Turnover (in litas)	Number of shares	In litas
01/01/2002 - 31/03/2002	1.52	182,692	7,031,992	8,963,283
01/04/2002 - 30/06/2002	1.13	13,536	2,678,857	3,615,699
01/07/2002 - 30/09/2002	0.84	40,838	3,928,220	3,871,557
01/10/2002 - 31/12/2002	0.90	15,338	4,112,357	3,663,126
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
01/07/2003 - 30/09/2003	1.49	78,454	9,294,056	14,105,804
01/10/2003 - 31/12/2003	1.57	333,181	7,774,378	11,749,671

Block trading in AB Lietuvos Telekomas' ordinary registered shares:

Period	Average price (in litas)	Total turnover	
		Number of shares	In litas
01/01/2002 - 31/03/2002	1.34	1,500,000	2,017,200
01/04/2002 - 30/06/2002	1.08	147,899	159,489
01/07/2002 - 30/09/2002	2.49	490,072	1,218,662
01/10/2002 - 31/12/2002	1.07	2,008,240	2,139,754
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
01/07/2003 - 30/09/2003	1.52	5,193,799	7,874,521
01/10/2003 - 31/12/2003	1.51	5,169,644	7,798,237

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
01/01/2002 - 31/03/2002	3.875	2.975	1,819,278	0
01/04/2002 - 30/06/2002	3.875	3.175	1,072,967	0
01/07/2002 - 30/09/2002	3.275	2.575	804,306	0
01/10/2002 - 31/12/2002	2.750	2.150	285,543	0
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
01/07/2003 - 30/09/2003	5.075	4.425	117,401	0
01/10/2003 - 31/12/2003	5.500	4.925	675,042	0

Period	Last session		Total turnover	
	Price (in USD)	Turnover (in GBP)	Number of GDRs	In GBP
01/01/2002 - 31/03/2002	3.875	0	3,627,454	8,352,307
01/04/2002 - 30/06/2002	3.225	0	1,139,750	2,738,773
01/07/2002 - 30/09/2002	2.575	0	697,250	1,285,884
01/10/2002 - 31/12/2002	2.700	0	858,428	1,286,350
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
01/07/2003 - 30/09/2003	4.975	0	187,220	531,440
01/10/2003 - 31/12/2003	5.500	0	262,796	771,540

17. Market capitalisation of securities

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

Date	Number of shares	Central market price (in litas)	Capitalisation (in litas)
31 March 2003	814,912,759	1.00	814,912,759
30 June 2003	814,912,760	1.41	1,149,026,992
30 September 2003	814,912,760	1.49	1,214,220,012
31 December 2003	814,912,760	1.57	1,279,413,033

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

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

On 12 June 2000, during the Initial Public Offering UAB Lintkom acquired 12,698,412 ordinary registered shares of AB Lietuvos Telekomas (1 share price was LTL 3.15) and 2,539,683 Lietuvos Telekomas' Global Depository Receipts (1 GDR price was USD 7.875) (1 Lietuvos Telekomas' GDR represents 10 ordinary registered shares of the Company). Overall, UAB Lintkom holds 4.67 per cent of Lietuvos Telekomas' share capital.

In September 2002, Lietuvos Telekomas acquired all shares of UAB Lintkom from UAB Lintel. In December 2003, Lietuvos Telekomas transferred all UAB Lintkom shares to UAB Lintel. Lintel and Lintkom will be reorganised by merger of UAB Lintkom into UAB Lintel. After reorganisation UAB Lintel will continue its operations while UAB Lintkom will cease its operations. Following the Lithuanian Company Law, Lietuvos Telekomas' shares held by UAB Lintkom are considered as treasury stocks.

As of 31 December 2003, UAB Lintkom held 12,698,412 ordinary registered shares of AB Lietuvos Telekomas and 2,539,683 Lietuvos Telekomas' GDRs, i.e. 4.67 per cent of Lietuvos Telekomas' share capital.

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

20. Announcement of the official tender offer

21. Issuer's paying agents

On 19 December 2000, AB Lietuvos Telekomas and Lithuanian Central Depository of Securities, Konstitucijos pr. 23, 08105 Vilnius, phone +370 5 272 34 66, fax +370 5 272 16 76, signed an agreement on general accounting of the Company's bonds issue (Securities Registration Act No. AB-4791), accounting of their circulation, control for matching of bonds and payments circulation.

22. Agreements with intermediaries of public trading in securities

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

IV. INFORMATION ABOUT THE ISSUER'S ACTIVITIES

23. Legal basis for Issuer's activities

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

24. Membership in associated structures

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

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

In Lithuania TeliaSonera AB through its subsidiary Amber Mobile AB holds 90 per cent of UAB Omnitel shares, too.

25. Brief description of the Issuer's history

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

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

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

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

In August 1999, during implementation of the privatisation programme of AB Lietuvos Telekomas 7,194 employees of the Company acquired from the State 40,465,212 ordinary registered employees' shares (4,97 per cent of the Company's share capital). On 23 August 2000, the employees' shares were converted into ordinary registered shares.

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

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

26. Characteristics of the production (services)

Lietuvos Telekomas' Group provides fixed-line telephony, Internet-related and data communication services, wholesale services for other local and international telecommunications operators as well as other services. From 1 January 2003, Lietuvos Telekomas together with its subsidiaries is designated as an operator with significant market power (SMP) in the public fixed-line telephony network and services, leased line services and interconnection services markets.

In 2003, Lietuvos Telekomas' Group changed grouping of its revenue following the pattern used by TeliaSonera AB for segmentation of telecommunications services. From the first quarter of 2003 services of Lietuvos Telekomas' Group are divided into the following three main groups: Fixed-line Telephony Services (including Interconnection, ISDN and Call Centers' services), Internet and Data Communication Services (including Leased Lines services) and Other Services. The revenue of the previous periods was accordingly reclassified.

Reclassified breakdown of revenue of Lietuvos Telekomas' Group:

	2003		2002		2001	
	in thousand of litas	%	in thousand of litas	%	in thousand of litas	%
Fixed-line telephony services:						
Subscription, installation and other charges	200,856	24.7	215,316	22.2	231,933	21.9
Traffic revenue	294,681	36.3	442,630	45.7	572,016	54.0
Value added services	14,341	1.8	12,338	1.3	10,506	1.0
Interconnection services	120,258	14.8	144,930	15.0	137,780	13.0
Fixed-line telephony revenue, total	630,136	77.6	815,214	84.2	952,235	89.9
Internet and data communication	119,846	14.8	109,908	11.4	84,326	8.0
Other services	62,295	7.6	43,090	4.4	21,905	2.1
Total revenue	812,277	100.0	968,212	100.0	1,058,466	100.0

The parent company of the Group, AB Lietuvos Telekomas, performs the core business of the Group, i.e. provides 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.

In July 2003, UAB Comliet acquired 100 per cent of UAB Sonex Komunikacijos' shares from UAB Sonex Group. The Comliet Group also includes the following subsidiaries: Comliet-Kaliningrad in the Russian Federation, Datu Tikli SIA in Latvia and Telegrupp AS in Estonia. The subsidiaries provide such services as designing and installation of low voltage networks and are engaged in construction and maintenance of telecommunications networks in the countries of their incorporation.

UAB Lietuvos Telekomo Verslo Sprendimai provides services and complex telecommunications solutions as well as offer 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 Call Center services. From 1 March 2003, UAB Lintel took over from Lietuvos Telekomas the function of customer care by telephone.

Key Lietuvos Telekomas' Group figures:

	2003	2002	2001
Revenue (in thousand of litas)	812,277	968,212	1,058,466
EBITDA (in thousand of litas)	386,457	503,610	564,372
EBITDA margin (%)	47.6	52.0	53.3
Depreciation, amortisation and impairment charge (in thousand of Litas)	397,495	381,668	381,567
Operating profit (EBIT) (in thousand of litas)	-11,038	128,958	185,662
Operating profit EBIT margin (%)	-1.3	13.3	17.5
Financial activities, net (in thousand of litas)	-27,649	-39,855	-46,999
Profit before tax (in thousand of litas)	-38,125	89,440	138,663
Net profit (in thousand of litas)	-36,095	67,032	181,715
Net profit margin (%)	-4.4	6.9	17.2
Return on capital employed (%)	-2.6	5.2	7.8
Return on average assets (%)	-2.3	4.5	6.6
Return on shareholders' equity (%)	-3.1	5.5	15.1
Gearing (%)	6.2	23.7	42.4
Debt to equity ratio (%)	16.5	30.6	46.3
Current ratio (%)	93.3	75.0	118.2
Rate of turnover of assets (%)	47.3	48.8	50.4
Equity to assets ratio (%)	73.7	65.0	59.5
Cash flow from operating activities (in thousand of litas)	320,349	481,460	450,552
Personnel at the end of the year	3,486	4,531	5,749
Share book value (in litas)	1.46	1.57	1.59
Earnings per share (in litas)	-0.05	0.09	0.23
Number of shares (thousand) (a)	776,818	776,818	776,818
Number of fixed lines in service	828,318	935,899	1,151,673
Penetration of lines per 100 residents (%) (b)	24.0	27.0	33.1
Digitisation rate (%)	91.2	87.6	65.0
Number of lines per full time employee, related to fixed-line telephony	281	253	217

NOTES: (a) excluding treasury stocks held by UAB Lintkom; (b) Calculated on the basis of the following population: in 2001 - 3,482 thousand, in 2002 - 3,463 thousand, in 2003 - 3,446 thousand.

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

EBIT - earnings before interest and tax.

UAB Lintkom holds 4.67 per cent of Lietuvos Telekomas' shares (treasury stocks) acquired during the Initial Public Offering (IPO) in 2000. In December 2003, Lietuvos Telekomas transferred all shares of UAB Lintkom to UAB Lintel. In the future, both companies will be reorganized through merger of UAB Lintkom into UAB Lintel.

UAB Baltijos Informacinių Duomenų Valdymo Centras provides information systems support and comprehensive server management services as well as a wide range of IT customer support center services to Lietuvos Telekomas and other companies in Lithuania and the Baltic region. Shareholders of UAB Baltijos Informacinių Duomenų Valdymo Centras are AB Lietuvos

Telekomas (60 per cent of shares) and TietoEnator Oyj (40 per cent). In July 2003, UAB Baltijos Informacinių Duomenų Valdymo Centras established its subsidiary Baltic Data Center SIA in Latvia.

From 2001, UAB Voicecom provides internet telephony (voice over IP) services to business and residential customers. Shareholders of UAB Voicecom are AB Lietuvos Telekomas (60 per cent of shares) and Nexcom Telecommunication LLC (USA) (40 per cent).

In 2003, UAB Verslo Portalas started to operate a business-to-business portal verslas.com, which provides the latest business news, publications and researches, hosts a companies' search engine and marketplace for various products and services. Shareholders of UAB Verslo Portalas are AB Lietuvos Telekomas (30 per cent of shares) and UAB Verslo Žinios (70 per cent).

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

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

Fixed telephony services

Voice Telephony Services

Lietuvos Telekomas provides local, long-distance, fixed-to-mobile and international calls for residential and business customers all over the country. At the end of 2003, Lietuvos Telekomas had 828 thousand main lines in service – a decrease by 108 thousand against 936 thousand at the end of 2002. The decrease was mainly recorded in the residential customer segment, while the number of business customers' telephone lines remained the same. On 31 December 2003, the fixed-line penetration in Lithuania was 24 lines per 100 residents against 27 lines on 31 December 2002.

At the end of 2003, Lietuvos Telekomas had 12 thousand *ISDN Duetas*, including *ISDN Duetas Plus* and *ISDN Biuras*, connections and 485 *ISDN Srautas* connections, whereas the total number of ISDN channels amounted to 39 thousand, as compared with 34 thousand channels at the end of 2002.

For customer service in rural and remote areas, Lietuvos Telekomas used GSM and NMT- 450 standard mobile networks. At the end of 2003, the Company had about 40 thousand lines connected to its network by using these technologies.

The number of chip card payphones operated by Lietuvos Telekomas at the end of 2003 stood at 5,671.

On 31 December 2003, 91.2 per cent of Lietuvos Telekomas' subscriber lines were connected to digital exchanges. The number of business customers using lines connected to digital exchanges made up 94.1 per cent.

During 2003, the number of Centrex lines more than doubled, and at the end of the year more than 20 thousand Centrex lines were used by Lietuvos Telekomas' business customers.

Payment Plans for Residential Customers

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

Payment plans are gaining popularity among residential customers. During the year 2003, the total number of subscribers to *Vietinis (Local)*, *Šalies (Country)* and *Interneto (Internet)* payment plans increased by 169 thousand, and amounted to nearly 373 thousand at the end of December.

At the end of the year 2003, about 50 per cent of all residential customers were using payment plans offered by Lietuvos Telekomas. The Company had around 48 thousand users of the *Vakaro* (*Evening*) payment plan at year end.

In October 2003, Lietuvos Telekomas launched a new payment plan, *Pasaulis* (*World*). The plan is based on a fixed monthly fee, which allows customers to make international calls to certain countries at a significantly lower price.

