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## Key Figures of Lietuvos Telekomas' Group

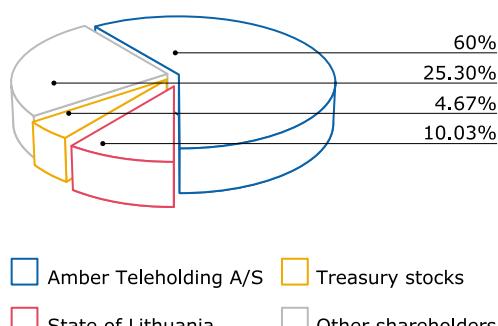
		2002	2001	2000
Revenue	LTL million	968	1,058	1,039
EBITDA	LTL million	504	564	524
EBITDA margin	%	52.0	53.3	50.4
Profit before profit tax	LTL million	89	139	333 (a)
Net profit	LTL million	67	182 (c)	240 (b)
Total assets	LTL million	1,876	2,080	2,107
Shareholders' equity	LTL million	1,219	1,237	1,173
Return on capital employed	%	10.9	11.3	23.9
Return on shareholders' equity	%	5.5	15.1	21.6
Equity to assets ratio	%	65.0	59.5	55.7
Capital expenditure	LTL million	207	368	517
Weighted average number of shares (d)	1,000 shares	776,818	776,818	793,830
Earnings per share	LTL	0.09	0.23	0.30
Personnel at the end of the year		4,531	5,749	6,357
Number of fixed lines in service		935,899	1,115,673	1,187,657
Penetration of lines per 100 residents (e)	%	27.0	33.1	34.0
Digitalisation rate	%	87.6	65.0	46.5
Number of lines per full-time employee employed in the core business		253	217	197

On 31 December 2002, the official exchange rates were as follows: US\$1 = LTL 3.3114, €1 = LTL 3.4528.

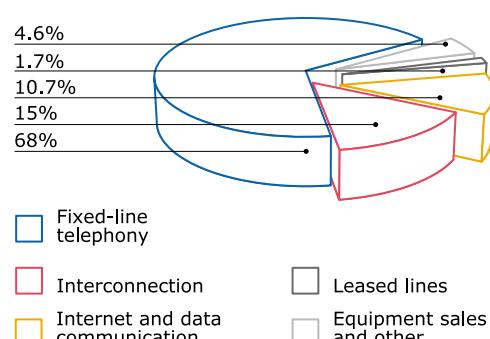
### NOTES:

- (a) Profit before profit tax, excluding the gain on sales of Bité GSM shares, was LTL 174 million.
- (b) Net profit, excluding the gain on sales of Bité GSM shares, was LTL 115 million.
- (c) Net profit, excluding the effect of changes in deferred profit tax liabilities and impairment charge, was LTL 120 million.
- (d) Treasury stocks held by UAB Lintkom are excluded.
- (e) Calculated on the basis of the following population figures: in 2000 – 3,493 thousand, in 2001 – 3,482 thousand, in 2002 – 3,463 thousand.

Structure of AB Lietuvos Telekomas' shareholders as of 31 December 2002



Revenue breakdown in 2002



## Important Events

- January** Lietuvos Telekomas and TietoEnator signed a Memorandum of Understanding regarding partnership for provision of IT services in Lithuania and within the Baltic region.
- February** Lietuvos Telekomas concluded a transaction of cross currency swap (from US dollars to euros) of the Company's loans denominated in US dollars.
- The Company launched a Calling Line Identification Presentation (CLIP) service.
- March** Lietuvos Telekomas signed a Licence Operator Agreement with TradeDoubler for launching online performance-based marketing and sales solutions.
- Lietuvos Telekomas established a 100 percent-owned subsidiary – UAB Baltijos Telekomunikacijų Konsultacinis Centras – for provision of professional IT consultancy services.
- April** The Company started provision of a Universal Access Number service for business customers known as service 700.
- Lietuvos Telekomas and Bitė GSM started collaboration aiming at ensuring the high quality telephonisation of rural and remote areas in Lithuania.
- Lietuvos Telekomas' Internet portal *Takas* launched an English version – *Takas English*.
- The annual General Meeting of Shareholders held on 26 April 2002 decided to pay a dividend of 0.11 litas per share for the year 2001 and elected the new Board of Directors.
- May** Comliet, a subsidiary of Lietuvos Telekomas, acquired a 75 percent stake in the Latvian company, Datu Tikli SIA.
- Lietuvos Telekomas offered to residential customers the following new payment plans: *Vietinis (Local)*, *Šalies (Country)* and *Interneto (Internet)*.
- Lietuvos Telekomas sold a 74 percent stake in UAB Baltijos Telekomunikacijų Konsultacinis Centras and a 40 percent stake in UAB Baltijos Informacinių Duomenų Valdymo Centras to TietoEnator.
- June** The new payment plan under the brand name *Verslo Miestai (Business Cities)* was offered to business customers.
- Lietuvos Telekomas completed digitalisation of its network in five largest cities of Lithuania.
- July** The Company completed rebalancing of its tariffs. Lietuvos Telekomas' Internet portal *Takas* updated its design and structure.
- Comliet, a subsidiary of Lietuvos Telekomas, acquired a 55 percent stake in the Estonian company, Telegrupp AS.
- August** The first shop of the information technology sales network, *Com+*, selling services and equipment was opened in Klaipėda.
- The Internet portal *Takas* was flooded with visitors to watch the video streaming of the first Lithuanian reality show.
- September** The Company launched a new service *Takas ID* based on the ADSL technology.
- Lietuvos Telekomas took over control of UAB Lintkom from its subsidiary UAB Lintel.
- October** A new *Vakaro (Evening)* payment plan was offered to residential customers.
- Lietuvos Telekomas signed several agreements on provision of wholesale DSL services with other Internet service providers.
- The Company completed implementation of the National Numbering Plan.
- The Company offered the discounted *Vietinis (Local)* payment plan to its socially disadvantaged and retired customers.
- November** Lietuvos Telekomas and Ukrtelecom, an Ukrainian telecommunications company, signed a Memorandum of Understanding on cooperation in the telecommunications area.
- Lietuvos Telekomas launched a virtual customer care centre for online management of telecommunications services.
- December** Lietuvos Telekomas and Omnitel signed a new network interconnection agreement.
- UAB Comliet, a subsidiary of Lietuvos Telekomas, established a 95 percent-owned subsidiary in Kaliningrad region, Russian Federation.

## General Manager's Report



Four and a half years have passed since July 1998 – the launch of a new model of Company's performance. During this comparatively short period Lietuvos Telekomas has become an advanced telecommunications company meeting all modern standards and capable to compete on the international level.

Last year was one of the most significant years both for our activities and for the country's telecommunications market. The year 2002 was the last year of preparation for liberalisation of the market. The telecommunications market was officially opened for competition on 1 January 2003 when the new Law on Telecommunications came into force. Pursuant to this Law, the period of the Company's exclusive right to provide fixed-line telephony services has expired. However, Lietuvos Telekomas actually faced partial competition on the telecommunications market already during this period.

The new Law set a legal framework for full competition in the Lithuanian telecommunications market. According to the new Law, the Communications Regulatory Authority designated AB Lietuvos Telekomas together with its subsidiaries as an operator with significant market power (SMP) on the public fixed-line telephony network and services, leased line services and interconnection services markets.

With successful modernisation of its network and good investment results, optimisation of its human resources and implementation of its tariff rebalancing policy, the Company is fully ready to welcome new players on the fixed-line market.

In 2002, the firm investment discipline allowed Lietuvos Telekomas to modernise its network at lower costs than it was planned. We completed digitalisation of our network in five biggest cities of Lithuania. At the end of the year the digitalisation rate of the Company's network exceeded the network digitalisation level of our neighbouring countries and reached nearly 88 per cent.

In October 2002, Lietuvos Telekomas completed implementation of the National Numbering Plan which was approved by the Government of the Republic of Lithuania in 2001. We introduced a new international prefix and expanded the numbering space.

In order to be successful in development of the fixed-line telephony services in the future, last year we completed implementation of the tariff rebalancing policy started in 1998. At the beginning of the year the Company offered its socially disadvantaged and retired customers cheaper services. We also introduced on the market first payment plans for residents – *Vietinis*

(*Local*), Šalies (*Country*), Interneto (*Internet*) and Vakaro (*Evening*) and a payment plan for business customers – Verslo Miestai (*Business Cities*).

Successful development of the state-of-the-art ADSL access network allowed the Company to make ADSL services available to 85 per cent of Lietuvos Telekomas' customers. During last year the number of ADSL users grew by five times – up to 10.5 thousand.

Last year the revenue from Internet and data communication services grew as much as by 52.8 per cent, interconnection revenue increased by 5.2 per cent and revenue from other activities – as much as by 94.2 per cent. Although the revenue from this area did not offset the decline in the revenue from the Company's core business – fixed-line telephony, year-on-year, the revenue of Lietuvos Telekomas' Group showed a decrease by 8.5 per cent and amounted to 968.2 million litas.

We are also glad that the heavy cost control enabled us to keep profitability on a high level – EBITDA margin stood at 52 per cent.

By making efficient plans of our Company's activities, last year we continued to implement a number of educational, cultural, sports and social support projects.

We also contributed to the development of information society in the country by expanding the education support programme *Kompasas* and actively participating in the activities of the alliance *Langas i Ateitį* (*Window to the Future*). In order to increase computer literacy in Lithuania and enhance information usage, in cooperation with other Lithuanian business companies we created possibilities to the residents to have better access to the Internet.

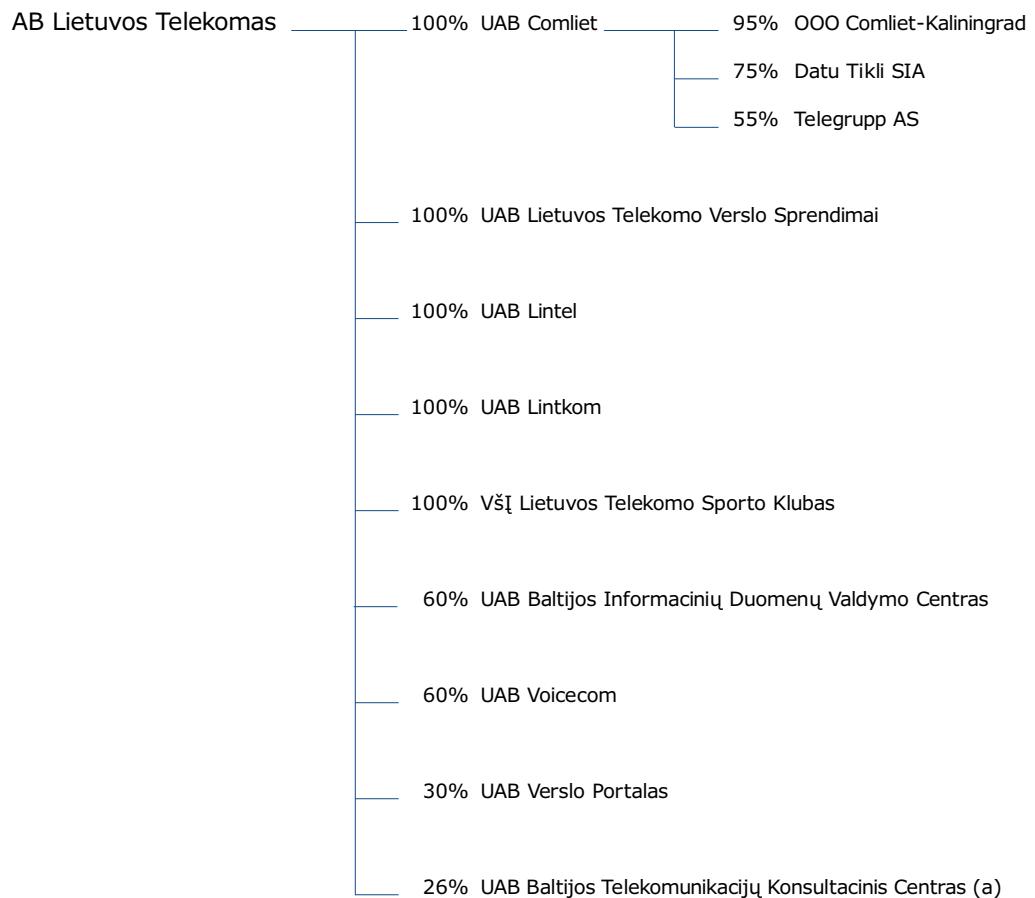
We look ahead to the new year of performance with clear-cut aims, i.e. to promote transparency in the market and provide high quality services on that market. We will continue keeping to the principles of business ethics and will adhere to the following obligations set by the laws: to implement transparent and non-discriminatory policy, to separate our accounts, to provide access and a possibility to customers to select any provider of telecommunications services, to base our prices on the costs.

We will be aiming at better results by developing Internet and data communication services. We consider these areas to be among our priorities. The Company will improve existing Internet services, focus on development and introduction of new Internet services and integration of state-of-the-art Internet access technologies. Furthermore, we will seek to be successful in offering competitive high quality fixed-line telephony services.

With the reliable technical basement enabling us to develop high quality services and effective organisation setup, the Company is confidently entering the competitive market. This gives me full confidence concerning the future success of the Company and its employees.

  
Tapio Paarma  
President and General Manager

## Structure of Lietuvos Telekomas' Group



Note: (a) on 30 January 2003, the company was renamed UAB TietoEnator Consulting.

Lietuvos Telekomas' Group is the largest telecommunications service provider in Lithuania. It had an exclusive right to provide fixed-line telephony and fixed-line network services until the end of 2002. Alongside fixed-line telephony services, AB Lietuvos Telekomas and its subsidiaries also provide Internet-related and data communication services, wholesale services for other local and international telecommunications operators and a wide range of other telecom-related services.

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

In 2002, UAB Comliet took over telecommunications network maintenance, service installation and fault elimination activities from Lietuvos Telekomas and became the largest subsidiary within the Group. In addition, Comliet provides such services as designing and construction of fixed-line and wireless telecommunications networks as well as installation and maintenance of low voltage networks.

During the year Comliet was also expanding its international activities. In May, Comliet acquired a 75 percent stake in the Latvian company, Datu Tikli SIA (25 per cent is owned by RBS Skals AS). In July, together with Merko Ehitus Ltd., Comliet acquired the Estonian company, Telegrupp AS. 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, Comliet established a company in Kaliningrad region of the Russian Federation – Comliet-Kaliningrad. UAB Comliet holds 95 per cent of its shares.

