

AUDIT REPORT
on the Financial Statements for 2003 of Lietuvos Elektrinė AB

INTRODUCTION

On the basis of the audit agreement concluded between **Lietuvos Elektrinė AB** (hereinafter referred to as the Company) and **Accounting and Control Firm Auditas UAB** as of 27 October 2003, the audit of the annual financial statements for 2003 of Lietuvos Elektrinė AB has been performed. The purpose of the audit is to examine whether the financial statements, in all material respects, give a true and fair view of the financial position of the Company, of the results of its operations and its cash flows; assess whether these statements are prepared according to the generally accepted accounting principles and legal acts regulating financial accounting; assess whether the data in the Company's Annual Report correspond with the data in the annual financial statements. The evaluation of reasonability and accuracy of the tax amounts payable to the state budget has been performed to the extent the calculated amounts affect the amounts in the financial statements for 2003. The responsibility for the data accuracy of the presented statements lies entirely with the management of Lietuvos Elektrinė AB, while the independent auditor is responsible for the opinion expressed about these financial statements.

The Audit Report is presented by Accounting and Control Firm Auditas UAB, registered on 18 April 1991, register No. AB-91-1146; enterprise code: 2061271; office address: 24-11 Gedimino Ave., Vilnius; tel. (+370 5) 261 97 72, acting in accordance with the Articles of Association.

The audit has been performed by the auditors, Rišardas Krinickis and Alma Lizunova, and the auditor's assistant, Daiva Tukačiauskienė. During the audit, the client has been consulted on account management, taxes and other issues.

The audit has been performed pursuant to the Law on Audit of the Republic of Lithuania, the National Standard on Auditing and other legal acts of the Republic of Lithuania, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessment of the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation in accordance with the established reporting framework.

1. DATA ABOUT THE COMPANY AND ITS OPERATIONS

The public company Lietuvos Elektrinė AB was registered with the Ministry of Economy on 31 December 2002. The latest amendments to the Articles of Association were registered with the state enterprise Centre of Registers on 9 May 2003.

- Company registration No: BĮ 01-249;
- Company code: 1087093;
- VAT payer's code: 108709314;
- The code of the insured: 3853488;
- Office: 21 Elektrinės St. 21, Elektrėnai, Republic of Lithuania;
- Authorised capital as of 31 December 2003: LTL 145.800.689;
- The company aims to ensure reliable and efficient supply, transfer and distribution of electricity and thermal energy of high quality;
- The Company's financial year is the calendar year.

Pursuant to the Company's Articles of Association, the Company's management bodies are the following:

- ✓ The General Meeting of Shareholders;
- ✓ The Supervisory Board;
- ✓ The Board;
- ✓ Director General.

The Company is operating in accordance with the Law on Companies of the Republic of Lithuania, other legal acts of the Republic of Lithuania, the Company's Articles of Association, the Collective Agreement, internal rules of the Company, orders of the Director General and job descriptions of the employees.

As of the end of 2003, the company listed 816 employees, 815 working as full time employees (according to the financial records about payments made to the State Social Insurance Fund and for health insurance as of 13 January 2003). During 2003, the company dismissed 74 and hired 47 employees. The accounting division consists of 11 persons.

The Company's management is responsible for the account management and preparation of financial statements. During the period under examination, the Company's Director General was **Pranas Noreika** and Chief Financier was **Rolandas Jankauskas**.

The Company's accounting division is an independent structural division (service) of the Company headed by the Chief Financier. The rights, responsibilities and liability of the Chief Financier

are defined in the job descriptions. The Chief Financier's orders with regard to accounting are mandatory to all employees of the Company; in case of disputes, the head of the administration resolves the problems.

The list of accounting documents and the list of the employees authorised to sign these documents is provided in Table 1.

The List of Employees in the Accounting Division

Table 1

No.	Name, Surname	Position	Accounting documents which these persons are authorised to sign
1	Rolandas Jankauskas	Chief Financier	All documents of accounting
2	Zita Pranukevičienė	Deputy Chief Financier	All documents of accounting
3	Ona Misevičienė	Deputy Chief Financier	All documents of accounting
4	Ona Vaitkevičienė	Chief Accountant	Accounting documents in the Purchase and Sale Books
5	Liuda Gylienė	Accountant	Accounting documents in the Purchase and Sale Books
6	Dalia Malinauskienė	Senior Accountant	Accounting documents in the Purchase Book, accounting documents of the accountable persons
7	Lilija Jasiulioninė	Accountant	Accounting documents in the Purchase Book
8	Sigita Masalskienė	Senior Accountant	Pay-roll accounting documents
9	Ona Cipkūnienė	Accountant	Pay-roll accounting documents
10	Efrosinija Rožkova	Accountant	Pay-roll accounting documents
11	Dalia Kazlauskienė	Cashier	Cash-desk documents

2. INSPECTIONS FROM OTHER INSTITUTIONS

The accuracy of calculation of the social insurance contributions, their payment and use in the Company in the period from 25 September 1998 to 25 November 2003 was examined by Lilija Luškevičienė, senior inspector of the Insurers' Inspection Division of the Trakai territorial department of the State Social Insurance Fund. During the inspection a shortage of LTL 7,718 in social insurance contributions was discovered, which attracted a fine of LTL 15,436, in total LTL 23,206.

3. AUDIT RISK

We draw attention to the following factors, which increase the assurance risk and therefore might have an effect on the evaluation of the financial statements.

- The specific nature of the Company's activities – to produce, supply, transfer and distribute electricity and thermal energy;

- The Company uses the computerised accounting program which fails, at least partially, to provide all the necessary information for the accounting purposes;
- Accounting of some of the Company's functions (warehouses, pay-roll) is carried out separately, while the data are entered into the summary accounts (the General Ledger) according to the accounting documents;
- The amount of LTL 897,076 (0.5% of the Company's revenue) is to be deemed material. The risk remains that the total amount of immaterial misstatements that have escaped the auditors during the examination of the accounts may exceed the material amount.

