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General Manager's Report

1999 was a year full of challenges. The rapid development of Lietuvos telekomas that began in 1998 increased in 1999. This entailed drastic changes to the organisation, huge investment programs and a network build-out that was unprecedented in the Baltic States. Other changes during the year were aimed at developing the staff and preparation in anticipation of a fully competitive market in 2003. At the end of 1999 and the beginning of 2000, the forthcoming IPO absorbed considerable management time and effort and a lot of work has been done and continues in order to conclude that process in the best possible way. By making one tariff change in April 1999 and another one in February 2000, Lietuvos telekomas continued the tariff rebalancing that started in 1998. Those changes were aimed at increasing local call tariffs and reducing fixed to mobile and international call tariffs. A number of changes to the management structure were implemented during 1999. Structural changes have been made and our customers better understand the tariff policy of Lietuvos telekomas. These were aimed at creating a more customer-oriented, functional and centralised organisation. Lietuvos telekomas Y2K Project achieved its objectives fully and was completed successfully. Not one of our products and services was affected by the year 2000 problem. The project was executed according to international recommendations.

As Lithuania has applied for EU membership, in the coming years the accession process will profoundly affect the legal and regulatory environment in Lithuania. In order to better prepare for this, Lietuvos telekomas became a member of ETNO, an organisation for the European Telecom Network Operators. This organisation will increase the visibility of Lietuvos telekomas in Europe and give us invaluable understanding of changes in the EU.

In spite of the difficult economic conditions experienced in Lithuania during 1999 nevertheless Lietuvos telekomas was able to increase the revenues by 8.1% to over 980 million Litass and profit before tax by 23% to over 142 million Litass. Increased management and technological efficiency has resulted in a 60% growth of Earnings per share year on year. This was a very encouraging performance.

Development of a customer-oriented company has been one of the highest priorities during 1999. A major development during the year was the implementation of the Loyalty Program for business customers. This program enables customers to get individual discounts and service packages. A new Customer Care and Billing system will be implemented in Lietuvos telekomas in 2001. The project started in November 1999 and the top 200 business customers will use the new system in the year 2000. Another priority area has been development of sales offices as part of the service offering.

Internet in all its forms and e-commerce are major areas of development. In Lietuvos telekomas we have invested heavily in the development of *Takas* dial-up. It was introduced in 1998 and was the second largest Internet dial-up provider in the market in 1999. One example of the importance we place on Internet is the educational project in Šiauliai. The project was launched December 1, 1999 and its aim was to support the education system and train future users of information technologies. The project provides schools with digital telephone lines for *Takas* service and discounts for the use of our Internet services. During 1999 we have investigated market demand for data communication services. Lietuvos telekomas is providing high quality Digital Leased Line and X.25 packet switched services and has strengthened its position in Frame Relay provision.

In 1999 Lietuvos telekomas and Omnitel launched a joint project of common services. There are plans to offer new solutions to business and residential customers, which are expected to enable a more efficient use of fixed and mobile services and provide other advantages. In the future, package solutions such as a common number, a common bill, a single telephone or a single service should be possible.

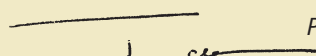
In 1999, following the Network Master Plan, we installed switching capacity for about 170,000 new lines for modernisation of old analogue lines or party lines. During the year we installed a new international switch and transit switch in Kaunas. We

installed almost 700 km of fibre optic cables in the regional and national rings. The average digitalisation rates for business customers in the five big cities amount to 66%, in Klaipėda this average rate is up to 95%. In December 1999, Lietuvos telekomas took 100% ownership of UAB Comliet, NMT-450. Comliet has good coverage and that makes it possible to use the Wireless Local Loop solution to enable fast deployment of basic voice services in all of Lithuania, including rural areas. At the end of 1999 Lietuvos telekomas established an IN (Intelligent Network) node for modern service development and production. In 2000 we plan to offer our customers a number of new services, including universal number and televoting services. These new services will open business opportunities for our customers. One area where the IN platform will be crucial is the implementation of integrated fixed and mobile services. The length of the copper access network is 105,000 km and will continuously be expanded to provide access to all customers. Modern operation of the network and new digital technology has radically improved network quality.

Lietuvos telekomas is and plans to continue to be the preferred employer in Lithuania. There are a number of projects in place to reach that goal and in 1999 over 16 million Litas was invested in training for our employees, a 20% increase over 1998. During 1999, a Motivation System and Tools project started with the goal to develop a set of management tools and the first survey of Company staff was carried out. It was also decided to implement a Graduate Trainee Program. The first group was hired and the program was successfully implemented during the year. Lietuvos telekomas is also using a two-level training and testing of PC users according to ECDL standards.

In 1999 Lietuvos telekomas invested about 550 mln Lt, the biggest investment ever in our history and a 40% increase on the prior year. 70% of that investment went for modernisation and development of the network. Another main area of investment was information technology and the implementation of the first Oracle financial system in Lithuania. In 2000 substantial funds will continue to be invested in constructing digital networks, access network, party line replacement and implementation of information technology service projects. Lietuvos telekomas' share in Bitė GSM (28.4%) was sold at the end of 1999, thereby fulfilling the agreement between Competition and consumer rights protection authority and Lietuvos telekomas. The Government of Lithuania has fulfilled its obligation to existing and former Lietuvos telekomas employees, as 5% of the shares owned by the State Property Fund were sold to them.

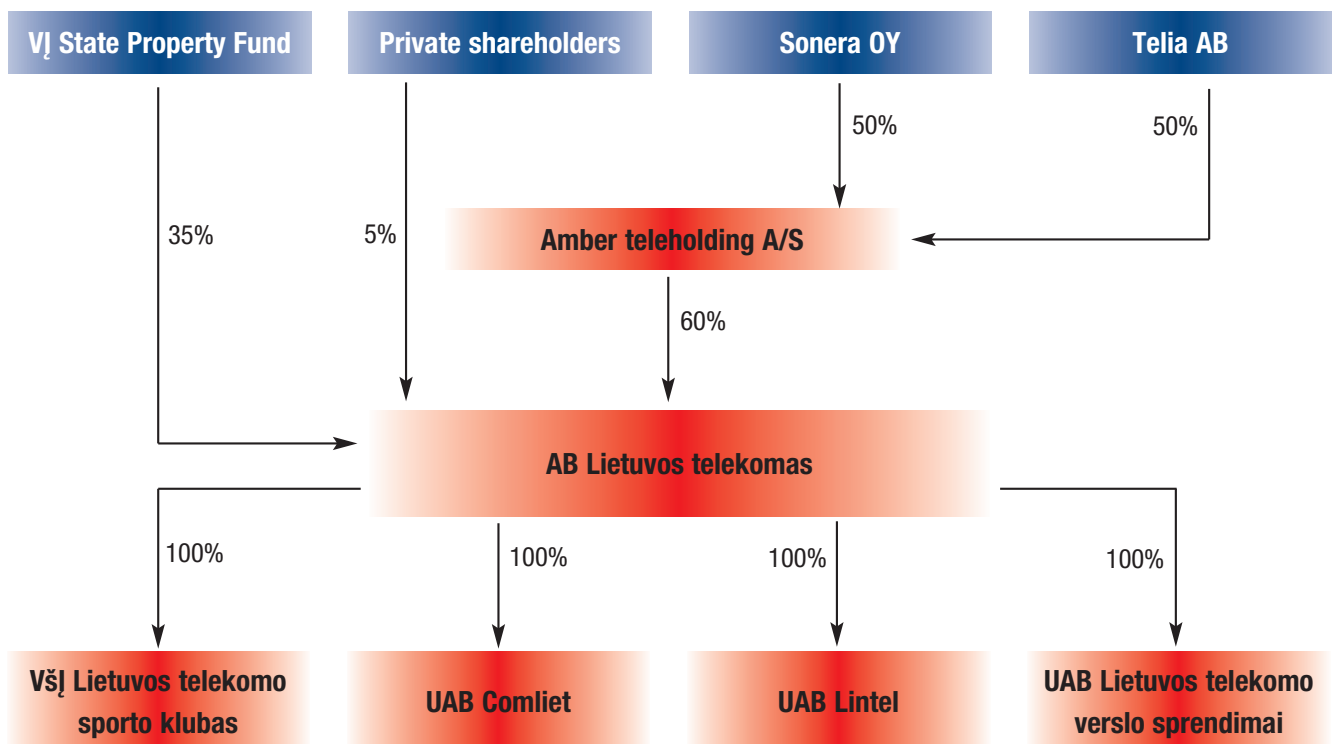
In view of the excellent results achieved this year I believe we are well positioned to build upon our role as the leading provider of telecommunication and data services in Lithuania. I would like to take this opportunity to thank all employees for their contribution to this result and ask for your continued support and effort to achieve our goals for the future.


Tapio Paarma
President - General Manager

AB Lietuvos telekomas Structure

During 1999, Lithuania's telecommunication market changed significantly. AB Lietuvos telekomas group structure was influenced by the change. The group's 28.4 % share holding in GSM operator Bitė GSM, owned by daughter company UAB Lintel, was sold and shares of UAB Comliet from TELE Denmark and UAB Antena were purchased. UAB Comliet is operating in NMT- 450 standard. In future, it will be transformed to fixed wireless network, making it possible to install main lines in rural areas with less expense. This technical solution will improve Lietuvos telekomas' competitiveness in the market and bring telephony services to rural areas expanding our customer base.

The State Property Fund's 5% stake was sold to present and former Company employees. In future, the incentive given to the employees will develop a new point of view to the ownership and development of Lietuvos telekomas.



During 1999, a functional model of management structure was further developed. The former Branch Operation Department was integrated into the Customer Service and Network Operation Departments.

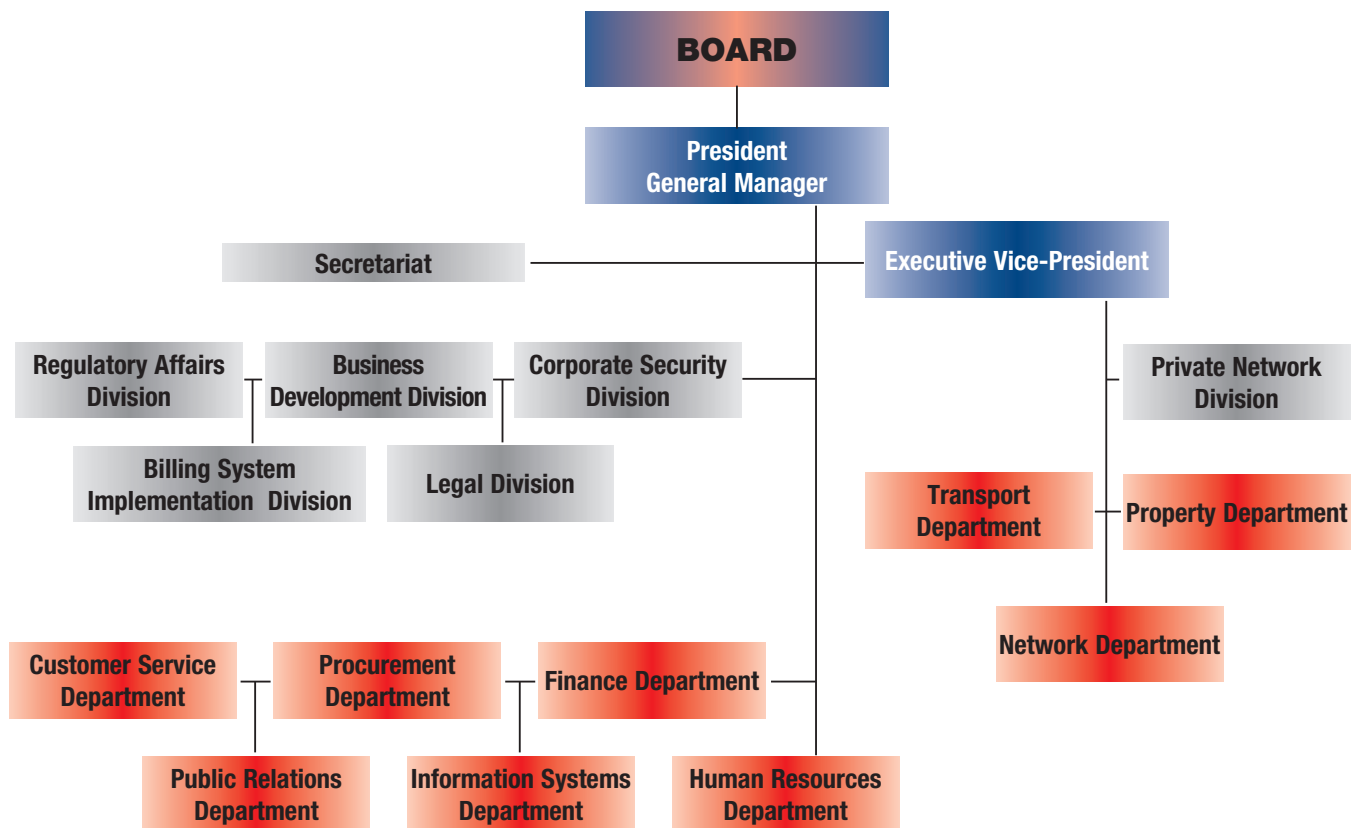
After completing its mission, the Privatization Division was reorganized into the Private Network Division with the goal of implementing the Company's obligation to buy-out privately installed networks.

The Marketing and Public Relations Department was reorganized into the Public Relations Department.

In 1999, Lietuvos telekomas continued the process of the Company's structural improvements especially in the area of customer service that was started a year ago. In the middle of 1999, as an outcome of this process, the Residential and Small Business Customer Service Department became the Customer Service Department.

At the end of the year, Lietuvos telekomas started to develop a new billing system in its network, offering flexible accounting and call duration metering systems to the customers. To coordinate this system implementation process and its functionality, a new Billing System Implementation Division was created.

In 2000, the process of restructuring will continue. During the first half of the year a new transformation of network services will be implemented. As a result, on 1 April 2000, a new Network Department was created. Its purpose is to simplify procedures and reduce the time frame between the receipt of application and service installation.



Standing (from left to right):

Rimvidas Kūgis joined the Board in 1998. Jonas Ūsas joined the Board in 1998.

