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General Manager's Report



2000 was a successful year for Lietuvos telekomas' Group. Consolidated revenues grew by 5.9 per cent and for the first time exceeded one billion Litass. A 9.1 per cent decrease in operating expenses was achieved through activities in several areas including reduction of the number of employees and improved efficiency of the Company. Consolidated net profit, including gain on sales of shares, amounted to 240.4 million Litass or 0.30 Litass per share. Lietuvos telekomas invested 517 million Litass into development and expansion of its network and services.

During the year 2000, Internet and Internet-related services such as e-commerce and e-government were the fastest growing areas of the telecommunications business in the Baltics. The fixed telephony developed at a slower speed while the mobile telephony was growing. However, without a highly developed fixed network used both as a carrier of broadband to other service providers and as a high-speed connection to end-users, this development would have been much slower.

In 2000, Lithuania and Lietuvos telekomas underwent a further development. The main issue during the year was the Initial Public Offering (IPO) and listing of the Company's shares on the National Stock Exchange of Lithuania and the London Stock Exchange starting 12 June 2000. In addition, the Company made significant changes to its procedures connected with external and internal information rules.

Development of Internet and Internet-related businesses is the key issue for Lietuvos telekomas. Internet-related businesses in the Company include many attractive pricing packages, for example, Flat Rate Internet Access for end-users, development of Lietuvos telekomas portal (www.takas.lt), development packages for schools and Internet Protocol (IP) connectivity to other Internet Service Providers (ISPs). Another area of development has been and continues to be creation of the content in Lithuania. The e-demo shop, which will help the Lithuanian market to better understand advantages and traits of e-commerce, was one more interesting project last year.

The main issue in the regulatory environment was an attempt to establish the Communications Regulatory Agency, the national regulatory authority. At the beginning of 2001, this authority was set up. The Government has started the process towards liberalisation of the telecommunications market in Lithuania. Lietuvos telekomas supports this process and its time schedule agreed during the first privatisation in 1998. New licensing regulations and the Law on E-signature are part of the telecommunications legislation adopted in Lithuania during the year 2000.

On 1 February 2000 and on 1 January 2001, Lietuvos telekomas took two crucial steps towards rebalancing of its tariffs. The Company decreased tariffs for international calls whereas tariffs for local calls were increased to better reflect the costs. This was done without loss of customers and strictly within the price-cap prescribed in the Company's Licence. At the beginning of 2001, the decision was made to change the current tariff structure and to introduce the second-rounding telephone call system and call set-up charge for practically all calls. This decision will be implemented in the middle of 2001.

The digitalisation rate of the network has been going on at a high speed and reached 46.5 per cent by the end of 2000. As a consequence of the high digitalisation rate, the Centrex service was introduced in Lithuania. Since its introduction on the market, the number of installed Centrex lines has been growing significantly. The Integrated Services Digital Network (ISDN) increased substantially during the year 2000. Lietuvos telekomas broadband network based on the Asynchronous Transfer Mode (ATM) technology was installed in five biggest cities of Lithuania. The Universal Mobile Telecommunications System (UMTS) licensing was a subject for discussions in Lithuania as well as in many other countries and the Company expressed its intention to obtain such licence, when it is available. Intelligent Network (IN) platform-based services were introduced last year, including the service of incoming calls to payphones which was launched in July 2000.

During the year we worked very hard to increase the level of customer satisfaction and the quality of customer interface. These goals were achieved in different ways including Internet, new customer-friendly Call Centres and Customer Care Centres, better routines and training of the staff how to provide high quality service to customers of the Company. In 2000, we opened modern Call Centres in Klaipėda, Radviliškis and Panevėžys. In March 2001, the fourth Call Centre was opened in Kaunas. Establishment of Call Centres is one of the key projects implemented by the Company which aims at improving the quality of services provided by telephone.

Many changes occurred in the Human Resources area. At the end of 2000, most of the Company's staff was rightsized to the level of 6,000. An increase in the number of employees with university education is also evident. The Company supported students in the areas of management, engineering, information technologies (IT) and computer science. To ensure the future need of managers and highly trained specialists, the High Potential Development and Graduate Trainee programmes were implemented.

In the year 2000, the Private Network Buy-out Project ran its course. During the first six months of the year, the customers, who had installed telecommunications networks at their expense, had a possibility to file their applications to Lietuvos telekomas for the buy-out of their networks. Over 4,000 customers submitted their applications in time. Most of the applications were successfully handled and a large number of applicants has already received money. For the Company this was a good opportunity to update its data base and correct historical mistakes. Investments made into these networks will in the long run bring benefit to the Company and the customers as well.

Last year the Company sold the wire radio service and terminated provision of national telegraph and telex services. However, international telegrams are still offered and a few existing telex users can use an alternative service, Telex via Internet.

As a part of Lithuanian society, Lietuvos telekomas sponsored a lot of organizations during the year 2000. To alleviate the use of fixed telephony services for all the customers, the Company even published telephone directories in Braille.

The vision of Lietuvos telekomas is to become the customer's first choice for telecommunications services, to provide key customers with differentiated products and basic services in the whole country and to remain the most attractive employer in Lithuania. Our objectives are to provide business and residential customers in Lithuania with communication solutions which meet their needs; to be a customer-oriented Company which welcomes changes and builds its future, thus paving the way for the economic development of the country and well-being of its citizens; to create short and long-term profitability that will continuously increase the value of the Company.

We intend to maintain the leading position in the fixed telecommunications business in Lithuania, actively support liberalisation of the telecommunications market which should ensure full and fair competition, be considered as the operator of best Voice, Internet and Data communication products on the Lithuanian market, continuously improve Company's products, proactively foresee and create future needs of the customers as well as improve customer satisfaction in operations by developing processes and IT support systems.



Tapio Paarma

President-General Manager

Structure of Lietuvos telekomas' Group

Business of Lietuvos telekomas' group is focused on five main areas: fixed-line telephony services, network and data communication services, Internet-related services, wholesale services to other telecommunications operators, sales of equipment and other services. These services are provided by Lietuvos telekomas parent and daughter companies.

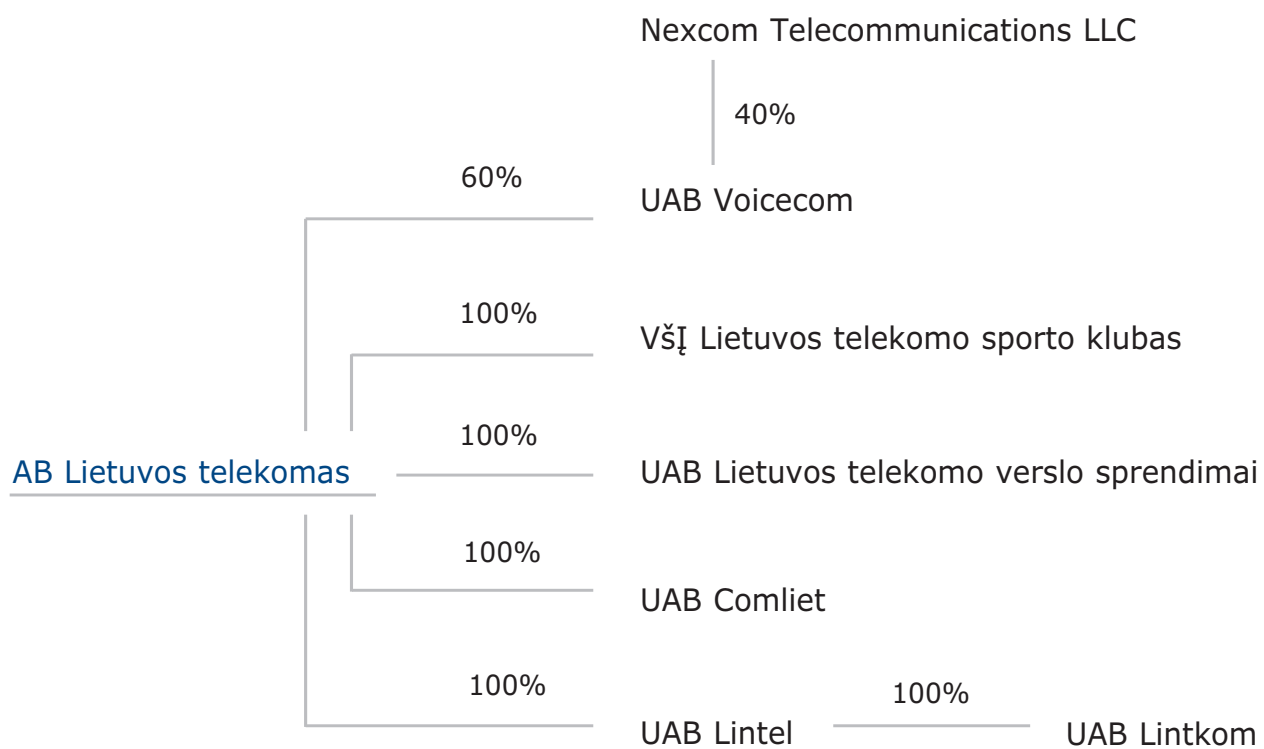
UAB Lietuvos telekomo verslo sprendimai, Lietuvos telekomas' daughter company, provides services and solutions to major customers of Lietuvos telekomas.

At the end of 2000, the NMT 450 standard mobile network of UAB Comliet was integrated into the fixed network of Lietuvos telekomas to provide Wireless Local Loop (WLL) solutions in rural areas of Lithuania. Starting with 2001, UAB Comliet will concentrate its activities on construction of telecommunications networks.

In 2000, UAB Lintel handed over the production and distribution of Lietuvos telekomas' telephone directories in Lithuania to Telenor Media Lietuva and focused on the provision of the Directory 118 and telemarketing services. In January 2000, UAB Lintel sold its 28.4 per cent stake in UAB Bitė GSM, the second largest GSM network operator in Lithuania, to Tele Danmark A/S. UAB Lintel also took over part of the property management of Lietuvos telekomas. UAB Lintel established a wholly-owned subsidiary UAB Linkom for the acquisition of AB Lietuvos telekomas' shares during the IPO in June 2000.

Lietuvos telekomas is a sole founder of the non-profit organisation VšĮ Lietuvos telekomo sporto klubas which supports women basketball teams and provides the sports club facilities.

In December 2000, AB Lietuvos telekomas and Nexcom Telecommunications LLC (USA) announced their intention to establish a joint venture for provision of Internet telephony and other value-added services based on the Internet Protocol (IP). The joint venture, UAB Voicecom, 60 per cent owned by AB Lietuvos telekomas, was registered on 6 March 2001.



Board of Directors



Gintautas Žintelis
Chairman of the
Board



Martin Henricsson
Member of the Board



Arvo Kukko
Member of the Board



Ingmar Jonsson
Member of the Board



Tapani Holopainen
Member of the Board



Timo Virtanen
Member of the Board



Per Bengtsson
Member of the Board

Missing: Rimvydas Kūgis, Frederic Pecastaings

Fixed Telephony Services

The fixed telephony remains the core business of Lietuvos telekomas that generated 77.9 per cent of the total consolidated revenues in 2000. On 31 December 2000, the Company had almost 1.2 million access lines in service representing a penetration rate of 32.2 per cent. During the year the net increase of lines was 35,000. At the same time the average number of digital lines in service grew by 1.4 times and at the end of 2000 the average network digitalisation of Lietuvos telekomas reached a level of 46.5 per cent, while the average digitalisation in five biggest cities was 53.4 per cent. The digitalisation rate for business subscribers in Lithuania reached 75.0 per cent and in five biggest cities - 85.9 per cent.

During the year 2000, the waiting list for installation of lines decreased by 44.5 per cent mainly due to employment of the Wireless Local Loop (WLL) connection, which became available upon integration of the NMT 450 standard mobile network of UAB Comliet into the fixed network of Lietuvos telekomas. Good coverage of the NMT 450 network makes it possible to have a telephone line installed in any location within a short time. This solution also allows the Company to decrease the amount of investments necessary for installation of fixed lines in remote rural areas. Starting with the first quarter of 2000 till the end of the year, Lietuvos telekomas connected totally 24,500 customers, most of them residential customers in rural areas, using the WLL access solution.