4. ACCOUNTING

In 2003, the Company's accounting was managed in compliance with the legal acts regulating accounting in all material respects. Business operations and economic events are supported with the accounting documents related to them. The Chief Financier and other employees in the accounting service work in compliance with the legal acts regulating management of accounting; they periodically improve their qualification.

The accounting is performed in accordance with the Chart of Accounts approved by the Director General on 2 January 2002 and later adjustments made thereto. The Chart of Accounts was drawn up on the basis of the sample Chart of Accounts as recommended in Resolution 804 of the Government of the Republic of Lithuania as of 27 October 1993 "Concerning accounting and annual financial statements of the legal persons of limited liability" and the requirements of other legal acts, regulating accounting in enterprises.

Pursuant to Article 9 of the Law on Accounting of the Republic of Lithuania, legal entities may choose the accounting policy to be used for the accounting purposes and for drawing up the financial statements. The accounting policy used in the company in 2003 is documented with separate orders of the Director General. The accounting policy in the company is being prepared in the form of a separate document which will harmonise the general accounting principles, accounting methods and rules used in the Company on the basis of the Business Accounting Standards and the International Accounting Standards (IAS).

The Company's accounting is computerised; the Scala accounting software is used.

Note:

It is notable that the accounting software fails to provide, at least in certain aspects, all the necessary information for the management of accounts. We draw your attention to the fact that the same note was included into the Audit Report on the Financial Statements for 2002.

Recommendation:

We think that the Company should apply to the firm servicing the computerized accounting program concerning updating (creation) of the necessary accounts and integration of the program's modules.

The Company's annual financial statements for 2003 submitted for examination contain the Balance Sheet, the Income Statement, the draft Profit Appropriation Statement, the Cash Flow Statement and the Explanatory Notes. They are drawn up in the manner prescribed by the legal acts regulating financial accounting in the Republic of Lithuania.

Note:

We would like to draw your attention to the fact that in the audited annual financial statements for 2002, namely, in the Balance Sheet, the amount payable as profit tax, LTL 2,434,278 calculated on the result from operations in 2002 was not disclosed in the annual accounts. This inaccuracy was corrected after the audit had been performed. That was the reason for reducing the residual profit in the Balance Sheet as of 31 December 2002 by LTL 2,434,278 and for increasing the liabilities to the budget respectively.

The financial statements have been drawn up on the basis of the general accounting principles assuming that the Company's activities will be based on the going concern principle, which means that the Company will generate sufficient profit to cover its debt.

In the statements the amounts receivable are presented at the value expected to be recovered, while the amounts payable are disclosed at the prices specified in the accounts.

Transactions in foreign currencies are translated into litas (LTL) at the official rate fixed by the Bank of Lithuania for the day of the transaction. Gains and losses arising from this translation are recorded in the Income Statement. Assets and liabilities denominated in foreign currencies are translated into LTL at the end of each quarter at the official rate fixed by the Bank of Lithuania for that date.

The work of the Company's cash desk is organised following the provisions of the Rules on Work Organisation and Performance of Operations at the Cash Desk approved by Resolution No 179 of the Government of the Republic of Lithuania and the Board of the Bank of Lithuania as of 17 February 2000.

The Company organises storage of the documents in compliance with the order No. 13 of the Government of the Republic of Lithuania "Concerning storage terms of the accounting documents" as of 22 February 1996 and the order No. 38 of the Archive Department of Lithuania under the Government of the Republic of Lithuania "Concerning storage terms of the general documents" as of 15 August 1997 and the Archive Rules as of 12 April 1996, the Rules of the Board of Experts and the order of the Director General as of 4 March 2002. On 19 December 2003, the Company's Director General, acting in accordance with the legal acts specified above, approved the nomenclature of the 2004 files.

5. ANNUAL STOCKTAKING

Annual stocktaking of material valuables, fuel, production in progress, construction in progress and other Balance Sheet items

In the Company the annual stock-taking of the material valuables, fuel, production in progress, construction in progress and other Balance Sheet items was performed under the Order of Stock-Taking approved by Resolution No. 719 of the Government of the Republic of Lithuania as of 3 June 1999 and the order No. 102 of the Director General as of 1 December 2003.

The stock-taking of plant, property and equipment, consumables, packing materials, spare parts, strict accountability documents, low value and short-lasting items, construction in progress, payments to the banks, the Finance Department, suppliers, contractors and purchasers was performed according to the data as of 31 December 2003.

We would like to remind that following item 9 of the Order of Stock-Taking approved by Resolution No. 719 of the Government of the Republic of Lithuania as of 3 June 1999 the chief executive officer of the company is responsible for the organisation of a stock-taking and accuracy of its results.

Note:

Documents of the stocktaking reveal that assets falling under the notion of long-term assets are disclosed in the accounts of class 2:

- a lawnmower – acquisition price LTL 2,920
- a level – acquisition price LTL 4,938.78.

6. AUDIT OF THE BALANCE SHEET ITEMS

According to the Company's data as of 31 December 2003:

• Total assets	LTL 265.913.755
• Capital and reserves	LTL 210.029.766
• Financing (grants and subsidies)	LTL 3.611.638
• Liabilities	LTL 51.932.785
• Accrued charges and deferred income	LTL 339.566

6.1. Long-term assets

According to the Balance-Sheet data as of 31 December 2003, the residual value of long-term assets constituted LTL 201,806,696. The composition of the Company's long-term assets is shown in Table 2.

Composition of the Company's Long-Term Assets

Table 2

	31.12.2002 (in LTL)	31.12.2003 (in LTL)	Change
Intangible assets	130,997	2,447,231	2,316,234
Property, plant and equipment	179,228,041	197,815,545	18,587,504
Amounts receivable after one year	1,648,973	1,543,920	-105,053
Total long-term assets	181,008,011	201,806,696	20,798,685
% of all assets	71.28	75.89	4.61

Under the order of the Director General as of 25 February 2002, an item is recognised as an asset falling under *Property, plant and equipment* when it serves for more than one year and the cost of the asset is more than LTL 2,000. The Company's property, plant and equipment are presented in accordance with the accounting practice and principles of the Republic of Lithuania. The value of the long-term assets is presented in the accounting of Lietuvos Elektrinė AB and in its financial statements in accordance with the Rules on asset valuation in the annual financial statements approved by Note No. 21 N "Concerning asset valuation" of the Ministry of Finance of the Republic of Lithuania as of 8 March 1994 and the requirements set forth by Resolution No. 955 of the Government of the Republic of Lithuania "Concerning approval of the order of accounting of depreciation (amortisation) of property, plant and equipment and their repair works" as of 30 July 1998. The value of long-term assets is not based on the market value as required by the International Accounting Standards (hereinafter – IAS).