Martin Henricsson joined the Board in 1999. Tapani Holopainen joined the Board in 1998.

Arvo Kukko joined the Board in 1999.

Sitting (from left to right):

Aida Raziulytė, Secretary of the Board of Directors. Gintautas Žintelis, the Chairman of the Board, joined the Board in 1998. Rūta Motiejūnaitė joined the Board in 1999.

Missing:

Marianne Nivert joined the Board in 1998. Simas Petrikis joined the Board in 1999.

Thomas Davidsson joined the Board in 1999.

Lietuvos telekomas Operational Review

In 1999, Lietuvos telekomas continued last year's process of the Company's structural improvements. As a result, and following the Company's initial privatization, the Residential and Small Business Customer Service Department was established, which in mid-year was renamed the Customer Service Department. The business philosophy driving all Department activities can be defined as follows: "We exist for our customers". Customer Service Department takes care of all Lithuanian residential customers and part of the customers representing the business sector. Services and solutions for the biggest business customers are being provided by a subsidiary company Lietuvos telekomo verslo sprendimai.

Customer Service Improvements

In 1999, a major improvement in servicing customers by phone was undertaken by the Information Centre Group. A year ago, the Centre originated a number of activities such as the creation of new work places, the installation of a switching system enabling control of operator performance, and the collection of statistical data of incoming calls to the Centre.

Through the use of a free, easy-to-remember phone number, Group employees provide customers with information about Lietuvos telekomas services, tariffs, discounts, promotions across Lithuania. The provision of billing information to Vilnius city and district subscribers began in May 1999. In November 1999, the number of customer calls attended by the Group was 56,987 compared to 3,447 in November 1998, representing a 16,5 times increase.

In 1999, the International and Long-Distance Communication Operator Group started a new service called "Collect Calls from Abroad". From any available telephone in fifteen European countries Lithuanian tourists can enjoy calls to a Lietuvos telekomas operator in Lithuania.

At the end of last year, an Interactive Voice Response system was put into operation throughout Lithuania. Private subscribers who have digital lines may call a toll-free number 8-800-23344 and get billing information. The subscriber is provided with the information on local, long-distance and international calls, as well as on other services.

Taking market conditions into account, the Company has recently increased its focus on the needs of its customers. In pursuit of customer satisfaction, Lietuvos telekomas launched a very important Call Centre Project in 1999.

The Call Centre will provide qualitative and efficient services using the latest technologies:

- Replies to enquiries on residents, companies, state and public institutions;

- Information on Lietuvos telekomas services, rates, discounts, office hours of customer care centres;
- Information on exchange rates, transport schedules, repertoires of theatres and cinemas, etc.;
- Replies to billing enquiries;
- Solving customer complaints;
- One telephone number for contact throughout Lithuania.

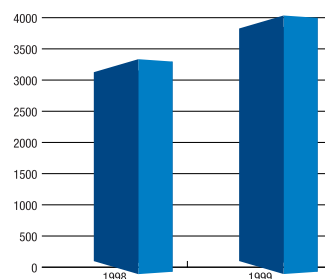
The schedule for the Call Centre Project implementation is divided into stages. In the first half of this year many of the services mentioned above will be provided to Lietuvos telekomas customers.

Products and Services

Basic voice services

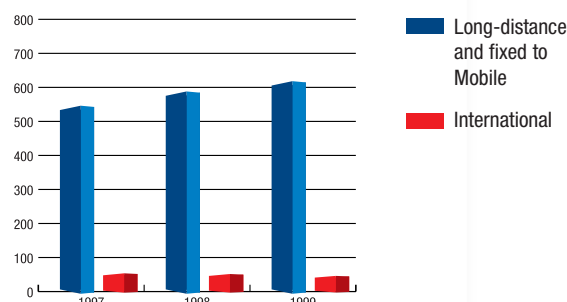
In the beginning of 1999, within the framework of a tariff rebalancing policy, Lietuvos telekomas increased tariffs on local calls while reducing international tariffs. Unlike the previous year, this step by the Company did not result in any considerable, immediate decrease in local call traffic (decreases could be witnessed only during holiday seasons). The total traffic of local calls increased by 21.8%.

Traffic of local calls (mln. min.)



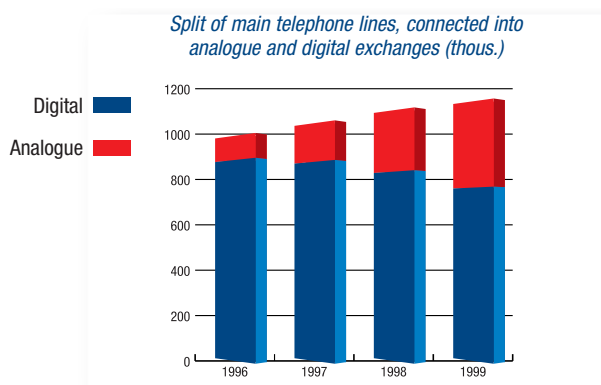
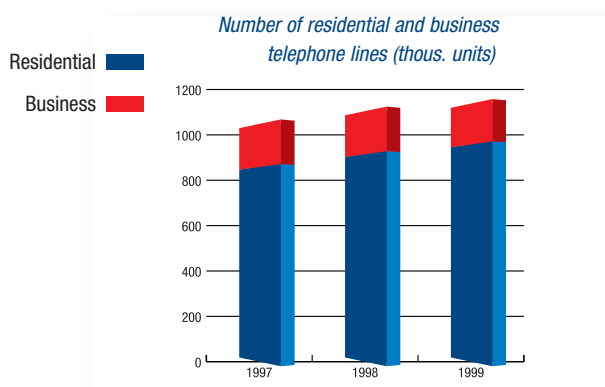
In 1999, revenue from telephone traffic increased by 6%. The major share of this revenue, 31.4%, is represented by revenue from local calls. Revenue from the remaining services is distributed almost equally: long-distance calls – 24.4%, international calls – 22.2% and calls to subscribers of mobile operator networks – 22%.

Traffic (mln. min.)

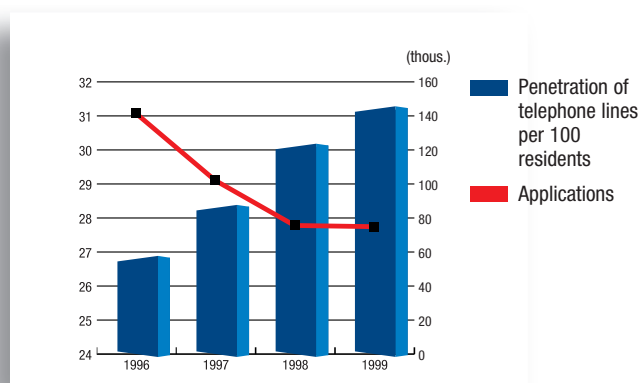


In the course of the year there were 70,100 new telephone lines installed, of them 53,800 in urban and 16,300 in rural areas. Due to the implementation of new technologies, Lietuvos telekomas analogue exchanges are being replaced by digital ones, therefore, during the year there were 28,100 analogue and 42,000 digital telephone lines installed.

At the end of the year 1999 the number of digital lines reached 33.2%. Although difficult economic conditions resulting in lower purchasing power and business customer insolvency resulted in some disconnections. At the end of 1999 Lietuvos telekomas had 1,152,583 main lines in service.



Last year the number of telephone lines per 100 residents in Lithuania increased up to 31,2.



Integration of UAB Comliet into AB Lietuvos telekomas business activities

A primary objective of Lietuvos telekomas is to reduce the waiting list and therefore it is necessary to considerably speed up construction of the fixed lines network.

For this goal it was decided to incorporate a new method of expansion, i.e. to use the technology based on transmission of signals via air. A Wireless Local Loop solution is planned since it enables transmission of basic voice services via the existing NMT network. A very good coverage of NMT network, in fact, makes it possible to have a telephone installed in any location and with minimum time resources. Application of this solution will allow a reduction in the amount of investment necessary in very expensive fixed lines in remote areas.

To achieve best results, several steps to involve Comliet's potential were completed in 1999, and the process of integration will continue throughout 2000. There are plans for the first half of 2000 to have the existing network expanded by over 50 new base stations. This will allow an increase in the number of voice channels and customers. Similarly, switching capacities are expected to double. However, more efficient involvement of Lietuvos telekomas and Comliet existing customer service structures will require certain restructuring steps.

These steps will allow Lietuvos telekomas, within the year 2000, to provide services to another 10,000-15,000 new customers. The same volume of new connections could be expected in the year 2001. The main advantage the Company could gain from the use of this technology would be the possibility to say "Yes" to any customer application.

Linija plus

Starting in 2000, the *Linija plus* brand has been introduced in order to demonstrate the advantages of digital exchange-based value added services and the simplicity of their activation. The basic idea behind brand advertising campaign will focus on simplicity and ease of use of these services. These services provide more flexibility in business, help to save time and money, and make daily household routine easier. Considering this, customers will be using digital exchange-based value added services more and more often. Compared to 1998 the use of digital exchange-based value added services increased by 20%.

Digital exchange-based value added services are available to all subscribers holding digital lines. Some of the services are provided free of charge: hot line, completion of call to busy subscriber, call waiting, call forwarding on busy, call forwarding on no reply, outgoing call barring, change of password and conference call.

The following digital exchange-based value added services are chargeable: abbreviated dialing, do not disturb service, absent subscriber, alarm call, line hunting.

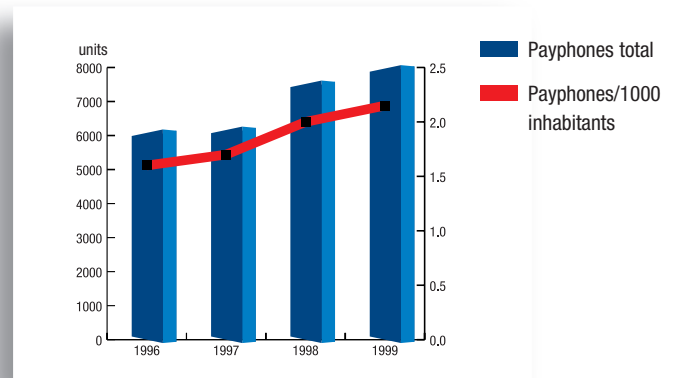
All new digital communication subscribers for the period of the first two months may be using those services without any charge being imposed. In this way the customer can appreciate the convenience of these services.

Payphones

In 1999, the first parking meter started operating in Kaunas, allowing payments of parking fees via electronic phone cards. The payphone card distribution network has been expanded. Now customers may acquire the cards not only in Lietuvos telekomas offices and newsstands, but also in petrol stations, shopping centres, stores, cafes, hotels, etc. The number of distribution offices totals 2,000.

A new payphones remote management and control system was commissioned in 1999.

Last year the payphone sector was upgraded and refused old type coin payphones, which were designed only for local communication. In April 1999 the last coin payphone was dismantled and removed in Kaunas. It is expected that Pulsar payphones would totally replace the former Urmet payphones in the middle of the year 2000. Customers will enjoy the convenience of using chip-based payphone cards throughout the country.



Teleshops

With the Company's focus on qualitative customer care and services, the sale of telecommunication equipment has become a key element of customer service. There is a direct connection between sales of certified communication terminal equipment and successful sales of communication services, as the quality of communication services depends less on the state of networks or transmission equipment and more on the quality of terminal equipment.

In April 1999 the Customer Service Department established the Teleshops sector. All telecommunication equipment shops were consolidated into a uniform sales network called *Lietuvos telekomo prekyba*. Now each customer of Lietuvos telekomas is able to purchase, under the most favorable conditions, all necessary communication terminal equipment and services.

Considerable increase in sales was the result of centralized sales, good product mix, developed chain of service offices, a unified supply and accounting system, pricing, personnel training and creation of a single brand; all of which has allowed the Company to offer its customers a complete service package.

800 - service

Lietuvos telekomas has been providing a Freephone service better known as *800-service* to its customers for the past two years. The service, an important marketing tool, is being used by well-known companies such as *Lietuvos avialinijos*, *Lietuvos draudimas*, *Lietuvos energija*, *Vilniaus duona*, *Aga*, bank *Snoras*, *Lietuva Statoil* and others. The *800-service* allows customers to call free of charge for inquiries on services, prices or any on-going promotions. It is also popular among wholesalers and service sector companies.

In 1999, the awareness of the service jumped significantly, resulting in an increase of subscriber numbers and usage of the service.

"Each day we are receiving about 50 customer calls by Freephone in average. They are calling with a number of inquiries; starting from instructions on the use of "Statoil" cards and finishing with sales actions undertaken by our company. This telephone is available to our customers at any time of the day, and since the line is never busy, we are able to respond to customer requests or comments immediately. No charge is imposed on the customer for calling this number. It ensures timely feedback between "Statoil" and the customer. We can say that it is another step towards the improvement of our customer service system," told Vilma Gapševičiūtė, Head of *Lietuva Statoil* Cards Department.

As *Aga* Sales Administration Manager Ilona Civilkienė informed us, "*Aga* - the leading supplier of medical and industrial gas in Lithuania - has implemented the idea of establishing call centre on the basis of 800-service. As the experiences of the call centre show, the customers make inquiries on settlement forms, business hours of company branches as well as on the available products. It is also planned to take orders by using a Freephone number. Although *Aga* is represented all over the country, centralized acceptance of orders is especially convenient to the company". Ilona Civilkienė also noted that, "The company management by the establishment of a call centre sought to enhance customers' loyalty, and at the same time increase volumes of sales. The expectations came true."

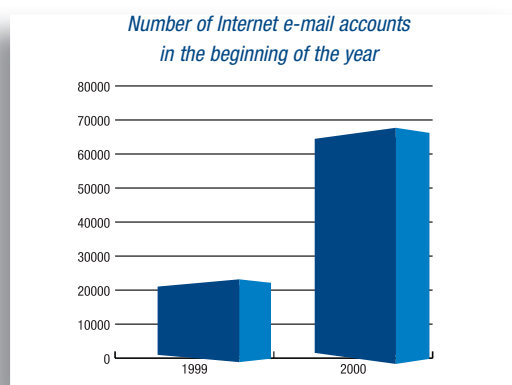
Takas services

As a dial-up connection *Takas* was introduced in 1998. Since then each customer has a possibility to create a free mailbox, get registered with news groups and gather a variety of information from around the world. In 1999, *Takas* expanded its services and developed a number of new products. Today, a new design provides *Takas* customers with daily news and access to a continuously expanding source of news. From the very first day *Takas* has been the most convenient and one of

the most popular and reliable Internet connections in Lithuania. Lietuvos telekomas provides a direct 8Mb/s communication link to Telia and 6Mb/s link to TeleGlobe communication networks. International Internet (IP) traffic more than tripled during 1999 indicating the increased demand for global information in Lithuanian society. The annual incremental growth of 300% is expected for the coming 2-

3 years. Lietuvos telekomas Network Service has successfully coped with that challenging increase and is committed to maintain the leading position in Lithuania as an Internet access provider.