Basic Voice Telephony

Basic voice services include local, long-distance, fixed to mobile and international call services. The telephony traffic in the fixed network of Lietuvos telekomas decreased by roughly 8.7 per cent in 2000 mainly due to the economic recession in Lithuania after the Russian crisis of 1998. Since February 2000, tariffs for local calls increased while tariffs for long-distance, fixed to mobile and international calls decreased. Increase in the digitalisation rate resulted in the

growth of the number of customers who can use the exchange-based services marketed under the brand name *Linija Plius*. Some of these services are provided free of charge, such as hot line, call forwarding, completion of call to the busy subscriber and call barring. For the period of the first two months, all new digital line subscribers may use all *Linija Plius* services without any charge. The voice mail service was also launched in 2000.

Payphones

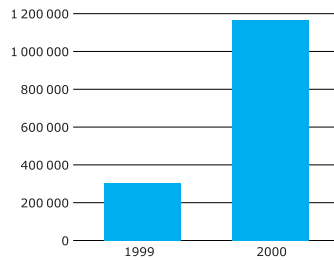
In the year 2000, Lietuvos telekomas completed replacement of all magnetic card payphones (over 2,100) with chip card payphones and by the end of the year the total number of payphones amounted to 7,603. 364 public payphone booths were replaced by the newly-designed ones. From 1 July 2000, Lietuvos telekomas offered a new service of incoming calls to the payphones which are connected to digital exchanges.

Value-added Services

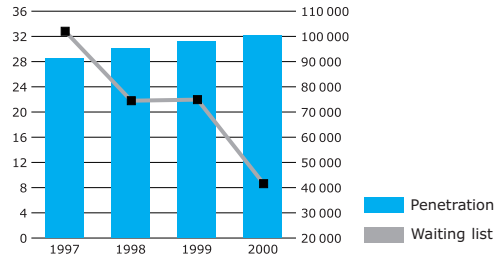
Lietuvos telekomas provides the 800 service known as *Free Phone*. During recent years popularity of the service has grown significantly among both business and residential customers. Compared to 1999, the number of 800 service subscribers increased from 98 to 156, while the total number of calls to the 800 service increased by almost 4 times.

Provision of the 900 service or *Premium Rate* was restarted in May 2000, following the introduction of the rules for the 900 service based on the previous experience of Lietuvos telekomas and foreign countries. Under those rules Lietuvos telekomas controls service providers. The service is oriented towards both large service providers and small companies, which use the *Premium Rate* service as an additional source of income. The service is also used for various charity campaigns.

Calls to 800 service



Penetration



Due to additional possibilities offered by the Intelligent Network platform, an even more significant growth of 800 and 900 services is expected in 2001.

Centrex Service

The new Centrex service, a virtual private branch exchange (PBX), under the brand name *Grupė*, was launched in 2000. Centrex provides a possibility to connect existing or install new lines into the short numbering group. Customers using this service reconnect their telephone lines into the virtual PBX without any additional investments into equipment. Last year the number of installed *Grupė* (Centrex) lines was going up significantly.

At the end of 2000, Lietuvos telekomas' daughter company Lietuvos telekomo verslo sprendimai implemented the telecommunications technologies infrastructure solution for the modern Business Centre 2000 opened in Vilnius. Since the local area network (LAN) is installed in the Centre, each business customer located there has an opportunity to get LAN connections and to use voice, Internet, data communication services and the Centrex service Grupė. Centrex enables customers to make calls inside the building free of charge, to use short numbers and to pick up colleagues' calls or forward them if necessary. Those customers who have a demand for broadband services are offered a bandwidth of 100 Mb/s. In order to ensure the reliability of communication, a back-up connection was installed. It guarantees the uninterrupted performance of the telecommunications in case of faults.

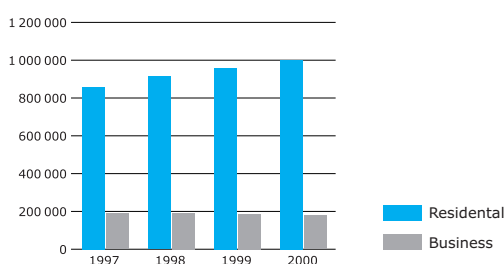
Directory Service 118

In May 2000, the Call Centre located in Radviliškis started providing the Directory Service 118. By the countrywide number 118, customers from the whole country can obtain information about business and residential subscribers of Lietuvos telekomas. The information includes telephone numbers, addresses, types of activity, working hours, etc. During the year 2000, Radviliškis Call Centre received almost 7 million calls to the 118 service. Information about residential customers provided by the 118 service is also available on the web site www.118.lt. Information about business customers, updated and administered in close cooperation with Telenor Media Lietuva, is available on the web site www.infoplus.lt.

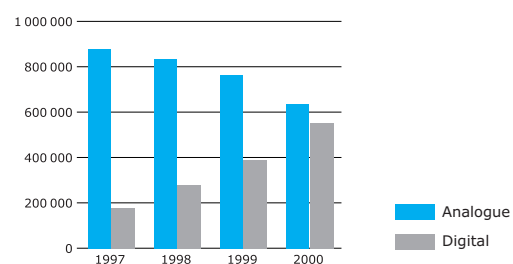
Telemarketing

The first business customers were offered telemarketing services in the third quarter of 2000 via Radviliškis Call Centre. In order to improve the quality and extend the scope of services, the Company decided to establish specialised Call Centre for telemarketing services. In March 2001, such Call Centre was opened in Kaunas.

Access lines in service



Analogue/digital lines



Internet-related Services

9

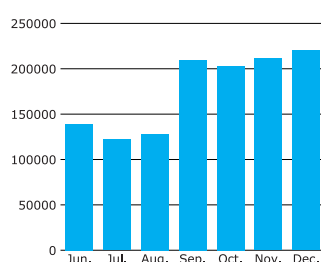
The number of Internet users of Lietuvos telekomas is rapidly growing. The Company pays special attention and allocates funds for improving the quality of present Internet services, introducing new Internet services and improving Internet access technologies. In the year 2000, the international Internet bandwidth was extended from 18 to 50 Mb/s. The number of modems doubled - from 1,100 to 2,200 at the end of the year.

In October 2000, Lietuvos telekomas launched a new open Internet dial-up service *Atviras Takas* and a subscribed dial-up service *Mano Takas*. Customers of *Atviras Takas* are able to access the Internet by one countrywide number. *Mano Takas* offers attractive tariffs for Internet users who acquire the Internet Presence Package, i.e. a bank financed personal computer (PC), access to the Internet for registered customers and other services. In late October 2000, AB Lietuvos telekomas started provision of the Internet web-mail service *Tako Paštas* enabling the customer to use her/his e-mail box from anywhere in

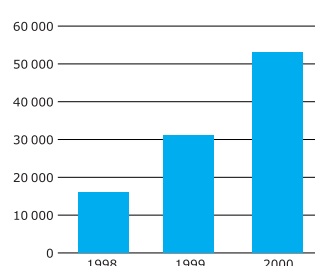
the world. The Internet service website (www.takas.lt) developed into the Internet portal, where Internet users can find information about business, politics as well as entertainment and advertising services. Internet users are offered the educational product of Lietuvos telekomas, *Takas E-Demo Shop*, which helps them to better understand the advantages and new possibilities of e-commerce. The e-commerce product, *Lietuvos telekomo prekyba online shop*, allows customers to order telecommunications equipment from the online catalogue.

The Internet site Sydney 2000, the common project of Lietuvos telekomas and the National Radio and Television, had more than 100 thousand visitors during the Olympic Games. Visitors had a possibility to get the latest news from the Olympic Games, express their opinion on the performance of Lithuanian sportsmen, send them wishes and participate in the chat forums.

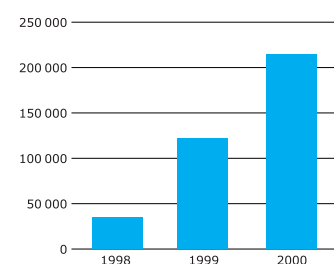
Takas portal visits



Open internet dial-up. Customers



Open internet dial-up. Traffic, million min.



Network and Data Communication Services

ISDN

Lietuvos telekomas is the only provider of ISDN services in Lithuania. ISDN products offered by the Company are branded as *ISDN Duetas* (basic ISDN access lines with 2 channels) targeting residential and small business customers and *ISDN Srautas* (ISDN access lines with 30 channels). During the year 2000, the total number of new ISDN connections increased roughly by 6 times in comparison with the year 1999. By the end of the year, the Company had installed 2,773 *ISDN Duetas* and 312 *ISDN Srautas* connections, while in 1999 it had 387 *ISDN Duetas* and 141 *ISDN Srautas* connections. The total number of ISDN channels reached the level of 15,000 on 31 December 2000, while there were 5,000 channels a year ago.

Data Communication

Turnkey solutions, successful partnership and professional project management are the key factors which contributed to the growth of data communication services.

Frame Relay is driven by the Local Area Network connections and corporate network demands. Retail store chains, banks and other business entities consider Frame Relay as the proper technology to connect their units spread over the whole country to the corporate network.

Revenues from data communication services were continuously increasing during the year as new customers started using the services and the existing ones expanded their connections.

Broadband Network

The broadband network based on the ATM optic networking technology is installed in five biggest cities of Lithuania. It offers the high bandwidth, a number of services via one interface and flexible upgrading to higher bandwidth. Bringing optic fibre directly to business customers' premises will enable much higher bandwidth than current copper connections resulting in new applications and better Internet performance.

In the year 2000, a local Internet service provider increased its peering connection with Lietuvos telekomas from 2 Mb/s to 10 Mb/s. This pilot project was done via the modern broadband network.

Videoconferencing

Videoconferencing is successfully used for transmission of business meetings as well as for different public events.

Under request of the State Youth Council, Lietuvos telekomas arranged the videoconference between Lithuania and Germany for the closing of the Youth Year. The musical performed in both Lithuania and Germany at the same time was transmitted to both countries. In autumn 2000, the international conference on the development of e-business took place in Vilnius. Lietuvos telekomas was among the organizers of the conference. The videoconferencing session Vilnius-Stockholm was also arranged by Lietuvos telekomas.

DSL

Lietuvos telekomas started implementation of the new broadband Internet access technology - Digital Subscriber Line (DSL). During 2001, this technology will allow our customers in five biggest cities of Lithuania to get the high-speed permanent Internet connection via the ordinary telephone lines.

Development of the IT sector, globalisation and liberalisation of telecommunications markets, especially in EU member states, create a rising demand for the wholesale products to be offered on both national and international scale.

Wholesale business has existed in Lietuvos telekomas for many years but only in the year 2000 it became the focus of attention. The new wholesale unit will be created at the beginning of 2001 which will concentrate on developing the wholesale business and the necessary skills in the Company.

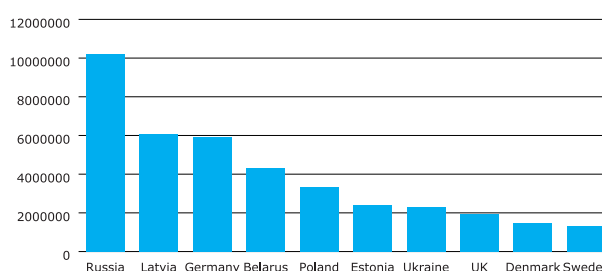
National Interconnection

At the end of 2000, Lietuvos telekomas and Bitė GSM signed a new Interconnection Agreement which is in line with the most of the present EU requirements. By now, the Company has entered into modern and beneficial Interconnection Agreements with all national GSM operators. Negotiations are ongoing with the aim to introduce market pricing for interconnection tariffs.