Loyalty Program for Residential Customers

On 10 November 2003, Lietuvos Telekomas launched the *Bičiuliai* (*Friends*) loyalty program. The program is a long-term project intended to encourage residential customers to use Lietuvos Telekomas' services to a greater extent and increase customer motivation to stay with Lietuvos Telekomas. A participant of the loyalty program gets points, which later can be exchanged for Lietuvos Telekomas' services, and/or goods provided by Lietuvos Telekomas' partners. At the end of 2003, Lietuvos Telekomas had 55 thousand registered participants of the *Bičiuliai* loyalty program. To make the program more user-friendly, in the year 2004 the Company is planning to launch service ordering via Internet, provide "hot" information about the points earned and make other attractive offers.

Payment Plans for Business Customers

During the year 2003, Lietuvos Telekomas continued offering for business customers the *Šalies Mokėjimo Planas Verslui* (*Country Payment Plan for Business*) payment plan for local and long-distance calls, and the *Verslo Miestai* (*Business Cities*) payment plan for long-distance calls. In addition, in 2003 the Company launched a new *Pasaulis* (*World*) payment plan allowing business customers to make international calls at a lower price.

Voice Telephony Value-added Services

In 2003, Lietuvos Telekomas continued offering to its customers a great variety of value-added services, such as Service 700 (Universal Access Number), Service 800 (Toll-free Number Service), short numbering service, and Service 900 (Premium Rate Service).

During the year 2003, service 700 was ordered by 50 new subscribers. The service was popular among trade companies and manufacturers, which had trade outlets all over the territory of Lithuania. In 2003, Lietuvos Telekomas started to use 700 numbers for provision of content services (weather forecast, exact time, Santa Claus line, etc.).

In November 2003, Lietuvos Telekomas made service 800 numbers accessible not only from Omnitel, but from Bitè GSM mobile network, too. In 2004, there are plans to expand accessibility to 800 numbers from Tele 2 mobile network.

In 2003, Lietuvos Telekomas continued offering service 900 to certain service providers. The number of services available via 900 numbers was constantly increasing. The major income was earned from entertainment premium rate services.

The premium rate service was also used for charity and support purposes, which enhanced the reputation of the Company.

Premium rate short numbers that were mostly used by large information providers showed continuous growth in the use of entertainment and voting services.

Directory Inquiry Service 118

In 2003, UAB Lintel remained the market leader with its Directory Inquire Service 118. During the year, Lintel serviced 9.6 million calls to Service 118, i.e. by 300 thousand more than in the year 2002.

In 2003, Lintel completed a bus schedules project and started offering information on train schedules. The number of calls inquiring information on transport schedules accounted for 10 per cent of all calls serviced.

Telemarketing Services

In the year 2003 Lintel, as provider of telemarketing services, serviced 3.9 million calls, i.e. 6.3 times more than in 2002. Such increase was mainly due to the services provided to Lietuvos Telekomas' customers in Panevėžys and Klaipėda Call Centers. On 1 March 2003, Lintel took over these Call Centers from Lietuvos Telekomas and started to provide information about Lietuvos Telekomas' services.

In 2003, five important long-term agreements were signed for provision of information line, help desk and fault reporting services.

In the course of the year, Lintel was developing the provision of information services for residents. The national examination line was served by one additional communication channel, i.e. SMS. The Company also offered large-scale projects of national importance, such as info line for EU referendum and elections of President.

In collaboration with the Latvian telecommunications company Lattelekom, Lintel implemented some large-scale projects for foreign customers.

Internet – related Services

Lietuvos Telekomas pays special attention to improving the quality of present Internet services, development and introduction of new Internet services and integration of the state-of-the-art Internet access technologies. The Company provides a wide range of Internet access services varying from the dial-up Internet access service *Atviras Takas*, flat rate service *Tako Zona*, ADSL (Asymmetric Digital Subscriber Line) technology based access service *DSL Takas*, to the Internet via leased lines, Internet via Frame Relay and Internet via broadband optical network services.

Atviras Takas and Tako Zona

In 2003, there was a tendency among customers to switch from the dial-up and flat rate services to ADSL services. At the end of 2003, there were about 35 thousand dial-up service users. During the year, the number of flat rate access *Tako Zona* users decreased by 400.

From September 2003, the price for the *Atviras Takas* service during off-peak hours dropped down to 3 cents therefore the traffic of *Atviras Takas* in the fourth quarter went up by almost 50 per cent compared to the previous quarter.

DSL Takas

In 2003, Lietuvos Telekomas continued to provide Internet services based on DSL technology, *DSL Takas* and *Takas iD*. The Company offered a number of *DSL Takas* service plans providing customers with unlimited use of the Internet. The users of the *Takas iD* service were offered a certain number of free Internet hours or a certain amount of megabits per moth. As of 1 September 2003, free hours for *Takas iD1* and *Takas iD2* users doubled from 30 to 60 hours per month. The most popular plan among residential customers was *Takas iD2* with almost 7 thousand users at the end of 2003.

In March 2003, the Company launched a new *DSL Takas A0 Plus* plan for business customers, which enabled business customers to order the *DSL Takas* service with all the equipment needed to connect the customer's LAN (Local Area Network) to the Internet. The speed of *DSL Takas A2* and *DSL Takas A3* plans was increased at the same monthly price.

On 1 September 2003, Lietuvos Telekomas introduced a new limited-use DSL plan for business customers, *DSL Takas 40*. At the end of 2003, here were 831 business customers using this service.

In order to enhance the value of service for *DSL Takas* and *Takas iD* users, a service of public virtual storage was launched. The service allows DSL customers to exchange big files and also to have temporary storage for personal information. In 2003, the service was provided to *DSL Takas A0, A1, Takas iD1* and *Takas iD2* users.

During the year 2003, the total number of *DSL Takas* users increased by more than 138 per cent to almost 25 thousand, as compared with more than 10 thousand at the end of 2002.

Internet via Leased Lines and via Broadband Optical Network

Lietuvos Telekomas provides to its business customers permanent Internet access via leased lines and broadband optical network. Internet via leased lines is often used by business customers for connecting their corporate LAN to the Internet at a speed of 4.5 Mbps. Internet via broadband optical network is mostly popular with Internet service providers and banks due to its high speed and quality of service, which enables customers to get access to the Internet at a speed of up to 100 Mbps.

Value-added Internet Services

Lietuvos Telekomas develops and provides a wide range of value-added Internet services varying from content and communication services (news, information on different topics, SMS, etc.) to infrastructure services (content management system, web hosting, web advertising, etc.)

Takas Portal

The *Takas* portal is one of the most frequently visited websites in Lithuania. The average number of the *Takas* portal visitors increased by 38 per cent year-on-year, i.e. from 39 thousand visitors per day in the year 2002 up to 54 thousand visitors per day in 2003.

In 2003, Lietuvos Telekomas launched a new authorization and billing system, *Mano Takas*. On 31 December 2003, the number of *Mano Takas* registered users was 154 thousand. *Mano Takas* users can pay for services via line 900 and by sending an SMS (available for customers of Bitė GSM and Omnitel).

Some projects such as Miss Internet Contest, *Vasaros Takas*, Car of the Year Contest, Saint Valentine Day Rubric have already become traditional in the *Takas* portal.

In 2003, an SMS sending service was launched to the *Takas* portal, which allowed *Takas* visitors to write messages in the portal and send them to a mobile phone.

The Company was also developing the advertising in the *Takas* portal and web hosting. Web hosting enables customers to design and host private and corporate web pages on the Internet. At the end of 2003, Lietuvos Telekomas had about 2 thousand web hosting customers.

E-shop Aveniu

The e-shop *Aveniu* is a portal where companies can sell and private customers can buy goods and services. Lietuvos Telekomas provides *Aveniu* with the design and payment modules, advertises the *Aveniu* name and address. In 2003, the Company integrated into the e-shop service a bank-link (extranets) payment module enabling to pay for goods via some banks. In 2003, Lietuvos Telekomas signed agreements with 28 partners selling goods and services via *Aveniu*.

Data Communication Services

Lietuvos Telekomas offers its customers various data communication services such as permanent broadband connection, MPLS VPN (Multiprotocol Label Switching Virtual Private Network), Frame Relay, X.25, leased lines.

Broadband

The broadband service is based on the Gigabit Ethernet technology and allows customers to connect their remote units into a single network using up to 1 Gbps data communication speed. During the year 2003, the number of broadband connections doubled. Lietuvos Telekomas provided broadband connections mainly to banks and retail chains.

MPLS VPN

The MPLS network enables Lietuvos Telekomas to provide business customers with secure solutions at a reasonable price for connecting their remote points to a single network and transmit data in real time via a wide range of access types. In 2003, the Company installed 690 new MPLS connections. Some big retail chains became customers of MPLS services provided by Lietuvos Telekomas.

Leased Lines

In 2003, Lietuvos Telekomas continued providing services of analogue and digital leased lines for business customers.

WLAN

In the year 2003, Lietuvos Telekomas installed WLAN (Wireless Local Area Network) hotspots in two Vilnius hotels. With WLAN hotspots, hotel guests can use their own laptops to gain Internet access in a hotel room, conference room or any other place of the hotel. WLAN hotspots allow hotel guest to connect through high-speed hotspot communications networks to their offices, check their e-mails, find information on the Internet, order goods and services, etc.

Wholesale Services

Upon liberalization of the public fixed-line telephony market of Lithuania as of 1 January 2003, one of Lietuvos Telekomas' new goals in the wholesale market was to offer wholesale voice telephony and interconnection services within the time limits prescribed by the relevant regulations.

During the year 2003, Lietuvos Telekomas cooperated with more than 150 operators and service providers. The most rapid development was recorded in the segment of reselling fixed-line telephony services. The number of wholesale services offered on the market also grew from 20 wholesale services offered at the end of the year 2002 up to 38 at the end of 2003. The Company made active offerings of wholesale services both on the national and international markets with the focus on quality and customer care.

Following the obligations the Communications Regulatory Authority set for operators with significant market power (SMP), at the beginning of the year 2003 Lietuvos Telekomas announced the Reference Interconnect Offer (RIO) and the Reference Unbundling Offer (RUO).

In 2003, Lietuvos Telekomas agreed with the Lithuanian mobile operators on considerably lower telecommunications networks interconnection fees, which enabled to cut prices of fixed-to-mobile calls for subscribers of Lietuvos Telekomas.

During the year 2003, Lietuvos Telekomas continued successful cooperation with alternative telephony and data communication operators. By employing the existing technical capacities, the Company enlarged interconnection resources twice during the year and in addition made connections with 10 international operators. This enabled to increase the international call transit traffic more than 3 times.

In the year 2003, the Internet services market developed rapidly. The international IP access bandwidth extended twice, i.e. up to 620 Mb/s. Lietuvos Telekomas competed with other providers of wholesale Internet services in offering the Internet (IP) access service. Notwithstanding severe competition, the international Internet access bandwidth sold by the Company increased from 90 Mbit/s up to 189 Mbit/s.

In the year 2003, Lietuvos Telekomas extended its wholesale DSL service market with 9 customers who started to resell this service.

During the year 2003, the Company increased its data communication traffic bandwidth. Lietuvos Telekomas' customers have already been offered lines with speed up to 620 Mbit/s, which makes it possible to expand their networks and provide more services to end-users.

In the year 2003, Lietuvos Telekomas started active selling of the IP transit service on the markets of neighboring countries.

Network Infrastructure

Access Network

The access network of Lietuvos Telekomas consists of copper, wireless and city optical networks. The Company continues expanding and upgrading its access network according to the market demands.

During the year 2003, Lietuvos Telekomas was rapidly developing the DSL access technology. At the moment, the Company provides different ADSL services with the data downstream speed ranging from 128 Kbps to 2,048 Kbps and data upstream speed from 64 Kbps to 640 Kbps.

At the end of 2003, Lietuvos Telekomas had than 36,000 ADSL ports installed. Today, the Company's ADSL network covers the majority of Lithuanian cities and towns and more than 120 rural areas. In 2003, Lietuvos Telekomas tested a new technical solution for connecting WLAN to the Internet over the ADSL network.

In order to facilitate connection of fixed-line telephone subscribers in rural areas and digitalization of remote subscriber lines, since the year 2002 Lietuvos Telekomas has been successfully employing the GSM technology.

Switching Network

In 2003, Lietuvos Telekomas continued its network digitalization process. The Company completed digitalization of its network in district centers and was performing switching network optimization. At the end of 2003, the network digitalization of the country reached 91.2 per cent against 87.6 per cent at the beginning of the year. At the end of the year, 94.1 per cent of business customers used lines connected to digital exchanges.

During the year 2003, Lietuvos Telekomas carried on preparation of its switching network for providing services prescribed by the laws and other legal regulations of the Republic of Lithuania.

Transmission Network

The transmission network of Lietuvos Telekomas consists of six regional and two national rings. All rings are interconnected using the Synchronous Digital Hierarchy (SDH) technology. The capacity of each ring is 2.5 GB/s.

In the year 2003, the SDH capacity increased from 622 MB/s to 2.5 GB/s for connection with Latvia. At the moment, Lietuvos Telekomas has SDH connections with 4 countries: 2 with Latvia, 2 with Poland, 1 with Sweden and 1 with Belarus. In 2004, the Company is planning to have connection with the SDH network of Russia (Kaliningrad Region).

At the end of 2003, Lietuvos Telekomas started building the third national ring using a new-generation SDH equipment that will connect Kaunas and Klaipėda. Such equipment will enable provision of data communication services in a more flexible manner and serve as a basis for new data communication services. In the year 2004, Lietuvos Telekomas is planning to install above type equipment in Vilnius, Šiauliai and Panevėžys and complete the third national SDH ring.