In 2002, UAB Lietuvos Telekomo Verslo Sprendimai continued providing services and complex telecommunications solutions and began offering technical consultancy services on telecommunications issues to around 600 major business customers of Lietuvos Telekomas.

UAB Lintel retained the leading position on the

directory inquiry service market with its Directory Inquiry Service 118 and became the main provider of Contact Centre and telemarketing services in Lithuania. Lintel also manages the property of Lietuvos Telekomas' Group. In 2002, UAB Lintel sold all shares of UAB Lintkom to AB Lietuvos Telekomas.

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

In 2002, UAB Voicecom offered new Voice over IP (Internet Protocol) services, including a web-to-phone solution. AB Lietuvos Telekomas owns 60 per cent of Voicecom shares and Nexcom Telecommunication LLC (USA) holds 40 per cent of its shares.

Lietuvos Telekomas holds a 30 percent stake in UAB Verslo Portalas and UAB Verslo Žinios owns the rest of shares. In 2002, Verslo Portalas was engaged in developing the business-to-business portal *verslas.com*.

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. Another subsidiary – UAB Baltijos Telekomunikacijų Konsultacinis Centras – was set up in March 2002. In May, Lietuvos Telekomas sold a 74 percent stake in Baltijos Telekomunikacijų Konsultacinis Centras and a 40 percent stake in Baltijos Informacinių Duomenų Valdymo Centras to TietoEnator Oyj.

Baltijos Telekomunikacijų Konsultacinis Centras (in January 2003 renamed TietoEnator Consulting) provides companies in the Baltic region with high-value-added IT-related consultancy services. Baltijos Informacinių Duomenų Valdymo Centras (the name is subject to change in the future) provides IT infrastructure management services to Lietuvos Telekomas and other major companies in Lithuania and the Baltic region. Both the companies started their activities on 1 June 2002.

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



## Fixed-line Telephony Services

### Voice Telephony Services

Voice telephony services include local, long-distance, fixed-to-mobile and international call services provided for business and residential customers all over the country. At the end of 2002, Lietuvos Telekomas had around 936 thousand main lines in service, a decrease by 216 thousand lines on the year-on-year basis (85 thousand lines were disconnected due to the customers' debts). The decrease was mainly recorded in the residential customer segment, while the number of main lines used by business customers remained almost the same.

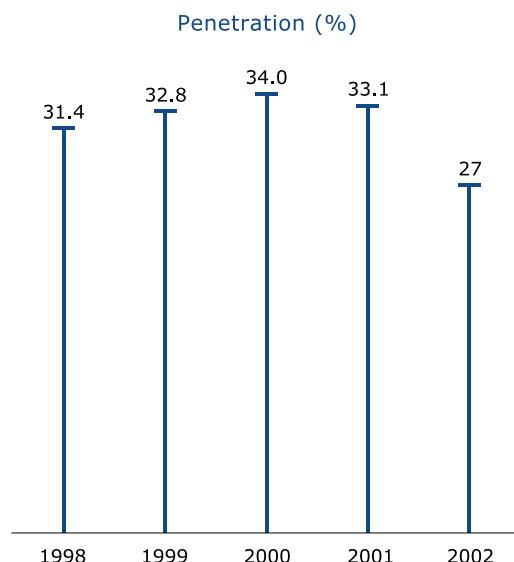
On 31 December 2002, the fixed-line penetration rate in Lithuania was 27.0 per cent (on 31 December 2001 it stood at 33.1 per cent).

In order to serve customers in rural and remote areas, Lietuvos Telekomas was employing GSM and NMT-450 standard networks. At the end of 2002, by using these technologies the Company connected to its network almost 39 thousand lines.

The waiting list eased by 57.1 per cent from 9.1 thousand at the beginning of 2002 to 3.9 thousand at the end of the year.

Around 87.6 per cent of all Lietuvos Telekomas' subscriber lines in Lithuania are connected to digital exchanges. Nearly 92 per cent of business customers have lines connected to digital exchanges. In 2002, the Company completed digitalisation of its network in five biggest cities of Lithuania.

In 2002, the Company finalised rebalancing of its tariffs started after its privatisation in 1998. The last tariff rebalancing was done on 1 July 2002, including increasing of the subscription fee for residential customers, call set-up fee and peak-time tariff for a local call minute. International call tariffs were continuously decreased several times during the year, first of all, tariffs for calls to the European Union countries. The Company introduced different tariffs for calls to the mobile and fixed-line networks of EU Member States. Furthermore,



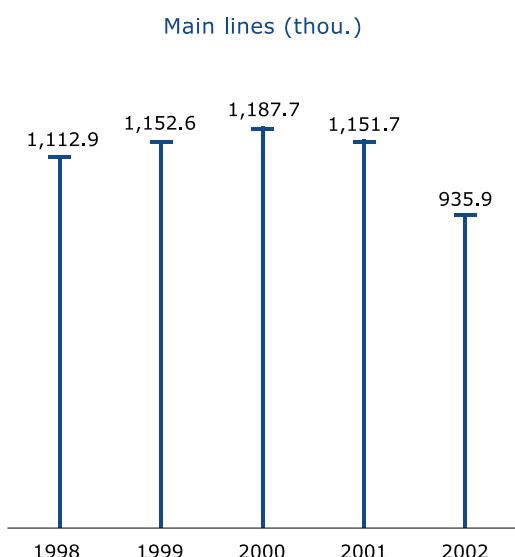


Lietuvos Telekomas cut down its tariffs for calls to neighbouring countries Latvia and Poland. Special prices were introduced for calls to the capitals of these countries – Riga and Warsaw. In addition, the Company reduced its tariffs for calls to Moscow, Minsk, Helsinki, Stockholm and Tallinn and extended the off-peak time.

On average, tariffs for international calls in 2002 were reduced by 11 per cent. As a result, in spite of a fierce competition from the side of mobile operators and Voice over IP providers, Lietuvos Telekomas succeeded to keep the international call traffic at the same level as in 2001.

#### **Voice Telephony Services for Residential Customers**

In May, Lietuvos Telekomas launched three payment plans for residential customers - *Vietinis (Local)*, *Šalies (Country)* and *Interneto (Internet)*. All the plans are based on a fixed monthly fee for a certain amount of free-of-charge call minutes. In October, a



new payment plan, *Vakaro (Evening)*, was introduced for those who like to have telephone conversations in the evening.

Until the end of the year 2002, on its own initiative Lietuvos Telekomas was applying a lower subscription fee to socially disadvantaged and retired residents of Lithuania. From January 2003 Lietuvos Telekomas has been offering this group of population the *Local* payment plan at a LTL 5 discount. By the end of 2002, more than 200 thousand customers were using one of the payment plans.

#### **Voice Telephony Services for Business Customers**

In 2002, the Company launched several new payment plans for small and medium-sized business customers. The new payment plan, *Verslo Miestai (Business Cities)*, allows customers to make calls to 3 selected towns of Lithuania at a 30 percent discount. *Šalies Mokėjimo Planas Verslui (Country Payment Plan for Business)* offers 4 hours of free local and long-distance calls for a fixed monthly fee. Small business customers have an opportunity to participate in a discount programme, *Mini Elitas*, which provides discounts on telecommunications services based on the volume of long distance and international traffic.

#### **IP Telephony Services**

Since 2001 UAB Voicecom has been providing an international call service over IP under the brand name *Erdvė (Space)*. In 2002, Voicecom launched a new service, *Šeimos Erdvė (Family Space)*, enabling a frequent caller to talk to two partners in any of 13 European countries, USA or Canada for a special price and just dialling 4 digits.

The new service *Skambiuteris* ([www.skambiuteris.lt](http://www.skambiuteris.lt)) is a web-to-phone solution making it possible to call abroad to 25 selected countries using a PC

instead of a standard telephone set. This service is one of the first online payment arrangements that allow customers to prepay for their calls via Internet and make PC-to-Phone calls by IP telephony.

#### **Voice Telephony Value-added Services**

In 2002, the Company provided a wide range of voice telephony value-added services. The most popular services with Lietuvos Telekomas' customers were as follows: call forwarding, voice mail and Calling Line Identification Presentation (CLIP). The Calling Line Identification Presentation (CLIP) and Calling Line Identification Restriction (CLIR) services were launched in February 2002. In late 2002, the Company had around 24 thousand users of the CLIP service. During the year the number of voice mail users increased by 55 per cent.

#### **Service 800**

Lietuvos Telekomas provides the national and international service 800. Charges for the calls to 800 numbers are covered by the subscriber of the service, i.e. a company or a private person having ordered the service 800, thus enabling clients to call this number free of charge. In 2002, the number of 800 line subscribers and users continued to grow. The number of subscribers of the service increased by 48 per cent, while the number of calls to 800 numbers grew by around 21 percent.

Subscribers of the service usually use 800 numbers as customer care lines. 800 numbers are also frequently used as psychological assistance lines and quality and complaint lines by manufacturers and traders.

In 2002, the Company made national 800 numbers accessible from the Omnitel mobile network. In the year 2003, there are plans to take steps towards further development of accessibility of

the national service 800 from other mobile operators' networks.

#### **Service 700 (Universal Access Number)**

The Universal Access Number (UAN) service was launched in April 2002. The service makes it possible to access all branches and offices of the company by a universal telephone number rather than by dialling different numbers. In addition, the 700 number remains unchanged even if the company moves to other premises or changes its office telephone numbers. Calls to UAN numbers are paid by the calling party. At the end of 2002, the UAN service had 85 subscribers.

#### **Short Numbering Service**

The short numbering service enables the subscriber to have a four digit easy-to-remember telephone number. The service makes available both premium and common rate numbers. Short numbers provided by Lietuvos Telekomas might be countrywide or dialled from a specific predefined geographical area only. In April 2002, three new payment plans were offered for common rate short numbers. This made the service more flexible and attractive for large business customers. At the end of 2002, the Company provided 75 common rate local short numbers, whereas the number of common and premium rate national short numbers reached 21. Although mostly preferred by the specialised info service providers, in the course of the year premium rate short numbers were also used for voting and entertainment purposes.

#### **Service 900**

In 2002, Lietuvos Telekomas offered its service 900 (also known as a premium rate service) to a greater number of service providers. Both specialized and small service providers were





attracted thus increasing the number of services available via premium rate phone numbers. The first successful attempt to charge Internet content by using 900 numbers was made in the "Payments for i-Services System" project implemented in cooperation with the leading business newspaper in Lithuania, *Verslo Žinios*, on its web site. Customers were offered a possibility to pay for a virtual newspaper by dialling 900 numbers. In May 2002, Lietuvos Telekomas introduced a new service access code – 8909. The access code is used for entertainment premium rate services and allows users to easily identify the type of the content before dialling a number.

#### **Centrex Service (*Grupė*)**

Due to the increased availability of Centrex services during 2002, today Lietuvos Telekomas offers Centrex services to all its customers whose

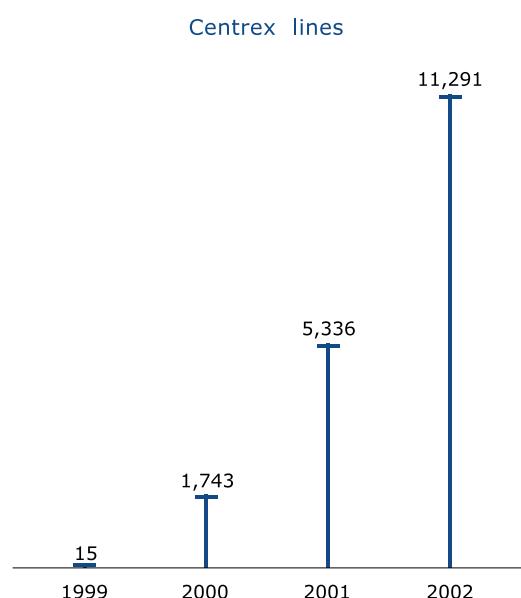
telephone lines are connected to digital exchanges. During the year the number of customers using *Grupė* service increased to 760, whereas the number of Centrex lines more than doubled.

#### **Payphones**

At the end of 2002, the Company had 6,289 chip card payphones in operation. Due to the growing penetration of mobile phones in Lithuania, the significance of payphones is declining. The Company removed about 900 unprofitable payphones. The process of payphone optimisation will be further continued during 2003.

#### **Directory Inquiry Service 118**

Despite the tough competition faced by UAB Lintel in the year 2002, the company remained the local market leader with its Directory Inquiry Service 118. In total, during the year UAB Lintel serviced 9.2 million calls, an increase by 592 thousand calls as compared with the year 2001. At the end of December 2002, Lintel received the 25 millionth call since the launch of the service in May 2000. In the year 2002, UAB Lintel continued to provide its Directory Inquiry Service 118 for the customers of fixed-line and mobile operators in Lithuania. In 2002, the company also started offering information on phone numbers of private subscribers of UAB Bitė GSM and UAB Omnitel.



#### **Telemarketing Services**

UAB Lintel launched telemarketing services such as customer line, help desk, order line and telequestioning in 2001. During 2002 the number of long-term customer care projects showed a growth of 50 per cent. The volume of sales for the biggest mobile operators was on the significant increase. In addition, Lintel expanded sales and updating of its databases. In the course of the year the company

also implemented large-scale national projects focused at providing information services to the residents, including the national examination line, Europe Union info line, info line for the President and municipal elections.

In order to develop contacts with foreign partners, in July 2002 UAB Lintel joined the International Association of Call Centres.

The Contact Centre project was implemented in January 2003. The Centre enables providing services for customers by multiple channels of communication such as phone, fax, e-mail, SMS, Internet and Interactive Voice Response. During the first quarter of 2003 Lintel will start introduction of the services provided by the Contact Centre to the market and offer them to their customers.

### **Operator-assisted Services**

UAB Lintel has been continuing to provide operator-assisted services on behalf of Lietuvos Telekomas. The number of serviced calls by operators in 2002 decreased by 20 per cent, from 1.25 million connections in 2001 down to 1 million connections in 2002.