Internet usage with dial-up connectivity services increased during 1999. The number of daily peak dial-up connections, PSTN traffic from dial-up to Internet, has reached 1.6% of overall PSTN traffic (approx. 3% in total, including competitors' traffic), and is expected to grow steadily during next year. Value-added Internet services are also used extensively. A wider range of services, such as WWW hosting, server collocation, etc. are deployed and expected to be a success in 2000.



A considerable growth of Internet popularity is expected in 2000. In order to improve the quality of its service, *Takas* will expand its coverage to all of Lithuania in 2000. Authorized Internet service will create new payment schemes and possibilities to adjust financial capabilities with Internet usage needs. The existing services and new projects will make *Takas* a portal, a page providing any information required for every interested Internet customer.

Takas educational project in Northwest region

The project was started in December 1999. The main idea of the project is to increase usage of Internet at schools. The aim is to support the Lithuanian education system and to train future users of information technology. More than 200 educational institutions will enjoy favorable terms on the use of Internet. 86 schools had telephone lines for computer classes installed for free. As a gift, almost two hundred teachers will get Pentium computers with modems for home use.

The Company will support the Educational Information Technologies Centre to improve qualifications of school principals and teachers.



Lietuvos telekomas supports programs for teacher training courses and creation of information material in Internet.

E-commerce site

Another project, conceived at the end of the year and scheduled for 2000, is the creation of an e-commerce site. Hundreds of companies and millions of people in Europe, including Lithuania, are taking advantage of business possibilities of Internet, which leads to the creation of new European online economies. Lietuvos telekomas is one of the most popular providers of Internet services in Lithuania, which owns a share of e-commerce infrastructure (Public Switch Telephone Network or PSTN). Taking this into account, the decision to establish a Lietuvos telekomas e-commerce site is a logical step.

Creation of the site will enable electronic sales of Lietuvos telekomas products and services, offering business solutions to business-to-business customers, mediation for business-to-consumer users and design of an attractive consumer-to-consumer homepage. From a consumer point of view, an e-commerce system will allow the customer to find and purchase desired products or services via Internet.

Convergence of fixed and mobile communication networks

Fixed and mobile communication networks are rather different, but implementation of Intelligent Network in Lietuvos telekomas public network has created conditions to provide services to customers of both fixed and mobile networks. This will bring new functionality, flexibility and convenience to customers. In 1999, Lietuvos telekomas and Omnitel launched a joint project of common services. In near future, there are plans to offer new solutions to shared business and private customers which are expected to enable more efficient use of fixed and mobile communication telephones and to provide other advantages.

Introduction of Services to Customer Groups

Following the motto "We exist for our customers", employees dealing with customers try to apply various forms of cooperation, which, though well known in the market, have had limited use at Lietuvos telekomas.

Last year sales promotions were launched for residential customers. Line sales campaigns, "Alio? Valio!" held in October and "Metas džiaugtis" held in December showed that active sales without any additional investments to the existing network may enable installation of new lines and encourage customers to use services provided by the Company.

Loyalty Program

The Loyalty Program for business customers was started in November. This program is based on total discounts applicable to customers of Lietuvos telekomas on voice telephony services in accordance with their actual expenses on telecommunication services.

The main goal of the Loyalty Program is retention of the existing customers and the increase of their loyalty to Lietuvos telekomas as a telecommunication services provider.

Discounts are applied when the customer makes a commitment to maintain annual minimum expenditure on Lietuvos telekomas services and signs a cooperation agreement.

Business Solutions

Telecommunication companies around the world pay particular attention to their biggest customers. Special units are formed to serve such customers in order to create greater flexibility and independence in the decision-making process. Following the practice of Sonera and Telia, a daughter company, UAB Lietuvos telekomo verslo sprendimai, was established.

Lietuvos telekomo verslo sprendimai mission is to develop and provide services and solutions to satisfy the communication needs of Lithuanian companies and organizations. By being flexible and innovative the Company continuously seeks to improve the business of its customers.

Serving the Customers

At the end of 1999, Lietuvos telekomo verslo sprendimai had 170 customers in about 2,000 locations around Lithuania. The customers represent the state enterprises and institutions as well as private companies in industries such as banking, transportation, oil, trade, manufacturing etc.

Personal selling allows better understanding in serving customer needs. Research showed that a customer positive attitude about Lietuvos telekomas depends on the personality and professionalism of a salesman. In 1999, a lot of effort was put into establishing firm relationships with customers.

At the end of 1999, a new customer service model was created in Lietuvos telekomo verslo sprendimai. A team serves customers, with a nominated Key Account Manager, the leader of the team, having responsibility for the team's performance. The employees from Lietuvos telekomo verslo sprendimai or Lietuvos telekomas units are also involved in the process of carrying out short and long-term projects.

The number of the top customers served by Lietuvos telekomo verslo sprendimai continues to increase. New customers are continuously added to the Lietuvos telekomo verslo sprendimai customer list.

In 1999, a number of seminars to introduce Lietuvos telekomas services were held. Some customer events held by Lietuvos telekomo verslo sprendimai also contributed to the establishment of long-term relations with customers.

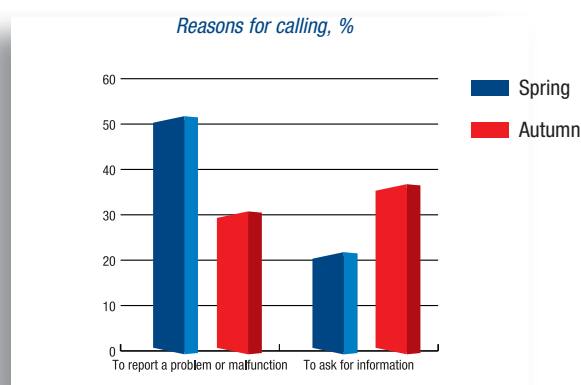
The intensive work with customers and the initiative of employees resulted in a number of large contracts with important customers such as Lithuanian Savings Bank, Ministry of Internal Affairs, etc. These contracts ensure substantial and stable source of revenue for Lietuvos telekomas.

Customer Loyalty

The successful long-term operation of the Company depends on three main things: customer satisfaction, employee satisfaction and profitability of the Company.

Customer satisfaction is one of the responsibilities of Lietuvos telekomo verslo sprendimai. In order to set the right objectives for the Company and to know if they were achieved, the Market Capital Survey is carried out periodically. To get a broader view of Lietuvos telekomas performance, the Survey examining the customer opinion of the Company's services, its employees and customer loyalty programs was executed. The Spring'99 Market Capital Survey showed that Lietuvos telekomas image among its top customers required improvement. The Fall'99 Survey indicated a shift to a more positive image. In the Fall'99 Survey customers characterized Lietuvos telekomas as good at building long-term relations with its customers. Customers now get more information about products and services, and are invited to participate in seminars held by Lietuvos telekomo verslo sprendimai.

According to the Survey, the majority of calls to Lietuvos telekomas in spring were to report about malfunctions (51%). Now, the majority of calls are to obtain information (36%).



In 1999, the Loyalty program was introduced in order to offer more favorable conditions to customers. The more a customer spends on Lietuvos telekomas services, the more favorable terms he receives. The savings allow customers to buy more new services from Lietuvos telekomas. Loyalty program

encourages customers to pay for their bills on time while increasing usage of Lietuvos telekomas services.

Products and Services

ISDN

Lietuvos telekomas is the only provider of ISDN service in Lithuania. ISDN service availability increased in 1999. ISDN is available in the 5 biggest cities and in almost all regional centres of Lithuania. Customers are able to call abroad via ISDN as well as to transmit data. That means that more customers are able to subscribe to the service and a significant growth in the subscriber base is expected in the year 2000. An increase in sales is expected not only because of changes in the tariff policy but also because customers become more and more aware of the benefits of this service.

UAB Vilniaus banko lizingas was one of the first companies in Lithuania to use ISDN service. "A number of alternatives were considered in an effort to find a solution to connect the central office with its branches and provide access to the Internet. ISDN was chosen as it best served the company's needs. Today almost all telecommunications of Vilniaus banko lizingas are based on ISDN. The employees of the company are satisfied with the Internet quality, as well as with the benefits given by ISDN lines", told Paulius Tyla, IT engineer of Vilniaus banko lizingas.

During 1999 the number of ISDN customers increased by over 400 per cent.

In the year 2000, new ISDN service packages and solutions that will also contribute to the increase in sales are going to be introduced.

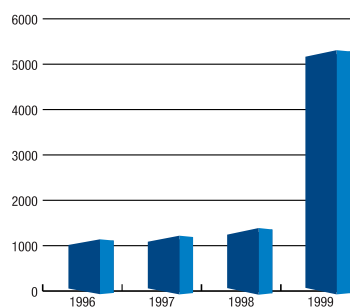
Data communications

1999 results showed a significant increase in revenue from data communication services. Frame Relay is rapidly becoming one of the more popular data communication services. It is frequently used for connecting isolated branches of a company into a homogenous corporate network. At the end of 1999, a Frame Relay solution called *Tiltas* was introduced. *Tiltas* assures better service, a more flexible, modern way of expanding subscribers' corporate telecommunication networks. It was a significant step forward, providing a value service to the customer.

Customized solutions, technical capabilities and coverage gave the Company a competitive edge and allowed it to win large tenders. Lietuvos telekomas is considered the leader in large-scale projects. A long-standing relationship with Lithuanian Savings Bank, one of the largest Lietuvos telekomas

customers, resulted in the signing of one of the Company's largest contracts. In order to create a flexible, reliable and cost-effective solution for Lithuanian Savings Bank's decentralized operations, allowing for high speed transmissions with minor delays through the Bank's powerful computer hardware and software system, a data transmission network for the Bank was created using Frame Relay technology. ISDN lines have begun to be installed in all Bank's business units. Telecommunications and data communication are as inseparable for modern business as they are for state institutions. By the end of 1999, Lietuvos telekomas completed the President's office project. The President of Lithuania now is able to observe sessions of Seimas (Parliament of Lithuania) on-line. The fiber cable between the President's office and Seimas enables the transfer of data at a speed of 10 Mb/s. The solution provides the customer with more applications on-line and more telecommunication benefits from Lietuvos telekomas.

X.25, Frame Relay growth (thous. LTL)



Digital leased lines

Large customers often need integrated turn-key solutions - data communications, Internet and voice transmission services. Combinations of Digital leased lines, introduced in the market in 1999 provide such solutions. Lietuvos telekomas is the only provider of Digital Leased Lines service in Lithuania. Advanced DXX technology allows high quality local, long distance and international DLL services.

New product and service development

Market research and product development processes are in place to create new products and services as well as to package products for different market segments. Lietuvos telekomas is going to offer more new products and services in the year

2000 in Internet, data communications and telephony. As customers need integrated turn-key solutions – both the service and the equipment from one supplier, Lietuvos telekomo verslo sprendimai will offer rentals of PBX, connection to the Lietuvos telekomas network and guarantee after sales maintenance of the equipment. *Centrex* service is being introduced that will enable customers to save on internal calls while gaining all the benefits of the modern service.

The Customer Care and Billing Project

Implementation of Lietuvos telekomas' Customer Care and Billing system will start in 2000. This project started in November 1999, and in 2000 the top 200 business customers of Lietuvos telekomo verslo sprendimai will enjoy a new integrated system. After that, Lietuvos telekomas medium to small businesses and residential customers will be transferred into the new system. The Customer Care and Billing project is the largest project to be carried out in Lietuvos telekomas.

The new Customer Care and Billing system will work as a flexible decision support mechanism for Lietuvos telekomas employees, enabling them to get the latest statistics on customers, get closer to them at every point of contact and react appropriately to situations in order to retain our customers.

The System will also allow Lietuvos telekomas to build long term and profitable relationships with customers by developing pricing plans and giving special offers.

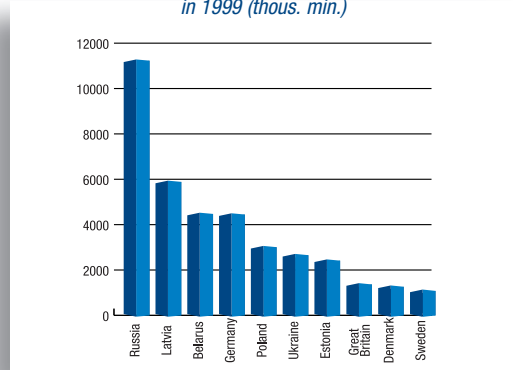
It will be possible to produce more comprehensive, customized and attractive billing statements for customers. The billing statements will also serve as a convenient promotional tool, supplying customers with various types of interesting information.

International Relations

In 1999, Lietuvos telekomas tried to maintain good bilateral relations with other carriers in order to further develop international business. Lietuvos telekomas actively participated

in European and Global Carriers meetings in order to be aware of all changes in the telecommunication market.

Distribution of international outgoing traffic in 1999 (thous. min.)



Telephone Directories and Information Service

UAB Lintel has been developing and expanding the publishing of telephone directories since 1995. The company is a successful market leader of information directories for residents. Presently, all Lithuania is familiar with the telephone directories in the green covers. Since 1999, the yellow pages have been published in two-color print, and this grants greater possibilities to our advertising customers. Therefore, every year our regular customers increase their advertising. The structure of telephone directories, developed by Lintel, is convenient for customer usage.

In 1999, Lintel released 6 telephone directories of the major Lithuanian cities. The company has also published 21 telephone directories of smaller towns.

Lintel continued to develop the electronic version of its telephone directories for the Web. All information is regularly updated, therefore, Lintel website is popular among Internet users.