Data Communication Network

Lietuvos Telekomas provides high quality digital leased lines, packet switched data network services based on the X.25 Protocol, Frame Relay and Internet services. Currently, there is an increasing demand for bandwidth and high quality data communication services.

To ensure high quality Internet and MPLS VPN services, during 2003 Lietuvos Telekomas was developing the data communication network based on the Internet Protocol (IP). Due to the growing demand for the Internet, the Company increased the capacity of the ADSL network all over Lithuania. Lietuvos Telekomas also extended the network of broadband connection over fiber in the Vilnius City that made it possible to satisfy the growing demand for bandwidth. In the year 2004, great attention will be focused on increase of reliability and availability of data communication networks (over IP, ATM, ADSL).

Network Management and Information Systems

To meet the needs of customers, Lietuvos Telekomas continues developing its network management and information systems. In the year 2003, the Company introduced a preventive lines measurement system, which enabled to repair faults to users connected to digital exchanges before the users felt any connection failure. The Company also improved distance management of services that made possible faster delivery of services to users of digital exchanges.

Tariffs for the services

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

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

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

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

During the year 2003, the Company took significant steps to make fixed-line telephony services more attractive for customers.

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

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

In 2003, Lietuvos Telekomas continued reducing international call tariffs. In July, tariffs for calls to the most popular destinations (the Russian Federation, Poland, Belarus, U.S.A., Canada, Moldova, Ukraine and others) were cut by around 30 per cent. Moreover, as of 1 October, the Company cut tariffs for calls to more than 70 countries. On the average, international call tariffs were reduced by 30 per cent, with the most marked decrease in prices for calls to the Russian Federation, U.S.A. and European Union countries.

As of 1 September 2003, the prices for local and long-distance calls decreased by 50 per cent for Centrex users.

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

Services	1 Sep 2003- 31 Dec 2003	1 July 2002- 1 Sep 2003	1 Sep 2001- 1 July 2002	1 Aug 2001- 1 Sep 2001	1 Jan 2001- 1 Aug 2001
Call set-up charge	0.14	0.14	0.12	0.12	--
Local calls (a):	0.12	0.12	0.11	0.11	0.12
Off-peak time (b)	0.03	0.08	0.06	0.08	0.08
Night time (c)	--	0.03	0.03	0.04	0.04
Long-distance calls (a)	0.40	0.40	0.40	0.40	0.37
Off-peak time (b)	0.09	0.30	0.30	0.30	0.25
Night time (c)	--	0.12	0.12	0.12	0.12
International calls (average price of one off-peak minute)	1.84	2.41	2.68	2.85	2.85
Calls to mobile networks (average price of one off-peak minute)	0.85	1.55	1.55	1.54	1.54
Installation of the digital line to residents	1.00	250.00	250.00	250.00	300.00
Installation of the digital line to business customers	1.00	250.00	250.00	250.00	300.00
Installation of the analogue line to residents	1.00	250.00	250.00	250.00	300.00
Installation of the analogue line to business customers	1.00	250.00	250.00	250.00	300.00
Subscription fee for residents	23.00	23.00	19.00	19.00	17.00
Subscription fee for business customers	28.00	28.00	28.00	28.00	30.00

NOTES: (a) From 1 January 2001 peak time is from 7 a.m. till 8 p.m. on business days; (b) From 1 January 2001 off-peak time is from 6 a.m. till 7 a.m. and from 8 p.m. till 12 p.m. on business days, and from 6 a.m. till 12 p.m. on holidays and weekends. From 1 September 2003 off-peak time is from 8 p.m. till 7 a.m. on business days and all 24 hours on holidays and weekends; (c) Night time is from 12 p.m. till 6 a.m. 7 days a week.

27. Sales markets

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

The Customer Service Department of AB Lietuvos Telekomas serves both residential and business customers. The Company's daughter company, UAB Lietuvos Telekomo Verslo Sprendimai, provides services and solutions to major customers of Lietuvos Telekomas. The majority of Lietuvos Telekomas' services are provided following the long-term agreements with its subscribers.

During the year 2003, Lietuvos Telekomas continued improving customer care. Reduction of service prices and changes in customer care and customer relationship management enabled to substantially slow down the customers' churn in the last quarter of the year. Alongside with face-to-face customer care in Customer Care Centers in ten largest cities of Lithuania, Lietuvos Telekomas serves its customers by toll-free telephone numbers (Call Centers) and via Internet on the website <http://abonentams.takas.lt>.

During 2003, Customer Care Centers served more than one million customers. As to the nature of calls, the number of calls inquiring information and applying for services increased, whereas the number of calls for billing information and the number of fault reports slightly decreased, as compared with the previous year.

Seeking to mitigate inconveniences and dissatisfaction of customers, as of January 2003 Lietuvos Telekomas started advance notification of customers about intended network repairs and possible disconnections.

To increase customers' awareness of the Company's services and products, Lietuvos Telekomas started issuing quarterly publications *Verslo Linija (Business Line)* for business customers and *Namų Linija (Home Line)* for private customers.

Call Centres

Call Centers have become an important source of information for customers. Implementation of the distance services management project enabled to decrease service delivery time substantially. Taking one more step toward customers, Lietuvos Telekomas signed an agreement, according to which the customers who have ordered Lietuvos Telekomas' services by distance customer servicing do not have to leave their homes to sign the telecommunications services contract.

As of 1 March 2003, AB Lietuvos Telekomas handed the function of customer care by telephone to its subsidiary UAB Lintel. Toll-free number 117 provides information about services, prices and accepts applications for subscription to services, toll-free number 119 is used for fault reporting, 1525 for Internet problems, 8~199 for international telegrams, 1515 for billing information.

Because of increased Internet penetration and growth in the number of Internet users, Lietuvos Telekomas continued servicing customers via the customer care website <http://abonentams.takas.lt>. The main aim of the website is to provide a self-service possibility for authorized subscribers. Visitors of the website can receive online bills for telecommunications services, or order the *Linija Plus (Line Plus)* services, payment plans, telephone lines and other services. There were 10 thousand subscribers of this website at the end of 2003.

Sales through the Sales Agents

Regular information about Company's activities, effective business solutions and established way of interaction are determinants of cooperation with the Company's sales agents - external IT and telecommunications service providers. In the year 2003, the network of the Company's sales agents expanded up to 116 companies.

On March 2003, Lietuvos Telekomas signed a strategic cooperation agreement with VĮ Lietuvos Paštas (Lithuanian Post) enabling to offer Lietuvos Telekomas' services in more than 900 post-offices all over Lithuania.

28. Procurement

The following companies were major suppliers of the network and telecommunications equipment and providers of services to AB Lietuvos Telekomas in 2003: UAB Siemens (switching and digital subscriber line (DSL) equipment), UAB Ericsson Lietuva (switching and digital subscriber line (DSL) equipment), UAB Nokia (digital subscriber line (DSL) equipment), Alcatel

Baltics (ATM and transmission equipment), Tellabs Oy, Finland, (data communication and leased lines equipment), UAB Blue Bridge (IT infrastructure and equipment), UAB Comliet (network construction and maintenance, telecommunication services installation and faults elimination services), UAB Lintel (lease of premises, maintenance of the buildings, Call Center and telemarketing services), UAB Lietuvos Telekomo Verslo Sprendimai (sales of Lietuvos Telekomas' services), UAB TietoEnator Consulting (IT solutions and maintenance services), UAB Baltijos Informacinių Duomenų Valdymo Centras (IT infrastructure services), UAB Nacionalinis Atsiskaitymu Centras (printing and distribution of invoices for the services to subscribers).

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

29. Real estate and other fixed assets

By the right of ownership, UAB Lintel, a subsidiary of AB Lietuvos Telekomas, owns a land plot of 1.5041 ha in Vilnius at Savanoriu ave. 28. Lietuvos Telekomas leases the land plot from UAB Lintel. The remaining land under buildings and telecommunications equipment of Lietuvos Telekomas' Group is leased from the State. Due to specifics of the Company's activities, leased land plots are spread all over Lithuania. The total area of the leased land is 99.14 ha.

Fixed assets of AB Lietuvos Telekomas' Group:

Category	Number of items	Book value as of 31 December 2003 (in thousand of litas)
Land	1,5041 ha	1,459
Buildings	n/a	187,094
Machinery and equipment:		
Constructions	n/a	122,218
Transmission equipment	n/a	286,383
Switching equipment	n/a	377,425
PCs and equipment	n/a	29,648
Other machinery and equipment	n/a	66,456
Machinery and equipment, total		882,130
Means of transportation	n/a	12,625
Other tangible fixed assets	n/a	19,921
Construction in progress (machinery and equipment)		17,200
Fixed assets, total		1,120,429

30. Risk factors associated with the Issuer's activities

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

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- General economic situation in the Republic of Lithuania.
- Fluctuation of the US dollar and other currencies' exchange rates.
- Changes in the Lithuanian legislation.
- Changes in the regulation of accounting and taxation systems.

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

32. Patents, licences, contracts

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

The Telecommunications Activities Licence No. 174/97 issued by the Ministry of Transport and Communications of the Republic of Lithuania on 31 October 1997 and amended on 29 June 1998 grants the right to the Company to provide the following telecommunications services: international, long-distance and local public fixed-line telephony services, telegraph and telex services, data communication services, wired radio broadcasting services, construction and operation of the public switched telecommunications network used for provision of the above-mentioned services. The licence is valid till 31 October 2007.

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

AB Lietuvos Telekomas' daughter company UAB Comliet has the licence to provide NMT-450 standard mobile communication services in Lithuania.

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

33. Litigation and arbitration

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.

34. Personnel

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

31 December 2003	31 December 2002	31 December 2001
3,586	4,531	5,749

Competition in the telecommunications market and forthcoming membership of Lithuania in EU have set new goals for Lietuvos Telekomas, the implementation of which is possible only with highly competent and educated employees aware of the Company's strategic goals and customer

needs. Continuous improvement of human resources management enabled the Company not only to retain the existing human resources potential, but to attract new employees of high competence.

The ever changing market environment forced the Company to further develop its organizational structure, improve efficiency of business processes, control the payroll, and enhance the level of competence of employees. As the proper management is one of the guarantees of successful business, in the year 2003 the Company devoted much attention to management development both through the tailored management development programs and by supporting managers' Master studies at universities and other higher education institutions in Lithuania and abroad. At the same time, the Company contributed to the development of certain management programs by supporting the drawing up of Master studies curricula of the Baltic Management Institute and the International School of Management (ISM). Quite extensive efforts were devoted to staff training in the fields of state-of-the-art technologies, sales and customer care. Lietuvos Telekomas also provided staff training services to employees of other companies and public institutions. The Company arranged training courses for 4.3 thousand teachers under the teachers' computer literacy skills improvement project. About 9.9 thousand individuals were trained under the Internet basics training project, as ordered by the *Langas į Ateitį (Window to the Future)* alliance.

With a view to retaining the image of an employer able to attract, employ and keep the best young employees, in 2003 Lietuvos Telekomas commenced the fourth High Potential Development Programme and finalised the second Graduate Trainee Program. In addition, Lietuvos Telekomas became a sponsor of the Vilnius University Career Center and supported a number of education-focused student events in many Lithuanian universities.

The breakdown of Lietuvos Telekomas' Group employees as of 31 December 2003:

Name of the company	Number of employees
AB Lietuvos Telekomas	1,576
UAB Comliet' Group:	1,342
UAB Lietuvos Telekomo Verslo Sprendimai	110
UAB Lintel	457
UAB Baltijos Informacinių Duomenų Valdymo Centras	52
UAB Voicecom	9
VsI Lietuvos Telekomo Sporto Klubas	40
Total	3,586

Information about employees of AB Lietuvos Telekomas as of 1 January 2004:

Group of employees	Average number of employees	Education				Average monthly salary (in litas)
		University	College	High school	Not completed high school	
Managers	17	16	1	-	-	10,740
Middle managers	296	259	23	14	-	3,690
Office employees	29	16	7	6	-	1,670
Specialists	1,008	663	214	129	2	1,800
Junior Specialists	181	42	65	74	-	1,470
Workers	17	-	7	10	-	1,110
Total	1,548	996	317	233	2	

Collective Bargaining Agreement

On 18 December 2002, a new Collective Bargaining Agreement between AB Lietuvos Telekomas, as the employer, and Trade Union of Communication Employees was signed and on 1 January 2003 it came into force. This Collective Bargaining Agreement is made considering the new Labour Code, valid from the 1 January 2003.

The Collective Bargaining Agreement defines conditions of the employees' work, remuneration, work organisation, as well as internal work regulations, health and safety, leisure and other social conditions and guarantees.