### **Televoting Service**

The televoting service offers a possibility to conduct prompt and effective nationwide public opinion polls by means of telecommunications. The service is supported by modern telecommunications technologies and is fully automated. During 2002 the biggest projects in this field included provision of televoting services during the Eurovision Song Contest and reality show Akvariumas.

## 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 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*, ADSL access service *DSL Takas*, flat rate service *Tako Zona* to Internet via leased lines, Internet via Frame Relay and Internet via broadband optical network services.

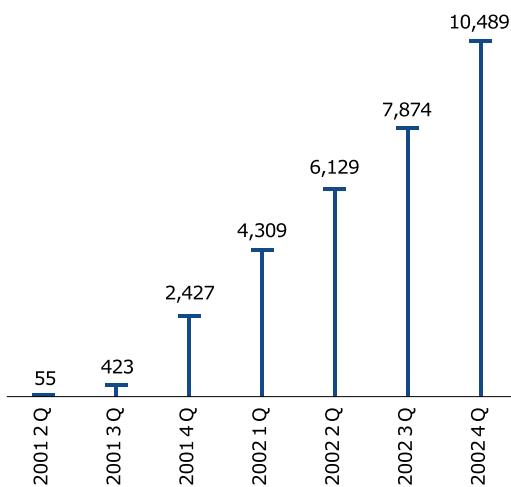
### ***Atviras Takas and Tako Zona***

In 2002, there was a tendency among customers to switch from the dial-up and flat rate services to DSL services. At the end of 2002, there were about 35 thousand dial-up service users. The number of flat rate access users dropped to 4.3 thousand customers at the end of the year.

### ***DSL Takas***

Since May 2001 Lietuvos Telekomas has been offering a number of *DSL Takas* service plans with different Internet access speed (ranging from 64 Kbps to 2,048 Kbps) and different price schemes. During 2002 the number of *DSL Takas* customers increased to 10.5 thousand from 2.4 thousand at the end of 2001. The new *DSL Takas* plan A1 Plus was launched for business customers for connecting their Local Area Networks (LAN) containing a number of personal computers to the Internet. During the first quarter of 2002 the Company introduced a DSL VPN (Virtual Private Network) service enabling its business customers to connect their LANs in different places to a single virtual network and transmit data among their remote branches as well as connect the corporate network to the Internet. A new service, *Takas iD*, based on the DSL technology was introduced to the market in October 2002. For a fixed monthly fee, subscribers are offered a certain number of free Internet hours. The access service also provides subscribers with an opportunity to increase the Internet speed on their own. In late 2002, the number of *Takas iD* users reached 706.

ADSL subscribers



### ***Internet via Leased Lines and via Broadband Optical Network***

Lietuvos Telekomas provides permanent Internet access to its business customers via leased lines and broadband optical network. Internet via leased lines is often used by business customers for connecting their corporate LAN to Internet at a speed of up to 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 the customer to get access to the Internet at a speed of up to 100 Mbps.

### **Takas Portal**

At the end of 2002, Lietuvos Telekomas' Internet portal *Takas* ([www.takas.lt](http://www.takas.lt)) had more than 189 thousand registered users of e-mail, web mail and other online services. *Takas* portal cooperates with more than 70 partners and content providers in different areas.

Lietuvos Telekomas develops and provides a wide range of value-added Internet services starting with content and communication services (Internet fax, broadband content, SMS, etc.) and ending with infrastructure services (content management system, video streaming service, web hosting and web development tools, "wallet" for online payments, e-marketing tools, site monitoring and online customer care). Since April 2002 *Takas* portal has been providing information on the Lithuanian political, business, social and cultural life in English (*Takas English*). The new website aims not only at providing foreigners with useful information (maps, links, and free directories) but also consolidates foreign community interested in Lithuania and assists foreigners in their mutual communication.

In May 2002, the Internet portal *Takas* launched one of the largest information websites in Lithuania known as *Tako Gidas* (*Takas Guide*). The website offers the same type of information as the Lintel's Directory Inquiry Service 118 for free.

The events targeting at the young population and hosted by the portal (live video streaming of the reality show Akvariumas; Miss Internet and Car of 2003 contests) contributed to the growth of portal visitors.

Web hosting enables the customer to design and host private or corporate web pages on the Internet. The number of web hosting users grew from 271 at the end of 2001 to 1,322 at the end of 2002.

### **Business-to-Business Portal**

Special attention is focused on cooperation with UAB Verslo Portalas for developing of the business-to-business portal *verslas.com* for the sales of value-added Internet services and content to small and medium-sized enterprises.

## Data Communication Services

Lietuvos Telekomas offers its customers various data communication services such as ISDN, permanent broadband connection, MPLS, Frame Relay, X.25, leased lines.

### ISDN Services

At the end of 2002, Lietuvos Telekomas had 10.2 thousand *ISDN Duetas*, including *ISDN Duetas Plius* and *ISDN Biuras*, connections and 458 *ISDN Srautas* connections, whereas the total number of ISDN channels amounted to 34.3 thousand against 23 thousand channels at the end of 2001. During 2002 the number of new *ISDN Duetas/ISDN Duetas Plius* connections made up 6.5 thousand (in 2001 the number of this type of connections stood at 3.6 thousand).

### 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.

### MPLS

In 2002, Lietuvos Telekomas installed a modern network based on the IP and MPLS (Multiprotocol Label Switching) protocols. The MPLS network comprises four nodes located in 4 biggest cities of the country. The network enables Lietuvos Telekomas to provide the highest quality data communication services to business customers countrywide. The Company introduced the MPLS Virtual Private Network (VPN) to provide its business customers with a secure solution at a reasonable price for connecting their remote points to the single network and transmit data in real time via a wide range of access types. In 2002, Lietuvos Telekomas signed the first contracts for provision of MPLS VPN services.

### Frame Relay

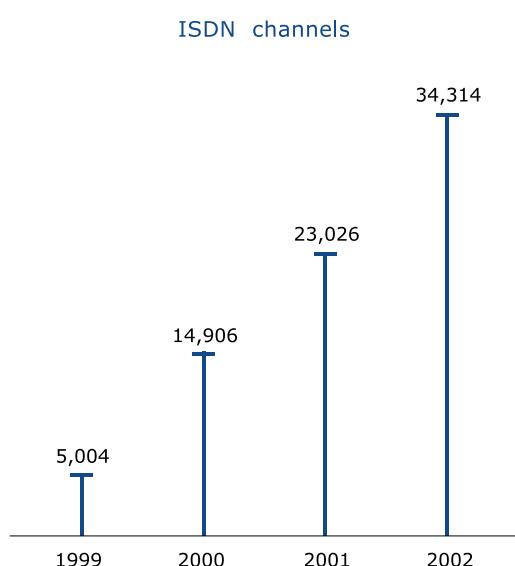
Lietuvos Telekomas has been continuing to offer Frame Relay as a proper technology to connect different units spread over the country to the corporate network. During 2002 the number of Frame Relay connections increased by 12.4 per cent.

### X.25 Protocol

The data communication service based on the X.25 Protocol is widely used for authorisation of bank cards. Year on year, usage of the service remained almost the same.

### Leased Lines

In 2002, Lietuvos Telekomas continued providing services of analogue and digital leased lines for business customers. The number of digital leased lines increased by 60 per cent.



## Wholesale Services

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One of the goals of Lietuvos Telekomas in the year 2002 was preparation for the open market environment, strengthening its position on the competitive market and becoming the most reliable provider of wholesale services.

In 2002, the Company had 79 domestic wholesale customers comprising mobile network operators, cable television, data communication and Internet service providers. Lietuvos Telekomas offered more than 20 wholesale voice and data communication services to its customers.

During the year the Company was engaged in developing wholesale voice telephony services. At the beginning of 2003 these services were presented to the telecommunications operators and fixed-line telephony service providers.

In 2002, Lietuvos Telekomas managed to maintain its market share on the transit and incoming international traffic markets. The incoming international and transit traffic increased by 18.6 per cent, the outgoing traffic, including transit, showed a growth of 27.7 per cent as against the figures of 2001.

In the year 2002, the Company opened a Point of Presence (POP) in London which makes it possible to interconnect Lietuvos Telekomas' networks with alternative international telephony and data communication operators as well as to resell capacity to other operators for interconnection purposes.

During the year the Company faced a big competition on the Internet and data communication markets in providing access to the international IP network. The Company expanded its Internet access bandwidth for local Internet service providers from 42 Mbps up to 90 Mbps. By the end of the year the wholesale DSL service was offered to other Internet service providers for reselling on the local telecommunications market.

The growing competition with both domestic and foreign operators forced Lietuvos Telekomas to expand its activities in selling telecommunications services on international markets. For this purpose, the Company investigated neighbouring markets and made the first steps in selling its services on the foreign markets.



## **Customer Care**

During 2002 Lietuvos Telekomas continued improving its customer care. The Company focused on optimisation of the use of its Customer Care and Billing System (CABS) and started employing its Network Information System that makes customer care more efficient. In order to make the payment system more user-friendly, the Company offered private customers a possibility to receive bills for telecommunications services on a monthly basis.

### **Distance Customer Care**

During 2002 the Company kept developing distance customer care. Instead of face-to-face customer care, now Lietuvos Telekomas serves its customers by toll-free numbers and via the new virtual customer care centre located at the website: <http://abonentams.takas.lt/>. Visitors of the website have an opportunity to select the mode of receiving standard and itemised bills for telecommunications services either by post or online as well as to manage value-added services such as voice mail and digital exchange-based services, etc. online. Customers are also offered a possibility of subscribing to Lietuvos Telekomas' services by visiting the website.

### **Call Centres**

Improvement of activities performed by Call Centres is another way of developing distance customer care. During the year 2002 Call Centres received approximately 5 million calls. Toll-free numbers 117, 119 and 1515 provide information about Lietuvos Telekomas' services, tariffs and discount programs as well as billing information. These numbers are also used for receiving applications for installation of services, registration of customers' complaints and telephone line fault reports. During 2002 there were changes in the nature of calls as compared with the year 2001.

Customers have fewer problems with billing and there are less fault reports. The number of calls for inquiry of the information and subscription to the services is also growing.

### **Sales through the Sales Agents**

During the year 2002 the network of sales agents was rapidly growing. The Company has concluded 74 agreements with sales agents. The list of services sold by the sales agents was also expanded. Retail outlets for sales of telecommunications equipment were replaced by the information technology and telecommunications sales network, COM+, established in cooperation with UAB Sonex Kompiuteriai. The main purpose of this cooperation is to provide customers with an opportunity to receive recent information on telecommunications technologies and acquire services and products of both the companies.

## Network Infrastructure

### Access Network

The access network of Lietuvos Telekomas consists of copper, wireless and city optical networks. The Company expands its access network according to the market demands. During the year 2002 Lietuvos Telekomas continued implementation of the DSL access technology. At the moment the Company provides different ADSL services with the data downstream speed ranging from 128 to 2,048 Kbps and upstream speed varying from 64 to 640 Kbps.

Today the Company's ADSL network covers 5 biggest Lithuanian cities, all district centres and even some rural areas. Currently, Lietuvos Telekomas offers ADSL services to 85 per cent of its customers. The Company has already installed 20,000 ADSL ports. During the year 2003 there are plans to increase the coverage and capacity of the ADSL network depending on the market needs.

During 2002 Lietuvos Telekomas implemented the GSM technology-based technical solution when the Company's access network was employed for installing fixed-mobile connections in order to connect remote and rural customers.

At the end of 2002, the Company obtained licenses for provision of broadband wireless services in 10.5 GHz and 26 GHz frequency bands. Broadband wireless services provided by Lietuvos Telekomas will be targeted at business customers where the fixed-line technology is not technically applicable.

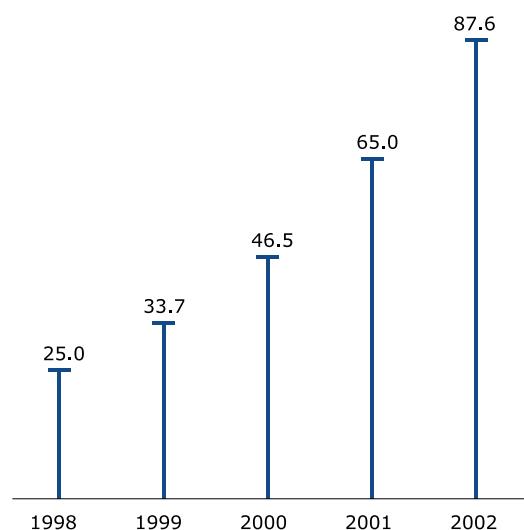
### Switching Network

In 2002, the Company installed the last digital high capacity switch and rearranged its switching network according to the areas of location of high capacity digital switches.

During the year 2002 the Company fully digitalised its network in Šiauliai, Kaunas, Panevėžys and in nearly all Lithuanian district centres. At the end of the year, the network digitalisation in the whole country stood at 87.6 per cent as compared to 65 per cent at the beginning of 2002. Nearly 92 per cent of business customers use lines connected to digital exchanges. During 2003 there are plans to continue digitalisation of the rest of the Lithuanian territory.

In October 2002, Lietuvos Telekomas completed implementation of the new National Numbering Plan approved by the Government of the Republic of Lithuania in June 2001. The new Numbering Plan allowed the Company to introduce a new international prefix and expand its numbering space.

Digitalisation (%)



## **Transmission Network**

The transmission network of Lietuvos Telekomas consists of 6 regional and 2 national rings. All rings are interconnected using the Synchronous Digital Hierarchy (SDH) technology with the capacity of 2.5 Gbps. In five biggest cities of Lithuania the Company installed synchronous digital cross connectors to ensure better functionality of the network for fast and flexible handling of large volumes of traffic.

During the year 2002 in order to expand capacity of the national transmission network Lietuvos Telekomas built a new optical line Kaunas-Rietavas. The Company also constructed additional optical lines crossing Lithuania's border with Latvia and Lithuania's border with Poland as well as a new optical line for connection of telecommunications networks of Lithuania and Russian Federation. New optical international lines will allow the Company to increase the transmission capacity and to guarantee high quality services.

## **Data Communication Network**

Lietuvos Telekomas currently provides high quality digital leased lines, packet switched data network services based on the X.25 Protocol, Frame Relay and Internet services. In Lithuania there is an increasing demand for high bandwidth and high quality data communication services. Due to the growth of the data traffic in the national ATM backbone, the Company increased the number of its broadband services provided over fibre and IP networks and installed the new IP backbone network.