Directory enquiry service was established using telephone directory data. This information service not only provides detailed information about enterprises, institutions, organizations and residents, but also about hard currency exchange rates and cultural events in Lithuania.

Network Services and Development

Network development

Competition with other operators as well as increasing customer demands means that Lietuvos telekomas faces a great challenge now and over the next few years. Therefore Lietuvos telekomas has to develop and harmonize all parts of the network, and also improve the organization management and running of the network.

Lietuvos telekomas has created a strategic network plan, or the Network Master Plan, to ensure the reaching of common targets and harmonization of all network development steps. The Master Plan, updated twice a year, describes the objectives and actions required for the main parts of the network and operations. The plan concentrates on access network, telephony network, new generation network (broadband), transmission, synchronization, C7 signaling plan, numbering plan, network operations/management, IN network and data-communication. Input for the Master Plan comes from our corporate business plan, market forecasts and information from all sales units and investigations about new technology. During 1999, following the Network Master Plan, Lietuvos telekomas installed switching capacity for about 170,000 new lines for modernization of old analogue lines or party lines and for installing new ones, dismantled the quasi electronic Kvarc system, installed a new international switch and a new transit switch in Kaunas. The Company installed almost 700 km of fibre optic cables in the regional and national rings, established most of the new regional transmission rings based on SDH STM-16. Lietuvos telekomas started the reorganization of network operation and management to increase network efficiency. The Company also established an IN (Intelligent Network) node for service production.

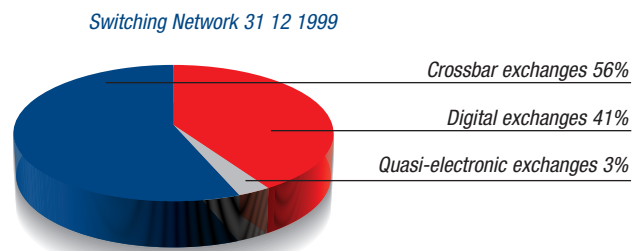
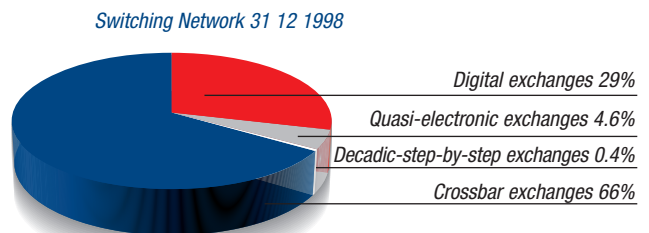
Telephony network

By the end of 1999, Lietuvos telekomas telephony network has come closer to the target network structure according to Network Master Plan. The Company has installed one new digital international switch in Kaunas, which completes the international switching level with two international switches, one in Vilnius and one in Kaunas.

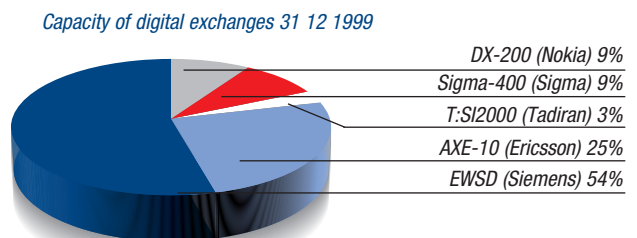
One new digital transit switch has also been installed in Kaunas. This switch together with Vilnius transit switch will complete the south transit switching pair. The north transit switching pair will consist of the Klaipėda transit switch and the Šiauliai transit switch.

Large local digital switches (host exchanges) are connected to one transit pair, and customers are connected to these local switches via remote subscriber units. During 1999, three more big local switches were installed for a total switching capacity for about 170,000 new digital lines.

The level of digitalization according to installed capacity went from 29% of all capacity to 41% during 1999. The last decadic step-by-step exchange was taken out from our network during the year.



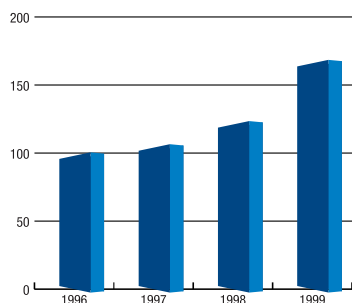
The current digital PSTN network consists of exchanges from different vendors. This multi-vendor structure will exist in the future PSTN network, but will be reduced to fewer suppliers, which will ensure higher quality, better delivery times and good commercial conditions.



The amount of subscribers connected to digital exchanges has increased from 25% in the beginning of 1999 to 34% at the end of 1999. Out of a total 1,152,583 telephone lines, at the end of 1999, 388,341 lines were digital ones. The plans for year 2000 indicate a rate of digitalization around 40%.

Digitalization connection rates for business customers in the five main cities are: Vilnius 69%, Kaunas 52%, Klaipėda 95%, Šiauliai 56% and Panevėžys 17%. The average connection rate for business customers in the five main cities is 66 %. The average rate for other customers in those cities is 37.3%. Also the number of subscriber lines per Lietuvos telekomas employee is increasing. This key figure indicates efficiency in the organization, Lietuvos telekomas reaching the level of the other Baltic incumbent operators, and exceeding it in the beginning of 2000.

The number of PSTN subscribers/LT employee



Around 2,900 subscribers were connected by wireless MGW local loop during 1999, which means almost 4,000 customers connected via this system. The MGW system has been enlarged during the year in order to connect up to 6,000 customers, mainly in the big cities.

At the end of 1999, Lietuvos telekomas became the 100 % owner of UAB Comliet, a NMT 450 company. The Company immediately started to plan and install terminals for fixed NMT 450 connections. Lietuvos telekomas has plans during year 2000 to connect about 15,000 customers to the PSTN network using fixed NMT 450 solution.

Today Lietuvos telekomas can connect customers (with PSTN connections) to ISDN in almost all regions. The coverage is almost 90% and, at the end of 1999, about 400 BRA (2B+D) ports and about 200 PRA (30B+D) ports were connected to customers.

The ISDN network is fully integrated with the PSTN network and the ISDN functions are supported in AXE-10, EWSD and DX-200 switches.

Data communication network

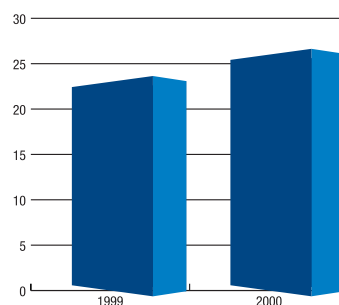
During 1999, Lietuvos telekomas was consistently following market demand for data communication services. Along with traditional leadership in providing high quality Digital Leased

Line and X.25 packet switched services, Lietuvos telekomas has strengthened its position in Frame Relay (FR) and Internet services.

A substantial effort was directed to datacom network capacity and coverage, following a demand from both professional users (DLL, X.25, FR services) and for retail markets (Internet dial-up and messaging services).

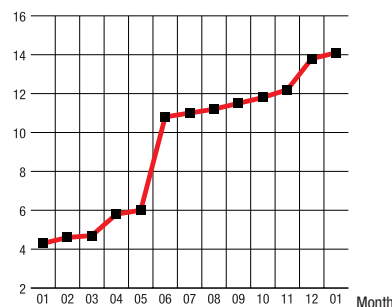
Digital Leased Line services remain important and valuable. Due to advanced technology, monitoring and manageability through to customer premises, results in high measurable quality.

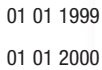
Total DLL capacity, Mbps



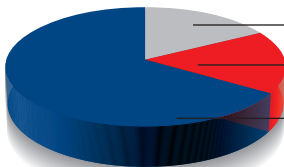
Usage of packet switched services is shifting towards more advanced Frame Relay and Internet (IP) services. Frame Relay growth is driven by Local Area Network interconnections and corporate network demands, while IP in 1999 was mostly used to access worldwide Internet resources. X.25 is continuously used in security sensitive environments for reliable data terminal connections, such as Point of Sale terminals. Quite predictably, data communication traffic dominates Internet (IP) traffic. During 1999, Frame Relay and IP traffic increased proportionally.

International Internet traffic growth, Mbps



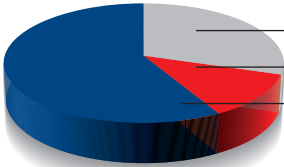


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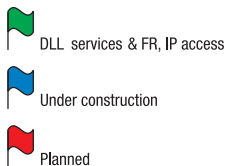
Category	Share (%)
IP	66%
FR	17%
X.25	17%

01 01 2000



Category	Share (%)
IP	58%
FR	30%
X.25	12%

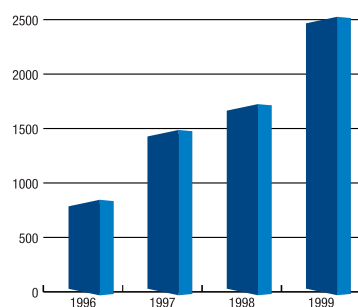
Coverage of data communication networks



Transmission and access network

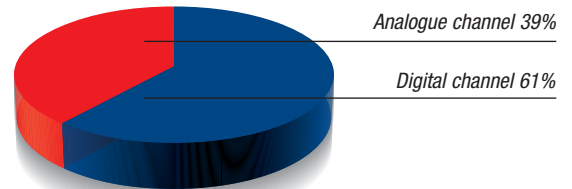
In total, almost 700 km of inter-urban fibre optic cable was laid during 1999, and another 400 km is planned for 2000. Also metropolitan fibre optic cables exist and are expanded when needed.

The total length of inter-urban optical cables, km

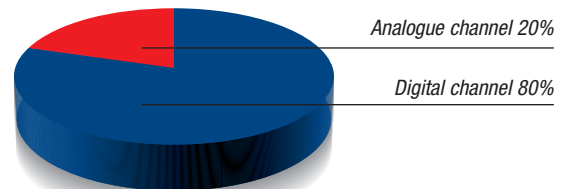


Digitalization of PSTN transmission (voice channels)

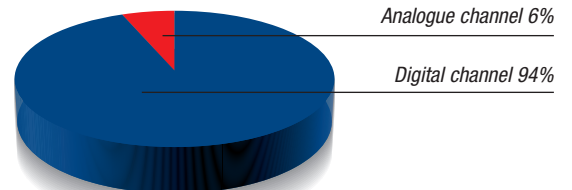
1997 year



1998 year



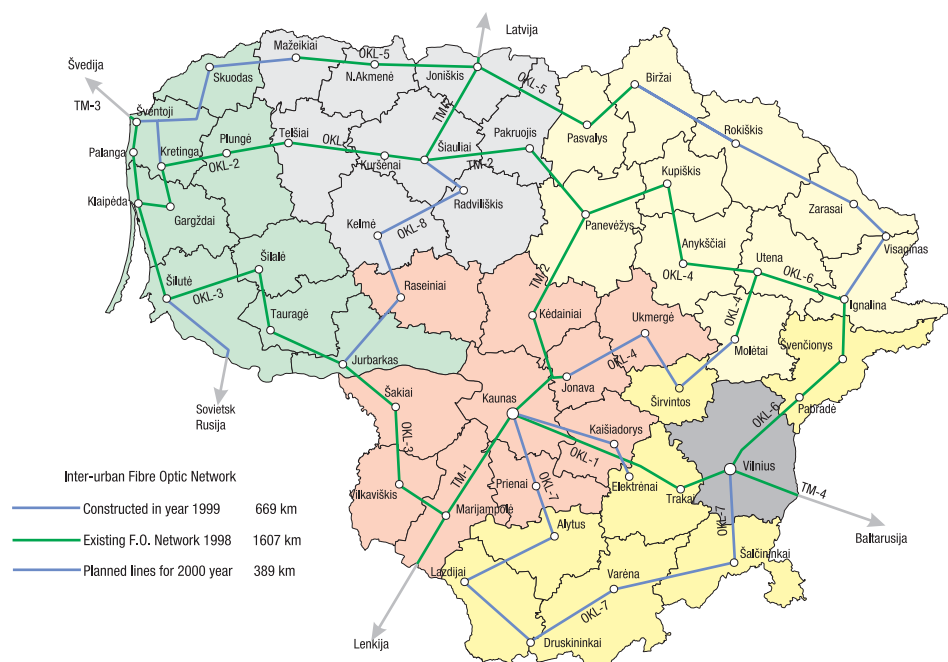
1999 year



The transmission of PSTN is mainly digital PDH and SDH, but some 6% are still analogue voice channels. A new national and six regional SDH-rings were purchased and partly implemented during 1999.

The length of Lietuvos telekomas copper access network is 105,000 km and it will continue to expand and provide access to the Company's customers. New rules for new access cables will ensure the quality for telephony and also broadband services in the future. New optical city rings will provide new optical accesses to business customers. The first city ring (9 of which are planned for Vilnius, Kaunas and Klaipėda) was established in Vilnius at the end of 1999.

The Inter-urban optical cables network



Intelligent Network (IN)

Continuous upgrade and rapid changes of telecommunication equipment as well as new technologies enable network operators to search for new ways to attract new customers and to retain the existing ones, gain additional income and compete successfully in the market. For this purpose operators, based on the latest technologies, try to offer new services to meet the needs of business and residential customers. Next year, Lietuvos telekomas plans to offer customers a universal number, call cards and televoting services. These absolutely new services will open new business possibilities for customers and help them to solve a number of problems.

Value Added Services (VAS) were launched on the Lietuvos telekomas network in April 1998. VAS provision was based on number conversion in digital exchanges. This distributed service is very complicated and slow concerning introduction of new services.

An Intelligent Network (IN) technology was established during fall 1999, which guarantees centralized and flexible service provision, short service development time and decrease in the cost of service delivery.

During 2000, the introduction of Free Phone service (which allows a caller to make free calls to dedicated 800 numbers) and Premium Rate service (which provides information to the caller of 900 numbers and is charged to the telephone bill) will be included on the new IN platform.

New services will also be launched, for example Universal Access, Prepaid Card Calling and Televoting. The IN platform is capable to serve all customer needs. With the current IN platform architecture, additional features can be offered for service subscriber like Service Customization via Internet, Service Usage Statistics and Authorization.