Lietuvos Elektrinė AB calculates depreciation (amortisation) of the long-term assets in accordance with the provisions of Resolution No. 955 of the Government of the Republic of Lithuania "Concerning approval of the order of accounting of depreciation (amortisation) of property, plant and equipment and their repair works" as of 30 July 1998, taking into consideration the maximum depreciation norms approved by the order Nr. 428/301 of the Minister of Finance and the Minister of Economy of the Republic of Lithuania as of 24 December 1999 and the depreciation norms for the property, plant and equipment acquired after 1 January 2002, established in the Law on Profit of the Republic of Lithuania No. IX-675 as of 21 December 2001, on a straight – line basis over the estimated useful life of the assets.

Notes:

According to the data of analytical accounting of long-term assets (lists of long-term assets) presented by the Company, it is evident that the Company has long-term assets, which are not depreciated, in the residual value of LTL 468,409.49, but during the stock-taking it was not established that these assets are not used. The Company's accounting does not disclose that these assets are not used either. In the annual financial statements as of 31 December 2003 these assets are reported at the value of

LTL 468,409.49. These assets were acquired 15-20 years ago, but their residual value is high. We could not apply any practical audit procedures that would allow us to obtain reasonable assurance as to the fair value of these assets. In the event it turns out that these assets are illiquid, they should be either written off or provisions should be formed for them. The Company's employees explain that these assets are reserved for the use in the future when the Company starts working in full capacity. Starting from 1 January 2004, these assets will be disclosed at fair value.

In the Company the value of property, plant and equipment is determined following the Law on Profit of the Republic of Lithuania, but the provisions of Resolution No. 955 of the Government of the Republic of Lithuania of 30 July 1998 are not taken into consideration. According to the provisions of Resolution No. 955 of the Government of the Republic of Lithuania of 30 July 1998, the value of property, plant and equipment is not limited, i.e. any item is recognised as an asset under *Property, plant and equipment* when the Company gets economic benefit from that asset for more than one year.

Conducting the audit of the long-term assets we noticed that the minimum value of long-term assets fixed in the order of the Director General is not always observed. In the order of the Director General the property, plant and equipment include the assets which were used in the process of production and services many times and, having retained their natural form, depreciate in a longer than one year period of time and the initial acquisition costs of which are higher than LTL 2,000. During the audit of financial statements for 2002 we expressed an opinion that the minimum acquisition costs applied for attributing an asset to the Property, plant and equipment as established in the Company was too high and we proposed to establish this value for each group of assets separately. In 2003, the Company did not change this value, but recognised an asset of a lower value than LTL 2000 as a long-term asset. Software, the value of which is below LTL 2000, is attributed to intangible assets. Property, plant and equipment include printers, furniture and other property, the acquisition costs of which were lower than LTL 2,000. We also draw attention that there were instances when the assets of a higher value than LTL 2,000 was not recognised as Property, plant and equipment. These were mobile phones, all kinds of equipment (testing equipment, a gas cooler, battery stacks, etc.

While conducting the audit of long-term assets we noticed that in the Company all the assets are recognised as inventories right away and are disclosed in the accounts of class 2, and only then are they transferred to the Property, plant and equipment and disclosed in the accounts of class 1. In our opinion, such a system distorts the turnover in the accounts of class 2, moreover, the Property, plant and equipment not yet used are disclosed in the accounts of class 2 and, because of that, are disclosed in the financial statements incorrectly.

While conducting the audit of long-term assets we noticed that in the Company some intangible assets are attributed to the Property, plant and equipment. It is software. In the event the software is obtained together with the computer, its value should be added to the value of the computer but not recorded separately.

According to the data in the Company's accounting and in the financial statements, the value of construction in progress (less advance payments) as of 31 December 2003 was LTL 39,747,701.18. Provisions of LTL 132,138.28 are formed for the projects, which are not carried out or planned. We would like to draw attention that under item *Construction in Progress* the value of the project "Computerisation of the measurement of crude oil tank levels and crude oil monitoring" is recorded at LTL 177,594. According to the Law on Construction of the Republic of Lithuania, construction "means activities, the purpose of which is to construct (assemble, lay) a new construction works, reconstruct or repair the existing construction works and incomplete construction works" and "incomplete construction works means a construction works which, because of incomplete construction operations, cannot be used for its proper purpose and is not recognised as being fit for use." In our opinion, the project referred to above does not satisfy the concept of incomplete construction works, because computerisation is not a constituent part of equipment or fixtures (crude oil tank), i.e. the tank is used as a separate unit. That contradicts the definition of construction in progress, therefore this project is much closer to the understanding of intangible assets, i.e. according to the provisions of Resolution No. 955 of the Government of the Republic of Lithuania "Concerning approval of the order of accounting of depreciation (amortisation) of property, plant and equipment and their repair works" as of 30 July 1998 it may be attributed to the information processing software and technical documentation.

We draw attention that the accounting program used in the Company does not allow to increase the acquisition costs of the long-term assets; therefore increases in the value of individual items of the long-term assets are disclosed as separate items of long-term assets. This method of accounting does not ensure a possibility to constantly monitor changes in the value of some specific items of long-term assets and creates a risk that the value of an asset, the reconstruction or repairs costs of which exceed 50% of its acquisition costs, may remain unchanged. We also remind that according to the provisions of the Law on Value Added Tax, when making material improvement of buildings or structures it is necessary to know the value of the building or structure before performing this operation.