As a result of the growing coverage of the ADSL network and establishment of the new online DSL Services Selection Centre, the Company launched ADSL services based on the calculation of time and data transfer rate.

In the year 2002, the Company launched DSL VPN and MPLS VPN services and tested a new technical solution for providing voice telephony services over the DSL network. By using the network based on MPLS and IP protocols, the Company has an opportunity to prioritise traffic and provide different quality services.

## **Operating Support Systems**

At the end of 2002, AB Lietuvos Telekomas implemented a new data communication management system. The new system enables network operators to manage IP and DSL networks both from the technological point of view and from the point of view of service provision and customer care. The management system is integrated with the trouble ticketing system that allows operators to initiate trouble tickets and monitor their status in a faster mode and in the unified format.

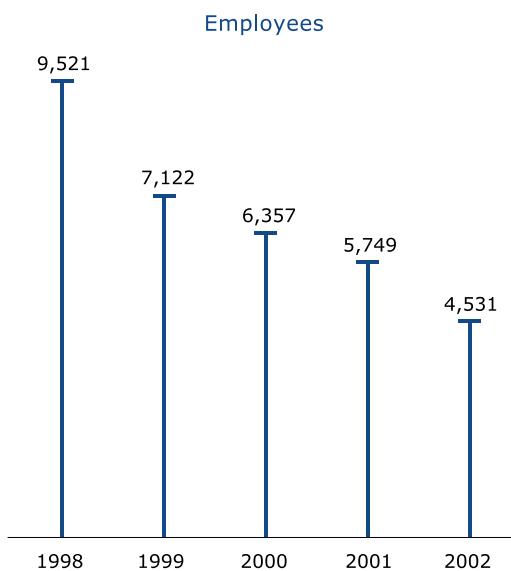
The new Network Information System made it possible to automate management of the most of network resources and to offer more rapid delivery of services. Integration of the elements of the data communication network into the Network Information System shortened the period for elimination of faults.

## Human Resources

Diverse and successful activities of the previous years in the field of human resource management and their sustainability last year enabled the Company to ensure that even with a competitive labour market the Company is and will be able to retain highly competent and educated employees as well as to attract the new ones.

The loyalty of employees to the employer is largely a result of their awareness of the Company's business strategy and goals and the extent to which they feel themselves contributing to business success. The Human Capital Measurement showed substantially improved communication between employees and their managers and the employees' readiness to contribute to business success. Performance improvement trends based on the outcome of this survey were set and discussed in coordination with the performance management system, which has been developed during the previous years and launched in 2002. It is a significant set of tools that gives employees an

opportunity to get a clearer understanding of their performance in the corporate business context, to assess an individual input of each employee to the final result, relate competence development plans to specific activities, ensure a link between staff development and business changes and improve the motivation system. One of the key steps in development of the motivation system was the implementation of the system for the sales personnel which is most compliant with business needs.

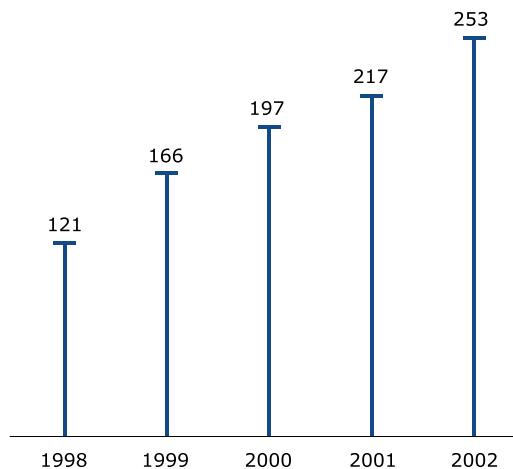


With the flattening of the organisational structure and reduction of intermediate levels, more authority and responsibility falls on lower level managers. Therefore, the Company devoted a lot of attention to management development both through the tailored management development programme and by supporting managers' Master studies in

management at Lithuanian universities. The Company contributed to development of specific management programmes by allocating its support to drawing up of Master studies curricula of the Baltic Management Institute and the International School of Management (ISM). Furthermore, quite extensive efforts were devoted to staff training in the fields of state-of the-art technologies, sales and customer care. The Competence Development Centre of the Company started providing its services to external customers.

With the view to retaining the image of an attractive employer who is able to attract, employ and keep the best young employees, during 2002 the Company implemented the third High Potential Development Programme and the second Graduate Trainee Programme.

Lines per employee





## Recent Events

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On 1 January 2003, Lietuvos Telekomas lost its exclusive right to install and provide fixed-line telephony services in Lithuania.

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.

In January, UAB Comliet and UAB Sonex Group signed a Memorandum of Understanding. UAB Comliet intends to acquire a 100 percent stake in UAB Sonex Communications, a subsidiary of UAB Sonex Group.

Lietuvos Telekomas and Tele 2 agreed to lower interconnection fees and subsequently to cut tariffs by almost 30 per cent for the calls from the fixed-line network to the mobile network of Tele2 from 1 February 2003. Tariffs for calls to the mobile network of Bité GSM were also reduced from 1 February 2003.

The Company expanded its access bandwidth to the TeliaSonera's IP network by nearly 70 per cent.

In February, Lietuvos Telekomas signed its first agreement on provision of the wholesale voice telephony services with UAB Eurocom.

Lietuvos Telekomas and Telecentrs, a Latvian telecommunications service provider, signed an agreement on the network interconnection and provision of international IP services. According to the agreement, Lietuvos Telekomas will provide IP services in Latvia.

On 1 March 2003, Lietuvos Telekomas transferred a function of customer care by telephone to its subsidiary UAB Lintel.

In March, Lietuvos Telekomas offered a Wireless Local Access Network (WLAN) service to its business customers.

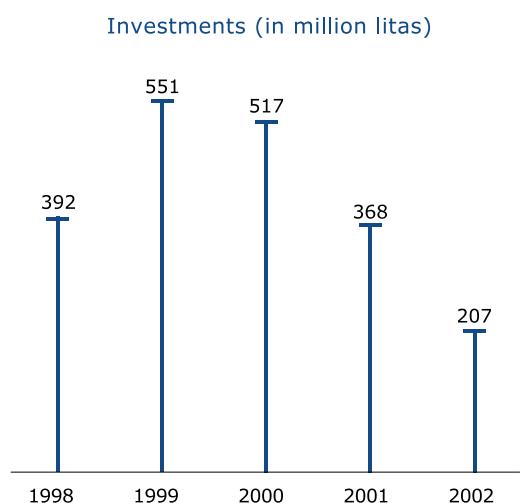
On 27 March 2003, the Board of AB Lietuvos Telekomas decided to convene the Annual General Meeting of AB Lietuvos Telekomas' Shareholders to be held on 28 April 2003. Besides, the Company's Board approved audited financial statements of Lietuvos Telekomas' Group for the year 2002 and proposed to pay a dividend of 0.06 litas per share.

On 3 April 2003, the Board of AB Lietuvos Telekomas accepted Tapio Paarma's resignation from the Company's General Manager's position as of 30 April 2003 and appointed Kjell-Ove Blom as a new General Manager of Lietuvos Telekomas from 1 May 2003.

## Financial Review

### Financial Highlights in 2002

- In 2002, the revenue went down by 8.5 per cent to LTL 968.2 million against the revenue of LTL 1,058.5 million in the year 2001.
- EBITDA was LTL 503.6 million, 10.8 per cent less compared with LTL 564.4 million a year ago, but EBITDA margin still stood above 50 per cent at the level of 52.0 per cent (53.3 per cent in 2001).
- Net profit amounted to LTL 67.0 million (the net profit margin was 6.9 per cent), while the net profit in 2001, including the effect of changes in deferred profit tax liabilities, was LTL 181.7 million (the net profit margin was 17.2 per cent). Earnings per share were 0.09 litas (0.23 litas in 2001).
- Net cash flow from operating activities was LTL 481.5 million; net cash flow after investment activities amounted to LTL 287.9 million, an almost triple increase over LTL 100.3 million in 2001. Overall, the net cash flow during 2002 increased by LTL 35.9 million.
- Investments amounted to LTL 207 million (LTL 368 million in 2001).



The consolidated financial statements of Lietuvos Telekomas' Group were prepared according to International Accounting Standards.

### Revenue

In 2002, the total consolidated revenue of Lietuvos Telekomas' Group amounted to LTL 968.2 million, a decrease of 8.5 per cent as compared with the year 2001 when the total revenue amounted to LTL 1,058.5 million. A decline in the total revenue was caused by an 18.2 percent decrease in the revenue from fixed-line telephony services and a 33.1 percent decrease in the revenue from leased line services. The increased revenue from Internet and data communication services (up by 52.8 per cent), interconnection revenue (up by 5.2 per cent) and revenue from other activities (up by 94.2 per cent) did not offset the decline in the revenue from the Company's core business.

In 2002, the revenue from fixed-line telephony services amounted to LTL 658.4 million and accounted for 68.0 per cent of the total revenue of Lietuvos Telekomas' Group (LTL 804.7 million and 76.0 per cent in 2001, respectively). An 18.2 percent fall in the revenue from fixed-line telephony services was mainly a result of the heavy price competition from the mobile sector leading to the lower usage of fixed-line telephones and decrease in the number of main lines in service. The total number of main lines in service fell by 18.7 per cent from 1,151.7 (31 Dec. 2001) to 935.9 thousand (31 Dec. 2002). The Company itself disconnected around 85 thousand lines due to the customers' debts.

In 2002, the revenue from main line subscription, installation and other charges went down only by 9.3 per cent and amounted to LTL 200.3 million. The fall in the number of main lines in service was partly offset by the increase in the

subscription fee from July. Also, from the beginning of 2002, the Company was applying a reduced subscription fee for its socially disadvantaged and retired customers.

The revenue from domestic traffic dropped by 19.5 per cent from LTL 477.7 million (31 Dec. 2001) to LTL 384.3 million (31 Dec. 2002) due to the decrease in the number of main lines as well as introduction of the calculation of call duration on the per-second basis in August 2001.

The revenue from the international outgoing traffic amounted to LTL 61.4 million, a decrease by 25.0 per cent compared with LTL 81.8 million a year ago. This was a result of continuous reduction of the tariffs for international calls (on average by 11 per cent), while the traffic in terms of minutes remained almost on the same level as in 2001.

The revenue from payphones decreased by 49.2 per cent and amounted to LTL 12.4 million due to the reduced number of payphones and lower usage.

The revenue from the network interconnection grew by 5.2 per cent to LTL 144.9 million and accounted for 15.0 per cent of the total revenue. The growth is attributed to the increased national interconnection (mobile to mobile, mobile to fixed network), outgoing and incoming international and transit traffic.

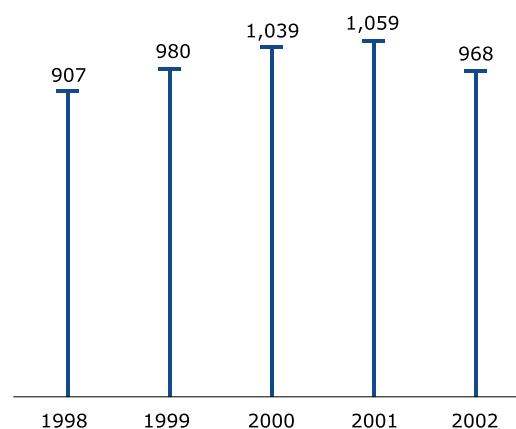
On 1 September 2002, AB Lietuvos Telekomas increased its tariffs for calls from the fixed-line network to mobile networks. The Communications Regulatory Authority (CRA) drew up a report on violations of the highest price limits for public fixed-line telephony services. The Company appealed against it to court. The court ruling was not in the Company's favour. Therefore, Lietuvos Telekomas announced that during the first quarter of 2003 it would recalculate the amounts paid by its customers for the calls from the fixed-line network to mobile networks. For this purpose, the Company

beforehand set aside an amount of LTL 4 million to cover adjustments in its customers' bills.

The share of the Internet and data communication revenue in the total revenue of Lietuvos Telekomas' Group increased from 6.4 per cent (31 Dec. 2001) to 10.7 per cent (31 Dec. 2002). In 2002, the revenue from Internet and data communication services made up LTL 103.9 million, an increase by 52.8 per cent over LTL 68.0 million in the year 2001.

The revenue from leased lines amounted to LTL 16.9 million, a decrease by 33.1 per cent, mainly due to the decline in the number of leased lines roughly by one fifth. The revenue from equipment sales and other activities grew by 94.2 per cent, especially in the fourth quarter of 2002, to LTL 44.0 million (LTL 22.7 million in 2001). This was largely a result of a significant growth of the revenue from UAB Comlet's activities.

Revenue (in million litas)





## Expenses

The total operating expenses of Lietuvos Telekomas' Group in the year 2002 went down by 6.0 per cent to LTL 464.6 million as compared with LTL 494.1 million for the year 2001. The major decrease of 20.5 per cent was observed in the employee-related expenses as the Company continued to restructure its business and maintain a high level of its performance efficiency. The total number of employees in Lietuvos Telekomas' Group was reduced from 5,749 (31 Dec. 2001) to 4,531 (31 Dec. 2002) and the number of main lines per one core business employee increased from 217 (31 Dec. 2001) to 253 (31 Dec. 2002). The interconnection expenses increased by 12.9 per cent, while other operating expenses decreased by 4.0 per cent.

## Gain on Sales of Investments

In the second quarter of 2002, Lietuvos Telekomas sold a 74 percent stake in UAB Baltijos Telekomunikacijų Konsultacinis Centras and a 40 percent stake in UAB Baltijos Informacinių Duomenų Valdymo Centras to TietoEnator Oyj and recorded a gain of LTL 7.0 million. In 2001, the gain on sales of investment of LTL 2.9 million came from the sales of Lithuanian Government Bonds.