International Interconnection

During 2000, Lietuvos telekomas was successfully developing its relations with international operators. The greatest attention was paid to the reduction of accounting rates between the Company and international telecommunications operators and to the substantial reduction of retail tariffs. This reduction resulted in the considerable growth of the incoming and outgoing international traffic. New Interconnection Agreements and the favourable pricing policy resulted in an increase in the volume of the transit traffic from one country to another via Lietuvos telekomas' network.

International outgoing telephone traffic to TOP 10 countries in 2000



Sales of Equipment and Other Services

Sales of Equipment

The basic telecommunications equipment such as telephone sets, fax and answering machines is sold in the Lietuvos telekomo prekyba shops (teleshops). In addition, the Company resells PBX solutions both through teleshops and through UAB Lietuvos telekomo verslo sprendimai. We believe that offering the telecommunications equipment is an integral part of our customer service.

To have customers better informed on the modern telecommunications equipment, such as PBX, modems, routers, etc., special demonstration stands were arranged in the largest teleshops. A common external design for all teleshops was implemented during the year.

Telegraph and Telex

Lietuvos telekomas fulfilled the requirement prescribed in its Licence to provide both national and international telegraph and telex services (sending telegrams and leasing telegraph channels) until the end of 2000. Due to the poor demand of these services, the Company decided to cease providing them from 1 January 2001, with the exception of international telegraph and telex services which are being offered to customers via Eesti Telefon or via the Internet.

Wire Radio

The Licence of Lietuvos telekomas stipulates provision of wire radio services, the outdated technology, until the end of 2000. Since the Company has decided that further operation of this system is not cost effective, it was sold to Hansa Radio in March 2000 pending the approval of the sale by the Government, which was granted in November 2000.

Switching and Transmission Network

Lietuvos telekomas is rearranging its network structure to increase the capacity available to customers. The local call network structure is expected to feature 13 digital switches of extremely high capacity connected to concentrators. The Company has already installed 11 of these high capacity switches. Two pairs of modern digital switches for long-distance transit were also installed, one pair in the north and one in the south of Lithuania, as well as two international transit switches for international traffic.

Digital lines are being installed at a rapid pace. The average digitalisation rate amounted to 46.5 per cent at the end of 2000. Increase in the digitalisation rate resulted in improvement of the quality of the network. In 2000, the number of shared lines decreased as they were replaced with separate ones. Therefore, customers, who had shared lines, can currently enjoy services of better quality without any restrictions.

The total analogue long-distance network of symmetrical and coaxial cables used by Lietuvos telekomas was replaced by the end of 2000 with the fibre optic cable ring network consisting of 6 regional rings and 1 national ring. All rings are connected using the Synchronous Digital Hierarchy (SDH) technology with a 2.5 Gb/s capacity. This national ring has 23 international connections via 4 main fibre optic cables. These connections are controlled by two modern international switches. In five biggest cities of Lithuania synchronous digital cross connectors are implemented to provide functionality of the network connection for fast and flexible handling of large volumes of traffic. In the event of a system fault, the ring structure allows the Company to route traffic the other way around the ring so that there will be no interruption in the transmission.

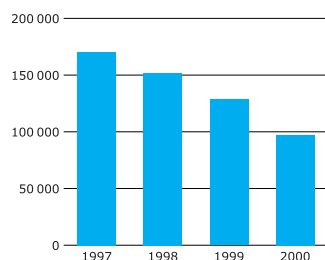
Access Network

The new infrastructure is being introduced to provide a higher speed access. A total of 10 fibre optic access loops were installed in Vilnius, Kaunas and Klaipėda areas to target business customers in a more effective way. New copper wire lines are being installed which can be upgraded with the Asymmetric Digital Subscriber Line (ADSL) capability. By using NMT 450 network as the wireless local loop technology for connection of customers to the fixed network, the Company is now able to install telephone lines in rural areas more quickly and cost efficiently.

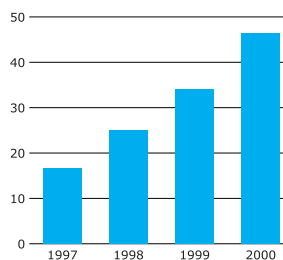
Data Communication Network

Lietuvos telekomas currently provides high quality digital leased lines and X.25 packet switched services as well as Frame Relay and Internet services. There is an increasing demand for high bandwidth and high quality data communication services. Therefore, the Company implemented the high capacity ATM backbone in 2000. Five ATM nodes were installed in five biggest cities. In order to develop the ATM backbone quickly and efficiently, the Frame Relay network was upgraded. In addition, at the end of 2000, by means of a pilot project the Company introduced a wider range of customer broadband access technologies such as fibre-to-the-curb and ADSL to customer premises.

Shared lines



Digitalisation



The capacity of the dial-up Internet access network was increased up to 2,200 modem ports.

The IP network of Lietuvos telekomas was restructured and now the IP traffic is carried using the ATM backbone. The leased line network was upgraded using capabilities of the new Network Management System, including the recovery of the automatic circuit/trunk.

Intelligent Network

During previous years Lietuvos telekomas increased the number of services provided by digital switches by adding an IN platform. The IN platform allows the Company to centrally and efficiently produce a variety of new services to all customers via its new digital switches. It shortens the service development time, decreases service development costs and makes deployment of new services faster and more flexible. The IN supports a great number of services, including 800, 900, Flat Rate Internet Access, prepaid cards, televoting, shared cost, talking clock and short numbers for information about Lietuvos telekomas' services and customer billing.

Network Management

In April 2000, Lietuvos telekomas introduced improved mechanisms for managing various different components of its networks by means of element management systems. In addition, the Company started implementing the Network Management System covering alarm surveillance, trouble ticketing, performance management and network traffic management. This will improve the ability of the Company to maintain the central control of its network operation.

The most important trend of the Company's Human Resources management in 2000 was balancing the number of employees and required competence. The goal of restructuring the main departments of the Company in order to improve performance effectiveness was based on the intention to coordinate the optimal number of employees with required competence as well as to improve the teamwork. In spite of the increased work force mobility in the country, Lietuvos telekomas managed to attract highly competent staff. With the intention that the newcomers get involved in the Company's activities as fast as possible, the induction programme was implemented in 2000. Changes occurred not only with respect to the number of staff, but also with respect to an increase in the number of employees with university education.

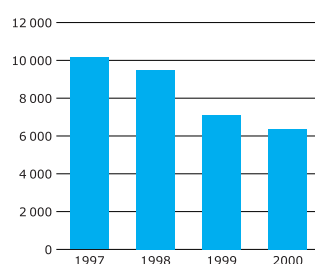
Seeking to remain a preferred employer, the Company largely focused on the direct work with students in the following target groups: telecommunications engineering, information technologies, computer science and management. During the student events supported by the Company and summer jobs in the Company, students had an opportunity to form up their opinion on Lietuvos telekomas as an employer.

The targeted staff development was among the highest priorities in the Company. The main factors determining staff development trends in 2000 were clear needs and priorities for managers' and employees' development as well as implementation of new development tools and techniques. The successfully implemented Competence Planning Model and Human Capital Measurement helped to define development needs. Development of the staff in 2000 was carried out through targeted training programmes.

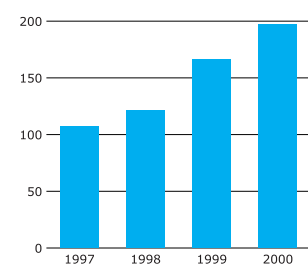
The Management Substitution Planning Programme, High Potential Development Programme and Graduate Trainee Programme were the main programmes carried out in the year 2000. The Company allocated financial support for the development of management training programmes delivered by the International School of Management and Baltic Management Institute.

In 2000, the Company paid much attention to customer service, sales, vocational training, and English language training programmes. Lietuvos telekomas has been successfully implementing the two-level computer training and testing system started in 1999 in compliance with the standards of the European Computer Driving Licence.

Employees



Lines per employee



Recent Events

On 1 January 2001, new tariffs for local, long-distance and international calls were introduced as a continuation of the tariff rebalancing plan of Lietuvos telekomas. In addition, from the beginning of 2001, Lietuvos telekomas has offered a flat rate Internet dial-up access service.

In January – February 2001, the main Internet service providers in Lithuania - Delfi Internet, Bitè GSM and Omnitel signed wholesale agreements with Lietuvos telekomas for provision of the flat rate Internet dial-up access to their customers.

In February, Lietuvos telekomas announced that a new tariff structure would be implemented from 1 July 2001. Lietuvos telekomas will introduce the telephone call set-up charge and second-rounding billing for all telephone calls in the fixed network and calls from the fixed to mobile networks.

In February 2001, the Customer Care Centre was opened in Vilnius where the millionth residential customer of the Company was congratulated.

In March 2001, the fourth Call Centre for telemarketing services was opened in Kaunas.

UAB Voicecom, a joint venture of AB Lietuvos telekomas (60 per cent) and Nexcom Telecommunications LLC (USA) (40 per cent), was registered on 6 March 2001. Voicecom will provide the Internet telephony and other value-added services based on the Internet Protocol.

In March 2001, Lietuvos telekomas signed an agreement for introduction of the modern Network Management System, which will manage the whole international transit and local telecommunications network of the Company.

In March 2001, the Company signed an agreement for introduction of the new technical platform for provision of Internet services. The new Internet platform will improve the quality of services provided by the Lietuvos telekomas, enable the Company to provide value-added services as well as to ease and make more efficient management of Internet services.

In March 2001, Lietuvos telekomas issued its debut EuroLitasNote of LTL 150 million with a maturity of three years.

On 28 March 2001, the Board of Directors approved the consolidated audited financial statements of the Company for the year ended 31 December 2000 and proposed to pay dividends of LTL 0.15 per share.

Profitable Growth Continued

Consolidated revenues of Lietuvos telekomas' Group grew by 5.9 per cent to 1,038.6 million Litass (US\$ 259.6 million) in 2000. Operating expenses decreased by 9.1 per cent, which resulted in a 26.5 per cent increase in EBIDTA up to 523.6 million Litass and an EBITDA margin of 50.4 per cent. Consolidated profit before the profit tax rose by 134 per cent and net profit amounted to 240.4 million Litass (US\$ 60.1 million), including the gain on sales of Bite GSM shares.

Fixed Telephony Remains the Main Generator of Revenues

The Company continued its tariff rebalancing by reducing tariffs for international calls, increasing domestic calls' tariffs and a monthly subscription charge. Revenues from fixed telephony services accounted for 77.9 per cent of the Group's total revenues. No growth was observed in fixed telephony revenues. This was mainly due to the general economic situation in Lithuania, reduction of international tariffs and illegal competition in the field of international calls.

Rapid Development of Internet and Data Communication Services

Internet and data communication services continued to develop as fast as expected. Although the total revenues grew from LTL 21.3 million in 1999 to LTL 39.2 million in 2000, they still represent only 4 per cent of the total Group's revenues. Individually, increase in data communication and Internet services was 103.3 per cent and 73.2 per cent, respectively.

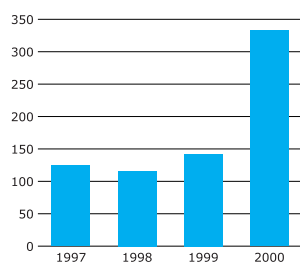
Financial Position

The financial position of Lietuvos telekomas' Group remains solid in spite of the continuous heavy investments programme. The equity to assets ratio increased from 52.4 to 55.7 per cent during the year. The net cash from operating activities amounted to LTL 574.9 million and cash before financing activities was LTL 170 million making it possible to prepay the part of outstanding loans in US dollars. The net debt at the end of the year decreased to LTL 508 million and the net debt to equity ratio fell to 43 per cent. During the first half of March 2001, the Company launched the EuroLitassNote, which resulted in LTL 150 million with a fixed annual coupon of 10.15 per cent. The reason for this was restructuring of the loan portfolio by reducing the exposure in foreign currency, especially as approximately 90 per cent of the Company's revenues is in Litass. The restructuring programme will mainly be completed by the end of June this year.