New Generation Network (NGN)

In 1999, Lietuvos telekomas started to investigate whether it should introduce a new generation network concept. There is an international trend to introduce multi-service carrier technologies, preferably IP, into the network to better utilize the network resources and to deliver services more easily while marketing new ones. A decision was taken to implement a limited scale of the new network concept during 2000. As a pilot project, this network will be used for testing and evaluation of the performance and potential of the network concept.

As Lietuvos telekomas has reached 30-40% digitalization of the network, there is a good opportunity to save on investments in traditional transmission and PSTN technologies. Large

benefits and cost savings can be realized by investing a new generation technology for future digitalization.

Other driving forces behind a network generation shift are reduction in delivery time of services, time to market of new services, reduce the operational costs of the network and its services, and to maintain expected levels on simple and complex services.

Network management

Lietuvos telekomas has implemented centralized data transmission network management and is now improving the national Network Management Centre, NMC.

For the different SDH transmission systems within the network, different elements and control systems have been implemented. The launching of these management systems has significantly improved the control of the SDH network performance elements and allows to route and configure the SDH network flows and to locate faults much more efficiently. For the two main digital telephony switching systems, Lietuvos telekomas has installed switching element management systems for each exchange, which means centralized management and control.

Preparations are in place to specify a network management system that will cover the entire network on top of the different element management systems. This system will be implemented in 2000.

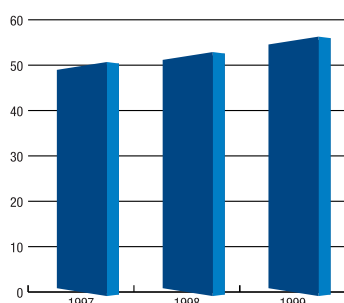
In 1999, Lietuvos telekomas updated the analogue network operation centres and expanded their technical capabilities. This enables us to collect emergency signals from all elements of the analogue network in six network control centres and duplicate those signals in the NMC, what in its turn allows monitoring the performance of analogue exchanges in real time and analyzing the quality.

The use of centralized systems for managing and controlling the digital telephony switching elements, SDH transmission network elements and the analogue network, enables the Company to reduce the number of employees and increase the network performance quality.

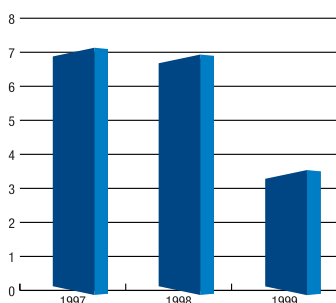
For the evaluation of the network quality, Lietuvos telekomas chose three main parameters to measure which accurately reflect the quality of provided services: percentage of ASR (answer seizure ratio), lost calls due to network problems (unsuccessful call ratio), fault rate per access line.

Over the past few years, these parameters have changed a lot, showing Lietuvos telekomas is improving the operation of the network and introducing new digital technology with much higher performance.

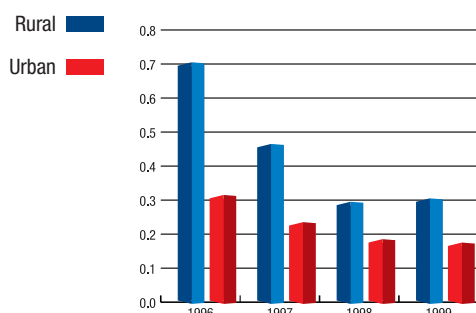
Answer seizure ratio, %



Lost calls due to network problems, %



Fault rate per access line



The quality parameters are continuously improved and the Company is fulfilling its obligations well according to the license. Compared to other countries at a similar level of

development, Lietuvos telekomas quality performance parameters are very well in line with the best incumbent operators.

Y2K

The purpose of the Y2K project was to secure all Lietuvos telekomas services and products from the so-called „Millennium Bug”. The Y2K project was started on October 1998 and was completed on February 2000.

Having achieved its objectives, the Y2K Project was completed successfully. This means that the analysis, corrections and approval process was finished in time and none of Lietuvos telekomas products or services were affected by any Y2K problems.

Investment

Seeking to make it one of the most modern telecommunication enterprises in the region following its privatization in July 1998, a great deal of attention was paid to renovation of the Company's network. For this, the Company invested about 550 million Litass in 1999. It was the largest investment in Lietuvos telekomas' history to-date.

70% of all investment went to modernization and development of the network. The biggest part of investment went to construction of digital network, covering new line construction, and replacement of analogue and party lines with digital. A second international switch was built in Kaunas, which will ensure high reliability of international traffic. A new national transit switch was also installed in Kaunas. The old telecommunication quasi electronic transit exchange Kvarc was closed.

During 1999, further construction of fibre optic lines was implemented. South ring Vilnius-Druskininkai-Alytus-Kaunas was built and several other fibre optic rings were completed. A lot of attention was paid to the development of IT systems. Investment in this field represented more than 20% of total investment.

The most significant IT projects are: the new billing system, allowing future adoption of flexible call accounting conditions for customers, and an integrated business system from Oracle, significantly simplifying administration of the Company.

Part of the investment was allocated for renovation of Lietuvos telekomas premises and transport.

An Internet network was developed rapidly. Already tested equipment for providing voice over IP, will allow future competition with companies, currently providing these services.

The biggest investment in 2000 will be allocated for modernization and development of the network and IT systems. A new integrated service network for convergence of voice and data services will be started.

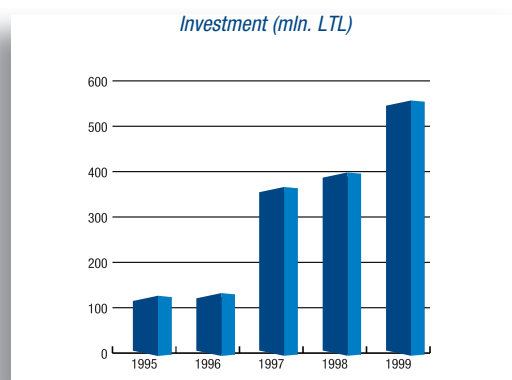
Human Resources Development

Rapid development in the telecommunication business in 1999 has caused a lot of changes in the Company's management culture. In order to become an attractive employer, who is able to attract and retain competent, creative, motivated and loyal employees with high erudition, Lietuvos telekomas has devoted a lot of attention to the improvement of HR management and staff development.

HR management and motivation tools as background for new HR management system

Last year the Company took a new step to improve the quality of HR management by implementing modern management and motivation tools that in the future will become an effective and unified internal HR management system. In early 1999, a new project, Motivation System and Tools, was started with the goal of developing a set of HR management tools that would not only help every manager realize when, how and why they become responsible for motivating their staff, but also allow them to choose and efficiently apply different motivation methods. The project consists of the following parts: salary system, competence planning, human capital measurement, performance appraisal, and skill development. The new salary system will enable the Company not only to become competitive in the human resource market, but also to rationally utilize funds. The requirements (profiles) that started to be systematized according to a unified model (business, professional and social competence) for job vacancies and existing staff will become a flexible tool for skills planning and development.

In order to further improve and develop Lietuvos telekomas business under future competitive conditions, it is of outmost importance to find out what Company employees think about



the changes taking place in the Company, their working conditions, Company management, work culture, or how performance influences customer loyalty and the Company's cost-efficiency. In 1999, the first human capital measurement was carried out. Comparison of the results from this measurement with market findings, extensively considered by all organizational units within the company, has become an effective tool for evaluating the present situation and forecasting future development needs.

Preparing to work under complex conditions on the international market and after the consideration of the need for special HR skills and expertise, it was decided to invest into a Graduate Trainee Program. The goal of the Graduate Trainee Program was to recruit a group of young and promising graduates with university background, develop their holistic approach towards Lietuvos telekomas business – both nationally and internationally, help them understand Company plans, objectives and strategy, and prepare them for work in the Company. In November 1999, 19 young and promising people were employed in different departments of the Company to go through a 14-month theoretical and practical training program that had been developed for them.

In 1999, Lietuvos telekomas has again made extensive effort to develop its staff and ensure systematic training. The training volume amounted to 45,838 training days, or approximately 6,5 days per employee, mostly focusing on the development of management skills, customer service, sales, information technologies, and English language training. For some employee groups – top management and those with high potentials – special training programs were developed. The English language-training program started in 1998 has been continued, and now involves over 1,700 Company employees.

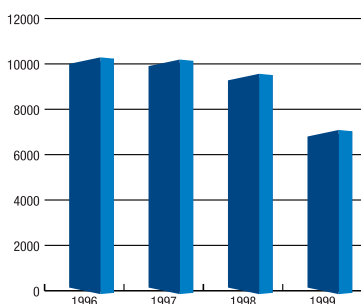
The project for two-level training and testing of PC users according to ECDL standards started in 1999 too.

Being a modern company, open to change, Lietuvos telekomas is closely and actively co-operating with higher education establishments. Having established a modern telecommunications laboratory in Kaunas Technological University in 1998, the Company devoted a lot of attention last year to its improvement and effective utilization. At Lietuvos telekomas expense an advanced wireless connection laboratory was established in Vilnius Gediminas Technical University. The Company has allocated nominal scholarships to students of both universities; they can also do their internships in the Company, as well as write BA and MA theses in subjects relevant to Lietuvos telekomas.

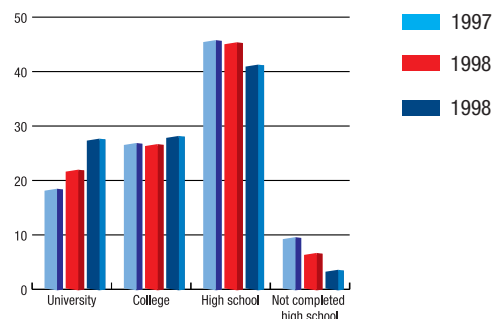
Number of employees

In 1999, restructuring was focused on professions, which were either not related to Lietuvos telekomas core business or could be qualified as non-compliant with current technical requirements. Restructuring was based on a bi-lateral agreement and benevolent offers, paying one-time compensation and providing opportunity to take retraining courses. Thus during the year the number of employees dropped from 9,415 to 6,938. At the same time there occurred changes in staff composition according to age and education: the number of younger and more educated staff has increased, and the average age of employees at the end of the year was 38,9 years (compared to 39,3 in 1998, 40,2 in 1997).

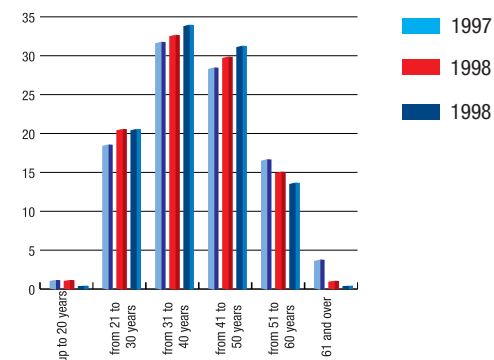
Number of employees



Education, %



Age, %



Ensuring Company commitment

Throughout the year a lot of attention has been devoted to motivation tools that are not directly related to remuneration, but have a significant effect on people's Company commitment and motivation. All Lietuvos telekomas employees were provided round the clock insurance against accidents, received help in the event of an accident, and tuition for high education was paid on behalf of more than one hundred employees. A housing loan program for employees was started at the end of the year.

Post, Telecommunications and Informatics Museum

The Museum, located in the Old Town of Kaunas, presents the history of communication development in Lithuania since ancient times. It includes communication devices, documents, philately, photographs, personal funds and albums as well as publications.

The Museum staff takes care of improvements to the collection. Renovation of the Museum's premises and exposition was begun in 1999.

VšĮ Lietuvos telekomas Sports Club

The goal set up for the public institution Lietuvos telekomas Sports Club is to provide the Lietuvos telekomas women's basketball team with comprehensive training, as well as to arrange active leisure and recreation time for both basketball team members and Lietuvos telekomas employees.

The club consists of basketball court, aerobics facility, table tennis hall, re-creation centre and bodybuilding room.

At present, only basketball, aerobics, table tennis, re-creation centre are available.

Lietuvos telekomas Financial Review

Financial results summary

Lietuvos telekomas revenues rose by 8.1 % during 1999 to over 980 million Lit.

During 1999 Lietuvos telekomas invested a total of 550 million Lit., which represents a 40% increase over 1998. 70% of this investment was directed to network modernization and expansion.

Profit before tax for the year ended 31 December 1999 increased by 23% to over 142 million Lit. (1998 - 115 million Lit.).

Following partial privatization in 1998, increased management and technological efficiency has resulted in a 60% growth of Earnings per share.

	1999	1998	Change, %
Revenues (mln. LTL)	980,3	907	8.1
EBITDA (mln. LTL)	413,8	318,8	29.8
Profit before tax (mln. LTL)	142,3	115,7	23.0
Net Profit (mln. LTL)	104,4	66,5	57.0
Earnings per Share (Lit.)	0,128	0,08	60.0

Financial position and financing

The Lietuvos telekomas group's financial position remains solid in spite of the extensive investment program during 1999. The equity/asset ratio declined but is still above 50. The balance sheet total expanded by 20% compared to a 8% raise in sales meaning a decline in the rate of turnover of capital. The current ratio increased due to an increase in current assets.

	1999	1998	Change, %
Balance sheet total (mln. LTL)	2008	1668	20.4
Capital employed (mln. LTL)	1631	1418	44.5
Rate of capital turnover (%)	53.3	59.0	-5.7
Current ratio (%)	89.1	77.5	11.6
Equity/asset ratio (%)	69.8	61.1	8.7

Fixed assets expanded in 1999 by 22% and represented 84% of total assets at year end. The proportion of tangible assets in total assets is slightly decreasing due to the shorter depreciation schedules.

Current assets expanded mainly because of an increase in Government obligations concerning subsidies to residential subscribers in an amount of 72 million Lit. Total accounts receivables ended at 175,6 million Lit. The raise in long term debt primarily consisted of additional long term loan raised during August from a consortium of banks (Swedbank, Meritata Nordbanken etc) together with Nordic Investment Bank. Increase in current liabilities was mainly due to a substantial increase in accounts payable (77 million) depending on late invoicing from major suppliers.

Operating cash flow after investments was negative. The investment levels were too substantial to be offset by positive cash flow from operations in other respects.