## Net Profit

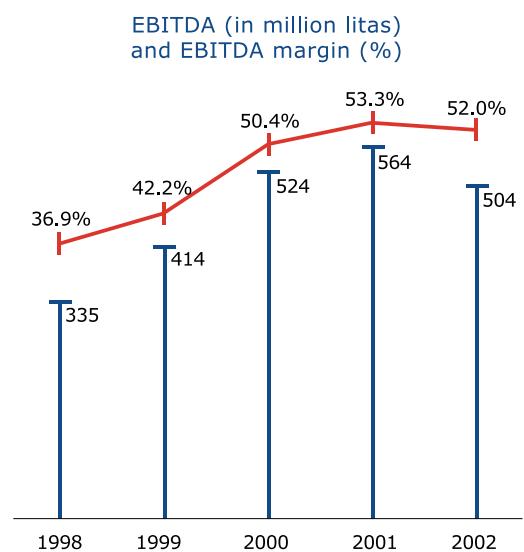
The new Law on Profit Tax became effective from 1 January 2002. Following the old Law, the Company was accumulating the deferred profit tax liabilities due to its heavy investment programme, calculating a profit tax at the basic rate of 24 per cent. The new Law abolished the exempts for investments and introduced a basic profit tax rate of 15 per cent. In the fourth quarter of 2001, following the provisions of the new Law on Profit Tax, adjustments were made to the Deferred Profit Tax

Liabilities in the Balance Sheet and reflected in the Profit (Loss) Statement for the year 2001. This resulted in the net profit of LTL 181.7 million (the net profit, excluding the changes in the deferred profit tax liabilities and impairment charge on property, was LTL 119.9 million).

The net profit for the year 2002 was LTL 67.0 million, a decrease by 63.1 per cent as compared with the net profit for the year 2001 or a decrease of 43.2 per cent as compared with the net profit for the year 2001, excluding the changes in the deferred profit tax liabilities and impairment charge on property.

## Balance Sheet and Cash Flow

The total assets and total liabilities as of 31 December 2001 were reduced by LTL 29 million to LTL 2,079.7 million due to the changed principles for recording payments to international operators. Accrued revenue from international operators was



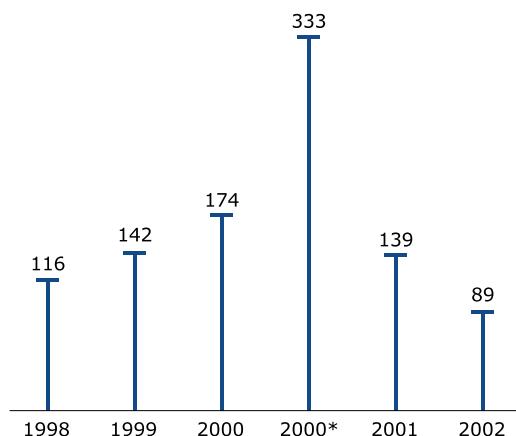
netted against accrued liabilities to international operators. During the year 2002, the total assets of Lietuvos Telekomas' Group declined by 9.8 per cent to LTL 1,876.0 million due to the amortisation of the assets that was higher than investments and a decrease in receivables and accrued revenue.

At the end of 2002, the shareholders equity amounted to LTL 1,218.5 million, a slight decrease by 1.5 per cent due to the lower net profit for the year 2002 and payment of the dividends for the year 2001 (LTL 85.5 million). The total liabilities also decreased by 22.3 per cent to LTL 655.1 million as a result of debt repayment and changes in the deferred profit tax liabilities. As of 31 December 2002, the net debt amounted to LTL 289.3 million, a drop by 44.8 per cent from the net debt of LTL 524.4 million a year ago. The net debt to equity ratio was 23.7 per cent (42.4 per cent on 31 December 2001).

Due to the re-peg of the litas from the US dollar to the euro, on 1 February 2002, Lietuvos Telekomas concluded a transaction of cross currency swap (from US dollars to euros) of the Company's loans denominated in US dollars.

During the year 2002 in spite of the decreased revenue and net profit Lietuvos Telekomas generated a strong cash flow. The net cash flow from operating activities was LTL 481.5 million (LTL 450.5 million in 2001). As a result of the strict investment discipline, the cash flow after investing activities was LTL 287.9 million, almost tripled compared with LTL 100.3 million in 2001. The net cash used in financing activities, including payment of dividends, amounted to LTL 252.1 million. Overall, during the year 2002 the Company increased its cash and cash equivalents by LTL 35.9 million.

Profit before profit tax (in million litas)



\*Including gain on sales of Bitė GSM shares.



## Investments

In 2002, Lietuvos Telekomas' Group invested LTL 207 million (LTL 368 million in 2001). More than 80 per cent of the amount was invested into the network of the Company. As a result, the Company completed digitalisation of the fixed-line network in five biggest cities of Lithuania and at the end of 2002 the digitalisation rate of the network reached 87.6 per cent. Also, Lietuvos Telekomas continued developing its ADSL access network. Now ADSL services are available to 85 per cent of Lietuvos Telekomas' customers.

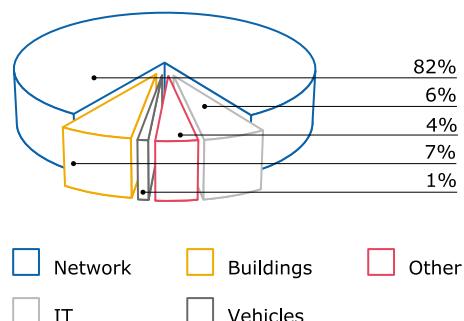
In May, Lietuvos Telekomas sold a 40 percent stake in UAB Baltijos Informacinių Duomenų Valdymo Centras (est. in Dec. 2002) and a 74 percent stake in UAB Baltijos Telekomunikacijų Konsultacinis Centras (est. in March 2003) to TietoEnator. In September, AB Lietuvos Telekomas took over control of UAB Lintkom from UAB Lintel.

UAB Comliet, the largest subsidiary of Lietuvos Telekomas, was expanding its activities beyond the borders of Lithuania. In May, it acquired 75 per cent of shares in the Latvian company, Datu Tikli SIA, in July – 55 per cent in Estonia-based Telegrupp AS. In December, it established a company, Comliet-Kaliningrad (holding 95 per cent of shares), in the Russian Federation.

## Litigation

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 made an appeal against this decision. The hearing of the case is not over and the fine imposed is not paid. Yet, funds for possible payment of the fine were set aside in the final accounts of 2001.

Investments breakdown



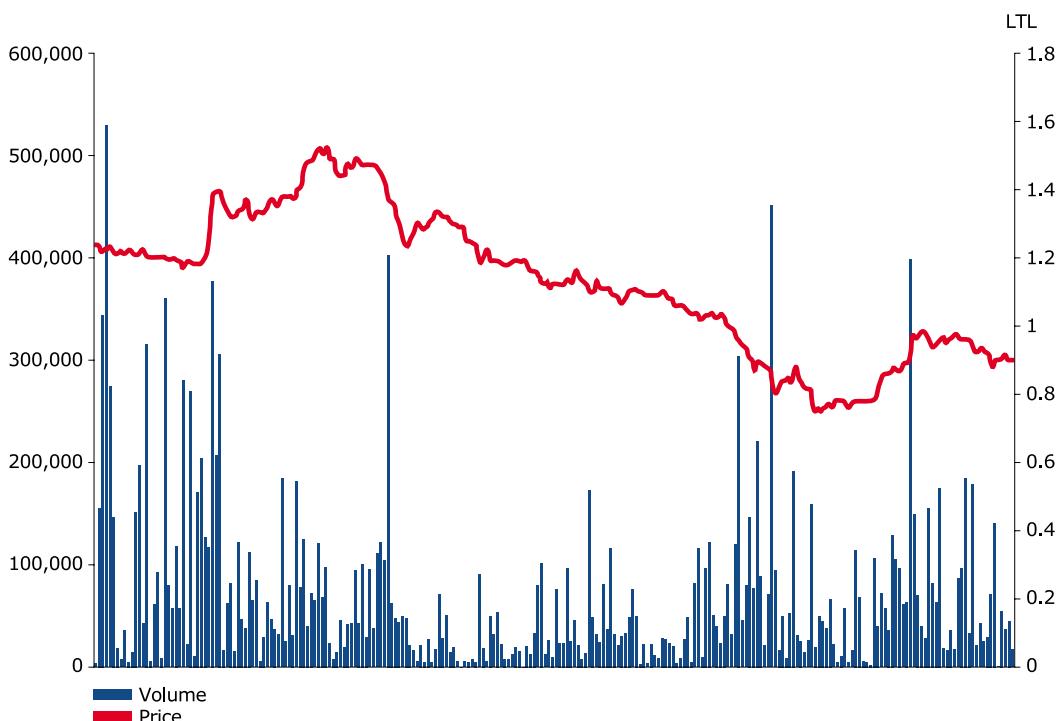
## Shares and Shareholders

The share capital of AB Lietuvos Telekomas is 814,912,760 litas. It consists of 814,912,759 ordinary registered shares and one special share (par value of each share is one litas). On 1 January 2003, the special share owned by the State of Lithuania lost the following special rights: to convene the General Meeting of Shareholders, to express an opinion on any issue discussed at the General Meeting and to veto decisions on suspension of the Company's activities, reorganisation or liquidation of the Company.

Amber Teleholding A/S (reg. in Denmark), a fully owned subsidiary of TeliaSonera AB (from 9 December 2002), owns 60 per cent of AB Lietuvos Telekomas' shares. The State of Lithuania owns 10.03 per cent of the Company's shares. UAB Lintkom, a subsidiary of AB Lietuvos Telekomas, holds treasury stocks (4.67 per cent).

In 2000, Lietuvos Telekomas launched a Global Depository Receipt (GDR) programme where one GDR represents 10 ordinary registered shares of the Company. As of 31 December 2002, 118,537,950 ordinary shares of AB Lietuvos Telekomas (14.55 per cent of all shares) were converted into 11,853,795 GDRs and held by the depository bank, Deutsche Bank Trust Company Americas.

Trading in AB Lietuvos Telekomas' shares on NSEL



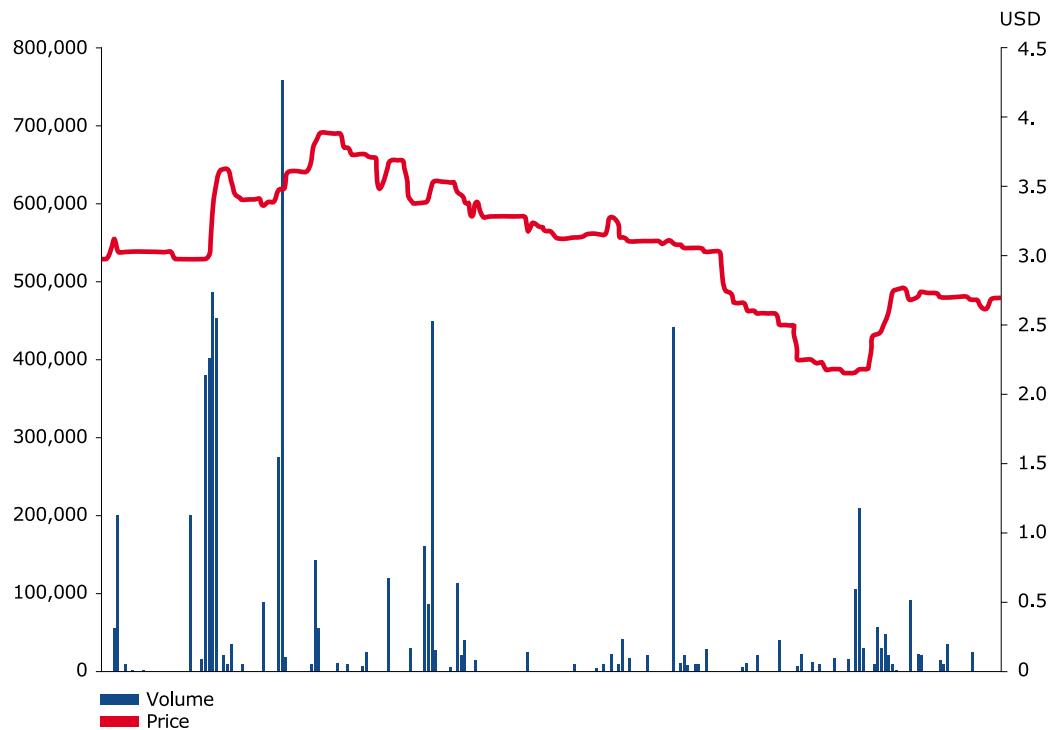
Shares of AB Lietuvos Telekomas are listed on the Official List of the National Stock Exchange of Lithuania (NSEL ticker: LTEL) and Company's GDRs are traded on the London Stock Exchange (LSE ticker: LITD).

During 2002 the turnover in Lietuvos Telekomas' shares on the central market of the National Stock Exchange of Lithuania made up a total of 17.7 million shares with a total value of LTL 20.1 million. On the last trading day of 2002, the closing share price was 0.90 litas, a drop by 28 per cent compared with 1.25 litas on 31 December 2001. During the year

2002 the lowest share price was 0.84 litas and the highest – 1.52 litas. At the end of 2002, the Company's market capitalisation was LTL 733.4 million (LTL 1,018.6 million in 2001).

The turnover of Company's GDRs on the London Stock Exchange amounted to 6.2 million GDRs with a total value of GBP 13.7 million. On the last trading day of 2002, the closing GDR price was 2.7 US dollars, while a year ago it was 2.975 US dollars. The GDR's low during 2002 was 2.15 US dollars and the high was 3.875 US dollars.

Trading in AB Lietuvos Telekomas' GDRs on LSE



## **Auditor's Report and Financial Statements**

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**Auditor's Report**

**Financial Statements**

**General Information**

**Accounting Policies**

**Financial Risk Management**

**Notes to the Financial Statements**

## Auditor's Report

*PRICEWATERHOUSECOOPERS* 

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Facsimile +370 (5) 239 23 01  
E-mail vilnius@lt.pwcglobal.com  
www.pwcglobal.com/lt

To the shareholders of AB Lietuvos Telekomas

1. We have audited the financial statements of AB Lietuvos Telekomas ("the Company") and its consolidated subsidiaries ("the Group") for the year ended 31 December 2002 prepared in accordance with International Accounting Standards, from which the accompanying shortened financial statements were derived, in accordance with International Standards on Auditing. We have issued an unqualified auditor's report dated 13 March 2003 on the financial statements from which the shortened financial statements were derived.
2. In our opinion, the accompanying shortened financial statements are consistent, in all material respects, with the financial statements from which they were derived.
3. The full set of audited financial statements prepared in accordance with International Accounting Standards for the year ended 31 December 2002, from which the accompanying shortened financial statements were derived, and our opinion thereon are available at AB Lietuvos Telekomas.