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

1. All full time employees with permanent employment contract (from 1 May 2003) are paid minimal basic salary of 900 litas per month or 5.352 litas per hour.
2. According to General Manager's decision at the end of financial year employees can be paid bonus for yearly performance of the Company. Bonus size is up to 80 per cent of individual monthly basic salary.
3. Vacation allowance is paid once per calendar year when an employee leaves for not less than two weeks vacations. During the year 2003 allowance was 750 litas.
4. Christmas Eve (December 24) is fully paid day off in the Company, which is equal to holiday.
5. AB Lietuvos Telekomas employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and double employee's hourly wage (basic salary) amount for night hours.
6. If the employee is recalled from vacation because of work necessity by the bilateral agreement, he is paid 1.5 his hourly wage (basic salary) amount for the days worked during the vacation period, providing him later with unused vacation period at the time convenient for the employee and coordinated with employer.
7. If the employee falls ill, the employer for first two days of illness pays 90 percent of the employee's average remuneration.
8. In case of death of employee's father, mother, wife, husband, child, brother or sister, or birth of a child the employee gets additional 3 calendar days of paid vacations.
9. In case of death of employee's family member the employee shall be paid an allowance amounting to 8 MLS (Minimum Living Standard) and in case of death of a Company employee his/her family shall be paid 10 MLS relief and funeral relief (excluding funeral dinner).
10. Additional 30 calendar days of unpaid vacation can be granted because of family circumstances, or to get sanatorium treatment, or for other important reasons in case business conditions are favourable.
11. Vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference and could be paid if study program is in line with individual competence development plan.
12. To give to the employee, who was noticed about intended dismissal from the work, up to 50 percent time leisure from the work (paying average salary) fro searching for a new job. Employees to be dismissed shall be provided with possibility to attend retraining courses organized by the labour exchange and have them funded on mutual agreement.
13. The Company supports the employee, who moves to another permanent working place in other regions within the territory of Republic of Lithuania, by providing him with relocation compensation up to 4,690 litas.

14. Employees' development and payment for it is provided according to the yearly training plans, which are based on assessment of agreements between managers and employees on the training needs, as well as through considering the Company's development trends and financial capabilities.
15. All employees are insured against accidents by the Company.
16. The Social Needs Fund, which is established in AB Lietuvos Telekomas, is used for compensating unforeseen employees' health expenses, supporting employees' health, financing sports activities and other social needs of employees.

35. Investment policy

In 2003, the total amount of investments made by Lietuvos Telekomas' Group was 51 million litas (207 million litas in 2002). Major part of the amount was invested into the switching and access network of the Company as well as into information technology systems. As a result, at the end of 2003 the digitalisation rate of the Company's network reached 91.2 per cent (87.6 per cent a year ago) and digitalisation of all district centres of Lithuania was completed.

Special attention to the development of ADSL access network was given in 2003. At present ADSL technology based services are available in the majority of Lithuanian cities and towns, and in more than 120 rural areas. During the year the total number of ADSL access connections (including the ones sold to other Internet Service Providers) more than doubled from 10,522 at the end of 2002 to 25,085 at the end of 2003.

Major investment projects, the value of which exceeds 10 per cent of AB Lietuvos Telekomas' share capital, implemented during the recent three years are as follows:

Name of the project	Value of the project (in thousand of litas)	Source of financing
Customer Care and Billing System (CABS) (1999 - 2001)	160,000	Company's funds

In October 2001, the Board of AB Lietuvos Telekomas decided to reorganise the Company's Information Systems Department. At the end of 2001, Lietuvos Telekomas established a subsidiary, UAB Baltijos Informacinių Duomenų Valdymo Centras. Lietuvos Telekomas owned all shares of the company.

On 24 January 2002, the Board of AB Lietuvos Telekomas made a decision to establish a daughter company for provision of professional IT consultancy services. In March 2002, Lietuvos Telekomas set up UAB Baltijos Telekomunikacijų Konsultacinis Centras. Lietuvos Telekomas owned all shares of the company.

In May, following the Board's decision of 25 April 2002, Lietuvos Telekomas sold 74 per cent of the shares of Baltijos Telekomunikacijų Konsultacinis Centras and 40 per cent of the shares of Baltijos Informacinių Duomenų Valdymo Centras to TietoEnator Oyj.

In January 2003 Baltijos Telekomunikacijų Konsultacinis Centras was renamed into TietoEnator Consulting.

In September 2002, Lietuvos Telekomas acquired all shares of UAB Lintkom from UAB Lintel. In December 2003, Lietuvos Telekomas transferred all the shares of UAB Lintkom to UAB Lintel. UAB Lintkom and UAB Lintel will be reorganised through merger of UAB Lintkom into UAB Lintel. After reorganisation Lintel will continue its activities while Lintkom activities will be terminated. UAB Lintkom holds 4.67 per cent of Lietuvos Telekomas' shares (treasury stocks). Shares were acquired during the Initial Public Offering (IPO) in 2000.

During the year 2002, UAB Comliet was expanding its international activities. In May 2002, UAB Comliet acquired a 75 percent stake in the Latvian company, Datu Tikli SIA (25 per cent is owned by RBS Skals AS). In July 2002, together with Merko Ehitus Ltd., UAB Comliet acquired the Estonian company, Telegrupp AS. UAB Comliet owns 55 per cent and Merko Ehitus - 45 per cent of Telegrupp's shares. Both subsidiaries provide such services as designing and installation of low voltage networks and are engaged in construction and maintenance of telecommunications networks. At the end of the year 2002, UAB Comliet established a company in Kaliningrad region of the Russian Federation - Comliet Kaliningrad. UAB Comliet holds 95 per cent of its shares.

In July 2003, UAB Comliet, completed an acquisition of 100 per cent of UAB Sonex Komunikacijos' shares. The Memorandum of Understanding between UAB Comliet and UAB Sonex Group concerning the acquisition of UAB Sonex Komunikacijos was signed on 13 January 2003.

In July 2003, subsidiary of AB Lietuvos Telekomas, UAB Baltijos Informacinių Duomenų Valdymo Centras, has established its subsidiary in Latvia, Baltic Data Center SIA. In 2003 Baltic Data Center SIA was not operating.

As on 31 December 2003, AB Lietuvos Telekomas owned 100 per cent of shares of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai and UAB Lintel. Lietuvos Telekomas also owns 60 per cent of UAB Baltijos Informacinių Duomenų Valdymo Centras and UAB Voicecom, 30 per cent of UAB Verslo Portalas and 26 per cent of UAB TietoEnator Consulting shares. The Company is the only founder of the non-profit organisation VšĮ Lietuvos Telekomo Sporto Klubas.

As on 31 December 2003, UAB Comliet owned 100 per cent of Sonex Komunikacijos, 95 per cent of Comliet-Kaliningrad (Russian Federation), 75 per cent of Datu Tikli SIA (Latvia) and 55 per cent of Telegrupp AS (Estonia) shares.

In 2004, Lietuvos Telekomas plans to invest less than 100 million litas.

In February 2004, shareholders of UAB Verslo Portalas decided to terminate activities of the company and liquidate it. AB Lietuvos Telekomas owns 30 per cent and UAB Verslo Žinios 70 per cent of UAB Verslo Portalas.

On 1 April 2004, UAB Comliet, subsidiary of AB Lietuvos Telekomas, transferred telecommunication services installation, fault elimination, order management and network maintenance functions to Lietuvos Telekomas. It was announced that UAB Comliet considers sell off of its construction business.

Companies in which AB Lietuvos Telekomas as of 31 December 2003 held more than 30 per cent of their share capital:

	UAB Lietuvos Telekomo Verslo Sprendimai	UAB Lintel (a)	UAB Comliet (b)
Official address	J. Galvydžio g. 7/ Žygio g. 97, 08222 Vilnius	J. Galvydžio g. 7/ Žygio g. 97, 08222 Vilnius	Palangos g. 4, 01117 Vilnius
Activities	Services and solutions to business customers	Directory Inquiry Service 118, Call Center and telemar- keting services	Construction of the network, installation of telecommunication services and faults elimination services
Share capital (in litas)	8,000,000	28,000,000	20,000,000
Not paid-in part of Lietuvos Telekomas in share capital	--	--	--
Net profit (loss) for the year 2003 (in thousand of litas)	3,096	3,336	(2,137)
Ratio of current liabilities to current assets (%)	11.2	21.5	38.0
Ratio of total liabilities to total assets (%)	9.0	14.7	29.9
Type of shares that are owned by Lietuvos Telekomas	ORS	ORS	ORS
Number of shares that are owned by Lietuvos Telekomas	20,000	2,800,000	2,000
Nominal value of shares that are owned by Lietuvos Telekomas (in litas)	8,000,000	28,000,000	20,000,000
Part of the votes held by Lietuvos Telekomas (%)	100	100	100
Part of the votes owned by Lietuvos Telekomas (%)	100	100	100
Part of the votes held by Lietuvos Telekomas and other entities acting together (%)	100	100	100
Dividends for the year 2003 paid to Lietuvos Telekomas (in thousand of litas)	--	--	--
Loans provided by Lietuvos Telekomas as of 31 December 2003 (in thousand of litas)	--	--	712
Loans provided to Lietuvos Telekomas as of 31 December 2003 (in thousand of litas)	--	--	--
Debt securities acquired by Lietuvos Telekomas	--	--	--

NOTE: (a) In December 2003 UAB Lintel took over from Lietuvos Telekomas 100 per cent of shares of UAB Lintkom. Financial statements of UAB Lintkom are directly consolidated into consolidated financial statements of Lietuvos Telekomas' Group; (b) Data of UAB Comliet Group. Comliet Group consist of the main company, UAB Comliet, and its subsidiaries: Sonex Komunikacijos (Comliet owns 100 per cent of shares), Comliet-Kaliningrad (Russian Federation) (Comliet owns 95 per cent of shares), Datu Tikli SIA (Latvia) (Comliet owns 75 per cent of shares) and Telegrupp AS (Estonia) (Comliet owns 55 per cent of shares).

	UAB Baltijos Informacinių Duomenų Valdymo Centras(a)	UAB Voicecom	UAB Verslo Portalas (b)	VšĮ Lietuvos Telekomo Sporto Klubas
Official address	Žirmūnų g. 141, 09128 Vilnius	Eigulių g. 14 06150 Vilnius	J. Jasinskio g 16a, 01112 Vilnius	Savanorių pr. 28, 03116 Vilnius
Activities	IT infrastructure services	IP telephony services	Business-to- business portal verslas.com	Sports club facilities
Share capital (in litas)	1,000,000	10,000	20,000	--
Not paid-in part of Lietuvos Telekomas in share capital	0	0	0	--
Net profit (loss) for the year 2003 (in thousand of litas)	3,245	793	(309)	46
Ratio of current liabilities to current assets (%)	24.2	96.0	86.0	95.3
Ratio of total liabilities to total assets (%)	21.7	95.2	23.7	63.7
Type of shares that are owned by Lietuvos Telekomas	ORS	ORS	ORS	--
Number of shares that are owned by Lietuvos Telekomas	6,000	60	6,000	--
Nominal value of shares that are owned by Lietuvos Telekomas (in litas)	600,000	6,000	6,000	--
Part of the votes held by Lietuvos Telekomas (%)	60	60	30	100
Part of the votes owned by Lietuvos Telekomas (%)	60	60	30	100
Part of the votes held by Lietuvos Telekomas and other entities acting together (%)	60	60	30	100
Dividends for the year 2003 paid to Lietuvos Telekomas (in thousand of litas)	1,181	--	--	--
Loans provided by Lietuvos Telekomas as of 31 December 2003 (in thousand of litas)	--	1,000	--	5600
Loans provided to Lietuvos Telekomas as of 31 December 2003 (in thousand of litas)	--	--	--	--
Debt securities acquired by Lietuvos Telekomas	--	--	--	--

NOTES: (a) As on 31 December 2003 UAB Baltijos Informacinių Duomenų Valdymo Centras held 100 per cent shares of Baltic Data Center SIA in Latvia. In the year 2003 Baltic Data Center SIA was not operating. (b) In February 2004 shareholders of UAB Verslo Portalas, AB Lietuvos Telekomas and UAB Verslo Žinios, decided to terminate activities of the company and liquidate it. In financial statements of Lietuvos Telekomas' Group as on 31 December 2003 investment into UAB Verslo Portalas and associated goodwill are written off.

UAB TietoEnator Consulting (AB Lietuvos Telekomas owns 26 per cent of shares) paid 298 thousand litas to AB Lietuvos Telekomas as dividend for the year 2003.

36. Competitors

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

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

According to the data of Communications Regulatory Authorities at the end of 2003 besides Lietuvos Telekomas fixed-line telephony services were provided by 17 new providers. Three providers were providing local call services, five – long-distance domestic call services and all new provider were providing international call services. In the first half of 2003, Lietuvos Telekomas' shares of public fixed-line telephony network and services market in terms of revenue was 97.6 per cent and in the second half of 2003 – 96.6 per cent.

According to the data of Communications Regulatory Authorities at the end of 2003 eleven entities were providing leased line services in Lithuania. In the second half of 2003, Lietuvos Telekomas revenue from leased line services amounted for 56.5 per cent of total revenue from leased line services market. Major Company's competitors in the area of leased lines are AB Lietuvos Energija (27.9 per cent of market revenue) and VĮ Infostruktūra (7.2 per cent of market revenue).

At the end of 2003 internet access services were provided by more than 60 internet service providers (ISP). According to the data of Communications Regulatory Authorities number of Lietuvos Telekomas' internet access services users amounted for 37.6 per cent of all internet access users in Lithuania. Number of Bitè GSM internet access users amounted for 19.9 per cent and Omnitel – 16 per cent. 75 per cent of all internet dial-up access users in Lithuania and 92 per cent of all broadband internet access users via xDSL lines were customers of Lietuvos Telekomas. In the second half of 2003, Lietuvos Telekomas' revenue from internet access services amounted for 49.9 per cent of the total revenue from internet services of all Lithuanian ISP.