Recommendation:

In our opinion, it is reasonable to establish a different minimum for the initial acquisition costs for different groups of long-term assets (e.g. furniture: LTL 500; computers: LTL 1,000; vehicles: LTL 2,000). We propose that zero acquisition costs should be established for intangible assets and that they should be disclosed under *Long-term Assets* only with regard to the period of the economic benefit for the Company associated with that asset.

In the Balance Sheet the Company's long-term assets are shown at their residual value.

Under *Intangible Assets* the Company discloses licenses, software and other intangible assets.

The dynamics and structural changes in the Property, plant and equipment compared with the data in the Balance Sheet of 2002 are given in Table 3.

Dynamics and Composition of the Company's Property, Plant and Equipment

Table 3

No	Property, plant, equipment	Residual value 31/12/2002 (LTL)	Percentage	Residual value 31/12/2003 (LTL)	Percentage
1.	Buildings	61,729,797	34.44	55,392,971	28.00
2.	Plant and machinery	84,905,437	47.37	91,275,236	46.14
3.	Vehicles	652,129	0.36	640,230	0.32
4.	Other fixtures, fittings, tools and equipment	3,666,045	2.05	7,850,928	3.97
5.	Other tangible assets	3,911,282	2.18	2,292,255	1.16
6.	Construction in progress and prepayments	24,363,351	13.59	40,363,925	20.40
	Total:	179,228,041	100.00	197,815,545	100.00

In the Company the property, plant and equipment is accounted on the going-concern basis after the acquisition costs, indexation and accrued depreciation are evaluated. It is notable that after the reorganisation of the company of a special purpose, Lietuvos Energija AB, the property, plant and equipment was transferred to the branch of this company, Lietuvos Elektrinė AB, specifying/showing the acquisition costs adjusted after indexations, accrued depreciation and residual value following the going concern principle. In accordance with the resolutions of the Government of the Republic of Lithuania, the property, plant and equipment was indexed applying the following indexation rates for the different asset categories.

Indexations	Indexation Rates
Indexation of 1 July 1991	1.98 and 2.2 times
Indexation of 1 January 1992	2 – 5 times
Indexation of 1 April 1994	1 – 14 times
Indexation of 31 December 1995	1 – 1.68 times

The second, third and fourth indexations were performed by additionally indexing the value of the property, plant and equipment indexed before.

Total depreciation of the property, plant and equipment as of 31 December 2002 amounted to 60.29 %, and as of 31 December 2003 it was 35.39 %, i.e. in a year this indicator changed (increased) as

much as by 24.9 %. That means that the Company allocates much means for the renewal of the property, plant and equipment.

Notes:

While performing the audit we noticed that some of the fully depreciated property, plant and equipment is still used in the activities of the Company and in the Company's records it is shown at the value of LTL 1, but in the financial statements this value is disclosed as 0. According to the Order of accounting of depreciation (amortisation) of property, plant and equipment and their repair works approved by Resolution No. 955 of the Government of the Republic of Lithuania as of 30 July 1998, in the event fully depreciated assets are still used in the activities of an enterprise, their residual value in the accounting documents and in the financial statements may not be less than LTL 1.

We also noticed that the Company had not established a clear policy of categorising the property, plant and equipment. Under *Buildings* not only buildings but also other different types of property, plant and equipment are recorded.

Construction in progress and pre-payments as of 31 December 2003 constituted LTL 40,363,925.21, including:

- Construction in progress LTL 39,747,701.18
- Pre-payments LTL 616,224.03

The Company's largest projects in progress and incomplete investment projects as well as the amounts invested in them are shown in Table 4.

The List of Construction in Progress

Table 4

No	Project No.	Project name	Balance of the invested means, LTL	Percentage
1	1561	Replacement of oil-break switches, 6 KV	999,943.09	2.52
2	1586	Replacement of switchgears, 0.4 KV	946,246.49	2.38
3	1611	Replacement of switchgears, 0.4 KV	837,488.82	2.11
4	1612	Replacement of switchgears, 0.4 KV	936,267.29	2.36
5	1613	Replacement of switchgears, 0.4 KV	806,747.26	2.03
6	1614	Replacement of direct current panels in units 1-2	300,112.10	0.76
7	1619	Refurbishment of the main building	4,697,337.19	11.82
8	1625	Replacement of switch-gears, 0.4 KV	352,525.06	0.89
9	1627	Filters in Power Unit 8B	28,515,156.13	71.74

10	1632	Surge suppressors	709,338.30	1.78
11		Other	646,539.45	1.63
		Total	39,747,701.18	100.00

Note:

In the Company's accounting, construction in progress is categorised according to investment projects, each of which is assigned an individual number. We could not identify from the disclosure of construction in progress or from the data of the stocktaking, which item of the Company's property, plant and equipment is under repairs, reconstruction or being built anew.

Recommendation:

In our opinion, items under *Construction in Progress* should be disclosed according to each individual item of property, plant and equipment under repairs, reconstruction or being built anew. The numbers of the investment projects could be used to identify the objects under repairs, reconstruction or being built anew.

Amounts receivable within one year, LTL 1,543,920, consist of loans extended to employees under agreements for purchase, sale or exchange of the apartments.

6.2. Current Assets

According to the Balance-Sheet of Lietuvos Elektrinė AB, the short-term assets totalled LTL 64,072,678 as of 31 December 2003. The composition of the Company's current assets is shown in Table 5.

Composition of the Company's Current Assets

Table 5

	31.12.2002 (LTL)	31.12.2002 (LTL)	Change
Stocks and contracts in progress	33,088,562	35,284,135	2,195,573
Amounts receivable within one year	19,228	25,056,066	25,036,838
Investments and term deposits	4,942,323	2,895,840	-2,046,483
Cash at bank and in hand	15,531,747	836,637	-14,695,110
Total value of the current assets	53,581,860	64,072,678	10,490,818
% of all assets	21.10	24.10	0.02

Assets are attributed to current assets if their acquisition costs do not exceed LTL 2.000.

In the Company's accounting the stocks are recorded at production (acquisition) costs, and in the financial statements they are shown at actual costs. The actual costs are calculated by applying different

methods of writing off the stocks, namely, FIFO (first-in first-out), specific identification of cost or weighted average cost method.