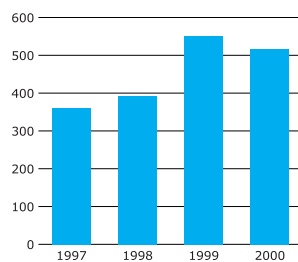
Capital Expenditure on Fixed Assets

During 2000, Lietuvos telekomas' Group allocated LTL 517 million for capital expenditure. The main investment areas include upgrading of switches, expanding of the access network, rationalising of the backbone transmission network, modernising of the data communication network, expanding capabilities of the IP network, implementing and updating of IT systems (including the Customer Care and Billing System), establishing of Call Centres and renovating of buildings.

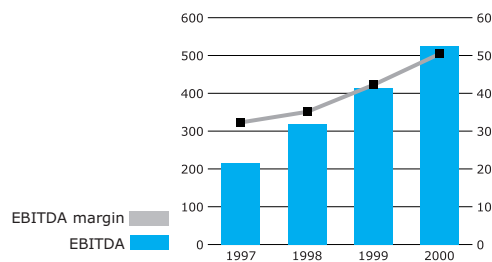
Profit before profit tax, LTL million



Capital expenditure, LTL million



EBITDA, LTL million and EBITDA margin, per cent



Financial Investments

In 2000, UAB Lintel established a daughter company UAB Lintkom in order to be eligible to invest into Lietuvos telekomas' shares during the IPO. Lintkom invested LTL 120 million into Lietuvos telekomas' shares in June 2000. Lietuvos telekomas' Group sold its holdings in UAB Bite GSM (owned by UAB Lintel) and AB Vilniaus Bankas (owned by Lietuvos telekomas) and bought 100 per cent of UAB Comliet shares. In February 2001, a new company, UAB Voicecom, was established together with Nexcom Telecommunications LLC (USA). Voicecom, 60 per cent owned by Lietuvos telekomas, will provide Internet telephony and other value-added services based on the IP.

Implementation of the International Accounting Standards (IAS) and Oracle Financials

During the year 2000, AB Lietuvos telekomas fully implemented IAS. In addition, the Company completed the new financial system Oracle Financials with eight different modules. Currently, the system covers not only financial but also procurement areas.

CABS Project

In August 2000, the data of major business customers was transferred into the new Customer Care and Billing System (CABS). In the third quarter of 2000, part of residential, small and medium-size business customers' data was also transferred into the new system. The data transfer process will be completed during the first half of the year 2001.

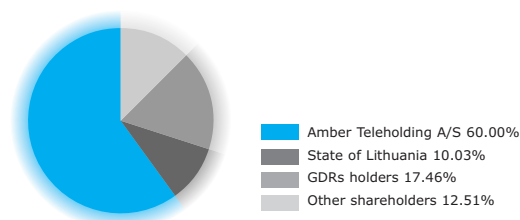
Listing on Stock Exchanges

On 12 June 2000, the State of Lithuania sold 25 per cent of Lietuvos telekomas' shares through the Initial Public Offering. Due to this the Company obtained the listing of its shares on the National Stock Exchange of Lithuania and Lietuvos telekomas' GDRs on the London Stock Exchange.

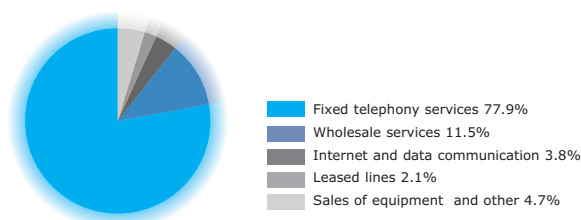
Changes in the Structure of Shareholders

Due to a 60 per cent sell of Lietuvos telekomas' shares to Amber Teleholding A/S in 1998, privatisation of 4.97 per cent share capital by Company's employees in 1999 and the Initial Public Offering of 25 per cent stake in 2000, the State's holding in Lietuvos telekomas was reduced to 10.03 per cent.

Structure of shareholders as of 31 December 2000



Revenue breakdown in 2000



Key financial figures of Lietuvos telekomas Group

		1997	1998	1999	2000
Revenues	LTL million	670	907	980	1,039
EBITDA	LTL million	216	319	414	524
EBITDA margin	%	32.3	35.1	42.2	50.4
Profit before profit tax	LTL million	124	116	142	333*
Net profit	LTL million	97	66	104	240**
Total assets	LTL million	1,407	1,668	2,008	2,107
Shareholders' equity	LTL million	982	1,020	1,053	1,173
Return on capital employed	%	11.9	9.9	12.5	23.9
Return on shareholders' equity	%	10.2	6.6	10.1	21.6
Equity to assets ratio	%	69.8	61.1	52.4	55.7
Capital expenditure	LTL million	361	393	551	517
Earnings per share	LTL	0.12	0.08	0.13	0.30
Number of shares	1,000 shares	814,913	814,913	814,913	814,913
Personnel at the end of the year		10,152	9,521	7,122	6,357
Number of fixed lines in service		1,054,361	1,112,882	1,152,583	1,187,657
Penetration of lines per 100 residents	%	28.5	30.1	31.2	32.2
Digitalisation rate	%	16.7	25.0	33.7	46.5
Number of lines per full time employee, related to fixed telephony		107	121	166	197

* Profit before profit tax, excluding the gain on sales of Bite GSM shares – LTL 174 million

** Net profit, excluding the gain on sales of Bite GSM shares – LTL 115 million

Contact Information

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Equity Research

The following banks and securities houses analysed Lietuvos telekomas in 2000:

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+ 420 2 5701 6163

Nomura International

+ 44 20 7521 3305

Dresdner Kleinwort Benson

+ 44 20 7623 8000

Schroder Salomon Smith Barney

+ 44 20 7986 4169

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Suprema Securities

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Enskilda Securities

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Vilniaus bankas

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Hansapank Markets

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Williams de Broë

+ 44 20 7588 8774



CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

The financial statements for the years ended 31 December 2000 and 1999 of AB Lietuvos telekomas have been audited by Arthur Andersen. This annual report includes the opinion issued by Arthur Andersen on these financial statements as a whole and certain extracts from the audited financial statements. The audited financial statements including all note disclosures are available at AB Lietuvos telekomas.

To the shareholders of AB Lietuvos telekomas



1. We have audited the accompanying balance sheets of AB Lietuvos telekomas (a joint stock company registered in the Republic of Lithuania, the "Parent company") and the consolidated balance sheets of AB Lietuvos telekomas and subsidiaries (the "Group") as of 31 December 2000 and 1999 and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of AB Lietuvos telekomas management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. Except as discussed in paragraph 3 below, we conducted our audits in accordance with International Standards on Auditing as set forth by the International Federation of Accountants (IFAC) and Lithuanian National Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. The consolidated and the Parent company's tangible fixed assets are properly presented in accordance with Lithuanian Accounting Principles, however International Accounting Standards require presentation of tangible fixed assets on the basis of either historical cost or fair value. In accordance with the resolutions of the Government of Lithuania, the Parent company's tangible fixed assets have been revalued four times during the period from 1 July 1991 to 31 December 1995. The first two indexations were of minor nature, however, the cumulative increase of the two last indexations in the net book value of tangible fixed assets was LTL 610,661 thousand. Due to many movements and lack of separate registrations of the indexed amounts per asset, the Parent company is unable to quantify the effect of the indexations on the balance sheets as of 31 December 2000 and 1999 and, accordingly, we are unable to express an opinion on either the historical cost or fair value of the consolidated and the Parent company's tangible fixed assets in accordance with International Accounting Standards.

4. In our opinion, except for the effect of such adjustments, if any, as might have been required had we been able to perform the procedures discussed in paragraph 3 above, the financial statements referred to above present fairly, in all material respects, the consolidated and the Parent company's financial position as of 31 December 2000 and 1999, and the consolidated and the Parent company's results of operations and cash flows for the years then ended in conformity with International Accounting Standards issued by the International Accounting Standards Committee.

Arthur Andersen
Audit company's licence No. 117

 Per Moeller
  Jonas Akelis

Auditor's licence No. 000002

The audit was completed on 19 March 2001.

Balance Sheets as of 31 December 2000 and 1999 (thousand LTL)

Note	Parent		Group	
	2000	1999	2000	1999
ASSETS				
Fixed assets				
4 Intangible fixed assets				
Goodwill	-	-	12,009	15,705
Other intangible fixed assets	222,340	75,075	237,547	75,898
Total intangible fixed assets	222,340	75,075	249,556	91,603
5 Tangible fixed assets				
Buildings	134,429	186,700	246,489	186,288
Plant and machinery	1,188,067	1,210,512	1,205,296	1,229,357
Other tangible fixed assets	64,380	49,117	78,733	56,099
Construction in progress	74,556	115,597	74,556	115,597
Prepayments for tangible fixed assets	193	133	626	133
Total tangible fixed assets	1,461,625	1,562,059	1,605,700	1,587,474
3 Investments in subsidiaries	209,561	99,205	13	48
Long term accounts receivable	40	88	45	194
Total fixed assets	1,893,566	1,736,427	1,855,314	1,679,319
Current assets				
Inventories	12,622	22,982	12,735	23,589
Tangible fixed assets for sale	-	8,030	-	8,030
6 Investments available for sale	-	2,398	-	44,956
Accounts receivable				
7 Short-term loans provided	76,083	-	-	-
8 Trade accounts receivable	85,379	146,945	86,060	149,580
Other accounts receivable	19,412	22,447	30,360	22,389
Prepayments	4,393	3,407	4,565	3,589
Total accounts receivable	185,267	172,799	120,985	175,558
Accrued revenue	74,471	57,302	74,471	58,144
9 Cash and cash equivalents	40,287	14,847	43,752	18,324
Total current assets	312,647	278,358	251,943	328,601
TOTAL ASSETS	2,206,213	2,014,785	2,107,257	2,007,920

The accompanying notes are an integral part of these financial statements.

Balance Sheets as of 31 December 2000 and 1999 (thousand LTL)

	Parent		Group	
Note	2000	1999	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
10 Share capital	814,913	814,913	814,913	814,913
3 Own shares	-	-	(120,000)	-
Capital reserve	-	7,048	-	7,048
Legal reserve	58,881	58,881	58,881	58,881
Retained earnings	419,614	172,152	419,614	172,152
Total shareholders' equity	1,293,408	1,052,994	1,173,408	1,052,994
18 Deferred profit tax liability	145,722	86,935	179,443	86,840
12 Long-term debt	429,091	485,068	429,091	485,068
13 Deferred revenue	19,309	14,123	19,309	14,123
Current liabilities				
12 Current portion of long-term debt	123,114	52,825	123,114	52,825
Short-term loan	6,000	40,000	-	40,000
Accounts payable	121,971	148,185	110,271	136,342
14 Taxes and salaries payable	15,714	8,590	17,011	9,943
Other current liabilities	8,480	4,314	11,864	6,372
Dividends declared	-	71,209	-	71,209
Accrued liabilities	43,404	50,542	43,746	52,204
Total current liabilities	318,683	375,665	306,006	368,895
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY				
	2,206,213	2,014,785	2,107,257	2,007,920
20 Provisions				
21 Commitments and contingencies				
22 Financial instruments				
23 Subsequent events				

The accompanying notes are an integral part of these financial statements.