	1999	1998
Operating cash flow (mln. LTL)	401,4	252,9
Cash flow from financing (mln. LTL)	152,5	117,8
Net cash flow (mln. LTL)	-18,1	1,9

During the year fund raising activities focused on restructuring from short term loans into long term loans in USD and additional local borrowings in LTL in order to reduce the total currency exposure in foreign currencies.

Implementation of new administration system

Lietuvos telekomas has adopted the Oracle financial system, the first to do so in Lithuania.

The first modules were operational at the beginning of January 2000. The rest will be operational by the end of 2000. The project is a challenge in terms of management change, as many processes were streamlined and new international standards adopted. New corporate treasury function established during 1999 responsible for whole group.

AB Lietuvos telekomas Group

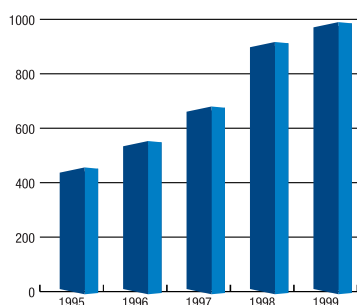
Key Financial Indicators (mln. LTL)

	1995	1996	1997	1998	1999
Revenues	446	543	670	907	980
Changes from previous year, %	98.1	21.8	23.2	35.5	8.1
EBITDA	124	156	216	319	414
EBITDA Margin, %	27.8	28.7	32.3	35.1	42.2
Depreciation and amortisation	45	73	97	196	248
EBIT	79	82	119	122	166
EBIT Margin, %	17.8	15.2	17.8	13.5	16.9
Profit before tax	95	81	124	116	142
Net profit	80	62	97	66	104
Net profit Margin, %	17.9	11.5	14.5	7.3	10.6
Intangible fixed assets	1	1	32	32	92
Tangible fixed assets	799	896	1.164	1.345	1.587
Financial fixed assets	33	34	32,1	16,3	0,0
Current assets	125	124	179	275	329
Total assets	957	1.055	1.407	1.668	2.008
Shareholders' equity	831	910	982	1.020	1.053
Long term liabilities	34	45	217	294	586
Current liabilities	87	100	209	354	369
Total liabilities and shareholders' equity	953	1.055	1.407	1.668	2.008
Capital employed	871	977	1.224	1.418	1.631
Return on capital employed, %	12.1	9.5	11.9	9.9	12.5
Return on shareholders' equity, %	11.7	7.2	10.2	6.6	10.1
Equity to assets ratio, %	86.9	86.2	69.8	61.1	52.4
Current ratio, %	144.1	123.8	85.9	77.5	89.1
Net Debt ratio (gearing), %	4.8	7.4	21.1	35.4	53.1
Earnings per share, in Litas	0,17	0,08	0,12	0,08	0,13
Capital expenditures	120	126	361	393	551
Personnel at the end of year	9,854	9,889	10,152	9,521	7,122

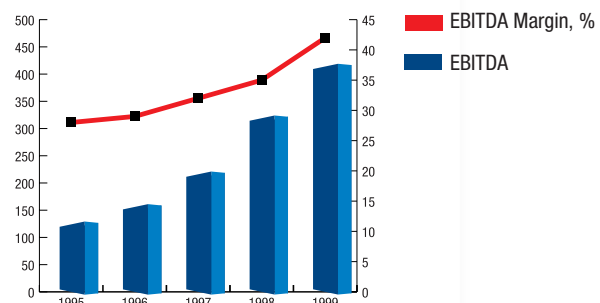
Definitions of Key Financial Indicators

EBITDA	- earnings (profit) before interest, taxes, depreciation and amortisation
EBIT	- earnings (profit) before interest and taxes
Capital employed	- Shareholders' equity plus interest - bearing debt
Return on capital employed	- operating profit plus financial revenue expressed as a per centage of average capital employed
Return on shareholders' equity	- net profit after taxes expressed as a per centage of average shareholders equity
Equity to assets ratio	- Shareholders' equity expressed as a per cent of total assets
Current ratio	- current assets divided by current liabilities
Net Debt ratio (gearing)	- long term and short term debts (minus cash) expressed as a percentage of Shareholders' equity

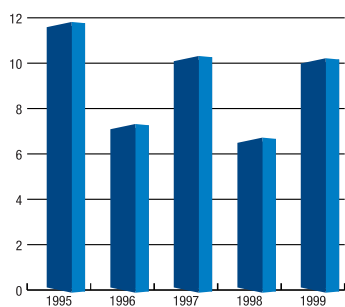
Revenues



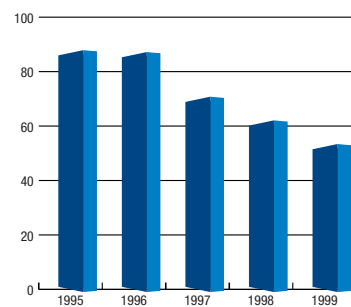
EBITDA



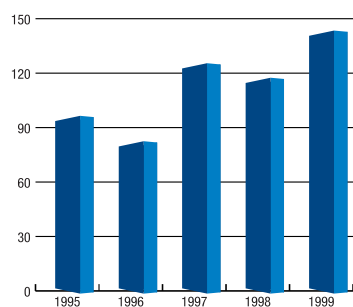
Return on shareholders' equity, %



Equity to assets ratio, %



Profit before tax




ARTHUR ANDERSEN

**AB LIETUVOS TELEKOMAS CONSOLIDATED AND THE PARENT COMPANY
FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998**

The financial statements for the years ended 31 December 1999 and 1998 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 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 1999 and 1998 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). 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 1999 and 1998, and, accordingly, we are unable to express an opinion on either the historical cost or fair value of 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 1999 and 1998, and 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 31 March 2000.

Balance Sheets as of 31 December 1999 and 1998 (thousand LTL)

		Parent		Group	
Note		1999	1998	1999	1998
	ASSETS				
	Fixed assets				
	Intangible fixed assets				
5	Goodwill	15,705	-	15,705	
3	Other intangible fixed assets	75,163	31,765	76,092	31,934
	Total intangible fixed assets	90,868	31,765	91,797	31,934
4	Tangible fixed assets				
	Buildings	186,700	148,588	186,288	151,946
	Plant and machinery	1,210,512	1,069,856	1,229,357	1,070,308
	Other tangible fixed assets	49,117	61,735	56,099	62,880
	Construction in progress	115,597	53,005	115,597	53,005
	Prepayments for tangible fixed assets	133	6,847	133	6,942
	Total tangible fixed assets	1,562,059	1,340,031	1,587,474	1,345,081
5	Financial fixed assets	83,500	60,681	48	16,285
	Deferred profit tax asset	-	-	95	-
	Total fixed assets	1,736,427	1,432,477	1,679,414	1,393,300
	Current assets				
	Inventories	22,982	22,993	23,589	23,051
	Tangible fixed assets for sale	8,030	8,890	8,030	8,890
5	Financial fixed assets for sale	2,398	-	44,956	32,487
	Accounts receivable				
6	Trade accounts receivable	146,945	74,238	149,580	74,918
	Prepaid profit tax	18,134	20,847	18,134	20,847
	Prepayments and other current assets	4,313	4,388	4,255	4,499
	Other accounts receivable	3,407	4,788	3,589	4,858
	Total accounts receivable	172,799	104,261	175,558	105,122
	Accrued revenue	57,302	67,785	58,144	68,522
7	Cash and cash equivalents	14,847	30,472	18,324	36,433
	Total current assets	278,358	234,401	328,601	274,505
	TOTAL ASSETS	2,014,785	1,666,878	2,008,015	1,667,805

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

Balance Sheets as of 31 December 1999 and 1998 (thousand LTL)

Note	Parent		Group	
	1999	1998	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Share capital	814,913	814,913	814,913	814,913
Capital reserve	7,048	7,048	7,048	7,048
Legal reserve	58,881	36,217	58,881	36,217
Retained earnings	172,152	161,660	172,152	161,660
Total shareholders' equity	1,052,994	1,019,838	1,052,994	1,019,838
Deferred profit tax liability	86,935	48,882	86,935	48,882
Long-term debt	485,068	228,520	485,068	228,520
Deferred revenue	14,123	16,207	14,123	16,207
Current liabilities				
Current portion of long-term debt	52,825	49,423	52,825	49,423
Short-term loan	40,000	120,000	40,000	120,000
Accounts payable	148,185	59,844	136,342	59,233
Taxes and salaries payable	8,590	25,562	9,943	26,150
Other current liabilities	4,314	6,693	6,372	6,893
Dividends proposed	71,209	28,522	71,209	28,522
Accrued liabilities	50,542	63,387	52,204	64,137
Total current liabilities	375,665	353,431	368,895	354,358
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,014,785	1,666,878	2,008,015	1,667,805

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

Tapio Paarma
General Director

Jan-Erik Elserius
Finance Director

Statements of Income for the years ended 31 December 1999 and 1998 (thousand LTL)

Note	Parent		Group	
	1999	1998	1999	1998
8 Revenues	974,836	903,263	980,299	906,952
Expenses:				
Salaries and wages	(136,554)	(155,724)	(141,629)	(157,177)
Social security	(48,863)	(55,344)	(50,595)	(55,775)
Retirement compensations	(22,070)	(30,193)	(22,070)	(30,193)
Employee training and social benefit	(16,052)	(13,511)	(16,253)	(13,511)
Expenses for domestic operator services	(77,542)	(88,183)	(77,542)	(88,183)
Expenses for international operator services	(41,675)	(61,082)	(41,675)	(61,082)
Line rent cost	(8,262)	(4,883)	(8,262)	(4,883)
Expenses for service 900	(2,959)	-	(2,959)	-
Materials and consumable inventory	(20,011)	(29,660)	(20,089)	(29,660)
Cost of goods sold	(12,070)	(6,329)	(8,281)	(6,329)
Repairs and maintenance	(18,049)	(23,824)	(18,243)	(23,824)
Rent expenses	(6,424)	(6,873)	(6,655)	(6,873)
Write-off of intangible and tangible fixed assets	(19,052)	(7,616)	(19,052)	(7,616)
Provision and write-off of short term assets	(2,427)	(4,823)	(1,315)	(4,823)
Provision and write-off of doubtful accounts receivable	(5,058)	(3,253)	(5,430)	(3,541)
Utilities and communication expenses	(24,456)	(23,133)	(27,542)	(23,133)
Insurance expenses	(2,969)	(2,471)	(3,027)	(2,471)
Business trip expenses	(3,380)	(2,192)	(3,490)	(2,194)
Marketing and selling expenses	(4,780)	(3,943)	(5,421)	(3,943)
Consulting and other professional services	(27,486)	(5,908)	(27,918)	(5,908)
Taxes except for profit tax	(7,896)	(7,065)	(8,137)	(7,065)
Other expenses	(56,224)	(50,454)	(50,865)	(50,004)
Total expenses	(564,259)	(586,464)	(566,450)	(588,188)
EBITDA	410,577	316,799	413,849	318,764
Depreciation and amortisation	(246,899)	(193,989)	(248,222)	(196,430)
Operating profit	163,678	122,810	165,627	122,334
9 Financial income and expenses, net	(21,442)	(23,207)	(21,355)	(22,862)
Profit before result in associated entities	142,236	99,603	144,272	99,472
Profit (loss) from associated entities	182	15,769	(1,944)	16,221
Profit before profit tax	142,418	115,372	142,328	115,693
Profit tax	(38,053)	(48,882)	(37,963)	(49,203)
NET PROFIT	104,365	66,490	104,365	66,490
Which is distributed as follows:				
Dividends proposed	71,209	28,522	71,209	28,522
Transferred to legal reserve	22,664	15,270	22,664	15,270
Transferred to retained earnings	10,492	22,698	10,492	22,698
	104,365	66,490	104,365	66,490
Basic earnings per share (Litas)	0.13	0.08	0.13	0.08

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

Statements of Changes in Equity for the years ended 31 December 1999 and 1998
(thousand LTL)

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of 31 December 1997	814,913	7,048	20,947	138,962	981,870
1998 profit	-	-	-	66,490	66,490
Transferred to legal reserve	-	-	15,270	(15,270)	-
Dividends for 1998	-	-	-	(28,522)	(28,522)
IAS balance as of 31 December 1998	814,913	7,048	36,217	161,660	1,019,838
1999 profit	-	-	-	104,365	104,365
Transferred to legal reserve	-	-	22,664	(22,664)	-
Dividends for 1999	-	-	-	(71,209)	(71,209)
IAS balance as of 31 December 1999	<u>814,913</u>	<u>7,048</u>	<u>58,881</u>	<u>172,152</u>	<u>1,052,994</u>

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

Statements of Cash Flows for the years ended 31 December 1999 and 1998
(thousand LTL)

	Parent		Group	
	1999	1998	1999	1998
Cash flow from (to) operating activities:				
Net profit for the year	104,365	66,490	104,365	66,490
Adjustments to reconcile net profit to net cash provided by operating activities:				
Depreciation and amortisation	246,899	193,989	248,222	196,430
Write-off of investments	-	-	-	-
Write-down of goodwill	-	7,616	-	7,616
Withholding tax on dividends	442	-	442	-
Deferred tax, net	38,053	48,882	37,958	48,882
Write-off of fixed assets	19,052	-	19,052	-
Write-down of other current assets to net realisable value and provision for obsolete tangible fixed assets	(282)	2,759	(282)	2,759
Provision and write-off of obsolete inventories	7,578	2,064	6,466	2,064
Accrued compensations to employees	(5,000)	10,000	(5,000)	10,000
Result of equity method accounting for financial fixed assets	(894)	(15,769)	1,233	(16,221)
Provision and write-off of doubtful accounts receivable	5,058	3,253	5,430	3,541
	415,271	319,284	417,886	321,561
Changes in current assets and current liabilities:				
(Increase) in inventories	(8,593)	(628)	(7,459)	(532)
(Increase) in trade and other accounts receivable and prepaid profit tax	(74,809)	(43,975)	(68,935)	(43,218)
Decrease (increase) in prepayments, other current assets and tangible fixed assets for sale	75	(1,815)	2,262	(1,909)
Decrease (increase) in accrued revenue	10,483	(13,152)	10,502	(12,347)
Increase (decrease) in accounts payable	88,341	(20,047)	88,658	(17,088)
Increase (decrease) in other current and accrued liabilities	(12,307)	3,685	(12,065)	(1,381)
Decrease (increase) in taxes and salaries payable	(16,972)	7,183	(29,466)	7,771
Net cash from operating activities	401,489	250,535	401,383	252,857
Cash flow from (to) investing activities:				
(Acquisition) of tangible and intangible fixed assets, net	(534,581)	(389,483)	(528,480)	(384,985)
(Acquisition)/disposal of financial fixed assets	(41,781)	3	(50,355)	3
Decrease in prepayments for tangible fixed assets	6,714	16,267	6,809	16,250
Net cash (to) investing activities	(569,648)	(373,213)	(572,026)	(368,732)
Cash flow from (to) financing activities:				
Increase in long-term debt	259,950	24,067	259,950	24,067
(Repayment of) proceeds from short-term loans	(80,000)	120,000	(80,000)	120,000
Dividends received	1,106	6,737	1,106	2,237
Dividends (paid out)	(28,522)	(28,522)	(28,522)	(28,522)
Net cash from financing activities	152,534	122,282	152,534	117,782
Net change in cash and cash equivalents	(15,625)	(396)	(18,109)	1,907
Cash and cash equivalents at the beginning of year	30,472	30,868	36,433	34,526
Cash and cash equivalents at the end of year	14,847	30,472	18,324	36,433

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

Notes to the financial statements for the years ended 31 December 1999 and 1998

(All amounts in thousand LTL unless otherwise stated)

1. The Parent company

AB Lietuvos Telekomas (hereafter the „Parent company“ or the „Parent“) was reorganised from a State enterprise and reregistered as a joint stock company on 16 June 1997. The shares of AB Lietuvos Telekomas were fully owned by the State at that date.