*PricewaterhouseCoopers UAB*

PricewaterhouseCoopers UAB

Vilnius, 26 March 2003

# Income Statement

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

	Notes	Year ended 31 December			
		GROUP		COMPANY	
		2002	2001	2002	2001
Revenues	1	968,212	1,058,466	962,596	1,061,613
Expenses	2	(464,602)	(494,094)	(498,261)	(510,765)
Earnings before interest, taxes, depreciation and amortisation		503,610	564,372	464,335	550,848
Depreciation, amortisation and impairment charge	7	(381,668)	(381,567)	(364,476)	(367,557)
Gain on sale of investments	3	7,016	2,857	7,016	-
Operating profit		128,958	185,662	106,875	183,291
Finance costs, net	4	(39,855)	(46,999)	(40,123)	(47,047)
Share of result of subsidiaries before tax	9	-	-	21,467	2,423
Share of result of associates before tax	9,10	337	-	337	-
Profit before tax		89,440	138,663	88,556	138,667
Profit tax	5	(21,641)	43,048	(21,524)	43,048
Group profit before minority interest		67,799	181,711	67,032	181,715
Minority interest	20	(767)	4	-	-
Net profit		67,032	181,715	67,032	181,715
Earnings per share (LTL)	6	0.09	0.23	0.09	0.23

The accounting policies and the notes on pages 40 to 58 form an integral part of these financial statements.

The financial statements on pages 35 to 58 were approved by the General Director and the Finance Director on 13 March 2003.



Tapio Paarma  
General Director



Jan-Erik Elserius  
Finance Director

## Balance Sheet

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

		As at 31 December			
		GROUP		COMPANY	
	Notes	2002	2001	2002	2001
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	7	1,423,286	1,542,261	1,256,659	1,397,237
Intangible assets	8	202,113	248,210	183,766	224,945
Prepayments for non-current assets		142	31	14	31
Investments in associates and subsidiaries	9,10	879	203	237,293	221,206
Other non-current assets		68	49	690	49
		1,626,488	1,790,754	1,678,422	1,843,468
<b>Current assets</b>					
Inventories		4,111	1,757	2,197	1,627
Assets held for sale	11	10,192	29,498	10,192	29,498
Receivables, prepayments and accrued revenue	12	150,193	209,804	146,007	294,227
Trading investments		1,287	-	-	-
Cash and cash equivalents	13	83,759	47,902	58,079	42,861
		249,542	288,961	216,475	368,213
<b>Total assets</b>		<u>1,876,030</u>	<u>2,079,715</u>	<u>1,894,897</u>	<u>2,211,681</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	14	814,913	814,913	814,913	814,913
Treasury shares	14	(120,000)	(120,000)	(120,000)	-
Legal reserve	15	81,499	81,499	81,499	81,499
Translation differences		(30)	-	(30)	-
Retained earnings		442,159	460,577	442,159	456,477
		1,218,541	1,236,989	1,218,541	1,352,889
Minority interest	20	2,354	-	-	-
<b>Non-current liabilities</b>					
Borrowings	17	194,230	445,177	194,108	445,177
Deferred tax liabilities	18	113,844	136,191	93,611	114,916
Grants		14,492	16,977	14,492	16,977
		322,566	598,345	302,211	577,070
<b>Current liabilities</b>					
Trade, other payables and accrued liabilities	16	153,770	117,230	151,866	148,571
Borrowings	17	178,799	127,151	222,279	133,151
		332,569	244,381	374,145	281,722
<b>Total equity and liabilities</b>		<u>1,876,030</u>	<u>2,079,715</u>	<u>1,894,897</u>	<u>2,211,681</u>

The accounting policies and the notes on pages 40 to 58 form an integral part of these financial statements.

## Statement of Changes in Equity

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

GROUP	Notes	Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Total
<b>Balance at 1 January 2001</b>		814,913	(120,000)	58,881	-	419,614	1,173,408
Transfer to reserves	15	-	-	22,618	-	(22,618)	-
Dividends paid for 2000		-	-	-	-	(118,134)	(118,134)
Net profit		-	-	-	-	181,715	181,715
<b>Balance at 31 December 2001</b>		814,913	(120,000)	81,499	-	460,577	1,236,989
<b>Balance at 1 January 2002</b>		814,913	(120,000)	81,499	-	460,577	1,236,989
Dividends paid for 2001	14	-	-	-	-	(85,450)	(85,450)
Net profit		-	-	-	-	67,032	67,032
Currency translation differences		-	-	-	(30)	-	(30)
<b>Balance at 31 December 2002</b>		814,913	(120,000)	81,499	(30)	442,159	1,218,541
COMPANY	Notes	Share capital	Treasury shares	Legal reserve	Translation differences	Retained earnings	Total
<b>Balance at 1 January 2001</b>		814,913	-	58,881	-	419,614	1,293,408
Transfer to reserves	15	-	-	22,618	-	(22,618)	-
Dividends paid for 2000		-	-	-	-	(122,234)	(122,234)
Net profit		-	-	-	-	181,715	181,715
<b>Balance at 31 December 2001</b>		814,913	-	81,499	-	456,477	1,352,889
<b>Balance at 1 January 2002</b>		814,913	-	81,499	-	456,477	1,352,889
Treasury shares	14	-	(120,000)	-	-	-	(120,000)
Treasury shares dividends	14	-	-	-	-	4,100	4,100
Dividends paid for 2001	14	-	-	-	-	(85,450)	(85,450)
Net profit		-	-	-	-	67,032	67,032
Currency translation differences		-	-	-	(30)	-	(30)
<b>Balance at 31 December 2002</b>		814,913	(120,000)	81,499	(30)	442,159	1,218,541

The accounting policies and the notes on pages 40 to 58 form an integral part of these financial statements.

# Cash Flow Statement

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

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2002	2001	2002	2001
<b>Operating activities</b>					
Net profit for the period		67,032	181,715	67,032	181,715
Profit tax	5	21,641	(43,048)	21,524	(43,048)
Minority interest	20	767	-	-	-
Depreciation, amortisation and impairment charge	7	381,668	381,567	364,476	367,557
Result of equity method accounting for investment in subsidiaries	9	-	-	(21,467)	(2,423)
Share of results of associates before tax	9,10	(337)	-	(337)	-
Write-off of fixed assets and provision for slow-mowing inventory		1,035	12,126	988	12,121
Provision and write off of doubtful accounts receivable	2	14,016	16,356	13,782	16,266
Elimination of gain on sale of investments		(7,016)	(2,857)	(7,016)	-
Elimination of gain on sale of property, plant and equipment and intangible assets		(1,860)	(1,559)	(1,849)	(1,364)
Currency exchange borrowings, net		(394)	(1,841)	(394)	(1,841)
Other non cash transactions		124	-	-	-
Interest income	4	(567)	(3,578)	(723)	(3,578)
Interest expenses	4	34,299	46,765	34,334	46,765
Changes in working capital (excluding the effects of acquisition of subsidiaries):					
Inventories and asset held for sale	425	9,978	1,294	9,995	
Trade and other accounts receivable	46,172	(59,109)	53,772	(72,258)	
Trade and other accounts payable and deferred revenue	(41,944)	(47,970)	(69,490)	(23,121)	
Cash generated from operations	515,061	488,545	455,926	486,786	
Interest paid	(33,474)	(37,993)	(33,474)	(37,993)	
Tax paid	(127)	-	-	-	
Net cash from operating activities	481,460	450,552	422,452	448,793	

## Cash Flow Statement (continued)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2002	2001	2002	2001
<b>Investing activities</b>					
Purchase of property, plant and equipment (PPE) and intangible assets		(204,212)	(367,333)	(187,726)	(349,152)
Proceeds from disposal of PPE and intangible assets		6,840	10,859	24,464	7,622
Acquisition of subsidiaries (net of cash acquired)		(3,736)	-	-	-
Disposal of investments		7,000	2,857	8,600	-
Investments in subsidiaries and acquisition of associate's shares	9,10	-	(193)	(2,690)	(660)
Loans granted to subsidiaries		-	-	(35,957)	(7,337)
Interest received		567	3,578	717	3,578
Net cash from investing activities		(193,541)	(350,232)	(192,592)	(345,949)
<b>Financing activities</b>					
Proceeds from issue of bonds		-	150,000	-	150,000
Proceeds from borrowings		98,742	39,842	136,255	39,842
Repayment of borrowings		(265,354)	(167,878)	(265,447)	(167,878)
Dividends paid		(85,450)	(118,134)	(85,450)	(122,234)
Net cash from financing activities		(252,062)	(96,170)	(214,642)	(100,270)
<b>Increase in cash and cash equivalents</b>		<b>35,857</b>	<b>4,150</b>	<b>15,218</b>	<b>2,574</b>
<b>Movement in cash and cash equivalents</b>					
At beginning of year		47,902	43,752	42,861	40,287
Increase in cash and cash equivalents		35,857	4,150	15,218	2,574
At end of year	13	83,759	47,902	58,079	42,861

The accounting policies and the notes on pages 40 to 58 form an integral part of these financial statements.

## General Information

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

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

Savanorių Ave. 28  
LT-2600 Vilnius  
Lithuania

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

The shareholders' structure of the Company as at 31 December 2002 is as follows:

	<b>Number of shares</b>	<b>%</b>
Amber Teleholding A/S	488,947,656	60.00
Lithuanian State Property Fund	81,771,702	10.03
UAB Lintkom (treasury shares)	38,095,242	4.67
Other foreign and domestic shareholders	<u>206,098,160</u>	<u>25.30</u>
	814,912,760	100.00

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

The consolidated Group (hereinafter "the Group") consists of the Company and its seven subsidiaries and three subsubsidiaries. The Company has also invested into two associated entities.

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

<b>Subsidiary/ associate</b>	<b>Country of incorporation</b>	<b>Ownership interest in %</b>			<b>Profile</b>
		<b>31 December 2002</b>	<b>31 December 2001</b>		
UAB Lietuvos Telekomo Verslo Sprendimai	Lithuania	100%	100%		Acts on behalf of the Company in selling internet and other data communication services and integrated telecommunication business solutions to major business customers of the Company.
UAB Lintel	Lithuania	100%	100%		Provider of 118 call centre and telemarketing services. UAB Lintel has also taken over part of the Company's property management.
UAB Lintkom	Lithuania	100%	-		In September 2002 the Company acquired shares of UAB Lintkom from UAB Lintel. UAB Lintkom was established for the purpose of acquiring the Company's shares in the public offering.

<b>Subsidiary/ associate</b>	<b>Country of incorporation</b>	<b>Ownership interest in %</b>			<b>Profile</b>
		<b>31 December 2002</b>	<b>31 December 2001</b>		
UAB Comliet	Lithuania	100%	100%		Since 1 January 2001 the core activity of this subsidiary has been design and construction of telecommunication objects. In May 2002 UAB Comliet acquired a 75% stake in the Latvian company SIA Datu Tikli. In July 2002 UAB Comliet acquired a 55% stake in the Estonian company AS Telegrupp. Both acquired entities are involved in construction and maintenance of low voltage networks. In December 2002 UAB Comliet established a subsidiary OOO Comliet Kaliningrad in Kaliningrad district (Russia). UAB Comliet owns a 95 % stake in this subsidiary.
UAB Voicecom	Lithuania	60%	60%		The subsidiary operates under AB Lietuvos Telekomas licence in providing internet telephony and other IP based services.
UAB Baltijos Informacinių Duomenų Valdymo Centras	Lithuania	60%	100%		The Company's Information Services Department was reorganised into a subsidiary. The subsidiary provides information technologies services to the Group and third parties. In May 2002, a minority stake of the subsidiary's shares was sold to TietoEnator Oyj.
UAB Verslo Portalas	Lithuania	30%	30%		This associated entity is engaged in the development of the business-to-business portal verslas.com.
UAB TietoEnator Consulting	Lithuania	26%	-		The entity was established in 2002. A majority stake of the company's shares was sold to TietoEnator Oyj. The associate provides professional information technology services to the Group and third parties.
VŠĮ Lietuvos Telekomo Sporto Klubas	Lithuania	100%	100%		Provides sports club services and supports a women's basketball team.

# Accounting Policies

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

The principal accounting policies adopted in the preparation of these financial statements are set out below.

## A Basis of preparation

The financial statements are prepared in accordance with International Accounting Standards. The financial statements are prepared under the historical cost convention, as modified by the indexation part of property, plant and equipment and financial assets held-for-trading.

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

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement. The financial effects of adopting this standard were reported in the previous year's consolidated financial statements.

## B Group accounting

### (1) Subsidiaries

Subsidiaries, which are those companies in which the Group, directly or indirectly, has an interest of more than one half voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note E for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

### (2) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Goodwill arising on acquisition of associates is included under intangible assets in the Group accounts. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

## **C Foreign currency translation**

### **(1) Measurement currency**

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the measurement currency of the Company.

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

### **(2) Transactions and balances**

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

### **(3) Group companies**

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

## **D Property, plant and equipment**

Property, plant and equipment acquired on or after 1 January 1996 is stated at historical cost less accumulated depreciation. Property, plant and equipment acquired before 1 January 1996 is stated at historical cost less accumulated depreciation as adjusted for indexation, using indexation rates set by the Lithuanian Government for the different asset categories (see Note 7 for details on the indexation effect).

Depreciation is calculated on the straight-line method to write off the cost of assets to their residual values over their estimated useful life as follows:

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

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

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

**D    Property, plant and equipment (continued)**

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

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Assets held for sale as disclosed in Note 11 are stated at their net selling price.

**E    Intangible assets**(1) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries/associates occurring is included in intangible assets in the Group accounts. Goodwill is amortised using the straight-line method over its estimated useful life, which is 5 years.

(2) *Other intangible assets*

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

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

**F    Investments**

At 1 January 2001 the Group adopted IAS 39 and classified its investments into following categories: trading, held-to-maturity and available-for-sale. During the current period the Group did not hold any investments in held-to-maturity and available-for-sale categories.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets.

Management determines the appropriate classification of its investments at the time of the purchase and reevaluates such designation on a regular basis.

All purchase and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise.