March 2001, Vilnius

Tapio Paarma
General manager

Jan-Erik Elserius
Finance director

Statements of Income for the years ended 31 December 2000 and 1999 (thousand LTL)

Note	Parent		Group	
	2000	1999	2000	1999
15 Revenues	1,036,950	974,836	1,038,577	980,299
16 Expenses	(509,011)	(564,259)	(514,956)	(566,450)
EBITDA	527,939	410,577	523,621	413,849
Depreciation and amortisation	(312,254)	(246,899)	(321,453)	(248,222)
6 Gain on sale of investments	9,647	-	168,585	-
Operating profit	225,332	163,678	370,753	165,627
17 Financial income and expenses, net	(40,532)	(21,442)	(37,735)	(21,355)
Profit before result in subsidiaries and associated entities	184,800	142,236	333,018	144,272
3 Profit (loss) from subsidiaries and associated entities	148,218	92	-	(1,944)
Profit before profit tax	333,018	142,328	333,018	142,328
18 Profit tax	(92,604)	(37,963)	(92,604)	(37,963)
NET PROFIT	240,414	104,365	240,414	104,365
Which is distributed as follows:				
Dividends proposed	-	71,209	-	71,209
Transferred to legal reserve	-	22,664	-	22,664
Transferred to retained earnings	240,414	10,492	240,414	10,492
	240,414	104,365	240,414	104,365
19 Basic earnings per share (Litas)	0.30	0.13	0.30	0.13

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Equity of the Parent company for the years ended 31 December 2000 and 1999 (thousand LTL)

<u>Note</u>	Share capital	Capital reserve	Legal reserve	Retained earnings	Total	25
Balance as of 31 December 1998	814,913	7,048	36,217	161,660	1,019,838	s
1999 profit	-	-	-	104,365	104,365	t
11 Transferred to legal reserve	-	-	22,664	(22,664)	-	n
Dividends for 1999	-	-	-	(71,209)	(71,209)	e
Balance as of 31 December 1999	814,913	7,048	58,881	172,152	1,052,994	m
11 Transferred to retained earnings	-	(7,048)	-	7,048	-	e
2000 profit	-	-	-	240,414	240,414	t
Balance as of 31 December 2000	814,913	-	58,881	419,614	1,293,408	a

Consolidated statements of Changes in Equity for the years ended 31 December 2000 and 1999 (thousand LTL)

<u>Note</u>	Share capital	Own shares	Capital reserve	Legal reserve	Retained earnings	Total	25
Balance as of 31 December 1998	814,913	-	7,048	36,217	161,660	1,019,838	s
1999 profit	-	-	-	-	104,365	104,365	t
11 Transferred to legal reserve	-	-	-	22,664	(22,664)	-	n
Dividends for 1999	-	-	-	-	(71,209)	(71,209)	e
Balance as of 31 December 1999	814,913	-	7,048	58,881	172,152	1,052,994	m
3 Acquisition of own shares	-	(120,000)	-	-	-	(120,000)	e
11 Transferred to retained earnings	-	-	(7,048)	-	7,048	-	t
2000 profit	-	-	-	-	240,414	240,414	a
Balance as of 31 December 2000	814,913	(120,000)	-	58,881	419,614	1,173,408	i

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows for the years ended 31 December 2000 and 1999 (thousand LTL)

Note	Parent		Group	
	2000	1999	2000	1999
Cash flow from (to) operating activities:				
Net profit for the period	240,414	104,365	240,414	104,365
Depreciation and amortisation	312,254	246,899	321,453	248,222
Deferred tax	92,602	37,958	92,602	37,958
Write-off of fixed and current assets	22,165	26,348	22,295	25,236
Result of equity method accounting for investments in subsidiaries	(148,218)	(799)	-	1,233
Provision for and write-off of doubtful accounts receivable	6,137	5,058	6,698	5,430
Withholding tax on dividends	-	442	-	442
Elimination of gain on sale of investments	(9,647)	-	(168,585)	-
Elimination of (gain) loss on sale of tangible and intangible fixed assets	(10,935)	3,350	(10,697)	3,350
Currency exchange (gain), net	(9,322)	(5,241)	(9,492)	(5,241)
Interest income	(6,249)	(1,048)	(8,490)	(1,048)
Interest expense	56,027	34,322	55,645	34,322
	545,228	451,654	541,843	454,269
Changes in current assets and current liabilities:				
(Increase) decrease in inventories	9,426	(8,593)	9,793	(7,459)
(Increase) decrease in trade and other accounts receivable	57,839	(74,809)	47,560	(68,935)
(Increase) decrease in prepayments and tangible fixed assets for sale	(986)	75	4,662	2,262
(Increase) decrease in accrued revenue	(17,169)	10,483	(16,327)	10,502
Increase (decrease) in accounts payable	(24,684)	88,341	(24,371)	88,658
Increase (decrease) in other current, accrued liabilities and deferred revenue	4,657	(33,239)	4,662	(32,997)
Increase (decrease) in taxes and salaries payable	7,124	(16,972)	7,069	(29,466)
Net cash from operating activities	581,435	416,940	574,891	416,843

Statements of Cash Flows for the years ended 31 December 2000 and 1999 (cont'd)
(thousand LTL)

	Parent		Group	
Note	2000	1999	2000	1999
Cash flow from (to) investing activities:				
(Acquisition) of tangible and intangible fixed assets	(440,363)	(543,066)	(522,706)	(536,965)
Proceeds from sales of tangible and intangible fixed assets	83,129	5,135	18,239	5,135
(Acquisition) disposal of investments available for sale	12,082	-	213,575	(10,071)
3 (Acquisition) of subsidiaries	-	(41,781)	-	(40,284)
(Acquisition) of own shares	-	-	(120,000)	-
(Increase) decrease in prepayments for tangible fixed assets	(60)	6,714	(493)	6,809
Interest received	6,249	1,048	8,490	1,048
Short-term loans granted	(76,083)	-	-	-
9 Cash, deposited as guarantee	(2,144)	-	(2,144)	-
Dividends received	625	1,106	625	1,106
Net cash (to) investing activities	(416,565)	(570,844)	(404,414)	(573,222)
Cash flow from (to) financing activities:				
Proceeds from long-term debt	270,786	323,476	270,786	323,476
(Repayment of) long-term debt	(260,682)	(58,285)	(260,682)	(58,285)
Proceeds from short-term debt	6,000	68,000	-	68,000
(Repayment of) short-term debt	(40,000)	(148,000)	(40,000)	(148,000)
Proceeds from issue of bonds	12,000	-	12,000	-
Interest (paid) on loans	(58,469)	(18,390)	(58,088)	(18,390)
Dividends (paid)	(71,209)	(28,522)	(71,209)	(28,522)
Net cash from (to) financing activities	(141,574)	138,279	(147,193)	138,279
Net change in cash and cash equivalents	23,296	(15,625)	23,284	(18,109)
Cash and cash equivalents at the beginning of the year	14,847	30,472	18,324	36,433
Cash and cash equivalents at the end of year	38,143	14,847	41,608	18,324

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements for the years ended 31 December 2000 and 1999

(All amounts in thousand LTL unless otherwise stated)

1. General

AB Lietuvos telekomas (hereafter the "Parent company" or the "Parent") is registered in the Republic of Lithuania as a joint stock company from 16 June 1997. Since 12 June 2000, 25% of the Parent company share capital in the form of shares is traded on the National Stock Exchange of Lithuania and in the form of the Global Depository Receipts, representing the Parent company's shares, on the London Stock Exchange.

AB Lietuvos telekomas Group (hereafter the "Group") consists of the fully owned subsidiaries UAB Lintel, UAB Comliet and UAB Lietuvos telekomo verslo sprendimai. AB Lietuvos telekomas is also a sole founder of a fully-controlled non-profit organisation VšĮ Lietuvos telekomo sporto klubas. All the subsidiaries are registered as separate legal entities under the laws of the Republic of Lithuania.

The Group is mainly engaged in provision of fixed telecommunication services in the Republic of Lithuania including Internet and data transmission. The Group also has a right to construct and develop the network for provision of the above mentioned services. Please, refer to Note 4 for a description of the licences that the Group holds.

On 9 June 1998 the Law on Telecommunications was enacted. According to the Law on Telecommunications AB Lietuvos telekomas is granted an exclusive right to install and provide fixed line telephony services in Lithuania until 31 December 2002.

As of 31 December 2000, the Group and the Parent employed 6,293 and 5,926 employees (full-time equivalents) respectively (7,035 and 6,956 as of 31 December 1999).

The registered office of the Parent company is Savanorių ave. 28, Vilnius, Lithuania.

2. Summary of significant accounting policies

General

The accompanying financial statements are prepared in accordance with International Accounting Standards (IAS), except for tangible fixed assets accounting as described below.

Basis of accounting

The accompanying financial statements have been prepared under the historical cost convention, except for tangible fixed assets as described below.

Earlier adoption of International Accounting Standards

The promulgated standards IAS 16 (revised 1998) Property, Plant and Equipment, IAS 22 (revised 1998) Business Combinations, IAS 36 Impairment of Assets, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IAS 38 Intangible Assets have been adopted prior to their effective date as encouraged by the International Accounting Standards Committee (IASC).

Early adoption of IAS standards did not result in any adjustments to the financial statements for the year ended 31 December 1999.

Changes in classification of items in the financial statements

In order to better reflect the revenue generation structure of the Group, revenue reporting categories have been reorganised in a way that is different from the one presented in the audited financial statements as of 31 December 1999 (see Note 15).

Consolidation

The consolidated financial statements of the Group are prepared as a summary of AB Lietuvos telekomas and its fully-owned and controlled subsidiaries - UAB Lintel, UAB Comliet, UAB Lietuvos telekomo verslo sprendimai and VšĮ Lietuvos telekomo sporto klubas - financial statements stated at uniform accounting principles.

Control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The purchase method is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition to the date of disposal.

AB Lietuvos telekomas purchased 100% shares of UAB Lietelija on 18 March 1999. The name of the subsidiary was subsequently changed to UAB Lietuvos telekomo verslo sprendimai (for further details please refer to Note 3).

As explained more fully in Note 3 to these financial statements, AB Lietuvos telekomas has purchased the remaining 59% shares of UAB Comliet on 15 December 1999. As a consequence of this transaction UAB Comliet became a fully-owned subsidiary of AB Lietuvos telekomas.

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) are stated in accordance with the equity method, so that the Parent company includes the results of operations of the subsidiaries and associated entities in the income statement. This means that the recorded value of the investments corresponds to the proportional share of the equity of the subsidiaries and associated entities.

Long-term investments into other entities, where the ownership percentage is less than 20%, are stated at acquisition cost. The carrying value of these long-term investments is reduced to recognise a decline other than temporary in the value of investments, such reduction being determined and made for each investment individually.

Internal profit (loss), intercompany accounts, internal shareholdings, internal dividends and other internal transactions have been eliminated from the consolidated financial statements.

Investments in subsidiaries by the Parent company

Investments in subsidiaries and associated entities where the Parent company holds more than 20% interest in the share capital are stated in accordance with the equity method, so that the Parent company includes the results of operations of the subsidiaries and associated entities in the income statement.

Revenue recognition

Revenue from retail telephony, data transmission and leased line services is recognised net of value added tax and price discounts directly related to the sales. At the end of each fiscal 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. Accrued revenue is adjusted to actual after the reconciliation with the international carrier is made.

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

Intangible fixed assets

Intangible fixed assets of the Group are stated at cost less accumulated amortisation. Amounts paid for patents, trademarks, licences are capitalised and then amortised over the expected periods of benefit. Straight-line amortisation is provided over the estimated useful lives of the assets. The useful lives of intangible fixed assets are set in the range from 3 to 10 years.

	<u>Years</u>
Licences	3 - 10
Software	3 - 5
Goodwill	5
Other intangible fixed assets	5

Goodwill

Any excess of the cost of acquisition over the Group's proportional share of net assets of an acquired company is recognised as a goodwill. Goodwill is amortised using the straight-line method over 5 years.

Tangible fixed assets

Tangible fixed assets are stated at indexed cost less indexed depreciation through 31 December 1995 plus cost less accumulated depreciation for additions since that date. Straight-line depreciation is provided over the estimated useful lives of the assets.

Capitalised in the cost of constructed tangible fixed assets are the borrowing costs, that are directly attributable to the construction of a particular asset.