Notes:

Following item 3.6 of the Rules on Asset Valuation in the Annual Financial Statements approved by Note 21N of the Government of the Republic of Lithuania as of 8 March 1994 “Raw materials and completion goods, consumed in the production and included into the cost of the inventories (goods) produced, in the financial statements should be appraised applying the FIFO method (assuming that the inventories purchased or produced first are consumed first). Where the inventories or certain items of the inventories move differently in the Company, they may be calculated and disclosed in the financial statements using the LIFO method (assuming that inventories acquired last are consumed first), weighted average cost method, specific identification of cost or other appraisal methods, depending on inventory movement in the company. Information about the disclosure method should be provided in the Explanatory Notes, which, among other things, should calculate the profit, which the enterprise would earn if the FIFO method is used for measuring the inventories“. In the Company’s Explanatory Notes such information is not disclosed.

Following Article 57 of the Law on Profit of the Republic of Lithuania as of 20 December 2001, for the purposes of calculating the profit tax the inventories should be appraised applying the FIFO method. Following item 6 of the Rules on the Method of Inventories Appraisal and Disclosure in Financial Accounting for the Calculation of the Profit Tax, approved by order No. V-248 of the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania as of 9 September 2003, entities which appraise and disclose inventories in their financial statements using a different method than FIFO (LIFO, weighted average cost method or others) and “willing to use the same method of inventories appraisal and disclosure which they use when drawing up financial statements for calculating the profit tax must submit applications to the territorial departments of the county state tax inspectorate, on the territory of which they are registered as tax payers, requesting a permit to apply that other method when calculating the profit tax.“ The Company does not hold such a permit.

Inventories and Contracts in Progress

The Balance Sheet item *Raw materials and consumables*, as of 31 December 2003, shows the balance of LTL 34,988,093, including:

- Raw materials (acquisition costs)	LTL 2,941,718
- orimulsion	LTL 11,932,712
- crude oil	17,767,915

- fuel for consumption	91,246
- petty items	69,800
- spare parts	1,804,006
- equipment	380,696
Total:	LTL 34,988,093

Note:

The Company's inventories are recorded according to the requirements of the legal acts and practice of the Republic of Lithuania. Pursuant to the IAS, the inventories have to be appraised at the acquisition cost or at net realisable value, whichever is lower. We would like to remind that in 2004 Business Accounting Standards came into effect, the provisions of which concerning disclosure of inventories when drawing up the financial statements for 2004 will comply with the provisions of the IAS, i.e. in the financial statements of 2004 inventories will have to be shown at the acquisition costs or at net realisable value, whichever is lower. Judging from the data of analytical accounting of the inventories in the warehouses (lists of inventories) it is evident that the Company has large volumes of non-operational inventories. These inventories were acquired more than four years ago. It is impossible to determine the exact date of acquisition of the inventories from the data of their analytical accounting, because the balance of the inventories was entered into the register referred to above (after computerisation of the warehouse registers) specifying the date of 31 December 1998. According to the data of the warehouse registers, as of 31 December 2003, the balance of the inventories acquired in 1999 and before amounted to LTL 1,485,316.06, including inventories that were not used in 2003 in the amount of LTL 1,250,120.11. We could not apply practical analytical audit procedures, which would allow reasonable assurance as to the liquidity of these inventories. If it becomes clear that these inventories are illiquid, they should be either written off or provisions should be made for them. The Company's employees explained that these inventories were reserved for the future use, when the Company starts working in full capacity.

For calculation of fuel costs for vehicles and other machinery, the Company introduced a policy of approved fuel rations. A particular limit of fuel to be consumed is determined for each vehicle and each piece of machinery, taking into consideration their technical characteristics and other factors. These limits on daily fuel consumption have been established in order to efficiently and effectively use service vehicles. In exceptional cases, where the production process requires, these limits may be lifted in coordination with the Company's employees in charge.

As of 31 December 2003, the balance of the Balance Sheet item *Goods purchased for resale* amounted to LTL 71,500. They were disclosed at acquisition costs.

As of 31 December 2003, the balance of the Balance Sheet item *Pre-payments* made up LTL 224,542, including:

- for the inventories	LTL 117.334
- for services	LTL 82.343
- for repair works	LTL 24.865
Total	LTL 224.542

All pre-payments are supported with payment requests (invoices of advance payment, agreements, etc.).

Amounts receivable within one year

In the Company *Amounts receivable within one year* as of 31 December 2003 comprise the following:

- trade debtors	LTL 21.777.998
- other amounts receivable	LTL 3.278.068
Total	LTL 25.056.066

Trade debtors (including problem debts) as of 31 December 2003 broken by customers are listed in Table 6 below.

Trade debtors broken by customers

Table 6

No.	Customer	Amount, LTL
1	Lietuvos Energija AB	20,122,975.23
2	Kietaviškių Gausa AB	1,628,736.73
3	VĮ Lithuanian oil product agency	134,083.33
4	Trakai region municipality	212,359.52
5	Elektrėnai KŪ	970,373.29
6	Other debtors (up to LTL 100,000)	316,742.77
	Total	23,385,270.87

Problem (bad) debts broken by customers

Table 7

No.	Customer	Amount, LTL
1	Kietaviškių Gausa AB	1,306,128.00
2	Jovaras (private company)	52,420.86
3	Trakai region municipality	212,359.52
4	Žuvininkai UAB	13,789.42

5	Elektrėnai art and music school	27,652.25
6	Other debtors (up to LTL 10,000)	35,770.40
	Total	1,648,120

In the financial statements debts to the Company are disclosed at reduced amounts deducting problem debts.

Other amounts receivable as of 31 December 2003 broken by customers are shown in Table 8 below.

Other amounts receivable by Lietuvos Elektrinė AB as of 31 December 2003, in LTL

Table 8

No.	Designation	Amount, LTL
1.	VAT receivable	2,799,385
2.	VAT before the Balance Sheet date	388,278
3.	State debt to the Company	81,432
4.	Accountable persons	537
5.	Excess of pay-roll payments	1,611
6.	Other amounts receivable	6,826
	Total	3,278,068

Investments and Term Deposits

The balance under the Balance Sheet item *Investments and Term Deposits* as of 31 December 2003 amounted to LTL 2,895,840. It was a term (one night) deposit at Hansa Bank AB.