37. Dividends paid

Year	Dividends (in litas)	Amount of dividends per share (in litas)	Part of share's nominal value (%)
1999	71,208,000	0.087	8.7
2000	122,236,914	0.15	15.0
2001	89,640,404	0.11	11.0
2002 (a)	46,609,051	0.06	6.0
2003 (a)	46,609,051	0.06	6.0

NOTE: (a) Following the Lithuanian Company Law, dividends should not be paid for the treasury stocks, therefore dividends for the year 2002 and 2003 were paid for 776,817,518 shares.

On 23 April 2004, the Annual General Meeting of the Company's Shareholders resolved to pay 46,609,051 litas as dividend for the year 2003, e.g. 0.06 litas per one share. Following the Lithuanian Company Law, dividends will be paid within one month after the resolution concerning the profit distribution was adopted – on 20 May 2004. Following the Law on Profit Tax and the Law on Residence Income Tax of the Republic of Lithuania, dividends for the year 2003 are taxable at a rate of 15 per cent.

V. FINANCIAL STATUS

38. Financial reports

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

38.1. Balance Sheet (in thousand of litas)

	31 December 2003	31 December 2002	31 December 2001
Non-current assets			
Property, plant and equipment	1,120,429	1,423,286	1,542,261
Intangible assets	142,806	202,113	248,210
Prepayments for non-current assets	87	142	31
Investments in associates and subsidiaries	1,173	879	203
Other non-current assets	60	68	49
	1,264,555	1,626,488	1,790,754
Current assets			
Inventories	11,216	4,111	1,757
Assets held for sale	10,990	10,192	29,498
Receivable, prepayments and accrued revenue	137,537	150,193	209,804
Trading investments	--	1,287	--
Cash and cash equivalents	117,629	83,759	47,902
	277,372	249,542	288,961
TOTAL ASSETS	1,541,927	1,876,030	2,079,715
Shareholders' equity			
Share capital	814,913	814,913	814,913
Treasury stocks	(120,000)	(120,000)	(120,000)
Legal reserves	81,499	81,499	81,499
Translation differences	(6)	(30)	--
Retained earnings	359,455	442,159	460,577
	1,135,861	1,218,541	1,236,989
Minority interest	3,536	2,354	--
Non-current liabilities			
Borrowings	14,893	194,230	445,177
Deferred tax liability	78,422	113,844	136,191
Grants	11,832	14,492	16,977
Total	105,147	322,566	598,345
Current liabilities			
Borrowings	172,870	178,799	127,151
Trade, other payables and accrued liabilities	124,513	153,770	117,230
Total	297,383	332,569	244,381
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,541,927	1,876,030	2,079,715

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

	2003	2002	2001
Revenue	812,277	968,212	1,058,466
Operating expenses	(425,820)	(464,602)	(494,094)
Earnings before interest, taxes, depreciation and amortisation	386,457	503,610	564,372
Depreciation, amortisation and impairment charge	(397,495)	(381,668)	(381,567)
Gain on sales of investments	--	7,016	2,857
Operating profit	(11,038)	128,958	185,662
Finance costs, net	(27,649)	(39,855)	(46,999)
Share of result of subsidiaries before tax	562	337	--
Profit before tax	(38,125)	89,440	138,663
Profit tax	3,507	(21,641)	43,048
Group profit before minority interest	(34,618)	67,799	181,711
Minority interest	(1,477)	(767)	4
NET PROFIT	(36,095)	67,032	181,715
Earnings per share (in litas) (a)	(0.05)	0.09	0.23

NOTE: (a) For calculation of earnings per share, the treasury stocks are excluded.

38.3. Cash Flow Statement (in thousand of litas)

	2003	2002	2001
Operating activities			
Net profit (loss) for the period	(36,095)	67,032	181,715
Profit tax	(3,507)	21,641	(43,048)
Minority interest	1,477	767	--
Depreciation, amortisation and impairment charge	397,495	381,668	381,567
Share of results of associates before tax	(562)	(337)	--
Write-off of property, plant and equipment and intangible assets	1,958	1,035	12,126
Provision and write off of doubtful accounts receivable	2,040	14,016	16,356
Elimination of gain on sale of investments	--	(7,016)	(2,857)
Elimination of gain on sale of property, plant and equipment and intangible assets	(3,560)	(1,860)	(1,559)
Other non-cash transactions	24	(270)	(1,841)
Interest income	(1,366)	(567)	(3,578)
Interest expenses	24,747	34,299	46,765
Changes in working capital (excluding the effects of acquisition of subsidiaries):			
Inventories and asset held for sale	(6,840)	425	9,978
Trade and other accounts receivable	12,876	46,172	(59,109)
Trading investments	1,287	--	--
Trade and other accounts payable and deferred revenue	3,949	(41,944)	(47,970)
Cash generated from operations	393,923	515,061	488,545
Interest paid	(26,238)	(33,474)	(37,993)
Tax paid	(47,336)	(127)	--
Net cash from operating activities	320,349	481,460	450,552
Investing activities			
Purchase of property, plant and equipment (PPE) and intangible assets	(51,348)	(204,212)	(367,333)
Proceeds from disposal of PPE and intangible assets	13,290	6,840	10,859
Acquisition of subsidiaries (net of cash acquired)	(686)	(3,736)	--
Change in prepayments fro non-current assets	55	--	--
Disposal of investments	--	7,000	2,857
Investments in subsidiaries and acquisition of associate's shares	--	--	(193)
Dividends received	162	--	--
Interest received	1,366	567	3,578
Net cash from investing activities	(37,161)	(193,541)	(350,232)
Financing activities			
Proceeds from issue of bonds	--	--	150,000
Proceeds from borrowings	--	98,742	39,842
Repayment of borrowings	(190,414)	(265,354)	(167,878)
Repayment of bonds issued	(12,000)	--	--
Minority contribution to share capital of subsidiaries	21	--	--
Dividends paid to minority shareholders	(316)	--	--
Dividends paid	(46,609)	(85,450)	(118,134)
Net cash from financing activities	(249,318)	(252,062)	(96,170)
Increase in cash and cash equivalents	33,870	35,857	4,150
Movement in cash and cash equivalents			
At beginning of year	83,759	47,902	43,752
Increase in cash and cash equivalents	33,870	35,857	4,150
At end of year	117,629	83,759	47,902

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

The Profit (Loss) Distribution Statement of AB Lietuvos Telekomas is prepared following the laws of the Republic of Lithuania and based on the financial statements prepared following the Lithuanian Accounting Principles.

	2003	2002	2001
Retained result - profit (loss) at the beginning of the period	372,549,446	390,967,537	599,597,522
Current year net result - profit (loss)	(36,095,465)	67,031,836	(63,234,937)
Result - profit (loss) to be appropriated at the end of the period	336,453,981	457,999,373	536,362,585
Shareholders' contribution to cover losses	--	--	--
Transfers from reserves	4,075,090	--	--
Profit to be appropriated	340,529,071	457,999,373	536,362,585
Appropriation of the profit:	(46,609,051)	(85,449,927)	(145,395,048)
to legal reserves	--	--	(22,618,134)
to other reserves	--	--	--
dividends paid out for the previous financial year	(46,609,051)	(85,449,927) (a)	(122,236,914)
other appropriation	--	--	(540,000)
Retained result - profit (loss) at the end of the period	293,920,020	372,549,446	390,967,537

NOTE: (a) Dividends for the year 2001 were not paid for the treasury stocks (4,190,477 litas) held by UAB Lintkom.

On 23 April 2004, the General Meeting of Shareholders resolved to appropriate the profit of the year 2003 in the following way:

	2003
Retained result - profit (loss) at the beginning of the period	330,015,485
Current year net result - profit (loss)	(36,095,165)
Result - profit (loss) to be appropriated at the end of the period	293,920,020
Shareholders' contribution to cover losses	--
Transfers from reserves	--
Profit to be appropriated	293,920,020
Appropriation of the profit:	(46,609,051)
to legal reserves	--
to other reserves	--
dividends paid out for the previous financial year	(46,609,051)
other appropriation	--
Retained result - profit (loss) at the end of the period	325,940,395
Tantiems to the Board members for the year 2003	378,000

Dividends of 0.06 litas per share for the year 2003 will be paid for 776,817,518 shares (for treasury stocks dividends are not appropriable). Following the International Accounting Standards, tantiems to the members of the Board are considered as operating expenses of the period when they are paid.

39. Comments of Financial Statements

As on 31 December 2003, Lietuvos Telekomas' Group consisted of AB Lietuvos Telekomas, (Savanorių pr. 28, 03501 Vilnius) and its daughter companies: UAB Comliet (Palangos g. 4, 01117 Vilnius), UAB Lietuvos Telekomo Verslo Sprendimai (J. Galvydžio g. 7/Žygio g. 97, 08222 Vilnius), UAB Lintel (J. Galvydžio g. 7/Žygio g. 97, 08222 Vilnius) and VšĮ Lietuvos Telekomo Sporto Klubas (Savanorių pr. 28, 03116 Vilnius). AB Lietuvos Telekomas also owned 60 per cent of UAB Baltijos Informacinių Duomenų Valdymo Centras (Žirmūnų g. 141, 09128 Vilnius), 60 per cent of UAB Voicecom (Eigulių g. 14, 03150 Vilnius), 30 per cent of UAB Verslo Portalas (J. Jasinskio g. 16a, 01112 Vilnius) and 26 per cent of UAB TietoEnator Consulting (Žirmūnų g. 141, 09128 Vilnius) shares.

As on 31 December 2003, UAB Comliet owned 100 per cent of UAB Sonex Komunikacijos, 95 per cent of Comliet-Kaliningrad (Russian Federation), 75 per cent of Datu Tikli SIA (Latvia) and 55 per cent of Telegrupp SIA (Estonia) shares. UAB Lintel owned 100 per cent of UAB Lintkom (J. Galvydžio g. 7/Žygio g. 97, 08222 Vilnius) shares and UAB Baltijos Informacinių Duomenų Valdymo Centras owned 100 per cent of Baltic Data Center SIA (Latvia) shares.

Consolidated financial statements of Lietuvos Telekomas' Group combine financial statements of AB Lietuvos Telekomas, UAB Comliet Group, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Baltijos Informacinių Duomenų Valdymo Centras, UAB Voicecom and VšĮ Lietuvos Telekomo Sporto Klubas. Consolidated financial statements of UAB Comliet Group combine financial statements of UAB Comliet, UAB Sonex Komunikacijos, Comliet-Kaliningrad, Datu Tikli SIA and Telegrupp AS. In 2003, UAB Baltijos Informacinių Duomenų Valdymo Centras' subsidiary Baltic Data Center SIA was not operating. Investments in associated undertakings, where AB Lietuvos Telekomas has a stake between 20 and 50 per cent, are accounted by the equity method of accounting. All statements are prepared on the basis of the same accounting principles. Consolidated financial statements of Lietuvos Telekomas' Group are prepared according to International Financial Reporting Standards.

Financial Highlights in 2003

- In 2003, the total revenue of Lietuvos Telekomas' Group went down by 16.1 per cent to LTL 812 million against the revenue of LTL 968 million in the year 2002.
- During 2003, the operating expenses decreased by 8.3 per cent to LTL 426 million compared with the operating expenses of LTL 465 million for the year 2002.
- EBITDA for the year 2003 amounted to LTL 386 million (LTL 504 million a year ago) and EBITDA margin was 47.6 per cent (52.0 per cent).
- In the second half of 2003, the Company revalued its assets and incurred an asset revaluation charge of LTL 45.1 million reflected in the profit (loss) statement of the Group.
- Comparable net profit (excluding the charge related to assets revaluation) for the year 2003 was LTL 4 million, while the actual result (including the charge related to assets revaluation) was a loss of LTL 36 million. Net profit for the year 2002 was LTL 67 million.
- Net cash flow after investment activities for the year 2003 amounted to LTL 283 million (LTL 288 million for the year 2002). During the year 2003, cash and cash equivalents increased by LTL 34 million (LTL 36 million for the year 2002).
- Investments amounted to LTL 51 million (LTL 207 million in 2002).

Revenue

In 2003, the total revenue of Lietuvos Telekomas' Group went down by 16.1 per cent to LTL 812 million due to decline in revenue from fixed-line telephony services by 22.7 per cent while revenue from Internet and data communication services, and other services increased by 9.0 and 44.6 per cent, respectively.

In the fourth quarter of 2003, Lietuvos Telekomas has adjusted its revenue grouping following the latest standard used by TeliaSonera AB. Major changes in the grouping of revenue were made in the first quarter of 2003 when services of Lietuvos Telekomas' Group were divided into the following three main groups: Fixed-line Telephony Services (including the former Interconnection Services group), Internet and Data Communication Services (including the former Leased Lines group) and Other Services. The revenues of previous periods were accordingly reclassified.