In accordance with resolutions of the Government of Lithuania, tangible fixed assets have been revalued/indexed four times prior to 31 December 1995 and fixed assets acquired prior to that date, as a result, are stated at neither historical, nor fair value as is required by International Accounting Standards. The indexations came into effect as outlined below.

The first indexation performed as of 1 July 1991 used a factor of 2.2 times the assets' historical cost and accumulated depreciation for assets acquired prior to that date.

The second set of indexation factors varying from 2 to 5 times carrying value and accumulated depreciation was presented by the Government of Lithuania, effective 1 May 1992.

The third indexation was effective 1 May 1994, where separate indexation factors were used for buildings and structures (1-14) and for machinery and equipment (1-10), applied by multiplying both the carrying value and accumulated depreciation of the assets.

The fourth indexation was effective 31 December 1995, with indices also set separately for buildings and structures (1-1.68) and for machinery and equipment (1-1.593), applied by multiplying both the carrying value and accumulated depreciation of the assets.

The factors of the second, third and fourth indexations were in addition to the factors applied using the previous sets of indexation factors.

AB Lietuvos telekomas and the Group depreciate the indexed cost of tangible fixed assets by using the straight-line method and depreciable lives based on estimated economic lives as shown below:

	<u>Years</u>
Buildings and structures	10 - 70
Plant and machinery	5 - 25
Switches, lines and related telecommunication equipment	4 - 25
Computers	3
Vehicles	2 - 10
Other tangible fixed assets	1 - 20

Construction in progress represents tangible and intangible fixed assets under construction and is stated at cost. This includes the cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Inventories

Inventories are principally composed of telecommunication network and maintenance materials and spare parts, where cost is determined based on actual invoiced costs plus costs for delivery of inventories to location. These materials and spare parts are recorded as inventories when purchased and then expensed or capitalised, as appropriate, when installed. Inventories are valued at the lower of cost and net realisable value after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of marketing and distribution.

Tangible fixed assets for sale are stated at the lower of net book value and estimated net realisable value.

Investments available for sale

Investments available for sale are stated at the lower of cost and estimated net realisable value.

Accounts receivable

The Group provides a general reserve for potential losses based on accounts receivable ageing.

Deferred revenue

Deferred revenue represents grants received from PHARE and EBRD for the purchase/improvement of tangible fixed assets and Government grants. Grants received are treated as deferred revenue in the accompanying financial statements. Revenue relating to grants is recognised as a deduction from the appropriate expense or over the useful life of the purchased/improved or received tangible fixed assets.

Accruals and deferrals

Accruals and deferrals are recorded to recognise revenues and costs as they are earned or incurred. Accruals are reported at expected settlement values.

Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Foreign currency transactions

Transactions in foreign currencies are recorded at the official exchange rate applicable at the date of transaction.

Monetary items denominated in foreign currencies in a balance sheet are stated at the official exchange rates in effect at balance sheet date.

Foreign exchange gains or losses are reported in the statement of income.

Profit tax

The Group records the current profit tax related to the taxable income calculated in accordance with the Lithuanian tax legislation.

Deferred profit taxes are recorded for all temporary differences between the financial statements and tax returns. Temporary differences represent differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for profit tax purposes. If it is more likely that some or all differences of a deferred tax asset will not be realised, a valuation allowance is established for that portion.

Segment information

As clear geographical distinctions and separate business lines are absent, the Group does not present segment information.

3. Changes in the Group's organisation

- a) In May 2000 the member of the Group, UAB Lintel, established a fully-owned subsidiary UAB Lintkom for the purpose of acquiring the Parent company's shares in the public offering for long-term investment purposes. In June 2000, UAB Lintkom acquired 4.67% of the Parent company's shares for the total amount of LTL 120,000 thousand. The market value of AB Lietuvos telekomas shares as of 31 December 2000 was equal to approximately LTL 80,000 thousand.
- b) During 1999, the Parent company was holding 41% of UAB Comliet share capital. As of 15 December 1999, the remaining 59% of UAB Comliet shares were acquired for the total amount of LTL 16,134 thousand and UAB Comliet became a fully-owned subsidiary of AB Lietuvos telekomas as of 31 December 1999. This company reduced its activity in providing mobile NMT telecommunication connection and administers the provision of the Wireless Local Loop (WLL) solutions and services to AB Lietuvos telekomas' subscribers. Starting 1 January 2001 the core activity of the company is design and construction of telecommunication objects. Initially services will mainly be provided to AB Lietuvos telekomas' Group.

- c) All issued and outstanding shares of UAB Lietelija, a 100% owned subsidiary of Telia AB, were purchased by AB Lietuvos telekomas on 18 March 1999. The total acquisition price paid by the Parent company amounted to LTL 25,647 thousand, the equity of UAB Lietelija at the moment of acquisition was LTL 7,171 thousand. Subsequently, the name of the subsidiary was changed into UAB Lietuvos telekomo verslo sprendimai. This company serves large business customers of AB Lietuvos telekomas by providing them with integrated solution packages, as well as Internet and data transmission services.

All acquisitions were funded by existing cash.

The profit (loss) before profit tax from subsidiaries included in the Parent's statement of income is as follows:

Subsidiaries	2000	1999
UAB Lintel	144,982	(395)
UAB Comliet	(287)	(1,945)
UAB Lietuvos telekomo verslo sprendimai	3,383	2,432
VšĮ Lietuvos telekomo sporto klubas	140	-
Total profit from subsidiaries	<u>148,218</u>	<u>92</u>

4. Intangible fixed assets

Movements in intangible fixed assets for the Parent company are specified below:

	Licences	Software	Other intangible fixed assets	Total
Cost:				
Balance as of 31 December 1999	37,360	57,254	2,933	97,547
Additions	6,278	3,089	691	10,058
Retirements	(9)	(346)	(252)	(607)
Transfers from tangible fixed assets	-	714	-	714
Transfers between captions	-	5	(5)	-
Transfers from construction in progress	<u>5,896</u>	<u>152,463</u>	<u>3,211</u>	<u>161,570</u>
Balance as of 31 December 2000	<u>49,525</u>	<u>213,179</u>	<u>6,578</u>	<u>269,282</u>
Accumulated Depreciation:				
Balance as of 31 December 1999	6,420	15,296	756	22,472
Charge for the year	7,436	16,618	655	24,709
Retirements	(5)	(193)	(136)	(334)
Transfers from tangible fixed assets	-	95	-	95
Transfers between captions	<u>-</u>	<u>2</u>	<u>(2)</u>	<u>-</u>
Balance as of 31 December 2000	<u>13,851</u>	<u>31,818</u>	<u>1,273</u>	<u>46,942</u>
Net Book Value as of 31 December 2000	<u>35,674</u>	<u>181,361</u>	<u>5,305</u>	<u>222,340</u>
Net Book Value as of 31 December 1999	<u>30,940</u>	<u>41,958</u>	<u>2,177</u>	<u>75,075</u>

Movements in intangible fixed assets for the Group are specified below:

	Licences	Software	Goodwill	Other intangible fixed assets	Total
Cost:					
Balance as of 31 December 1999	38,244	58,253	18,476	3,092	118,065
Additions	6,278	18,088	-	1,306	25,672
Retirements	(9)	(350)	-	(324)	(683)
Transfers between captions	-	5	-	(5)	-
Transfers from tangible fixed assets	-	732	-	-	732
Transfers from construction in progress	5,896	152,463	-	3,211	161,570
Balance as of 31 December 2000	50,409	229,191	18,476	7,280	305,356
Accumulated Depreciation:					
Balance as of 31 December 1999	6,612	16,217	2,771	862	26,462
Charge for the year	7,524	17,729	3,696	695	29,644
Retirements	(5)	(196)	-	(210)	(411)
Transfers between captions	-	2	-	(2)	-
Transfers from tangible fixed assets	-	105	-	-	105
Balance as of 31 December 2000	14,131	33,857	6,467	1,345	55,800
Net Book Value as of 31 December 2000	<u>36,278</u>	<u>195,334</u>	<u>12,009</u>	<u>5,935</u>	<u>249,556</u>
Net Book Value as of 31 December 1999	<u>31,632</u>	<u>42,036</u>	<u>15,705</u>	<u>2,230</u>	<u>91,603</u>

AB Lietuvos telekomas holds a licence for provision of fixed local, long distance and international telecommunication services, also including telegraph, data transmission and radio broadcasting. 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 amounts to LTL 1,691 thousand and accumulated amortisation to LTL 535 thousand as of 31 December 2000. The licence is amortised over a period of 10 years on a straight-line basis.

The subsidiary UAB Comliet holds the licence granted on 31 October 1997 for provision of NMT 450 mobile cellular services in Lithuania. The licence is valid till 31 October 2007. Due to the changes in the company's activities the request for amendment of the license has recently been submitted by the company to the Ministry of Transport and Communications. The cost of the licence amounts to LTL 884 thousand and accumulated amortisation to LTL 280 thousand as of 31 December 2000. The licence is amortised over a period of 10 years on a straight-line basis.

Change in amortisation lives

The Board of the Parent company reviewed useful lives of its intangible fixed assets, effective from 1 January 2000. This change has resulted in an increase of amortisation expenses for the year ended 31 December 2000 by approximately LTL 7,590 thousand as compared to amortisation expenses calculated using the previous rates.

5. Tangible fixed assets

Tangible fixed assets for the Parent company are specified below:

	Buildings	Plant and machinery	Other tangible fixed assets	Construction in progress	Total
Cost:					
Balance as of 31 December 1999	231,865	2,019,355	81,574	115,597	2,448,391
Additions	2,434	56,074	16,047	362,582	437,137
Retirements	(81,626)	(121,095)	(10,260)	(6,553)	(219,534)
Transfers between captions	223	(35,175)	34,952	-	-
Transfers to intangible fixed assets	-	(714)	-	(161,570)	(162,284)
Transfers from construction in progress	10,202	222,929	2,369	(235,500)	-
Transfers from fixed assets for sale	14,413	-	-	-	14,413
Balance as of 31 December 2000	<u>177,511</u>	<u>2,141,374</u>	<u>124,682</u>	<u>74,556</u>	<u>2,518,123</u>
Accumulated Depreciation:					
Balance as of 31 December 1999	45,165	808,843	32,457	-	886,465
Charge for the year	7,381	258,650	20,441	-	286,472
Retirements	(15,980)	(98,108)	(8,523)	-	(122,611)
Transfers between captions	56	(15,983)	15,927	-	-
Transfers to intangible fixed assets	-	(95)	-	-	(95)
Transfers from fixed assets for sale	6,460	-	-	-	6,460
Balance as of 31 December 2000	<u>43,082</u>	<u>953,307</u>	<u>60,302</u>	<u>-</u>	<u>1,056,691</u>
Net Book Value as of 31 December 2000	<u>134,429</u>	<u>1,188,067</u>	<u>64,380</u>	<u>74,556</u>	<u>1,461,432</u>
Net Book Value as of 31 December 1999	<u>186,700</u>	<u>1,210,512</u>	<u>49,117</u>	<u>115,597</u>	<u>1,561,926</u>

Tangible fixed assets for the Group are specified below:

	Buildings	Plant and machinery	Other tangible fixed assets	Construction in progress	Total
Cost:					
Balance as of 31 December 1999	231,453	2,054,205	102,421	115,597	2,503,676
Additions	55,290	57,359	23,574	362,582	498,805
Retirements	(10,261)	(123,317)	(12,326)	(6,553)	(152,457)
Transfers between captions	223	(35,128)	34,905	-	-
Transfers to intangible fixed assets	-	(714)	(18)	(161,570)	(162,302)
Transfers from construction in progress	10,202	222,929	2,369	(235,500)	-
Transfers from fixed assets for sale	14,413	-	-	-	14,413
Balance as of 31 December 2000	<u>301,320</u>	<u>2,175,334</u>	<u>150,925</u>	<u>74,556</u>	<u>2,702,135</u>
Accumulated Depreciation:					
Balance as of 31 December 1999	45,165	824,848	46,322	-	916,335
Charge for the year	8,368	261,602	24,429	-	294,399
Retirements	(5,218)	(100,312)	(14,498)	-	(120,028)
Transfers between captions	56	(16,005)	15,949	-	-
Transfers to intangible fixed assets	-	(95)	(10)	-	(105)
Transfers from fixed assets for sale	6,460	-	-	-	6,460
Balance as of 31 December 2000	<u>54,831</u>	<u>970,038</u>	<u>72,192</u>	<u>-</u>	<u>1,097,061</u>
Net Book Value as of 31 December 2000	<u>246,489</u>	<u>1,205,296</u>	<u>78,733</u>	<u>74,556</u>	<u>1,605,074</u>
Net Book Value as of 31 December 1999	<u>186,288</u>	<u>1,229,357</u>	<u>56,099</u>	<u>115,597</u>	<u>1,587,341</u>

Change in depreciation lives

The Board of the Parent company reviewed useful lives of its tangible fixed assets, effective from 1 January 2000. This change has resulted in an increase of depreciation expenses for the year ended 31 December 2000 by approximately LTL 22,000 thousand as compared to depreciation expenses calculated using the previous rates.