**G    Investments in subsidiaries (financial statements of the Company)**

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted for using equity method. Equity accounting involves recognising in the income statement the

Company's share of the subsidiaries' results for the period. The Company's share of post-acquisition movements in the subsidiaries' reserves is recognised in reserves. If under equity method, the Company's share of losses of a subsidiary equals or exceeds the acquisition costs of an investment, the investment in the balance sheet is reported at nil value. Additional losses are provided for to the extent that the Company has incurred obligations or made payments on behalf of the subsidiary to satisfy its obligations. The provision for additional losses is accounted for within share of net result before tax of a subsidiary in the income statement.

**H Investments in associates (financial statements of the Company)**

Investments in associates that are included in the separate financial statements of the Company are accounted for using the equity method.

**I Impairment of long lived assets**

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

**J Accounting for leases - where Group is the lessee**

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

**K Inventories**

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

**L Receivables**

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

**M Cash and cash equivalents**

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

**N Treasury shares**

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

**O Borrowings**

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

**P Deferred profit tax**

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

**Q Grants relating to purchase of property, plant and equipment**

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

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

**R Provisions**

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

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

**S Financial instruments**

Financial instruments are stated at their market value as at the balance sheet date.

**T Revenue recognition**

Revenue is recognised as earned. Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly

related to the sales. Other revenues are recognised when products are delivered or services are rendered to customers. At the end of each accounting period a revenue accrual is made to record amounts not yet billed.

Revenue from interconnection is accrued monthly based on the historical actual traffic of incoming calls from different carriers.

The majority of residential sector subscribers are invoiced every second month. The uninvited part of revenue is accrued for based on the data from the billing system.

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

Revenue from sales of telecommunication equipment and accessories in the specialised shops is recognised at the time of sale.

**U Dividends**

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

**V Earnings per share**

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

**W Segment information**

The Group uses its fixed line network to generate different types of revenue (see Note 1). The Group is mainly operating in one business segment (fixed line services) and one geographical segment and therefore no segment information is disclosed.

**X Comparatives**

Where necessary, the comparative figures have been reclassified to conform with changes in presentation of the current year financial statements.

# **Financial Risk Management**

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

## *Financial risk factors*

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to limit certain exposures.

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

### Foreign exchange risk

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

### Credit risk

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

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

### Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's policy is to maintain diversified debt portfolio. Split between fixed and floating interest rate depends on the actual situation in the market.

# Notes to the Financial Statements

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

## 1 Revenues

	GROUP		COMPANY	
	2002	2001	2002	2001
<b>Fixed telephony services:</b>				
Subscription, installation and other charges	200,302	220,765	200,454	220,875
Domestic traffic	384,324	477,712	383,920	477,423
International traffic	61,403	81,834	61,423	81,845
Payphones	12,396	24,424	12,396	24,424
	658,425	804,735	658,193	804,567
Interconnection revenue	144,930	137,780	144,770	137,930
Internet and other data communication revenue	103,910	67,996	105,509	66,136
Leased lines revenue	16,912	25,285	17,039	26,367
Other revenues	44,035	22,670	37,085	26,613
	309,787	253,731	304,403	257,046
	968,212	1,058,466	962,596	1,061,613

## 2 Expenses

	GROUP		COMPANY	
	2002	2001	2002	2001
<b>Employee related expenses</b>				
Employee related expenses	152,210	191,504	91,729	178,706
Interconnection and line rent expenses	145,774	129,097	145,627	129,003
Repairs and maintenance expenses	31,114	33,353	22,628	27,580
Provision for doubtful accounts receivable	14,016	16,356	13,782	16,266
Other expenses	121,488	123,784	224,495	159,210
	464,602	494,094	498,261	510,765

The average number of staff employed by the Group during the current year totalled 4,751 (2001: 5,920). The average number of staff employed by the Company during the current year totalled 2,310 (2001: 5,386).

## 3 Gain on sale of investments

In May 2002, the Group sold a 74% stake in UAB Baltijos Telekomunikacijų Konsultacinis Centras (now UAB TietoEnator Consulting) to TietoEnator Oyj. The Group also sold a 40% stake in UAB Baltijos Informacinių Duomenų Valdymo Centras to TietoEnator Oyj.

**4 Finance costs-net**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Interest income	567	3,578	723	3,578
Other financial income	260	223	472	197
	827	3,801	1,195	3,775
Net foreign exchange gain (loss)	(5,818)	85	(6,423)	62
Interest expense	(34,299)	(46,765)	(34,334)	(46,765)
Other financial expenses	(565)	(4,120)	(561)	(4,119)
	(39,855)	(46,999)	(40,123)	(47,047)

**5 Profit tax**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Current tax charge	43,921	204	39,570	-
Deferred tax charge	(22,347)	(43,252)	(21,305)	(30,806)
	21,574	(43,048)	18,265	(30,806)
Share of tax of subsidiaries	-	-	3,192	(12,242)
Share of tax of associates	67	-	67	-
	21,641	(43,048)	21,524	(43,048)

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

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Profit before tax	89,440	138,663	88,556	138,667
Tax calculated at a tax rate of 15% (2001: 24%)	13,416	33,279	13,283	33,280
Share of tax of subsidiaries	-	-	(3,192)	(582)
Share of tax of associates	(67)	-	(67)	-
Income not subject for tax	(41)	-	-	-
Expenses not deductible for tax purposes	8,990	5,931	8,097	5,446
Recognition /utilisation of previously unrecognised tax losses	(828)	(144)	-	-
Correction of tax loss brought forward	104	(398)	144	-
Effect of changes in tax rate	-	(81,716)	-	(68,950)
Tax charge before share of tax of subsidiaries and associates	21,574	(43,048)	18,265	(30,806)

According to the newly adopted Profit Tax Law, the profit tax rate was reduced from 24% to 15% with an effect from 1 January 2002. No tax relief is applied for reinvested profits.

## 6 Earnings per share

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

Weighted average number of shares in issue (thousands) for year ended 31 December 2002: 814,913 (ordinary shares) – 38,095 (treasury shares) = 776,818. Weighted average number of shares for the year ended 31 December 2001 was – 776,818.

	GROUP	
	2002	2001
Net profit attributable to shareholders	67,032	181,715
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Basic earnings per share (LTL)	0.09	0.23

## 7 Property, plant and equipment

GROUP	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
<b>Year ended 31 December 2002</b>					
Opening net book amount	202,541	1,221,333	68,148	50,239	1,542,261
Exchange rate differences	-	-	(7)	-	(7)
Acquisition of subsidiaries	-	96	330	-	426
Additions	2	709	3,451	175,929	180,091
Reclassifications	(61)	7,507	(7,446)	-	-
Disposals and write-offs	(1,791)	(1,778)	(562)	-	(4,131)
Transfers from assets held for sale (Note 11)	16,738	564	140	-	17,442
Transfers from construction in progress	13,893	172,399	4,950	(191,242)	-
Impairment charge	(1,100)	(34)	-	-	(1,134)
Depreciation charge	(10,307)	(281,640)	(19,715)	-	(311,662)
Closing net book amount	219,915	1,119,156	49,289	34,926	1,423,286
<b>At 31 December 2002</b>					
Cost or indexed cost	279,984	2,269,604	108,328	34,926	2,692,842
Accumulated depreciation and impairment	(60,069)	(1,150,448)	(59,039)	-	(1,269,556)
Net book amount	219,915	1,119,156	49,289	34,926	1,423,286
<b>At 31 December 2001</b>					
Cost or indexed cost	242,390	2,253,648	145,230	50,239	2,691,507
Accumulated depreciation	(39,849)	(1,032,315)	(77,082)	-	(1,149,246)
Net book amount	202,541	1,221,333	68,148	50,239	1,542,261

**7 Property, plant and equipment (continued)**

COMPANY	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
<b>Year ended 31 December 2002</b>					
Opening net book amount	89,782	1,204,031	53,185	50,239	1,397,237
Additions	2	710	9	163,201	163,922
Disposals and write-offs	(1,785)	(3,655)	(17,364)	-	(22,804)
Reclassifications	(62)	39	23	-	-
Transfers from assets held for sale (Note 11)	16,738	564	140	-	17,442
Transfers from construction in progress	6,425	169,893	2,235	(178,553)	-
Impairment charge	(1,100)	-	-	-	(1,100)
Depreciation charge	(7,350)	(274,959)	(15,729)	-	(298,038)
Closing net book amount	102,650	1,096,623	22,499	34,887	1,256,659
<b>At 31 December 2002</b>					
Cost or indexed cost	155,851	2,231,800	73,530	34,887	2,496,068
Accumulated depreciation and impairment	(53,201)	(1,135,177)	(51,031)	-	(1,239,409)
Net book amount	102,650	1,096,623	22,499	34,887	1,256,659
<b>At 31 December 2001</b>					
Cost or indexed cost	125,800	2,226,637	126,346	50,239	2,529,022
Accumulated depreciation	(36,018)	(1,022,606)	(73,161)	-	(1,131,785)
Net book amount	89,782	1,204,031	53,185	50,239	1,397,237

Depreciation, amortisation and impairment charge in income statement consist of the following items:

	GROUP		COMPANY	
	2002	2001	2002	2001
Depreciation of property, plant and equipment	311,662	300,504	298,038	290,291
Amortisation of intangible assets (Note 8)	72,597	64,147	64,184	56,760
Impairment of property, plant and equipment	1,134	106	1,100	-
Impairment of assets held for sale	-	19,855	-	19,855
Goodwill depreciation (Note 9)	-	-	3,787	3,696
Amortisation of grants received	(2,633)	(3,045)	(2,633)	(3,045)
Other movements	(1,092)	-	-	-
	381,668	381,567	364,476	367,557

## **7 Property, plant and equipment (continued)**

As at 31 December 2002, the Company performed its annual impairment test with respect to its property, plant and equipment in accordance with the International Accounting Standard No. 36 Impairment of Assets. In addition, in 2002 the Company performed an analysis in order to determine the appropriateness of the carrying values of property, plant and equipment items, which had have been indexed as a result of indexations performed in 1994 and 1995. Based on the results of the above-mentioned analysis, the carrying amounts of indexed property, plant and equipment items as at 31 December 2002 are not materially different from these that would arise if the revaluation had been carried out in accordance with the International Accounting Standard No. 16 Property Plant and Equipment.

As at 31 December 2002 property, plant and equipment include items (ducts and other real estate items) that are not properly registered with the Cadastre and Register of Land and Other Immovable Property. Such registration is formally required to confirm the legal ownership of such property. The carrying value of these assets amounted to LTL 125,603 thousand as at 31 December 2002. The Company uses these assets in its operations and pays real estate tax on these assets.

## **8 Intangible assets**

GROUP		Licences	Software	Goodwill	Other Intangible assets	Assets in the course of construction	Total
<b>Year ended 31 December 2002</b>							
Opening net book amount		1,502	228,062	8,771	6,164	3,711	248,210
Additions		-	375	-	16	23,730	24,121
Acquisition of subsidiaries		-	11	3,153	-	-	3,164
Disposals and write-offs		-	(780)	-	(5)	-	(785)
Reclassifications		-	18,622	-	5,623	(24,245)	-
Amortisation charge		(258)	(65,990)	(4,116)	(2,233)		(72,597)
Closing net book amount		1,244	180,300	7,808	9,565	3,196	202,113
<b>At 31 December 2002</b>							
Cost		2,575	334,923	22,087	13,948	3,196	376,729
Accumulated amortisation		(1,331)	(154,623)	(14,279)	(4,383)	-	(174,616)
Net book amount		1,244	180,300	7,808	9,565	3,196	202,113
<b>At 31 December 2001</b>							
Cost		2,575	324,116	18,934	8,947	3,711	358,283
Accumulated amortisation		(1,073)	(96,054)	(10,163)	(2,783)	-	(110,073)
Net book amount		1,502	228,062	8,771	6,164	3,711	248,210

The Company holds a licence for provision of fixed, long distance and international telecommunication services, also including data transmission in Lithuania. The licence also provides the right to construct and develop the network for provision of the above-mentioned services. The licence was issued on 31 October 1997, amended in June 1998 and is valid until 31 October 2007. The cost of the licence amounted to LTL 1,691 thousand and accumulated amortisation to LTL 874 thousand as at 31 December 2002.

## 8 Intangible assets (continued)

The subsidiary UAB Comliet holds the licence granted on 31 October 1997 for rights to operate NMT 450 mobile cellular network. The licence is valid until 31 October 2007. The Group uses NMT 450 network to provide wireless local loop (WLL) to the customers in remote areas and for inter-group communication needs. The cost of the licence amounted to LTL 884 thousand and accumulated amortisation amounted to LTL 457 thousand as at 31 December 2002.

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
<b>Year ended 31 December 2002</b>					
Opening net book amount	986	214,459	5,789	3,711	224,945
Additions	-	73	-	23,731	23,804
Transfers from assets in the course of construction	-	18,622	5,623	(24,245)	-
Disposals and write-offs	-	(794)	(5)	-	(799)
Amortisation charge	(169)	(62,117)	(1,898)	-	(64,184)
Closing net book amount	817	170,243	9,509	3,197	183,766
<b>At 31 December 2002</b>					
Cost	1,691	316,461	13,840	3,197	335,189
Accumulated amortisation	(874)	(146,218)	(4,331)	-	(151,423)
Net book amount	817	170,243	9,509	3,197	183,766
<b>At 31 December 2001</b>					
Cost	1,691	305,824	8,241	3,711	319,467
Accumulated amortisation	(705)	(91,365)	(2,452)	-	(94,522)
Net book amount	986	214,459	5,789	3,711	224,945

## 9 Investments in subsidiaries and associates

	COMPANY	
	2002	2001
At the beginning of year	221,206	209,558
Establishment, acquisition of subsidiaries and associate	2,690	660
Partial disposal of subsidiaries	(1,584)	-
Goodwill amortisation	(3,787)	(3,696)
Share of results of subsidiaries before tax	21,467	2,423
Share of results of associates before tax	337	-
Share of tax of subsidiaries and associates (Note 5)	(3,259)	12,242
Other movements	223	19
At end of year	237,293	221,206

**10 Investments in associates**

	<b>GROUP</b>	
	<b>2002</b>	<b>2001</b>
At the beginning of year	203	10
Establishment, acquisition of associates	406	193
Share of results of associates before tax	337	-
Share of tax (Note 5)	(67)	-
At end of year	879	203

**11 Assets held for sale**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
At the beginning of year	29,498	-	29,498	-
Assets disposed	(1,864)	-	(1,864)	-
Reclassification from (to) property, plant and equipment (Note 7)	(17,442)	29,498	(17,442)	29,498
At end of year	10,192	29,498	10,192	29,498

**12 Receivables, prepayments and accrued revenue**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Trade receivables from business and residents	134,214	140,694	126,316	146,857
Provision for doubtful receivables	(35,545)	(23,794)	(35,240)	(23,364)
Loans to subsidiaries	-	-	2,540	83,420
Accrued revenues (residential sector and interconnection)	40,987	74,682	40,987	74,682
Prepaid expenses and other receivables	10,537	18,222	11,404	12,632
	150,193	209,804	146,007	294,227

The Group's historical experience in collection of accounts receivable falls within the recorded provisions.