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

	2003					2002	Change
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	Full Year	
Fixed-line Telephony Services	164,385	157,961	154,258	153,532	630,136	815,214	-22.7%
Internet and Data Communication Services	29,124	29,804	29,862	31,056	119,846	109,908	9.0%
Other Services	10,447	16,193	13,368	22,287	62,295	43,090	44.9%
Total	203,956	203,958	197,488	206,875	812,277	968,212	-16.1%

In 2003, the revenue from fixed-line telephony services amounted to LTL 630 million and accounted for almost 78 per cent of the total revenue of Lietuvos Telekomas' Group (LTL 815 million and 84 per cent in 2002, respectively). Due to decrease in the number of customers, lower traffic and reduced tariffs for a number of fixed-line telephony services, revenue from subscriber fees decreased by 6.7 per cent, from traffic by 33.4 per cent and from interconnection services by 18.5 per cent, while revenue from value-added services increased by 16.2 per cent, year-on-year. Due to telecommunications market liberalisation from 1 January 2003, revenue from wholesale fixed-line services was recorded for the first time.

Competition from mobile operators' side resulted in the decrease of the number of main lines in service. During the year, the number of main lines in service dropped by 11.5 per cent from almost 936 thousand lines at the beginning of 2003 to 828 thousand at the year end. In 2002, the number of lines went down by 216 thousand. A number of attractive marketing campaigns slowed down the customers' churn in the second half of 2003.

Compared with the year 2002, the total traffic of local calls went down by 20.7 per cent, long-distance calls by 15.4 per cent, calls from fixed-line to mobile networks by 6.2 per cent, international calls by 10.4 per cent and dial-up Internet access service by 28.4 per cent. In the fourth quarter of 2003, after cutting service prices and improving customer care, the use of fixed-line telephony services increased, especially among residential customers.

During the year, Lietuvos Telekomas significantly reduced almost all tariffs for the fixed-line telephony services, which initially had a negative impact on the revenue, but at the year end it was offset by increased use of services. Continuous decrease in the revenue from fixed-line telephony services stopped in the third quarter of 2003, and for the fourth quarter, in spite of tariffs reduction and a number of discounts offered, the Company earned the same amount of revenue as for the third quarter.

In September 2003, Lietuvos Telekomas cut tariffs for local calls during off-peak hours by 63 per cent to LTL 0.03 and tariffs for off-peak long-distance calls by 70 per cent to LTL 0.09. On the average, during 2003 tariffs for calls from fixed to mobile networks decreased by 45 per cent and for international calls by more than 30 per cent (to most popular destinations, even more).

Payment plans introduced in May 2002 provided a stable revenue stream to the Company and won wide recognition from customers, especially residential. At the end of 2003, there were 382 thousand subscribers to payment plans (204 thousand a year ago). Socially disadvantaged and retired customers could subscribe to the most popular payment plan, *Local*, at a discount.

The share of revenue from the Internet and data communication services in the total revenue of Lietuvos Telekomas' Group increased from 11.4 per cent (31 Dec. 2002) to 14.8 per cent (31 Dec. 2003). The Company's efforts to make the Internet affordable to a wider range of population by cutting service prices slowed down the growth of revenue from Internet and data communication.

In 2003, the revenue from Internet and data communication services increased by 9 per cent from LTL 110 million for 2002 to LTL 120 million for 2003. The revenue from Internet broadband services grew by 57.2 per cent, from data communication services by 16.4 per cent, but revenue from dial-up Internet access services went down by 29 per cent.

The revenue from other activities grew by 44.6 per cent from LTL 43 million for 2002 to LTL 62 million for 2003. The greatest increase of revenue from other activities was recorded in the fourth quarter of 2003. This was largely due to consummation of telecommunications networks and low voltage systems construction projects by UAB Comliet.

Expenses

The total operating expenses of Lietuvos Telekomas' Group in the year 2003 went down by 8.3 per cent to LTL 426 million against LTL 465 million for the year 2002. The major decrease (23.2 per cent) was recorded in interconnection expenses as the Company negotiated lower interconnection fees with Lithuanian mobile operators.

Employee-related expenses decreased by 3.6 per cent. In order to maintain high level of the Company's performance efficiency, in June the Board of Lietuvos Telekomas took a decision to downsize employees to 3,400, as an equivalent of full-time employment, by the year end. During the year, the total redundancy expenses amounted to LTL 15.8 million. The total number of employees in Lietuvos Telekomas' Group was reduced from 4,531 (31 Dec. 2002) to 3,586 (31 Dec. 2003), and on 1 January 2004 the number of employees, as an equivalent of full-time employment, stood at 3,389. The number of main lines per one core business employee increased from 253 (31 Dec. 2002) to 281 (31 Dec. 2003).

Compared with the year 2002, provisions for doubtful accounts receivable were reduced by 85.4 per cent, other operating expenses decreased by 1 per cent, while external construction expenses due to UAB Comliet activities increased by 81.4 per cent.

Assets Revaluation Charge

In 2003, due to decreased usage of the Company's network capacities AB Lietuvos Telekomas conducted an impairment test with respect to its property, plant and equipment and intangible assets. The results of this test showed that there is no need for an overall impairment charge with respect to the Company's property, plant and equipment and intangible assets.

In 2003, the Company also performed a detailed review of the carrying values of property, plant and equipment. Based on the results of this review the Company made a decision to reduce the carrying values of certain assets (mostly telecommunication equipment and buildings) due to the fact that the carrying values of these assets were in excess of their recoverable amounts. The total amount of write-down of the carrying values relating to certain property, plant and equipment items charged in 2003 amounted to LTL 45.2 million. Considering the effect of disposals of

property, plant and equipment of LTL 1.8 million, the total amount of write-down relating to above-mentioned assets as at 31 December 2003 was LTL 43.4 million.

Net Profit

Due to the assets revaluation charge and high depreciation and amortisation charges caused by heavy investments made in previous years, the Company's operating result for the year 2003 was negative and amounted to LTL 11 million. In 2003, regular depreciation and amortisation charges went down by 8.1 per cent compared with the year 2002, but still amounted up to 43.2 per cent of the total revenue. Comparable operating profit (excluding charge related to assets revaluation) for the year 2003 was LTL 36 million.

The financial activities expenses compared with the year 2002 went down by 30.6 per cent due to repayment of loans. Nevertheless, the actual profit before profit tax for the year of 2003 was negative and amounted to LTL 38 million (comparable profit before profit tax was LTL 9 million).

The charge related to assets revaluation had a positive effect on profit tax calculation; therefore the actual net loss for the year 2003 was LTL 36 million. Comparable net profit (excluding charge related to assets revaluation) amounted to LTL 4 million.

Investments

In 2003, the total amount of investments made by Lietuvos Telekomas' Group was LTL 51 million (LTL 207 million in 2002). Major investments were made into the switching and access networks of the Company as well as into information technology systems. As a result, at the end of 2003 the digitalisation rate of the Company's network reached 91.2 per cent (87.6 per cent a year ago), and digitalisation of all district centres of Lithuania was completed. Also, in 2003 special attention was given to the development of ADSL access network. At present, ADSL technology-based services are available in the majority of Lithuanian cities and towns, and in more than 120 rural areas.

In July, the largest subsidiary of Lietuvos Telekomas, UAB Comliet, completed an acquisition of 100 per cent of UAB Sonex Komunikacijos' shares. Another subsidiary of Lietuvos Telekomas, UAB Baltijos Informacinių Duomenų Valdymo Centras, established its subsidiary Baltic Data Center SIA in Latvia.

Balance Sheet and Cash Flow

During the year 2003, the total assets of Lietuvos Telekomas' Group decreased by 17.8 per cent from LTL 1,876 million (31 Dec. 2002) to LTL 1,542 million (31 Dec. 2003) due to amortisation and depreciation of long-term assets, while short-term assets increased mainly because of higher cash level.

The shareholders' equity decreased by 6.8 per cent from LTL 1,219 million (31 Dec. 2002) to LTL 1,136 million (31 Dec. 2003) due to net loss for the year 2003 and payment of dividend for the year 2002 (LTL 47 million). The total liabilities also decreased by 38.6 per cent as a result of debt repayment and reduction of deferred profit tax liabilities. In August, Lietuvos Telekomas exercised its early redemption option and redeemed its LTL 12 million bond issue. As of 31 December 2003, the net debt amounted to LTL 70 million, a drop by 75.8 per cent from the net debt of LTL 289 million a year ago. The net debt to equity ratio was 6.2 per cent (23.8 per cent on 31 December 2002).

During the year 2003, net cash flow from operating activities was LTL 320 million (LTL 481 million in 2002). Cash flow after investing activities and payment of profit tax and interest stood at LTL 283 million (LTL 288 million in 2002) and net cash used in financing activities amounted to LTL 249 million (LTL 252 million in 2002). An amount of LTL 202 million was used for repayment of loans (including earlier redemption of LTL 12 million bond issue), and LTL 47 million for payment of dividends for the year 2002. Overall, during the year 2003 cash and cash equivalents of Lietuvos Telekomas' Group increased by LTL 34 million (LTL 36 million in 2002).

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

Report on Company's Activities for the year 2002 (reviewed by auditors)

To the shareholders of AB Lietuvos Telekomas

AB Lietuvos Telekomas' Group provides fixed-line telephony, Internet-related and data communication services, wholesale services for other local and international telecommunications operators as well as other services. From 1 January 2003, AB Lietuvos Telekomas together with its subsidiaries is designated as an operator with significant market power (SMP) in the public fixed-line telephony network and services, leased line services and interconnection services markets.

At the end of 2003, the total number of main lines in service was 828,318, whereas the total number of employees in AB Lietuvos Telekomas' Group amounted to 3,586.

In 2003, the total revenue of AB Lietuvos Telekomas' Group went down by 16.1 per cent to LTL 812 million against the revenue of LTL 968 million in the year 2002. During 2003, the operating expenses decreased by 8.3 per cent to LTL 426 million compared with the operating expenses of LTL 465 million for the year 2002. EBITDA for the year 2003 amounted to LTL 386 million (LTL 504 million a year ago) and EBITDA margin was 47.6 per cent (52.0 per cent).

In 2003, due to decreased usage of the Company's network capacities AB Lietuvos Telekomas conducted an impairment test with respect to its property, plant and equipment and intangible assets. The results of this test showed that there is no need for an overall impairment charge with respect to the Company's property, plant and equipment and intangible assets.

In 2003, the Company also performed a detailed review of the carrying values of property, plant and equipment. Based on the results of this review the Company made a decision to reduce the carrying values of certain assets (mostly telecommunication equipment and buildings) due to the fact that the carrying values of these assets were in excess of their recoverable amounts. The total amount of write-down of the carrying values relating to certain property, plant and equipment items charged in 2003 amounted to LTL 45.2 million. Considering the effect of disposals of property, plant and equipment of LTL 1.8 million, the total amount of write-down relating to above-mentioned assets as at 31 December 2003 was LTL 43.4 million.

Comparable net profit (excluding the charge related to assets write-down and related tax effect) for the year 2003 was LTL 4 million, while the actual result (including the charge related to assets write-down and related tax effect) was a net loss of LTL 36 million. Net profit for the year 2002 was LTL 67 million. Net cash flow after investment activities for the year 2003 amounted to LTL 283 million (LTL 288 million for the year 2002). During the year 2003, cash and cash equivalents increased by LTL 34 million (LTL 36 million for the year 2002).¹

In 2003, the total amount of investments made by AB Lietuvos Telekomas' Group was LTL 51 million (LTL 207 million in 2002). Major investments were made into the switching and access networks of the Company as well as into information technology systems. As a result, at the end of 2003 the digitalisation rate of the Company's network reached 91.2 per cent (87.6 per cent a year ago), and digitalisation of all district centres of Lithuania was completed. Also, in 2003 special attention was given to the development of ADSL access network. At present, ADSL technology-based services are available in the majority of Lithuanian cities and towns, and in more than 120 rural areas.

AB Lietuvos Telekomas performs the core business of the Group, i.e. provides fixed-line telephony, data communication, fixed-line network, wholesale and Internet-related services. It also operates an Internet portal *Takas*.

¹ data from Financial Statements prepared according to International Financial Reporting Standards.

UAB Comliet (AB Lietuvos Telekomas owns 2,000 ordinary registered shares of the company with a nominal value of 10,000 litas each for a total nominal value of LTL 20 million or 100 per cent of the total share capital) 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.

In July 2003, UAB Comliet acquired 100 per cent of UAB Sonex Komunikacijos' shares from UAB Sonex Group. UAB Comliet Group also includes the following subsidiaries: Comliet-Kaliningrad OOO (UAB Comliet owns 95 per cent of shares) in the Russian Federation, Datu Tikli SIA (75 per cent of shares) in Latvia and Telegrupp AS (55 per cent of shares) in Estonia. The subsidiaries provide such services as designing and installation of low voltage networks and are engaged in construction and maintenance of telecommunications networks in the countries of their incorporation.

UAB Lietuvos Telekomo Verslo Sprendimai (AB Lietuvos Telekomas owns 20,000 ordinary registered shares of the company with a nominal value of 400 litas each for a total nominal value of LTL 8 million or 100 per cent of the total share capital) provides services and complex telecommunications solutions as well as offer technical consultancy services on telecommunications issues to around 600 major business customers of AB Lietuvos Telekomas.

UAB Lintel (AB Lietuvos Telekomas owns 2,800,000 ordinary registered shares of the company with a nominal value of 10 litas each for a total nominal value of LTL 28 million or 100 per cent of the total share capital) focuses on provision of the Directory Inquiry Service 118, telemarketing and Call Center services. From 1 March 2003, UAB Lintel took over from AB Lietuvos Telekomas the function of customer care by telephone.