Tangible fixed assets under finance lease

The cost of tangible fixed assets held under finance lease was LTL 22,601 thousand and LTL 23,101 thousand and the net book value was LTL 12,025 thousand and LTL 16,834 thousand as of 31 December 2000 and 1999 respectively.

The effect of indexations

The Parent company has revalued its tangible fixed assets four times prior to 31 December 1995. The two first indexations were of a minor nature and below is presented the effect of the two last indexations performed by applying the revaluation factors, presented in Note 2 above:

	Indexation increase in		
	Carrying value	Accumulated depreciation	Net book value
Third indexation	616,951	(215,576)	401,375
Fourth indexation	365,185	(155,899)	209,286
Cumulative effect of indexations	982,136	(371,475)	610,661

The effect of all four indexations has been included in the statutory share capital.

As a result of the indexations, property, plant and equipment is not stated at either historical cost or fair value as required by International Accounting Standards.

6. Investments available for sale

- a) The subsidiary UAB Lintel held 28.4% of shares in UAB Bitė GSM as of 31 December 1999.

According to the agreement between AB Lietuvos telekomas and its shareholders and as directed by the State Competition and Consumer Rights Protection Board, in 1999 the Group made a decision to sell the shares of UAB Bitė GSM.

Based on the above decision, as the Group no longer exercised significant influence over the associate, the financial investment in UAB Bitė GSM was classified as investments available for sale and carried at cost in the amount of LTL 41,198 thousand in the consolidated financial statements as of 31 December 1999.

In January 2000 the shares of UAB Bitė GSM held by UAB Lintel were sold to Tele Danmark A/S at the sales price of LTL 200,000 thousand.

- b) In February 2000, UAB Lintel also sold the shares of UAB Mokėjimo Kortelių Sistemai for the total amount of LTL 1,496 thousand (the cost value of the investment amounted to LTL 1,360 thousand).

- c) In November 2000, the Parent company sold its investment in AB Vilniaus Bankas shares for the total amount of LTL 12,045 thousand. The cost value of the investment amounted to LTL 2,398 thousand.

Net gain on the sales of investments in UAB Bitė GSM, UAB Mokėjimo Kortelių Sistemai and AB Vilniaus Bankas accounted for in the consolidated financial statements as of 31 December 2000 amounts to LTL 168,585 thousand.

7. Short-term loans provided

According to the agreement signed on 30 October 2000, the Parent company provided a short-term loan of LTL 1,100 thousand to the controlled entity VšĮ Lietuvos telekomo sporto klubas. The loan has to be repaid until 30 October 2001.

According to the agreement dated 6 October 2000, the Parent company granted a credit line facility of LTL 105,000 thousand for a period ending 30 October 2001 to its subsidiary UAB Lintel. As of 31 December 2000, UAB Lintel has used LTL 74,983 thousand of this facility.

8. Trade accounts receivable

Trade accounts receivable are specified as follows:

	Parent		Group	
	2000	1999	2000	1999
Receivables from business and residents	75,010	69,025	75,577	68,762
Receivable from the Government of Lithuania a)	23	71,822	23	71,822
Other trade accounts receivable	18,156	12,833	19,402	16,250
Less: provision for doubtful accounts receivable				
from business and residential customers	(6,529)	(6,321)	(6,698)	(6,321)
Less: provision for other doubtful trade accounts receivable	(1,281)	(414)	(2,244)	(933)
Total trade accounts receivable	<u>85,379</u>	<u>146,945</u>	<u>86,060</u>	<u>149,580</u>

a) Accounts receivable from the Government of Lithuania represent the compensations to AB Lietuvos telekomas for providing residential subscribers with one hour of local calls free of charge and partial compensation for fixed telephone connection fees and subscription fees during 1999 which have been accounted for as revenue under respective captions in the statement of income. According to a decree of the Government of Lithuania, one hour of local calls free of charge was provided for certain socially supported groups during the period from 1 February 2000 to 1 July 2000.

Based on the Parent company's agreement with the Government of Lithuania represented by the Ministry of Finance dated 31 December 1999, the Government repaid its debt amounting to LTL 82,776 thousand for the free-of-charge services out of the share sale proceeds in June 2000.

Below is a reconciliation of movements in provisions for accounts receivable from business and residents:

	2000	
	Parent	Group
Provision for doubtful accounts receivable at the beginning of year	6,321	6,321
Add: additional provisions	5,529	5,698
Less: accounts receivable written-off	<u>(5,321)</u>	<u>(5,321)</u>
Provision for doubtful accounts receivable at the end of year	<u>6,529</u>	<u>6,698</u>

9. Cash and cash equivalents

The cash balances at the year end were as follows:

	Parent		Group	
	2000	1999	2000	1999
Cash	38,143	14,847	41,608	18,324
Restricted cash	<u>2,144</u>	<u>-</u>	<u>2,144</u>	<u>-</u>
Total cash and cash equivalents	<u>40,287</u>	<u>14,847</u>	<u>43,752</u>	<u>18,324</u>

Restricted cash includes short-term deposits in AB Vilniaus Bankas and AB Lietuvos Taupomasis Bankas totalling to LTL 2,144 thousand in relation to loans granted by the banks to the Parent company's employees to finance purchase or reconstruction of private apartments.

10. Share capital

The shareholders' structure of AB Lietuvos telekomas as of 31 December 2000 is as follows:

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

On 12 June 2000, the State Property Fund sold 25% of AB Lietuvos telekomas shares by the way of public listing on the National Stock Exchange of Lithuania and by the way of listing the Global Depository Receipts, representing the Parent company's shares, on the London Stock Exchange. Among other institutional investors, 4.67% of the shares of the Parent company were acquired by UAB Lintkom, a fully-owned subsidiary of UAB Lintel, which is a part of the Group (for more details on UAB Lintkom please refer to Note 3).

The composition of AB Lietuvos telekomas share capital is as follows:

	<u>2000</u>	<u>1999</u>
Ordinary registered shares	814,912,759	774,447,548
Employee ordinary registered shares a)	-	40,465,212
Special share b)	<u>1</u>	<u>-</u>
Total	<u>814,912,760</u>	<u>814,912,760</u>

All shares have a par value of LTL 1, are authorised, issued and fully paid.

- a) In accordance with the Shareholders' and AB Lietuvos telekomas' agreement signed by the State Property Fund, AB Lietuvos telekomas and Amber Teleholding A/S on 7 July 1998 4.97% shares of the Parent company were sold to its employees by 23 August 1999 at par value. The restriction to trade on the National Stock Exchange of Lithuania was imposed on these shares for the period of one year, which ended on 23 August 2000, therefore, these shares were transferred to common shares.
- b) According to the Shareholders' and AB Lietuvos telekomas' agreement signed by the State Property Fund, AB Lietuvos telekomas 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, effective after the ownership percentage of the State Property Fund in the Parent company became less than 25%. The State Property Fund will retain special rights attached to this share and outlined in the Parent company's By-laws until 1 January 2003. The rights assigned to the special share are as follows:
 - i) veto right for decisions in respect of the status of the special share, suspension of the activity of the Parent company, reorganisation or liquidation of the Parent company;
 - ii) right to express opinion on any issue discussed at the General meeting of Shareholders;
 - iii) right to call General meeting of Shareholders and propose issues to be discussed therein.

11. Reserves

- a) The capital reserve represented a temporary reserve for share capital increase that was applicable when the Government of Lithuania had a controlling interest in the Parent company (please refer to Note 10). In 2000 the Parent company decided to transfer this reserve to retained earnings as there is no further intention to use this reserve for its initial purpose.
- b) As mandated by the Law on Stock Companies, in 1999 the Parent company allocated 5% of the distributable retained earnings presented in the local financial statements prepared mainly for tax reporting purposes to the legal reserve. These transfers should be made on a yearly basis until the legal reserve reaches 10% of the share capital.

12. Long-term debt

The outstanding long-term loans and leasing liabilities of the Parent company as of 31 December 2000 and 1999 can be specified as follows:

Lending agency	Original currency	Outstanding balance (LTL thousand) 2000	Outstanding balance (LTL thousand) 1999
<i>Loans</i>			
Swedbank	USD	304,000	200,000
OTE	USD	-	78,737
EBRD ¹⁾	USD	60,000	70,000
AB Vilniaus Bankas	LTL	49,800	50,000
Nordic Investment Bank	USD	76,000	50,000
JEXIM ¹⁾	JPY	24,883	32,571
DBTG ²⁾	DKK	3,493	10,283
AB Vilniaus Bankas ¹⁾	DKK	5,267	6,854
Ericsson	DEM	10,428	14,564
GVD Rahoitus	DEM	-	8,377
GVD Rahoitus	DEM	2,283	4,117
KfW ¹⁾	DEM	-	1,050
Issued Bonds ³⁾	LTL	12,000	-
		<u>548,154</u>	<u>526,553</u>
<i>Leasing</i>			
UAB Vilniaus Banko lizingas	LTL	4,051	11,340
Total long-term debt		552,205	537,893
Less: current portion of long-term debt		(123,114)	(52,825)
Long-term debt, net of current portion of long term debt		<u>429,091</u>	<u>485,068</u>

¹⁾ The loans are guaranteed by the Republic of Lithuania.

²⁾ The contract amount was amended according to the agreement signed on 14 May 1999.

³⁾ On 12 October 2000, the Parent company issued 12 thousand 10-year bonds bearing 12% coupon rates, LTL 1,000 nominal value each.

The carrying amounts of the above loans and leasing payables approximates their fair value.

The future maturity of long-term debt is as follows:

<u>Year</u>	
2001	123,114
2002	84,891
2003	98,249
2004	87,681
2005	61,970
Thereafter	<u>96,300</u>
Total long-term debt	<u>552,205</u>

13. Deferred revenue

	Parent		Group	
	2000	1999	2000	1999
Grants received from PHARE a)	12,276	12,276	12,276	12,276
Grants received from EBRD	555	555	555	555
Tangible fixed assets received for free from suppliers	4,142	4,142	4,142	4,142
Government grants received b)	6,454	-	6,454	-
Less: amortisation	(4,118)	(2,850)	(4,118)	(2,850)
Total deferred revenue	<u>19,309</u>	<u>14,123</u>	<u>19,309</u>	<u>14,123</u>

a) Grants received from PHARE represent amounts of LTL 12,276 thousand received in accordance with the agreement between the European Union and the Government of Lithuania. The grants have been used for laying the fibre-optic cable lines for Klaipėda-Marijampolė, Šiauliai-Radviliškis, Kaunas-Druskininkai and Vilnius-Druskininkai as well as purchase of associated transmission equipment to complete a ring circuit. The grants are being amortised and recognised as income over the useful life of the related purchased/improved tangible fixed assets.

b) Government grants represent cash received in 2000 as a subsidy to the Parent company for the buyback of telecom networks constructed at the customers' expense. These grants will be amortised over the useful life of the telecom networks capitalised during the buyback process. For further details please refer to Note 21.