In 2002 the Company and the Group accounted for accrued revenues and accrued liabilities from interconnection with domestic and foreign operators on a net basis. To comply with current year presentation comparative figures of accrued revenues in the Group and Company were netted against accrued liabilities. This resulted in a decrease of accrued revenues and accrued liabilities in the Group and the Company comparative figures of some LTL 29,000 thousand.

### **13 Cash and cash equivalents**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Cash in hand and at bank	81,198	45,531	55,518	40,490
Restricted cash	2,561	2,371	2,561	2,371
	<hr/>	<hr/>	<hr/>	<hr/>
	83,759	47,902	58,079	42,861

Restricted cash includes short-term deposits in AB Vilniaus Bankas and AB Hansa-LTB amounting to LTL 2,561 thousand (2001: LTL 2,371 thousand) relating to loans granted by the above-mentioned banks to the Group's employees to finance purchase or reconstruction of private apartments.

### **14 Share capital and treasury shares**

Authorised share capital comprises 814,912,759 ordinary shares and 1 special share of LTL 1 par value each. All shares are fully paid. There were no changes in share capital during 2001 and 2002.

Dividends per share paid in 2002 and relating to 2001 amounted to LTL 0.11. There were no dividends proposed or declared for 2002 as at the date of approval of these financial statements.

According to the agreement signed by the State Property Fund, the Company and Amber Teleholding A/S on 7 July 1998, the General Meeting of Shareholders assigned the status of a special share to one of the shares owned by the State Property Fund on 26 April 2000. The special rights attached to this share outlined in the Company's By-laws expired on 1 January 2003.

In September 2002 AB Lietuvos Telekomas acquired from its subsidiary UAB Lintel all the shares of UAB Lintkom. No gain or loss on sale of these share were recognised in the UAB Lintel financial statements. As a result of this transaction the Company owns 100% of shares of UAB Lintkom and UAB Lintkom owns 4.67% shares of the Company. As UAB Lintkom is a dormant subsidiary, the shares of AB Lietuvos Telekomas owned by UAB Lintkom are considered to be treasury shares and directly deducted from the shareholders' equity at their purchase cost of LTL 120,000 thousand in the Company's balance sheet as at 31 December 2002.

### **15 Legal reserve**

Legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5% of distributable profits calculated in accordance with Lithuanian regulatory legislation on accounting are compulsory until the reserve reaches 10% of the share capital.

### **16 Trade, other payables and accrued liabilities**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Trade payables	28,711	59,782	42,792	93,265
Taxes, salaries and social security payable	62,107	16,279	49,495	14,180
Accrued liabilities and provisions	27,361	36,551	24,548	36,595
Derivative instruments (Note 19)	32,890	-	32,890	-
Other payables	2,701	4,618	2,141	4,531
	<hr/>	<hr/>	<hr/>	<hr/>
	153,770	117,230	151,866	148,571

The comparative figure of accrued liabilities and provisions is LTL 29,000 less than previously reported due to the effect of netting against accrued revenue. For further details see Note 12.

In 2001 the Company approved and announced the plan for restructuring of Customer Service, Network, Services Implementation and Maintenance Departments. As at 31 December 2001 the Company formed an accrual relating to redundancy costs totalling LTL 10,300 thousand in respect of the above-mentioned restructuring. The provision was fully utilised during 2002.

## 17 Borrowings

	GROUP		COMPANY	
	2002	2001	2002	2001
<b>Current</b>				
Current portion of long-term bank borrowings	166,779	127,151	166,779	127,151
Loans from subsidiaries	-	-	43,500	6,000
Bonds	12,000	-	12,000	-
Finance lease liabilities	20	-	-	-
	<u>178,799</u>	<u>127,151</u>	<u>222,279</u>	<u>133,151</u>
<b>Non-current</b>				
Long-term bank borrowings	44,108	283,177	44,108	283,177
Bonds	150,000	162,000	150,000	162,000
Finance lease liabilities	122	-	-	-
	<u>194,230</u>	<u>445,177</u>	<u>194,108</u>	<u>445,177</u>
<b>Total borrowings</b>	<u>373,029</u>	<u>572,328</u>	<u>416,387</u>	<u>578,328</u>

The interest rate on the LTL 12,000 thousand bonds issued in local currency is 12%. Long-term bonds of LTL 150,000 thousand are redeemable at par in March 2004. The Company pays a coupon of 10.15% on these bonds.

The bank borrowings of LTL 36,058 thousand (2001: LTL 54,004 thousand) are received with the Lithuanian Government's guarantee.

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

	GROUP		COMPANY	
	2002	2001	2002	2001
Between 1 and 2 years	176,570	230,330	176,570	230,330
Between 2 and 5 years	17,538	202,847	17,538	202,847
Over 5 years	-	12,000	-	12,000
	<u>194,108</u>	<u>445,177</u>	<u>194,108</u>	<u>445,177</u>

As at 31 December 2002 the Group has undrawn committed borrowing facilities expiring within one year amounting to LTL 49,655 thousand (2001: nil).

## **18 Deferred income taxes**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
At beginning of year	136,191	179,443	114,916	145,722
Income statement charge (Note 5)	(22,347)	(43,252)	(21,305)	(30,806)
At end of year	<u>113,844</u>	<u>136,191</u>	<u>93,611</u>	<u>114,916</u>

## **19 Financial instruments**

As at 31 December 2002 the Company's and the Group's borrowings denominated in US dollars comprised USD 46,951 thousand or LTL 155,473 thousand. As at 1 February 2002 the Company entered into several swap contracts. According to these contracts denomination of the Company's borrowings in US dollars was swapped to Euro.

## **20 Minority interest**

	<b>GROUP</b>	
	<b>2002</b>	<b>2001</b>
At the beginning of year	-	-
Acquisition of subsidiaries	1,187	4
Partial disposal of subsidiaries	400	-
Minority share of net profit of subsidiaries	767	(4)
At end of year	<u>2,354</u>	<u>-</u>

## **21 Subsequent events**

On 5 July 2002, a new Law on Telecommunication was enacted and from 1 January 2003 it came into force. According to the old Law on Telecommunication and the Company's licence, AB Lietuvos Telekomas had an exclusive right to install and provide fixed line telephony services in Lithuania until 31 December 2002.

According to the new Law on Telecommunication, since 1 January 2003 AB Lietuvos Telekomas together with its subsidiaries is declared as an operator with significant market power (SMP) in the public fixed telephony service market, leased line market and interconnection service market.

On 13 January 2003 UAB Comliet and Sonex Group signed a Memorandum of Understanding. According to the Memorandum, UAB Comliet intends to acquire a 100 percent stake in UAB Sonex Komunikacijos, a company owned by Sonex Group.

## Management



### Board of Directors

**Jaakko Nevanlinna,**  
Member of the Board

**Mikko Pirinen,**  
Member of the Board

**Ingmar Jonsson,**  
Member of the Board

**Morgan Ekberg,**  
Member of the Board

**Matti Hyrynen,**  
Member of the Board

**Timo Virtanen,**  
Member of the Board

**Kannet Radne,**  
Member of the Board

**Gintautas Žintelis,**  
Chairman of the Board

**Andrius Šukys,**  
Member of the Board (missing)

## **Administration**

### **Tapio Paarma**

Born in 1948.

MSc in Community Planning.

General Manager and President of AB Lietuvos Telekomas since 8 July 1998. On 30 April 2003, he will leave the position of General Manager. Until 31 December 2003 he will work as Senior Advisor to the Company.

Chairman of the Board of Directors of UAB Baltijos Informacinių Duomenų Valdymo Centras, UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Lintkom, UAB Voicecom, VšĮ Lietuvos Telekomo Sporto Klubas and Datu Tikli SIA, Latvia, as well as a member of the Board of Directors of UAB Baltijos Telekomunikacijų Konsultacinis Centras. Chairman of the Supervisory Board of Telegrupp AS, Estonia.

Holder of 160,000 shares of AB Lietuvos Telekomas (as of 31 December 2002).



### **Romualdas Degutis**

Born in 1961.

Diploma in Electrical Connections Engineering Studies.

Executive Vice-president of AB Lietuvos Telekomas. He has been working for the Company since 1984.

Member of the Board of Directors of UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel and UAB Lintkom.

Holder of 10,866 shares of AB Lietuvos Telekomas (as of 31 December 2002).



### **Jan-Erik Elsérius**

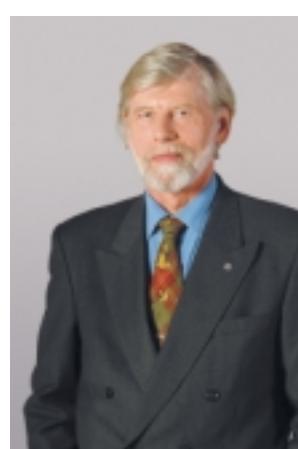
Born in 1943.

BA in Management Science, Managerial Economics, Political Economy and Science and Statistics.

Chief Financial Officer and Director of the Finance Department of AB Lietuvos Telekomas since 29 March 1999.

General Manager of UAB Lintkom, a member of the Board of Directors of UAB Baltijos Informacinių Duomenų Valdymo Centras, UAB Comliet, UAB Lietuvos Telekomo Verslo Sprendimai, UAB Lintel, UAB Voicecom and VšĮ Lietuvos Telekomo Sporto Klubas.

Holder of 70,000 shares of AB Lietuvos Telekomas (as of 31 December 2002).



## Contact Information

### **AB Lietuvos Telekomas**

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LT-2600 Vilnius, Lithuania  
Tel: +370 46 48 15 11  
Fax: +370 5 212 66 65  
[www.telecom.lt](http://www.telecom.lt)

### **VŠĮ Lietuvos Telekomo Sporto Klubas**

Savanorių ave. 28  
LT-2600 Vilnius, Lithuania  
Tel: + 370 5 216 34 36  
Fax: + 370 5 231 36 50  
[www.telecomsportclub.lt](http://www.telecomsportclub.lt)

### **UAB Comliet**

Palangos str. 4  
LT-2001 Vilnius, Lithuania  
Tel: + 370 5 213 12 21  
Fax: + 370 5 213 11 39  
[www.comliet.com](http://www.comliet.com)

### **UAB Baltijos Informacinių Duomenų Valdymo Centras**

Žirmūnų str. 141  
LT-2012 Vilnius, Lithuania  
Tel: +370 5 274 83 60  
Fax: +370 5 278 33 99

### **UAB Lietuvos Telekomo Verslo Sprendimai**

Galvydžio str. 7/Žygio str. 97  
LT-2042 Vilnius, Lithuania  
Tel: +370 5 273 09 70  
Fax: +370 5 273 09 59

### **UAB Voicecom**

Eigulių str. 14  
LT-2600 Vilnius, Lithuania  
Tel: +370 5 238 88 37  
Fax: +370 5 238 88 39  
[www.voicecom.lt](http://www.voicecom.lt)

### **UAB Lintel**

Galvydžio str. 7/Žygio str. 97  
LT-2042 Vilnius, Lithuania  
Tel: +370 5 236 83 02  
Fax: +370 5 278 87 61  
[www.lintel.lt](http://www.lintel.lt)

### **UAB Verslo Portalas**

A. Goštauto str. 12a  
LT-2001 Vilnius, Lithuania  
Tel: +370 5 268 36 40  
Fax: +370 5 268 34 41  
[www.verslas.com](http://www.verslas.com)

### **UAB Lintkom**

Galvydžio str. 7/Žygio str. 97  
LT-2042 Vilnius, Lithuania  
Tel: +370 5 236 72 09  
Fax: +370 5 231 38 60

### **UAB TietoEnator Consulting**

Žirmūnų str. 141  
LT-2012 Vilnius, Lithuania  
Tel: +370 5 274 82 04  
Fax: +370 5 278 33 88

## Information to Investors

### Annual General Meeting of Shareholders

The annual General Meeting of AB Lietuvos Telekomas' Shareholders will be held at the Karolina hotel, Sausio 13-osios str. 2, Vilnius, Lithuania, at 3 p.m. on Monday, 28 April 2003.

### Dividends

Dividends will be paid to the shareholders who on the dividend record day, 28 April 2003, i.e. the day of the annual General Meeting of Shareholders, will be on the Shareholders' List of the Company.

In 2002, the National Stock Exchange of Lithuania changed a number of provisions in its Trading Rules. The amended Rules stipulate that the right of ownership of securities transferred via transactions on the central market shall be passed on the day of settlement for the transaction on the central market, i.e. the third business day after conclusion of the transaction.

The Lithuanian Company Law provides that dividends shall be paid within 3 months from the day of making the decision on the profit distribution. Following the Lithuanian legislation, dividends for the year 2002 are subject to the withholding tax of 15 per cent.

### Financial Reports

The Annual Report of Lietuvos Telekomas for the year 2002 in the English and Lithuanian languages as well as other Company's financial reports and press releases are available online at:  
[www.telecom.lt](http://www.telecom.lt).

### Equity Research

The following banks and securities brokerage houses analysed Lietuvos Telekomas as a portfolio investment in 2002:

CA IB

Tel: +44 20 7309 7840

Credit Suisse First Boston

Tel: + 44 20 7888 8024

Eesti Ühispank

Tel: +372 6 656 645

Hansabank Markets

Tel: + 372 6 131 670

Schroder Salomon Smith Barney

Tel: + 44 20 7986 4169

Suprema Securities

Tel: + 372 6 405 700

Trigon Capital

Tel: + 372 6 679 200

Vilniaus Bankas

Tel: + 370 5 268 24 27

Williams de Broë

Tel: + 44 20 7588 8774

### Investor Relations

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