UAB Lintkom holds 4.67 per cent of AB Lietuvos Telekomas' shares (treasury stocks) acquired during the Initial Public Offering (IPO) in 2000. Following the Board's decision of 2 October 2003 AB Lietuvos Telekomas transferred 1,000 ordinary registered shares of UAB Lintkom with a nominal value of 100 litas each for a total nominal value of LTL 100 thousand or 100 per cent of the total share capital to UAB Lintel. On 18 December 2003, the Board of AB Lietuvos Telekomas approved reorganisation of UAB Lintel, a subsidiary of AB Lietuvos Telekomas, and UAB Lintkom, an indirect subsidiary of AB Lietuvos Telekomas, by merger of UAB Lintkom into UAB Lintel.

UAB Baltijos Informacinių Duomenų Valdymo Centras (AB Lietuvos Telekomas owns 6,000 shares with a nominal value of 100 litas each for a total nominal value of LTL 600 thousand or 60 per cent of the total share capital) provides information systems support and comprehensive server management services as well as a wide range of IT customer support center services to AB Lietuvos Telekomas and other companies in Lithuania and the Baltic region. UAB Voicecom (AB Lietuvos Telekomas owns 60 ordinary registered shares with a nominal value of 100 litas each for a total nominal value of LTL 6 thousand or 60 per cent of the total share capital) provides internet telephony (voice over IP) services to business and residential customers. In July 2003, UAB Baltijos Informacinių Duomenų Valdymo Centras established its subsidiary Baltic Data Center SIA in Latvia.

UAB Verslo Portalas (AB Lietuvos Telekomas owns 6,000 ordinary registered shares with a nominal value of one litas each for a total nominal value of LTL 6 thousand or 30 per cent of the total share capital) was engaged in the development of the business-to-business portal verslas.com. The decision to discontinue operations of has UAB Verslo Portalas been made by the shareholders of the entity.

UAB TietoEnator Consulting (before 30 January 2003 known as Baltijos Telekomunikacijų Konsultacinis Centras) (AB Lietuvos Telekomas owns 4,160 ordinary registered shares with a nominal value of 100 litas each for a total nominal value of LTL 416 thousand or 26 per cent of the total share capital) provides companies in the Baltic region with high-value-added IT-related consulting services.

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

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.

On 25 September 2003, the Board of AB Lietuvos Telekomas approved a request of Kjell-Ove Blom, General Manager of the Company, for resignation from the position of General Manager of AB Lietuvos Telekomas as of 31 December 2003 and appointed Arūnas Šikšta as a new General Manager of AB Lietuvos Telekomas from 2 January 2004.

On 18 February 2004, the Board of AB Lietuvos Telekomas approved a new management structure of AB Lietuvos Telekomas.

On 2 March 2004, the Board of UAB Comliet resolved to transfer a telecommunications services installation, fault elimination, order management and network maintenance functions to AB Lietuvos Telekomas as of 1 April 2004. Management of AB Lietuvos Telekomas is evaluating possibilities to sell UAB Comliet after the completion of its restructuring.

In 2004, AB Lietuvos Telekomas plans to invest less than 100 million litas.

Gintautas Žintelis
Chairman of the Board

16 March 2004

41. Audit – related information

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

UAB PricewaterhouseCoopers, enterprise code No. 1147331, official address: T. Ševčenkos g. 21, LT-03111 Vilnius, is registered in Register of Legal Persons of the Republic of Lithuania. Enterprise was registered on 29 December 1993.

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

Audit of financial statements of AB Lietuvos Telekomas' Group for the year 2003 according to International Financial Reporting Standards was completed on 9 March 2004. Auditor's report was signed by Christopher C. Butler, partner of UAB PricewaterhouseCoopers.

**PricewaterhouseCoopers UAB**

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Auditor's Report

To the shareholders of AB Lietuvos Telekomas

1. We have audited the accompanying balance sheet of AB Lietuvos Telekomas ("the Company") and together with its consolidated subsidiaries ("the Group") as at 31 December 2003 and the related statements of income and cash flows for the year then ended. These financial statements set out on pages 4 to 32 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2003 and of the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Vilnius, 9 March 2004

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

VI. INFORMATION ABOUT THE MANAGING BODIES OF THE ISSUER

42. Members of the managing bodies

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

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

Board (as on 31 December 2003)

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

Gintautas Žintelis – 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, he 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. 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 – 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), Head of Network and Technology, Market Area Norway, Denmark and 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.

Erik Hallberg – a member of the Board since 28 April 2003 (nominated by Amber Teleholding A/S), Senior Vice President and Head of Market Area 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 the Supervisory Board of AB Drobe. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Kennet Rådne – a member of the Board since 26 April 2002 (elected for the two-year term; nominated by Amber Teleholding A/S), Senior Vice President and Head of Product Management and Development and also Head of Corporate Fixed Voice Products, TeliaSonera AB Sweden. Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Andrius Šukys – 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 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, TeliaSonera Finland Oyj. 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, to replace resigned members of the Board 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.

Following a new edition of the Company's By-laws approved in the Annual General Meeting of Shareholders of 23 April 2004 the number of Board member is reduced from nine to seven members. Due to the end two-year term all members of the Board were recall and then the following members were elected to the Board for a new two-year term: Morgan Ekberg, Erik Hallberg, Matti Hyyrynen, Kennet Rådne, Andrius Šukys, Timo Virtanen and Gintautas Žintelis.

General Manager

Tapio Paarma (born in 1948) left the position of General Manager from 30 April 2003. He worked as General Manager and President of AB Lietuvos Telekomas since 8 July 1998. From 1 May until 31 December 2003 he worked as Senior Advisor to the Company. His MSc degree in Community Planning was conferred in 1971 in Helsinki University. Tapio Paarma started his career in the Finnish PT company, where he worked in the Telecommunications Construction Centre and Administration subdivision before occupying the office of the Head of the Secretariat. In the period from 1988 to 1992, he held a position of the Director of the Telecom Vaasa. In 1992 - 1993, Director of the Reorganisation team in the Finnish PT, and at the same time occupied the position of the Project Manager of the Northwest GSM company. In 1993 - 1994 and several months in 1998 Tapio Paarma was Director of the New Activity Sphere in the Finnish Telecom. In 1995 - 1998, he occupied various positions in Lattelekom SIA, Latvia, including the Chief Activity Officer and Deputy Director General. As on 31 December 2003, he had 50 shares of Lietuvos Telekomas.

Kjell-Ove Blom (born in 1943) held office of General Manager and President (from 1 July 2003 - General Manager) of AB Lietuvos Telekomas from 1 May 2003 until 31 December 2003. 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. Till 31 December 2003 he was Chairman of the Board of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom and UAB Baltijos Informacinių Duomenų Valdymo Centras, and member of the Board of UAB TietoEnator Consulting. Had no interest in the share

capital of the Company and was not involved in the business of other Lithuanian companies and did not have interest in the share capital in other Lithuanian companies.

From 2 January 2004 **Arūnas Šikšta** (born 1968) took the office of General Manager of AB Lietuvos Telekomas. He has a degree in Management from Natural Science Faculty of Klaipėda University (1995). From 1992 to 1993 he worked as program coordinator at Open Lithuania Fund. Between 1993 and 1996 he was employed by Lithuanian – Dutch joint venture Securtronics Technikom 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 AS Hansapank (Estonia). Has no interest in the share capital of AB Lietuvos Telekomas. Is not involved in the business of other Lithuanian companies and does not have interest in the share capital in other Lithuanian companies.

Deputy General Manager

From 1 June 1999 **Romualdas Degutis** (born in 1961) held an office of Chief Operating Officer and Deputy General Manager (till 1 July 2003 called Executive Vice President) of AB Lietuvos Telekomas. From 1 March 2004 he is Chief Operating Officer - Deputy General Manager of AB Lietuvos Telekomas. In 1984 he graduated from Kaunas University of Technology as Electric Communication Engineer. Romualdas Degutis worked in various positions in the Company since 1984. In 1993, he was appointed to the office of Klaipėda Branch Director of AB Lietuvos Telekomas. As on 31 December 2003, he was member of the Board of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel and UAB Lintkom. As on 31 December 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 Elsėrius** (born in 1943) held an office of Chief Financial Officer and Director of Finance Department of AB Lietuvos Telekomas. From 1 March 2004 he holds an office of Chief Financial Officer –Deputy General Manager 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 Elsėrius 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. As on 31 December 2003, Jan-Erik Elsėrius was General Manager of UAB Lintkom, Chairman of the Board of UAB Voicecom, member of the Board of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Baltijos Informaciniu Duomenu Valdymo Centras, Datu Tikli SIA and Telegrupp AS. As on 31 December 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.

Chief Commercial Officer

On 7 October 2003, the Board of AB Lietuvos Telekomas appointed **Stefan Albersson** (born 1963) to take office of Chief Marketing and Sales Officer of AB Lietuvos Telekomas from 3 November 2003. From 1 March 2004 he was appointed to the position of Chief Commercial Officer – Deputy General Manager of AB Lietuvos Telekomas. He has BSc in Business Administration and Economics and MSc in Mechanical Engineering (1990). In the period from 1990 to 1996 he worked

in various positions at Telia AB, Sweden. Between 1996 and 1999 lead various units at Netia Telekom (Poland) and from 1999 to 2001 was Change Management Director at Eircom, Ireland. In August 2001, he came back to Netia Telekom and till September 2003 held a position of Vice President Marketing. As on 31 December 2003, he was member of the Board of UAB Voicecom. 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.

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

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

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

	Remuneration (in litas)	Tantiemes for 2002 (in litas)	Other payments from the profit (in litas)	Total (in litas)
On the average per member of Lietuvos Telekomas' Board (a)	41,945	54,000	--	95,945
Total amount for all members of Lietuvos Telekomas' Board (a)	377,505	486,000	--	863,505
On the average per member of the Administration of Lietuvos Telekomas (b)	304,403	--	6,954 (c)	311,357
Total amount for all members of the Administration of Lietuvos Telekomas (b)	913,209	--	20,862 (c)	934,071

NOTES: (a) The By-laws of the Company that were valid until 23 April 2004 provided that the Board consist of nine members. As on 31 December 2002 there were nine members of the Board, but as on 31 December 2003 – seven members. Two members of the Board have resigned from 28 May 2003; (b) In 2003, members of AB Lietuvos Telekomas' Administration were General Manager, Executive Vice President – Deputy General Manager and Chief Financial Officer - Director of the Finance Department; (c) Dividends for the year 2002.

On 23 April 2004, the Annual General Meeting of AB Lietuvos Telekomas' Shareholders resolved to assign 378 thousand litas for the payment of tantiemes for the year 2003. The tantiemes will be paid during the second quarter of 2004.

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

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

44. Transactions with related parties

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

45. Recent events in the Issuer's activities

In January 2004 Lietuvos Telekomas cut its long-distance call price during peak hours by 35 per cent and introduced a new long-distance call payment plan, *Miestai* (Cities). Users of a new dial-up Internet access payment plan, *Internet*, are offered 30 hours per month for just LTL 10. Also, the Company launched a new voice communication over the Internet service for its DSL service users.

In February Lietuvos Telekomas improved its *Local* and *Country* payment plans by providing subscribers with additional 30 hours of free-of-charge calls during off-peak time and on weekends. In cooperation with TeliaSonera Carrier International, Lietuvos Telekomas successfully launched a high-speed (622 Mbit/s) Kaunas-Stockholm international channel, which greatly increased international data and internet network traffic capacity between European and Lithuanian universities.

On 6 February 2004, the Company announced preliminary unaudited results of AB Lietuvos Telekomas and its subsidiary companies for the year 2003 prepared according to International Accounting Standards. In 2003, the total revenue went down by 16.1 per cent to LTL 812 million against the revenue of LTL 968 million in the year 2002. During 2003 operating expenses decreased by 7.9 per cent to LTL 428 million compared with the operating expenses of LTL 465 million for the year 2002. EBITDA for the year 2003 amounted to LTL 384 million (LTL 504 million a year ago) and EBITDA margin was 47.3 per cent (52.0 per cent). The assets revaluation charge of LTL 45.2 million was reflected in the profit (loss) statement of the Group for the year 2003. Comparable net profit (excluding the assets revaluation charge) for the year 2003 was LTL 2 million, while actual result (including the assets revaluation charge) was a loss of LTL 36 million. Net cash flow after investment activities for the previous year amounted to LTL 283 million (LTL 288 million for the year 2002). During the year cash and cash equivalents increased by LTL 34 million.

On 18 February 2004, the Board of AB Lietuvos Telekomas approved a new organisational structure of Lietuvos Telekomas.

From 1 March 2004 Lietuvos Telekomas cut tariffs for calls to the mobile network of Tele2.

On 2 March 2004, the Board of UAB Comliet, a subsidiary of AB Lietuvos Telekomas, resolved to transfer a telecommunications services installation, fault elimination, order management and network maintenance functions to AB Lietuvos Telekomas as of 1 April 2004. Also the Board preliminarily approved a possible sell-off of UAB Comliet's construction business.