On 23 May 1997 the Government of Lithuania issued a resolution No. 504 announcing the privatisation of AB Lietuvos Telekomas. Effective from 7 July 1998 the State Property Fund sold 60% of the shares of AB Lietuvos Telekomas to the Finish-Swedish consortium Amber Teleholding A/S, consisting of Sonera OY and Telia AB.

According to the Share sale agreement between AB Lietuvos Telekomas and Amber Teleholding A/S, 4.97% of the shares held by the State Property Fund were sold to the employees of the Parent company by August 1999. Accordingly, the shareholders' structure of AB Lietuvos Telekomas as of 31 December 1999 is as follows:

	<u>Number of shares</u>	<u>%</u>
State Property Fund (the Government of Lithuania)	285,499,892	35.03
Amber Teleholding A/S	488,947,656	60.00
Employees of the Parent company	40,465,212	4.97
Total	<u>814,912,760</u>	<u>100.00</u>

According to the Agreement signed by the State Property Fund, AB Lietuvos Telekomas and Amber Teleholding A/S on 7 July 1998, the State Property Fund may sell its part of the Parent company's shares not sooner than in 2 years from the date of the above mentioned agreement. On 17 February 2000 the Board of the Parent company approved a decision to offer the Parent company's shares, owned by the State Property Fund by the way of Initial Public Offering (IPO) in international and domestic stock exchanges. It is anticipated that the Parent's shareholders' meeting will approve the offering on 26 April 2000. Following the above mentioned agreement, should the ownership percentage of the State Property Fund in the Parent company become less than 25%, the Shareholders' meeting will assign the status of a special share to one of the shares owned by the State Property Fund („the golden share“). This means that the State Property Fund will retain its right to participate in the Parent company's key decisions outlined in the above mentioned agreement until at least 1 January 2005.

The Parent company is located at Savanorių 28, Vilnius, Lithuania.

AB Lietuvos Telekomas holds a licence for provision of local, long distance and international telecommunication services, 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 and is valid until 31 October 2007.

On 31 December 1997 AB Lietuvos Telekomas was also granted licences to provide GSM (frequency 900 MHz) and DCS-1800 (frequency 1800 MHz) mobile cellular services in Lithuania. Further, on 24 October 1997 AB Lietuvos Telekomas received a licence for provision of paging services and building and developing the paging network ERMES. However, as required by the State Competition and Consumer Rights Protection Board, on 24 November 1998 the Parent company made a decision to renounce these licences. The renunciation was approved by the decision of the Government of Lithuania as of 9 March 1999. Furthermore, on 9 June 1998 the Law on Telecommunications was enacted. According to the Law on Telecommunications AB Lietuvos Telekomas was granted an exclusive right to install and provide fixed line telephony services in Lithuania till 31 December 2002.

As of 31 December 1999, the Parent company employed 6,936 employees (in 1998 - 9,415).

2. Summary of significant accounting policies

Financial statements

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

Consolidation and combination

The consolidated financial statements as of 31 December 1999 are prepared as a summary of AB Lietuvos Telekomas and its subsidiaries - UAB Lintel, UAB Lietuvos Telekomo Verslo Sprendimai and UAB Comliet - financial statements stated at uniform accounting principles.

As explained more fully in Note 5 to these financial statements, AB Lietuvos Telekomas has purchased 100% shares of UAB Lietelija on 18 March 1999. The name of the subsidiary was subsequently changed to UAB Lietuvos Telekomo Verslo Sprendimai. As the statements of income and cash flows of former UAB Lietelija for the 13-day period ended 31 March 1999 are immaterial to the statements of income and cash flows of the Group, therefore, only the statements of income and cash flows for the period from April to December 1999 were included in the consolidated financial statements as of 31 December 1999.

As explained more fully in Note 5 to these financial statements, AB Lietuvos Telekomas has purchased 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. As the statements of income and cash flows of UAB Comliet for the 16-day period ended 31 December 1999 are immaterial to the statements of income and cash flows of the Group, therefore, only the balance sheet of the subsidiary was included in the consolidated financial statements as of 31 December 1999.

Financial statements of the non-profit organisation VĮ Lietuvos Telekomo Sporto Klubas are combined in the consolidated financial statements of the Group as of 31 December 1999, as the Parent company acts as a founder of this institution but has not made any monetary or in-kind contribution in which case the parent-subsidiary relationship is absent.

Internal profit, intercompany accounts, internal shareholdings, internal dividends and other internal transactions have been eliminated from the financial statements of the Group.

Basis of accounting

AB Lietuvos Telekomas maintains its books and records in accordance with Lithuanian accounting principles. The accompanying financial statements reflect certain adjustments and reclassifications not recorded in the accounting books of AB Lietuvos Telekomas in order to conform the Lithuanian statutory balances to financial statements prepared in accordance with International Accounting Standards issued by the International Accounting Standards Committee.

Comparative figures

The comparative figures for 1998, presented in these financial statements, include certain adjustments compared to the Parent company's audited 1998 financial statements.

Revenue recognition

Only a minor portion of local calls has been measured until the end of 1997 and those customers were billed monthly based on the duration of calls (per minutes). Other customers were billed monthly a fixed subscription fee for local calls. Starting from February 1998 all customers are billed monthly based on the duration of calls in addition to a fixed subscription fee.

Consequently, local customers are billed for connection fee, monthly subscription fee, Internet services, data transmission services and lease of channels, long-distance, international and starting from February 1998 local calls revenue 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 international incoming traffic is accrued monthly based on the historical experience 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 moment of sale or issue of invoice, when applicable.

Intangible fixed assets

Intangible fixed assets of the Group are stated at cost less accumulated amortisation. 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 1 to 10 years. Any excess of the cost of acquisition over the Parent company's proportional share of net assets of a subsidiary is recognised as a goodwill. Goodwill is amortised using the straight-line method over 5 years. Any excess of the Parent company's proportional share of net assets of the subsidiary over the cost of acquisition is recognised as a negative goodwill. To the extent that the negative goodwill does not relate to expectations of future losses and expenses that have been identified in the Parent company's plan for the acquisition and can be measured reliably, negative goodwill is recognised as income.

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 value for assets acquired prior to that date.

The second set of indexation factors varying from 2 to 5 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).

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).

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:

	Before 1 January 1998	After 1 January 1998
	(Years)	(Years)
Buildings	10 - 100	10 - 70
Switches, lines and related telecommunication equipment	2.5 - 34	4 - 25
Vehicles	3 - 10	4 - 7
Other tangible fixed assets	2 - 100	2 - 10

Financial fixed assets

Financial fixed assets represent long-term investments into subsidiaries, associated and other entities, accounted for either at cost or the equity method depending on the ownership percentage.

Investments in subsidiaries and associated entities where the Parent company holds more than 20% interest of 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. This means that the recorded value of the investments corresponds to the proportional share of the equity of the subsidiaries and associated entities, and that the consolidated net result and equity correspond to those of the Parent company.

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.

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. The Parent company records a provision for obsolete inventories as such items are identified.

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

Financial fixed assets 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 tangible fixed assets and services received for free from other entities. Deferred revenue is subsequently recognised as income 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.

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 standard Lithuanian profit tax rate is 29 percent. Starting from 1 January 2000 profit tax rate has been reduced to 24 percent. The Group records the profit tax related to the taxable income calculated in accordance with the Lithuanian tax legislation. 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. According to the Lithuanian tax legislation, tax losses can be carried forward for 5 years and offset against future taxable income.

Deferred profit taxes are recorded for all temporary differences between the result in the financial statements and tax returns. If it is more likely, that some or all differences of a deferred tax asset will not be realised, a valuation allowance is established.

3. Intangible fixed assets

The Parent company's intangible fixed asset balance is mainly composed of switch, accounting and other types of software, licences and the right for exploitation of fibre optic cables. The latter being the major acquisition for 1999 is described below in greater detail.

On 14 June 1999 the Parent company has terminated two agreements for construction and operation of optic fibre cable links signed previously with Danish Baltic Telecommunication Group („DBTG“). According to these agreements, DBTG had a right to receive a share of profit derived from using these cable links. The termination has been executed by the agreement dated 14 May 1999 whereby the Parent company and DBTG have agreed that AB Lietuvos Telekomas shall compensate DBTG for waiving the latter's right to future profit sharing and the right to make contributions in case of expansion of the system by paying the total amount of DKK 41 million in four years, the first year payment amounting to DKK 22 million. All payments shall be made semi-annually. Part of the amount covered the payable to DBTG outstanding as of 14 May 1999 amounting to DKK 3,292 thousand (LTL 1,886 thousand). The remaining part of DKK 37,708 thousand (LTL 21,603 thousand) has been recorded as intangible fixed assets in the balance sheet as of 30 June 1999. After the amortisation during the second half of 1999 the balance of the above mentioned intangible fixed asset item as of 31 December 1999 was LTL 19,443 thousand whereby the annual amortisation rate is 20 percent.

The amortisation charge on intangible fixed assets of the Parent company (except for goodwill as described in Note 5 below) during 1999 amounted to LTL 9,396 thousand and was included in the statement of income for the year ended 31 December 1999. Following the change of shareholders and significant changes in capital investment strategies, in 1999 the Parent company re-estimated the remaining useful lives switch, accounting and other types of software and licences and increased their estimated useful lives effective from 1 January 1999. This change has resulted in a decrease of amortisation expenses for 1999 by LTL 18,049 thousand compared to the previously applied useful lives.

4. Tangible fixed assets

Tangible fixed assets are specified below for the Parent company:

	Buildings	Plant and machinery	Other tangible fixed assets	Construction in progress	Total
CARRYING VALUE:					
Balance as of 31 December 1997	170,275	1,350,979	60,674	125,795	1,707,723
Reconciliation between local and IAS opening balances	-	27,046	-	-	27,046
Additions	14,429	48,129	24,325	317,601	404,484
Retirements	(4,339)	(24,414)	(4,734)	-	(33,487)
Transfers between captions	(568)	9,683	(9,115)	-	-
Transfers to fixed assets for sale	(18,073)	-	-	-	(18,073)
Transfers from construction in progress	25,000	339,294	24,854	(389,148)	-
Provision for obsolete assets	-	-	-	(1,243)	(1,243)
Balance as of 31 December 1998	<u>186,724</u>	<u>1,750,717</u>	<u>96,004</u>	<u>53,005</u>	<u>2,086,450</u>
Additions	5,886	80,951	21,861	387,076	495,774
Retirements	(5,382)	(93,706)	(10,469)	-	(109,557)
Transfers between captions	(1,437)	44,664	(43,227)	-	-
Transfers to fixed assets for sale	-	(1,899)	-	-	(1,899)
Transfers from construction in progress	46,074	238,628	17,405	(302,107)	-
Transfer to intangible fixed assets	-	-	-	(22,377)	(22,377)
Balance as of 31 December 1999	<u>231,865</u>	<u>2,019,355</u>	<u>81,574</u>	<u>115,597</u>	<u>2,448,391</u>
ACCUMULATED DEPRECIATION:					
Balance as of 31 December 1997	39,695	510,888	27,795	-	578,378
Reconciliation between local and IAS opening balances	-	21,213	-	-	21,213
Charge for the year	6,160	164,397	11,384	-	181,941
Retirements	(720)	(17,870)	(3,338)	-	(21,928)
Transfers between captions	(661)	2,233	(1,572)	-	-
Transfers to fixed assets for sale	(6,338)	-	-	-	(6,338)
Balance as of 31 December 1998	<u>38,136</u>	<u>680,861</u>	<u>34,269</u>	<u>-</u>	<u>753,266</u>
Charge for the year	7,003	216,058	15,303	-	238,364
Retirements	(769)	(98,077)	(5,844)	-	(104,690)
Transfers between captions	795	10,476	(11,271)	-	-
Transfers to fixed assets for sale	-	(475)	-	-	(475)
Balance as of 31 December 1999	<u>45,165</u>	<u>808,843</u>	<u>32,457</u>	<u>-</u>	<u>886,465</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>
NET BOOK VALUE as of					
31 December 1998	<u>148,588</u>	<u>1,069,856</u>	<u>61,735</u>	<u>53,005</u>	<u>1,333,184</u>

Following the change of shareholders and significant changes in capital investment strategies, in 1998 the Parent company re-estimated the remaining useful lives of switches, related telecommunication equipment and other tangible fixed assets and reduced their estimated useful lives effective from 1 January 1998. This change has resulted in an increase of depreciation expenses for 1998 and 1999 by LTL 165,436 thousand compared to the previously applied useful lives. Depreciation of switches and other telecommunications equipment composes the largest part of this amount.