Cash

Cash at bank and in hand is shown in Table 9.

Cash at bank and in hand

Table 9

	31.12.2003 (in LTL)
Hansa Bankas AB, account No LT697300010002624313 (LTL)	0
Hansa Bankas AB, account No LT787300020077016506 (USD)	57
Hansa Bankas AB, account No LT377300010079074857 (LTL)	4
NORD/LB Lietuva Vilnius account No 42400080496 (LTL)	289,342

NORD/LB Lietuva Kaunas account No 42400080496 (LTL)	478,135
Vilniaus bankas AB Karoliniškių branch account No 60001777836 (LTL)	85
Vilniaus bankas AB Karoliniškių branch account No 60001777836 (EUR)	95
Vilniaus bankas AB Vilnius branch account No 141467136 (LTL)	174
Cash in hand	68,744
Total	836,637
% of all the assets	0.31

Data in the bank statements and in the Cash Book correspond with the data in the account records and the Balance Sheet.

6.3. Accrued Income and Deferred Charges

Accrued Income and Deferred Charges are shown in Table 10.

Accrued Income and Deferred Charges

Table 10

	31/12/2002 (LTL)	31/12/2003 (LTL)	Change
Deferred charges	129,608	34381	- 95,227
% of all assets	0.05	0.01	- 0.04

The charges accrued by the Company and recorded under this item were paid up during the reporting period, but they will be recognised as costs in the following reporting periods. Such amounts include insurance costs, newspaper subscription and the like.

Note:

We could not find out from the Company's registers the balance of each individual item of the charges under this item.

6.4. Capital and reserves

According to the data of the Company's Balance Sheet as of 31 December 2003, the capital and reserves amounted to LTL 210,029,766. The capital and reserves are listed in Table 11.

Capital and reserves

Table 11

	31/12/2002 (LTL)	31/12/2003 (LTL)	Change
Authorised capital	150,743,012	145,800,689	-4,942,323
Revaluation reserve	289,962	289,962	0
Reserves	34,479,428	45,788,620	11,309,192
Profit (loss) brought forward	20,065,236	18,150,495	-1,914,741
Total capital and reserves	205,577,638	210,029,766	4,452,128
% of the owners' equity and liabilities	80.96	77.31	-3.65

Acting in accordance with Resolution No. 2009 "Concerning Reduction of the Authorised Capital" of the Government of the Republic of Lithuania as of 20 December 2002, the Company resolved to:

Support the proposal of the Ministry of Economy, manager of the shares in the public company Lietuvos Elektrinė AB held by the state, to reduce the number of shares of LTL 1 (one) nominal value of the public company Lietuvos Elektrinė AB held by the state by 4,942,323 shares by cancelling them in exchange for the property owned by the public company Lietuvos Elektrinė AB to be transferred to the ownership of Elektrėnai municipality pursuant to the lists approved by the Minister of Economy, the residual value of which as of 1 October 2002 was:

– immovable items of biological water treatment equipment	3,884,388
– immovable items of repairs and construction unit	690,362
– total:	LTL 4,574,750

Pursuant to the Resolution of the Government of the Republic of Lithuania referred to above; amendments to the Company's Articles of Association were registered on 9 May 2003, recording the Company's authorised capital at LTL 145,800,689. The Company's authorised capital is divided into 145,800,689 (one hundred forty five million eight hundred thousand six hundred and eighty nine) ordinary registered shares of LTL 1 (one) nominal value each.

The profit appropriation for 2002 is shown in the financial statements of 2003. The Annual General Meeting of the Company's shareholders held on 25 April 2003 approved the following appropriation of the 2002 profit:

Profit to be appropriated: LTL 20,065,236

To legal reserve: LTL 1,003,262

To other reserves: LTL 11,035,880, including:

- reserves not available for distribution (for investment): LTL 10,374,880
- reserves available for distribution (for social needs in accordance with the Collective Agreement): LTL 661,000

Dividends: 8,026,094.

In 2003, the Company distributed the reserves available for distribution in the amount of LTL 729,949:

- large family allowances and disability benefits – 80,056
- support to the unions – 30,834
- funeral benefits – 91,887
- flowers, wreaths – 7,295
- child-birth grants – 42,065
- jubilee benefits – 117,671
- severance payments – 9,889
- sickness benefits – 34,150
- other benefits set forth in the Collective Agreement – 240
- student grants – 43,172
- culture and sports events – 1,874
- Christmas gifts – 227,770
- dental benefits – 19,046
- other benefits – 24,000

During 2003 the Company earned a net profit in the amount of LTL 18,189,033, including LTL 38,538 used as bonuses to the Company's managers. The balance of the profit not used as of 31 December 2003 was LTL 18,150,495.

6.5. Financing (grants and subsidies)

Financing (grants and subsidies), according to the data of the Company's Balance Sheet, as of 31 December 2003 amounted to LTL 3,611,638.

Table 12

	31/12/2002 (LTL)	31/12/2003 (LTL)	Change
Financing (grants and subsidies)	3,736,177	3,611,638	-124,539
% of the owners' equity and liabilities	1.47	1.36	-0.11

The balance under this item of the Balance Sheet reflects the value of the long-term assets received free of charge. The depreciated part of these assets is recognised as financial income of the reporting period.

6.6. Amounts payable and liabilities

The Company's amounts payable and liabilities as of 31 December 2003 are shown in Table 13.

Amounts payable and liabilities

Table 13

	31/12/2002 (LTL)	31/12/2003 (LTL)	Change
Amounts payable after one year and long-term liabilities	19,661,544	26,543,711	6,882,167
Amounts payable within one and current liabilities	24,767,237	15,881,149	-8,886,088
Total amounts payable and liabilities	44,428,781	42,424,860	-2,003,921
% of the owners' equity and liabilities	17.50	15.95	-1.54

Amounts payable after one year and long-term liabilities include a long-term loan extended by the bank Nord/LB AB and a long-term loan extended by the Ministry of Finance.