14. Taxes and salaries payable

	Parent		Group	
	2000	1999	2000	1999
Social security	5,465	362	5,927	554
Salaries payable	3,753	426	4,243	812
Vacation pay accrual	3,359	3,603	3,599	3,809
Personal income tax	2,827	179	2,848	289
Withholding tax	300	3,075	300	3,075
Other taxes	10	945	94	1,404
Total taxes and salaries payable	<u>15,714</u>	<u>8,590</u>	<u>17,011</u>	<u>9,943</u>

15. Revenues

Revenues can be analysed as follows:

	Parent		Group	
	2000	1999	2000	1999
Fixed telephony revenues				
Subscription, installation and other charges	244,835	204,206	244,835	204,206
Domestic traffic revenues	431,653	449,280	431,664	449,280
International traffic revenues	104,916	126,108	104,916	126,108
Payphones	27,589	31,516	27,589	31,516
Total fixed telephony services	808,993	811,110	809,004	811,110
Wholesale revenues	121,018	105,251	119,955	105,251
Internet and data communication revenues	32,884	14,791	39,172	21,335
Leased lines revenue	22,780	21,820	21,597	23,041
Equipment sales and other revenues	51,275	21,864	48,849	19,562
Total revenues	<u>1,036,950</u>	<u>974,836</u>	<u>1,038,577</u>	<u>980,299</u>

16. Expenses

Expenses can be analysed as follows:

	Parent		Group	
	2000	1999	2000	1999
Employee related expenses	183,560	223,539	202,853	230,547
Expenses for operator services	108,470	122,176	107,468	122,176
Other operating expenses	216,981	218,544	204,635	213,727
Total expenses	<u>509,011</u>	<u>564,259</u>	<u>514,956</u>	<u>566,450</u>

17. Financial income and expenses, net

Financial income and expenses can be specified as follows:

	Parent		Group	
	2000	1999	2000	1999
Gain on currency exchange	18,963	17,900	19,803	17,900
Penalties received	1,465	5,026	1,465	5,026
Bank interest received	6,249	1,048	8,490	1,048
Other	120	730	123	819
Total financial income	<u>26,797</u>	<u>24,704</u>	<u>29,881</u>	<u>24,793</u>
Interest on loans	(56,027)	(34,322)	(55,645)	(34,322)
Loss on currency exchange	(9,640)	(11,619)	(10,309)	(11,619)
Other	(1,662)	(205)	(1,662)	(207)
Total financial expenses	<u>(67,329)</u>	<u>(46,146)</u>	<u>(67,616)</u>	<u>(46,148)</u>
Total financial income/(expenses), net	<u>(40,532)</u>	<u>(21,442)</u>	<u>(37,735)</u>	<u>(21,355)</u>

18. Profit tax

The standard Lithuanian profit tax rate is 24%, starting from 1 January 2000. Profit tax rate has been reduced from 29% applied up to the year 2000.

	Parent		Group	
	2000	1999	2000	1999
Profit tax				
Profit for the year before profit tax according to IAS	333,018	142,328	333,018	142,328
Changes in temporary differences	(213,216)	(260,165)	(361,610)	(260,678)
Permanent differences	(88,072)	51,343	60,976	53,577
Realisation of tax loss carry forward	(31,730)	-	(36,509)	-
Taxable profit (loss) for the year	-	(66,494)	(4,125)	(64,773)
Current profit tax	-	-	(2)	(5)
Change in deferred profit tax of the Parent	(58,787)	(38,053)	(92,602)	(37,958)
Profit tax charge of subsidiaries	(33,817)	90	-	-
Profit tax (expense) charged to the statement of income	<u>(92,604)</u>	<u>(37,963)</u>	<u>(92,604)</u>	<u>(37,963)</u>

	Parent		Group	
	2000	1999	2000	1999
Deferred profit tax				
Temporary differences	(733,765)	(520,549)	(878,033)	(516,423)
Tax loss carry forward, net	126,591	158,321	136,471	169,071
	(607,174)	(362,228)	(741,562)	(347,352)
Deferred profit tax before valuation allowance	(145,722)	(86,935)	(177,975)	(83,365)
Less: valuation allowance	-	-	(1,468)	(3,475)
Deferred profit tax, net	<u>(145,722)</u>	<u>(86,935)</u>	<u>(179,443)</u>	<u>(86,840)</u>
Components of deferred profit tax				
Deferred profit tax asset:				
Depreciation in excess of tax rates	65,845	38,811	65,845	38,811
Loss carry forward	30,382	37,997	32,753	40,577
Effect of change in tax law	932	-	1,098	-
Other	3,664	9,174	4,523	7,319
Deferred profit tax asset before valuation allowance	100,823	85,982	104,220	86,707
Less: valuation allowance	-	-	(1,468)	(3,475)
Deferred profit tax asset after valuation allowance	<u>100,823</u>	<u>85,982</u>	<u>102,752</u>	<u>83,232</u>
Deferred profit tax liability:				
Acquisitions of fixed assets included in calculation of investment incentive, net	(242,897)	(170,956)	(278,547)	(168,111)
Other	(3,648)	(1,961)	(3,648)	(1,961)
Deferred profit tax liability	<u>(246,545)</u>	<u>(172,917)</u>	<u>(282,195)</u>	<u>(170,072)</u>
Deferred profit tax, net	<u>(145,722)</u>	<u>(86,935)</u>	<u>(179,443)</u>	<u>(86,840)</u>

According to the revised corporate profit tax law, the Group (except for UAB Lietuvos telekomo verslo sprendimai, which has not chosen the method of the tax incentive calculation) subtracts the investment directly in the calculation of taxable profit in the current year, where investment is defined as acquisition of tangible fixed assets financed by internal or external resources. Tax losses can be carried forward for 5 years and offset against future taxable income.

18. Profit tax (cont'd)

Reconciliation of tax expense and profit tax is presented below:

	Parent		Group	
	2000	1999	2000	1999
Profit for the year before profit tax according to IAS	333,018	142,328	333,018	142,328
Tax at the applicable standard tax rate of 24%	79,924	34,159	79,924	34,159
Tax effect of expenses that are not deductible in determining taxable profit:				
Fixed asset write-offs	9,912	6,516	9,912	6,516
Other expenses	7,746	7,906	7,913	8,250
	17,658	14,422	17,825	14,766
Tax effect of revenues that are not taxable in determining taxable profit:				
Result of subsidiaries under equity method	(35,603)	(192)	-	-
Other non taxable revenue	(3,192)	(1,908)	(3,191)	(1,908)
	(38,795)	(2,100)	(3,191)	(1,908)
Reduction in opening deferred taxes resulting from the change in corporate profit tax law	-	(8,428)	(486)	(5,579)
Valuation allowance for deferred tax asset	-	-	(1,468)	(3,475)
Profit tax charge (income) of subsidiaries	33,817	(90)	-	-
Profit tax expense	92,604	37,963	92,604	37,963

19. Basic earnings per share

Calculations of the basic earnings per share of the Group are presented below:

	Net profit	Number of shares (thousand)	Basic earnings per share
Year ended 31 December 2000	240,414	793,830 *	0.30
Year ended 31 December 1999	104,365	814,913	0.13

* - weighted average number of shares is calculated as follows:

Shares (thousand) outstanding as of 1 January 2000	814,913
Treasury shares (thousand) acquired by UAB Lintkom on 12 June 2000 (Note 10)	(38,095)
Shares (thousand) outstanding as of 31 December 2000	776,818
Weighted average number of shares: $814,913 \times 163/365 + 776,818 \times 202/365 = 793,830$	

20. Provisions

Restructuring

Due to the change of shareholders following the privatisation in mid-1998, significant organisational changes were implemented at the Parent company. In order to optimise the number of employees in 1998 the Parent company has launched a severance program under which employees are offered an option of leaving the Parent company and being compensated accordingly by making one-time payments without any additional present or future obligations involved. During the year of 2000 the actual amount of compensations paid to 864 employees amounted to LTL 13,011 thousand (LTL 27,070 thousand were paid during the 1999 for 1,644 employees). As the program is committed to be continued during the first quarter of the year 2001, the Parent company has included an additional accrual of LTL 2,000 thousand in the financial statements as of 31 December 2000.

21. Commitments and contingencies

Plans for network development

Mandated by the Law on Telecommunications, AB Lietuvos telekomas has the exclusive right to provide fixed telephony services until the end of 2002. In order to prepare itself to meet the increasing market demands and the competition at that date, the Parent company has developed numerous plans for the development and reconstruction of the network.

Numerous projects have been started or are expected to be started in 2001. The total estimated amount of investments planned for the year 2001 are almost LTL 400 million, the majority of which are intended to be used for telecommunications network improvement, IT, data transmission and Internet related projects.

Service contract

On 7 July 1998 AB Lietuvos telekomas, Sonera OY and Telia AB signed a service contract, according to which Sonera OY and Telia AB are to provide management, accounting, marketing and other services directly or indirectly, through their established company. In accordance with this contract, Sonera OY and Telia AB established a local company UAB Sontel. The present service agreement between the Parent company and UAB Sontel expires in mid-2001.

Buyback of telecom networks

The Law on Telecommunications dated 9 June 1998, article 16.9, states that AB Lietuvos telekomas shall buyback telecom networks constructed at the customers' expense during the period from 1970 to 2000. At the date of release of these financial statements, the total number of the claims received by the Parent company is 4,654, based on which AB Lietuvos telekomas has estimated the total amount of LTL 18,000 thousand of buyback fees to be paid. As of 6 January 2000 the Government of Lithuania has approved the order on buyback of telecom networks, by which it has committed to subsidise LTL 10,000 thousand of the total claim amount.

The Government subsidy received is accounted for as deferred revenue and amortised during the useful life of the related telecom networks capitalised during the buyback process.

22. Financial instruments

Credit risks

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures. The Group has no significant concentration of credit risk with any single counterparty or group counterparties.

Fair value of financial instruments

Financial instruments held to maturity in the normal course of business are recorded at cost or redemption amount as appropriate. The recorded amount is described below as the carrying amount, otherwise known as book value.

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Fair value of financial instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- a) Cash and cash equivalents. The carrying amount of cash and other financial assets approximates fair value.
- b) Short-term loans. The carrying amount approximates fair value because of the short period to maturity of the instrument.
- c) Long-term debt. The fair value of the long term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their carrying amounts.

Management believes that the exposure to interest rate risk of financial assets and liabilities as of 31 December 2000 was minimal since their deviation from their respective fair values was not significant.

23. Subsequent events

Establishment of a subsidiary

On 4 December 2000 the Parent company entered into an agreement with Nexcom Telecommunications LLC (USA) for the purpose of founding a limited liability company UAB Voicecom which will engage in provisions of VoIP services. According to the agreement, the Parent company is a holder of 60% of the share capital of the entity. UAB Voicecom has not launched its operations by the year-end 2000. The legal registration procedure of the new company was completed on 6 March 2001. The Parent company has fully paid in its contribution.

Introduction of per-second billing

According to the Rules of the Fixed Telecommunication Services, issued by the Ministry of Communication of the Republic of Lithuania on 1 February 2001, the Parent company is required to introduce the per-second billing starting from 1 May 2001. The Parent is currently in the process of negotiations with the regulatory body in respect to the related issues.

Issue of LTL Fixed Rate Notes

In January 2001 the Parent company started a process of the issue of LTL Fixed Rate Notes due in 2004 for the total expected amount of LTL 150 million based on the Offering Circular in accordance with the Listing Rules of the Luxembourg Stock Exchange. The proceeds from the issue of the notes shall be used for the refinancing of the Parent's debt presently denominated in US dollars in anticipation of the future change in the Government policy of Litas being pegged to the US dollar. The final signing was completed on the 19 March 2000.