Included in the construction in progress caption for the years ended 31 December 1998 is capitalised interest on loans amounting to LTL 3,893 thousand. The capitalised interest was calculated on loans, obtained specifically for financing certain construction projects. Due to the fact that during 1999 the Parent company obtained new long-term financing facilities from Swedbank and

Nordic Investment Bank, designated for financing the overall capital expenditure commitments of the Parent company and not for acquisition of particular assets, all interest calculated on this loan during 1999 amounting to LTL 6,033 thousand was included in the financial expenses caption in the statement of income.

The Parent company owns buildings and premises with the total net book value of LTL 14,740 thousand as of 31 December 1999, which due to the significant restructuring of the Parent's activity are not intended to be used in the future activities. The Parent company intends to sell these premises in the nearest future; however, the exact dates or sales prices have not yet been identified. No potential gain or loss that might occur as a result of this uncertainty has been recorded in the these financial statements.

Tangible fixed assets are specified below for the Group:

	Buildings	Plant and machinery	Other tangible fixed assets	Construction in progress	Total
CARRYING VALUE:					
Balance as of 31 December 1997	173,786	1,362,487	63,957	125,795	1,726,025
Reconciliation between local and IAS opening balances	-	27,046	-	-	27,046
Additions	14,429	43,818	24,368	317,601	400,216
Retirements	(4,339)	(24,809)	(5,653)	-	(34,801)
Transfers between captions	(568)	9,683	(9,115)	-	-
Transfers to fixed assets for sale	(18,073)	-	-	-	(18,073)
Transfers from construction in progress	25,000	339,294	24,854	(389,148)	-
Provision for obsolete assets	-	-	-	(1,243)	(1,243)
Balance as of 31 December 1998	<u>190,235</u>	<u>1,757,519</u>	<u>98,411</u>	<u>53,005</u>	<u>2,099,170</u>
Additions	5,474	81,123	23,569	387,076	497,242
Acquisition of subsidiary's tangible fixed assets	-	34,112	18,027	-	52,139
Retirements	(8,893)	(99,942)	(11,764)	-	(120,599)
Transfers between captions	(1,437)	44,664	(43,227)	-	-
Transfers to fixed assets for sale	-	(1,899)	-	-	(1,899)
Transfers from construction in progress	46,074	238,628	17,405	(302,107)	-
Transfers to intangible fixed assets	-	-	-	(22,377)	(22,377)
Balance as of 31 December 1999	<u>231,453</u>	<u>2,054,205</u>	<u>102,421</u>	<u>115,597</u>	<u>2,503,676</u>
ACCUMULATED DEPRECIATION:					
Balance as of 31 December 1997	39,798	516,135	29,062	-	584,995
Reconciliation between local and IAS opening balances	-	21,213	-	-	21,213
Charge for the year	6,210	166,030	11,802	-	184,042
Retirements	(720)	(18,400)	(3,761)	-	(22,881)
Transfers between captions	(661)	2,233	(1,572)	-	-
Transfers to fixed assets for sale	(6,338)	-	-	-	(6,338)
Balance as of 31 December 1998	<u>38,289</u>	<u>687,211</u>	<u>35,531</u>	<u>-</u>	<u>761,031</u>
Charge for the year	7,020	216,236	16,214	-	239,470
Acquisition of subsidiary's tangible fixed assets	-	15,535	12,454	-	27,989
Retirements	(939)	(104,136)	(6,606)	-	(111,681)
Transfers between captions	795	10,476	(11,271)	-	-
Transfers to fixed assets for sale	-	(474)	-	-	(474)
Balance as of 31 December 1999	<u>45,165</u>	<u>824,848</u>	<u>46,322</u>	<u>-</u>	<u>916,335</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>
NET BOOK VALUE as of					
31 December 1998	<u>151,946</u>	<u>1,070,308</u>	<u>62,880</u>	<u>53,005</u>	<u>1,338,139</u>

The effect of indexations

The Parent company has revalued its tangible fixed assets four times prior to 31 December 1999. 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 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.

5. Financial fixed assets

Financial fixed assets as of 31 December 1999 and 1998 are specified as follows:

			Parent		Group	
Share of capital (%)						
as of 31 Dec. 1999						
Subsidiaries and associated entities			1999	1998	1999	1998
UAB Lintel	a)	100	44,091	44,396	-	-
UAB Comliet	b)	100	29,769	13,849	-	13,849
UAB Lietuvos Telekomo Verslo Sprendimai	c)	100	9,603	-	-	-
Other			37	2,436	48	2,436
Total investments in subsidiaries and associated entities			83,500	60,681	48	16,285

a) UAB Lintel was originally founded in 1992 to provide international telecommunications services. The Parent held 49.8% of the shares in UAB Lintel until the end of 1997, when the remaining 50.2% of the shares were acquired. In 1997 the company was providing telecommunication services to the Parent and to the mobile operators and in 1998 only to AB Lietuvos Telekomas connecting its subscribers to a number of countries and acting as a transit operator for international, long distance and local calls. Starting from 1 January 1999 UAB Lintel discontinued its telecommunications operations and sold its telecommunication equipment to AB Lietuvos Telekomas. The company is publishing telephone directories for the largest Lithuanian cities, as well as for certain regions of high population. Publishing services became the main activity of UAB Lintel when the telecommunications operations have been discontinued.

UAB Lintel invested into the GSM operator UAB Bitė GSM (former UAB Mobilios Telekomunikacijos) in 1995 and was holding 28.4% of shares in this company as of 31 December 1999 and 1998.

According to the agreement between AB Lietuvos Telekomas and its shareholders and as directed by the State Competition and Consumer Rights Protection Board, AB Lietuvos Telekomas directed UAB Lintel to sell its investment in UAB Bitė GSM. AB Lietuvos Telekomas has made a decision to sell the shareholding of UAB Lintel in UAB Mokėjimo Kortelių Sistemos as well.

The financial investments in UAB Bitė GSM and UAB Mokėjimo Kortelių Sistemos are classified as financial fixed assets for sale and carried at cost in the amount of LTL 41,198 thousand and LTL 1,360 thousand respectively in the financial statements of UAB Lintel as of 31 December 1999.

Following the UAB Lintel's shareholder's decision as of 6 September 1999, the Share Purchase Agreement was concluded on

22 September 1999 between UAB Lintel and Tele Danmark A/S regarding the sale of shares of UAB Bitė GSM. According to the Agreement, 2,844 ordinary registered shares with the nominal value of LTL 10,000 each, owned by UAB Lintel are sold to Tele Danmark A/S at the sales price of LTL 200,000 thousand (USD 50,000 thousand). Subsequent to the balance sheet date, the above transaction was closed when requirements, including an amendment of UAB Bitė GSM By-laws, credit facility agreement, approvals of the related Government agencies and other related parties, were fulfilled. The above specified agreement terms have been realised and the sale agreement came into force on 13 January 2000. In addition to the sales price, UAB Lintel has to pay a transaction success fee amounting to LTL 4,000 thousand to the Parent company. Subsequent to the balance sheet date, on 21 February 2000, the shares of UAB Mokėjimo Kortelių Sistemos were sold for the total amount of LTL 1,496 thousand.

- b) UAB Comliet was the first mobile operator in Lithuania founded on 8 April 1991. The shareholders of the company were AB Lietuvos Telekomas, Millicom East Holding B.V (owned by Tele Danmark A/S), Tele Danmark A/S and UAB Antena. UAB Comliet operates the NMT 450 mobile network in Lithuania.

Following the decision of AB Lietuvos Telekomas Board as of 9 September 1999, on 22 September 1999 the Parent company signed the Share Purchase Agreement for the purchase of shares of UAB Comliet from Tele Danmark A/S and Tele Danmark East Holding B.V., holders of 49% of share capital of UAB Comliet. The total sales price of the shares is LTL 13,400 thousand (USD 3,350 thousand). According to the Agreement, AB Lietuvos Telekomas undertakes, that UAB Comliet will no longer provide NMT 450 mobile services in Lithuania, but will use its network to provide Wireless Local Loop (WLL) solutions and services for internal communication among AB Lietuvos Telekomas and its fully owned subsidiaries. The transaction closing date was 15 December 1999.

The purchase of the remaining 10% of UAB Comliet shares held by UAB Antena was also approved by AB Lietuvos Telekomas' Board on 9 September 1999. The Share Purchase Agreement has been signed on 24 September 1999. The total sales value of the shares is LTL 2,735 thousand. The transaction closing date was 15 December 1999.

- c) The agreement to purchase UAB Lietelija, a 100% owned subsidiary of Telia AB, was signed on 15 February 1999. The total acquisition price paid by the Parent company amounted to LTL 25,647 thousand. Subsequently, the name of the subsidiary was changed into UAB Lietuvos Telekomo Verslo Sprendimai. Transaction closing date was 18 March 1999. UAB Lietuvos Telekomo Verslo Sprendimai provides Internet and data transmission services, it also started to serve the large business customers of AB Lietuvos Telekomas by providing them integrated solution packages.

The Parent company has founded a non-profit organisation VĮ Lietuvos Telekomo Sporto Klubas (a sports club) in April 1998 and is the sole owner of the institution. However, no monetary or in-kind contribution was made by the Parent company in which case the parent-subsidiary relationship is absent. The financial statements of VĮ Lietuvos Telekomo Sporto Klubas were combined with the financial statements of the Group as of 31 December 1999.

6. Trade accounts receivable

Trade accounts receivable are specified as follows:

	Parent		Group	
	1999	1998	1999	1998
Receivables from business and residential customers	69,025	56,556	68,762	56,556
Receivable from the Government of Lithuania	71,822	8,806	71,822	8,806
Other trade accounts receivable	12,833	12,196	16,250	13,338
Less: provision for doubtful accounts receivable				
from business and residential customers	(6,321)	(3,047)	(6,321)	(3,221)
Less: provision for other doubtful trade accounts receivable	(414)	(273)	(933)	(561)
Total trade accounts receivable	146,945	74,238	149,580	74,918

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 in 1999 (two hours in 1998) and partial compensations of fixed telephone connection fees and subscription fees. The compensations program ceased at the end of 1999. The total amount of revenues from the local calls, fixed telephone connection and subscription, compensated by the Government amounts to LTL 71,822 thousand for the year ended 31 December 1999 and includes compensations receivable for eight months starting May 1999. Based on the latest negotiations with the Government of Lithuania, the Government undertakes to repay its debt to the Parent company out of the IPO proceeds (see Note 1) by transferring the amount no later than 1 July 2000. According to the preliminary agreement, the Parent company is entitled to calculate interest on the outstanding amount in case the payment is late.

Such delay in Government payments illustrates the consequences of the budget deficit situation in the country due to which the overall ageing of the trade accounts receivable has deteriorated. A significant number of the budget-financed institutions accounting for almost 40% of the overdue trade accounts receivable have also delayed their payments. Consequently such overall deterioration of trade accounts receivable from budget-financed institutions caused an increase in provisions.

Based on accrued sales amounts and gross receivable balances from businesses and residents, the average collection period was 33 days for gross accounts receivable as of 31 December 1999, compared to 30 days at 31 December 1998.

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

	Parent	
	1999	1998
Provision for doubtful accounts receivable at the beginning of year	3,047	900
Add: additional provisions	4,134	3,234
Less: accounts receivable written-off	(860)	(1,087)
Provision for doubtful accounts receivable at the end of year	<u>6,321</u>	<u>3,047</u>

The provision for doubtful accounts receivable has been estimated for each of these groups individually:

31 December 1999				
Customer group	Trade accounts receivable gross	Provision for doubtful accounts	Trade accounts receivable	Provided against gross balance
Business	36,014	(4,163)	31,851	12%
Residents	33,011	(2,158)	30,853	7%
Total	<u>69,025</u>	<u>(6,321)</u>	<u>62,704</u>	<u>9%</u>

31 December 1998				
Customer group	Trade accounts receivable gross	Provision for doubtful accounts	Trade accounts receivable	Provided against gross balance
Business	27,931	(1,761)	26,170	6%
Residents	28,625	(1,286)	27,339	5%
Total	<u>56,556</u>	<u>(3,047)</u>	<u>53,509</u>	<u>5%</u>

The provision amount has been estimated by analysing the ageing information of each customer group.

7. Cash and cash equivalents

	Parent		Group	
	1999	1998	1999	1998
Cash in banks	14,579	29,862	18,017	35,818
Cash on hand	268	610	307	615
Total cash and cash equivalents	<u>14,847</u>	<u>30,472</u>	<u>18,324</u>	<u>36,433</u>

8. Revenues

Revenues can be specified as follows:

	Parent		Group	
	1999	1998	1999	1998
International calls	205,190	236,099	206,411	236,099
Local calls	178,647	133,831	178,647	133,831
Subscription fees	175,301	142,013	175,301	142,013
Long-distance calls	139,022	114,967	139,022	114,967
Traffic to mobile operators	125,263	133,817	125,263	133,817
Payphone cards	31,516	29,995	31,516	29,995
Traffic from mobile operators	26,169	26,117	26,169	26,117
Connection fees	24,795	36,598	24,795	36,598
Other local services	13,369	4,649	13,369	4,649
Internet	10,145	2,266	13,963	2,266
Lease of international channels	9,768	8,089	9,768	8,089
Wire radio broadcasting	6,039	6,886	6,039	6,886
Telegraph services	4,602	4,887	4,602	4,887
Lease of interurban channels	4,533	5,038	4,533	5,038
900 service	3,828	3,080	3,828	3,080
Data transmission	2,216	1,308	4,942	1,308
Other revenues	14,433	13,623	12,131	17,312
Total	974,836	903,263	980,299	906,952

9. Financial income and expenses, net

Financial income and expenses can be specified as follows:

	Parent		Group	
	1999	1998	1999	1998
Gain on currency exchange	17,900	4,351	17,900	4,762
Penalties received	5,026	3,101	5,026	3,101
Bank interest received	1,048	260	1,048	310
Other	730	770	819	807
Total financial income	24,704	8,482	24,793	8,980
Interest on state capital	-	-	-	-
Interest on loans	(34,322)	(17,228)	(34,322)	(17,228)
Loss on currency exchange	(11,619)	(14,184)	(11,619)	(14,308)
Other	(205)	(277)	(207)	(306)
Total financial expenses	(46,146)	(31,689)	(46,148)	(31,842)
Total financial income/(expenses), net	(21,442)	(23,207)	(21,355)	(22,862)