The Company's amounts payable within one year and current liabilities as of 31 December 2003 are shown in Table 14.

Amounts payable within one year and current liabilities

Table 14

	31/12/2002 (LTL)	31/12/2003 (LTL)	Change
Current year portion of long term debts, LTL	6,451,810	1,922,568	-4,529,242
Trade creditors, LTL	13,214,758	15,559,112	2,344,354
Pre-payments, LTL	49,183	13,795	-35,388
Taxes, LTL	3,216,381	2,844,087	-372,294
Remuneration, LTL	243,266	211	-243,055
Social security payable, LTL	521,243	579,293	58,050
Other amounts payable and current liabilities, LTL	1,070,596	1,630,734	560,138
Total amounts payable within one year and current liabilities, LTL	24,767,237	22,549,800	-2,217,437
% of the owners' equity and liabilities	9.75	8.48	-1.27

Amounts payable to suppliers and contractors for the services rendered and the goods delivered are disclosed under *Trade creditors* as of 31 December 2003:

- inventories	LTL 2,501,282
- construction and investment work	LTL 2,673,664
- repair works to contractors	LTL 5,981,975
- fuel	LTL 4,402,191
Total	LTL 15,559,112

Major suppliers are listed in Table 15.

Table 15

No.	Designation of the Supplier	Amount, LTL
1	AB "Lietuvos energija"	837019.19
2	UAB "Soliris"	153324.56
3	UAB "Varicom"	223895.56
4	UAB "Vilakra"	238301.00
5	A.Šukys' firm "Elektrokomplektas"	52866.04
6	UAB "Sostinės šviesos"	53620.2
7	"Valsena"	134201.4
8	UAB "Perelita"	137788.6
9	BĮ UAB "Sigma Telas"	120411.21
10	UAB "Automatika"	216406.37
11	UAB "AGA"	67627.24
12	Other suppliers (up to LTL 50,000)	265820.59
	<i>Suppliers of inventories</i>	<i>2,501,281.96</i>
13	UAB "Hronas"	116224.86
14	International building corporation	857833.98
15	Swed Power	451460.16
16	Ministry of Foreign Affairs, Sweden	1189278.93
17	Other suppliers (uo to LTL 50,000)	58865.92
	<i>Suppliers of construction works</i>	<i>2,673,663.85</i>
18	UAB "Kauno energetikos remontas"	907716.96
19	UAB "Irlanda"	1408206.54
20	AB "Montuotojas"	382384.85
21	UAB "Termoizola"	173114.47
22	UAB "Hronas"	381849.75
23	UAB "Izola"	61721.39
24	UAB "Lietemas"	1012857.43
25	UAB GKF fondas	192999.43
26	UAB "Ligaja"	223121.2
27	UAB "Arauša"	191589.2
28	UAB "Geonija"	56340.96
29	V. Rudakov's firm	237299.18
30	UAB "Konsolė"	609770.00
31	Other suppliers (up to LTL 50,000)	143004.02
	<i>Suppliers of Repair works</i>	<i>5,981,975.38</i>
32	AB "Lietuvos dujos"	4402190.74
	<i>Suppliers of fuel</i>	<i>4,402,190.74</i>
	total	15,559,112

Pre-payments comprise advance payments from customers for the services the Company is rendering.

Taxes still due are disclosed in Table 16.

Taxes payable

Table 16

	31/ 12/ 2003 (in LTL)
Road tax payable to the Road Fund	44,012
Property tax payable	10,918
Pollution tax payable	136,024
Contributions to the Guarantee Fund	3,394
Profit tax payable	2,649,738
Total, LTL	2,844,086
% of the owners' equity and liabilities	1.12

In the Company taxes are calculated in accordance with the tax laws and rules and regulations regulating calculation, declaration and payment of a specific tax.

According to the Law on Value Added Tax of the Republic of Lithuania No IX-751 as of 5 March 2002, the services of the main activities rendered by the Company are applied a standard VAT tariff.

According to the Law on Profit Tax of the Republic of Lithuania No. IX-675 as of 20 December 2001, the Company is subject to the 15 % profit tax tariff.

Social insurance contributions due to the State Social Security Fund are payable on the pay-roll for the month of December 2003.

Note:

In the financial statements drawn for the year ended on 31 December 2003 Lietuvos Elektrinė AB did not disclose the costs accrued due to the Company's employees' vacations that were earned but not used in 2003. These costs were not recorded in the Company's accounting either. In our opinion, in the financial statements as of 31 December 2003 liabilities should be increased and the net profit of the reporting year reduced by that amount respectively.

The Company's Balance Sheet item *Other amounts payable* disclosed LTL 1,630,734 and consisted of:

- monetary guarantees	LTL 4,325
- debts to accountable persons	LTL 5,804
- various amounts deducted from remuneration of the employees	
	LTL 17,593
- grants payable	LTL 4,012
- other debts for services	LTL 688,421

- dividends payable		LTL 910,579
Other debts for services, LTL 688,421, included those to:		
- Lietuvos Energija AB		LTL 502,716
- Elektrėnai KŪ UAB	LTL 101,323	
- GKF Fonas UAB		LTL 13,875
- Bitė GSM UAB		LTL 24,449
- Lietuvos Telekomas AB		LTL 17,831
- other		LTL28,227

6.7. Accrued charges and deferred income

According to the data of the Company's Balance Sheet as of 31 December 2003, the *Accrued Charges and Deferred Income* amounted to LTL 339,566. Under this item the Company disclosed the value of repairs of the rented premises performed by "Pemco Kuras" UAB, LTL 148,409, reducing the rent charges accordingly, and accrued but not yet paid interest in the amount of LTL 191,157.

7. AUDIT OF THE INCOME STATEMENT

Revenues are recorded in the Company's accounting on the accrual basis and are considered earned at the time the goods are sold or services rendered, irrespective of the moment the money is received in accordance with Resolution 804 of the Government of the Republic of Lithuania as of 27 October 1993 "Concerning accounting and annual financial statements of the legal persons of limited liability." The Company's charges are also recorded on the accrual basis, i.e. costs experienced in the process of earning revenues of the reporting period are recorded.