On 16 March 2004, the Board of AB Lietuvos Telekomas decided to convoke the Annual General Meeting of AB Lietuvos Telekomas' Shareholders on 23 April 2004. The record day for Shareholders' Meeting is 16 April 2004. Company's Board approved audited financial statements of Lietuvos Telekomas' Group of the year 2003. According to International Accounting Standards consolidated Lietuvos Telekomas' revenue in the year 2003 was 812,277 thousand litas and net loss was 36,095 thousand litas. According to Lithuanian Accounting Principles AB Lietuvos Telekomas' revenue in the year 2003 was 753,011 thousand litas and net loss was 36,095 thousand litas. The Board proposes for the Annual General Meeting to allocate from the Company's distributable profit 46,609 thousand litas for the dividend payment for the year 2003. 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 16 March 2004, the Company announced that the Annual General Meeting of AB Lietuvos Telekomas' (code 2121543, registered address: Savanorių pr. 28, Vilnius, Lithuania) Shareholders will be held at room 156 of Lietuvos Telekomas' headquarters, Savanorių pr. 28, Vilnius,

Lithuania, at 3 p.m. on 23 April 2004. Registration will take place from 2 p.m. till 2.45 p.m. The meeting is convened by initiative of the Board and following the decision of the Board adopted on 16 March 2004. The record day of the General Meeting of Shareholders is 16 April 2004. Proposed Agenda: (1) Information of the Company's auditor; (2) Approval of the Company's activity report of the year 2003; (3) Approval of the annual financial statements; (4) Allocation of 2003 Company's profit; (5) Election of the Company's auditor; (6) Change of the By-laws of the Company; (7) Recall of the Company's Board members; (8) Election of the Company's Board members. Shareholders who at the end of the record day of the General Meeting of Shareholders, i.e. 16 April 2004, will be on the shareholders list of the Company have a right to participate and vote at the General Meeting of Shareholders personally or by proxy, or represented by the person with whom an agreement on the transfer of voting rights is concluded. All persons attending the General Meeting of Shareholders and having a voting right must bring with them a person's identification document. Shareholders' representative must present to the General Meeting an original proxy issued in the form and content established by the Law. From 13 April 2004 shareholders could get familiarised with the documents possessed by the Company related to the agenda of the Meeting, including draft resolutions, at the headquarters of AB Lietuvos Telekomas, Savanorių pr. 28, Vilnius, Lithuania.

On 22 March 2004, the Company announced that on 18 February 2004, the Board of AB Lietuvos Telekomas decided to authorise Arūnas Šikšta, General Manager of AB Lietuvos Telekomas, to vote "For" during forthcoming General Meeting of UAB Verslo Portalas' Shareholders on subjects related to termination of UAB Verslo Portalas' activities and liquidation of the company. Following the decision of the General Meeting of UAB Verslo Portalas' Shareholders on 24 February 2004 to terminate activities of the Company and liquidate it, on 18 March 2004, Register of Legal Entities has registered UAB Verslo Portalas as company under liquidation. This announcement disclosed the content of the confidential announcement of the material event of 18 February 2004.

On 13 April 2004, the Board of UAB Comliet, a subsidiary of AB Lietuvos Telekomas, approved request of Eimantas Šatas, General Manager of UAB Comliet, for resignation from UAB Comliet's General Manager position as of 13 April 2004 and appointed Ramūnas Bendikas as the new General Manager of UAB Comliet as of 14 April 2004.

On 22 April 2004, the Board of AB Lietuvos Telekomas approved unaudited financial statements of Lietuvos Telekomas' Group for the first quarter of 2004 prepared according to International Financial Reporting Standards. Revenue for the first quarter of 2004 amounted to 185 million litas, a decrease by 9.4 per cent over the revenue of 204 million litas for the first quarter of 2003. Operating expenses, year-on-year, went down by 2.8 per cent from 102 million litas to 99 million litas. EBITDA for the three months' period was 86 million litas (102 million litas for the same period a year ago) and EBITDA margin amounted to 46.2 per cent (49.9 per cent in 2003). Profit before profit tax for the first quarter of 2004 was 6 million litas (4 million litas a year ago) and net profit amounted to 4 million litas (2 million litas in 2003). Net cash flow after investment activities for the three months' period amounted to 51 million litas (68 million litas for the same period a year ago). During the three months' period due to redemption of 150 million litas Eurobond issue cash and cash equivalents decreased by 50 million litas.

On 23 April 2004, the Company announced that Annual General Meeting of AB Lietuvos Telekomas, held on 23 April 2004, decided:

- To approve the Company's activity report of the year 2003, inspected by the Company's audit enterprise UAB PricewaterhouseCoopers.
- To approve audited Company's annual financial statements for the year 2003, prepared according to the Accounting Standards of the Republic of Lithuania and according to International Financial Reporting Standards.
- To allocate the Company's profit of the year 2003 in the following way: 46,609,051 litas for dividends (0.06 litas dividend per share) and 378,000 litas for tantiems for members of the Board.

- To elect UAB PricewaterhouseCoopers as the Company's audit enterprise for two years to make the audit of the 2004 and 2005 Company's financial statements and to make the inspection of the reports on the activity of the Company in 2004 and 2005.
- To approve the new edition of the Company's By-laws.
- To recall from the Board of the Company all members of the Board: Matti Hyryrynen; Andrius Šukys, Erik Hallberg, Morgan Ekberg, Kennet Radne, Timo Virtanen, Gintautas Žintelis.
- To elect to the Board of the Company for new term of the Board (for 2 years): Morgan Ekberg, Erik Hallberg, Matti Hyryrynen; Kennet Radne, Andrius Šukys, Timo Virtanen, Gintautas Žintelis.

46. Material events in the Issuer's activities

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 Informacinių Duomenų Valdymo Centras, UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Voicecom, VšĮ 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 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 Informacinių Duomenų Valdymo Centras, UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Voicecom, VšĮ Lietuvos Telekomo Sporto Klubas, is declared as an operator with significant market power on the national interconnection market, and is obliged to fulfil the requirements for legal entities with 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 significant market power on the leased line services market, and is obliged to fulfil the requirements for legal entities with 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 Group signed a Memorandum of Understanding. According to it, UAB Comliet intends to acquire a 100 percent stake in UAB Sonex Komunikacijos, a subsidiary of UAB Sonex Group.

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-line Telephony Services and Public Fixed-line 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 had 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 for the year 2002. According to International Accounting Standards the consolidated Lietuvos Telekomas' revenue in the year 2002 was 968,212 thousand litas and the 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 46,609 thousand litas from the Company's net profit 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 the Company's auditor.

On 3 April 2003, the Board of AB Lietuvos Telekomas approved the request made by General Manager Tapio Paarma for resignation from the Company's General Manager position as of 30 April 2003 and appointed Kjell-Ove Blom as a new General Manager of AB Lietuvos Telekomas from 1 May 2003. The Board appointed Tapio Paarma to the temporary position of Senior Advisor of the Company from 1 May 2003 until 31 December 2003. This announcement disclosed 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 had approved unaudited financial statements of AB Lietuvos Telekomas' Group for the first quarter of 2003 prepared according to International Accounting Standards. The consolidated Lietuvos Telekomas' Group revenue for the first quarter of 2003 was LTL 203,956 thousand and the 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 were as follows: (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 the 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 the net profit amounted to 67,032 thousand litas; (3) to allocate 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 a status of the 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 Annika Christiansson, Erik Hallberg and Mats Salomonsson on the Board of the Company for the 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. This announcement disclosed 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.

On 7 July 2003, the Company announced that UAB Baltijos Informacinių Duomenų Valdymo Centras, a subsidiary of AB Lietuvos Telekomas, has established its subsidiary Baltic Data Center SIA in Latvia.

On 29 July 2003, the Company announced that UAB Comliet, a subsidiary of AB Lietuvos Telekomas, acquired all shares of UAB Sonex Komunikacijos from UAB Sonex Grupe. This announcement disclosed the content of the confidential announcement of the material event of 3 March 2003.

On 30 July 2003, the Board of AB Lietuvos Telekomas decided to authorise General Manager of the Company, Kjell-Ove Blom, to undersign all the documents related to the early redemption of 12 per cent coupon 12 million Litas bond on 29 August 2003 and execute other related actions.

On 30 July 2003, the Board of AB Lietuvos Telekomas approved unaudited financial statements of AB Lietuvos Telekomas' Group for the first half of 2003 prepared according to International Accounting Standards. Consolidated net profit of Lietuvos Telekomas' Group for the first half of 2003 was LTL 1,164 thousand, consolidated revenue - LTL 407,914 thousand.

On 29 August 2003, AB Lietuvos Telekomas redeemed all 12,000 ten-year book-entry registered bonds, par value 1,000 litas each (Lithuanian Securities Commission Securities' Registration Act No. AB-4791 dated 28 September 2000, Securities' Registration No. A54011422) paying 1,146.07 litas for each bond. On 12 October 2000, for non-public circulation AB Lietuvos Telekomas placed an issue of 12 million litas bond with an annual coupon of 12 per cent. An early redemption option (final redemption of the bonds was set on 13 October 2010) was provided in the Information Memorandum of the Company's ten-year bonds issue.

On 25 September 2003, the Board of AB Lietuvos Telekomas approved a request of Kjell-Ove Blom, General Manager of the Company, for resignation from the position of General Manager of AB Lietuvos Telekomas as of 31 December 2003 and appointed Arūnas Šikšta as a new General Manager of AB Lietuvos Telekomas from 2 January 2004.

On 2 October 2003, the Board of AB Lietuvos Telekomas approved the member list of the Company's Audit and Remuneration committees. The approved member list of the Audit committee includes the following members of the Board of AB Lietuvos Telekomas: Matti Hyyrynen, Timo Virtanen and Kennet Rådne. The approved member list of the Remuneration committee includes the following members of the Board of AB Lietuvos Telekomas: Gintautas Žintelis, Andrius Šukys and Morgan Ekberg. The Board approved the transfer all the shares of UAB Lintkom owned by AB Lietuvos Telekomas to UAB Lintel.

On 7 October 2003, the Board of AB Lietuvos Telekomas appointed Mr Stefan Albertsson to the position of the Company's Chief Marketing and Sales Officer from 3 November 2003.

On 28 October 2003, the Board of AB Lietuvos Telekomas approved unaudited financial statements of AB Lietuvos Telekomas' Group for the third quarter and the nine months of 2003 prepared according to International Accounting Standards. Lietuvos Telekomas' Group revenue

for the third quarter of 2003 amounted to LTL 197 million (LTL 204 million for the second quarter of 2003). The total revenue for the nine months amounted to LTL 605 million (LTL 729 million a year ago). Operating expenses for the third quarter of 2003 decreased to LTL 97 million. (LTL 108 million for the second quarter of 2003). The total operating expenses for the nine months amounted to LTL 308 million (LTL 340 million a year ago). EBITDA margin for July-September of 2003 was 50.6 per cent and overall EBITDA margin for the nine months of 2003 stood at 49.2 per cent. In the third quarter of 2003, Lietuvos Telekomas' Group revaluated all of its assets and, as a result of this revaluation, an impairment charge of LTL 41.5 million was reflected in the profit (loss) statement of the Group. Comparable net profit (excluding the impairment charge) for the third quarter of 2003 was LTL 7 million and for the nine months of 2003 it was LTL 8 million, while actual result (including the impairment charge) for the third quarter of 2003 was a loss of LTL 28 million and for the nine months - a loss of LTL 27 million.

On 20 November 2003, Lithuanian Communications Regulatory Authority fixed a highest price limits (VAT not included) for telecommunication networks interconnection services provided by AB Lietuvos Telekomas and its associated entities as follows: call set-up fee, 24 hours a day - 6 cents per call; local level interconnection from 8.00 to 20.00 on business days - 7 cents per minute, from 20.00 to 8.00 on business days and 24 hours a day on weekends and holidays - 2.50 cents per minute; national level interconnection from 8.00 to 20.00 on business days - 10 cents per minute, from 20.00 to 8.00 on business days and 24 hours a days on weekends and holidays - 6 cents per minute.

On 19 December 2003, the Company announced that following the Board decision of 2 October 2003, AB Lietuvos Telekomas transferred all shares of UAB Lintkom to UAB Lintel. On 18 December 2003, the Board of AB Lietuvos Telekomas approved reorganisation of UAB Lintel, a subsidiary of AB Lietuvos Telekomas, and UAB Lintkom, an indirect subsidiary of AB Lietuvos Telekomas, by merger of UAB Lintkom into UAB Lintel.

All material events related to the activity of the Company have been submitted to Lithuanian Securities Commission, National Stock Exchange of Lithuania, Lietuvos Rytas daily, Baltic News Service and posted on the Company's internet page www.telecom.lt.

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

- AB Lietuvos Telekomas seeks to become a service company that values its customers as partners and cooperates with them in order to create and implement simple to use services according to the customers needs.
- The Company seeks for maximum "integration" into both retail and wholesale local telecommunication market.
- Special attention will be given to development of internet services.
- In 2004 the Company should successfully implement its new organisation structure, continue reduction of costs, and improve internal culture in organisation and personnel strategy.
- To reorganise UAB Lintel and UAB Lintkom by merging UAB Lintkom into UAB Lintel, to liquidate UAB Verslo Portalas, to restructure activities and structure of UAB Comliet Group.
- More actively cooperate with other members of TeliaSonera AB Group.
- Investments will be below 100 million litas

Uncertainties in the future

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