The Company's revenues and expenses in 2003 are listed in Table 17.

Table 17

No	Items	Revenue (in LTL)	Costs (in LTL)	Result (LTL +,-)
I.	Sales	173.237.601		173.237.601
	Income from sales	164.662.972		164.662.972
	Income from services rendered	8.574.629		8.574.629
II.	Costs of goods sold and work performed		143.963.502	-143.963.502
	Raw materials, consumables and goods for resale		107.675.432	
	Services, work and research		36.288.070	
III.	Gross profit	29.274.099		
IV.	Operating expenditure		9.151.025	-9.151.025
V.	Operating profit (loss)	20.123.074		
VI.	Other activities	580.411		
	Greenhouses	127.752	235.721	-107.969
	Servicing distribution units	776.179	530.873	245.306
	Crude oil storage	1.713.194	1.654.594	
	Other income	635.900	251.426	384.474
	Total:	3.253.025	2.672.614	580.411
VII.	Financial and investment activities	922.601		
	Interest	23.974	1.343.406	-1.319.432
	Impact of change in currency rates	2.103.670	553.368	1.550.302
	Other	711.607	19.876	691.731
	Total:	2.839.251	1.916.650	922.601
VIII.	Profit (loss) from ordinary activities	21.626.086		
	Extraordinary activities	-178.745		
IX.	Extraordinary gains	87.756		
X.	Losses		266.501	
	Profit (Loss) from ordinary activities	21.447.341		
XI.				
XII.	Profit tax		3.258.308	
XIII.	Net profit for appropriation	18.189.033		

According to the data of the Income Statement, in 2003 the amount of sales and services made up LTL 173,237,601. The data about the Company's revenues disclosed in the Income Statement coincide with the data recorded in the accounting documents.

According to the data of the Income Statement, in 2003 production costs of goods sold and services rendered constituted LTL 143,963,502. The data about the Company's costs disclosed in the Income Statement coincide with the data recorded in the accounting documents.

Note:

The Company produces electricity and thermal energy, but the costs are calculated for the production of both electricity and thermal energy together. Part of the costs is distributed separately for the production of electricity and the production of thermal energy, but not all. The method used for calculating the costs of the energy produced does not allow to determine the production costs of the

different type of product and calculate the financial result according to the different types of the realised production.

Recommendation:

In our opinion, the Company should establish a procedure for attributing costs to the different type of product and calculate the production costs of electricity and thermal energy separately.

In 2003, the Company earned a profit of LTL 580,411 from other activities. In 2003, the Company earned a profit of LTL 922,601 from financial activities. The amount of LTL 87,756 was attributed to the extraordinary profit and of LTL 266,501 to losses. The profit tax for 2003 constituted LTL 3,258,308, the net profit for appropriation in the reporting period was LTL 18,189,033.

8. AUDIT OF OTHER FINANCIAL STATEMENTS

8.1. Draft Profit (Loss) Appropriation Statement

According to the data of the Income Statement the net profit of the reporting period was LTL 18,189,035, which is appropriated as follows:

- to legal reserves	909.452
- to other reserves (reserves not available for distribution)	9.342.969
- for dividends	7.275.614
- to other reserves (reserves available for distribution)	661.000

8.2. Statement on the Changes in the Financial Status (Cash Flow Statement)

The Cash Flow Statement was drawn using the indirect method. That complies with the requirements of Resolution 804 of the Government of the Republic of Lithuania as of 27 October 1993 “Concerning accounting and annual financial statements of the legal persons of limited liability”. The statement reflects the Company’s cash flows during the year and its financial position at the end of the year. The cash flows are classified according to the Company’s operating, investing and financing activities.

Net cash flows from the Company’s operating activities are presented on the basis of revenues and expenditures in the Income Statement. The net profit is adjusted by the results of non-pecuniary transactions, items of provisions for or accrual of historical or future inflows or outflows to/from operating activities, or of income and costs related to the cash flows from investing or financing activities.

Cash and cash equivalents consist of cash and other funds that can be obtained immediately at

request.

Net cash flows

	2003, LTL (thousand)
Cash flows from operating activities	36.814
Cash flows from investing activities	(41.111)
Cash flows from financing activities	(9.522)
Cash flows from extraordinary activities	(876)
Total	(14.695)

At the end of 2003, compared to 2002, the cash flows decreased by LTL 14,695 thousand.

8.3. Explanatory Notes

The Company's Explanatory Notes concerning annual financial statements were drawn up in accordance with Resolution No.804 "Concerning accounting and annual financial statements of the legal entities of limited liability" of the Republic of Lithuania as of 27 October 1993, Note No. 83N of the Ministry of Finance of the Republic of Lithuania as of 12 November 1993 "Concerning sample forms and explanation of the most significant items in the annual financial statements" and Note No. 21N of the Ministry of Finance of the Republic of Lithuania as of 8 March 1994 "Concerning Asset Valuation" and other legal acts.

8.4. After-the-Balance-Sheet Events

We draw attention to the note in the Company's Explanatory Notes to the financial statements of 2003 that in 2003 the Company's assets were re-valued according to their fair value. The assets will be recorded at this value in the financial statements as from 1 January 2004.

9. ASSESSMENT OF THE COMPANY'S ECONOMIC AND FINANCIAL ACTIVITIES

The Company's annual financial statements for 2003 are prepared in accordance with the legal acts of the Republic of Lithuania regulating accounting and financial statements and the general accounting principles assuming that the Company's activities will be based on the going concern principle. This assumption means that the Company will generate sufficient revenues to cover its

liabilities. In 2003, the Company worked at a profit; the net profit of the reporting year amounts to LTL 18,189,033.

The analysis of the financial ratios and the activities of the Company on the going concern basis are presented in Annexes 1-3 to the Audit Report. The assessment of the Company's financial position in 2003 allows to conclude that the Company has all the conditions to continue generating benefit from its economic activities and expand its business.

Accounting and control firm Auditas UAB

Director, auditor

Rišardas Krinickis

Auditor's certificate No. 000136

Auditor

Alma Lizunova

Auditor's certificate No. 000152