

***LIETUVOS ELEKTRINĖ AB***

*Annual Prospectus – Report 2003*

## CONTENTS

I. GENERAL PROVISIONS.....	3
II. DATA ABOUT THE ISSUER'S AUTHORISED CAPITAL AND THE SECURITIES ISSUED.....	5
III. DATA ABOUT THE SECONDARY TRADING IN THE ISSUER'S SECURITIES .....	7
IV. DATA ABOUT THE ISSUER'S ACTIVITY.....	9
V. FINANCIAL STATUS.....	16
VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES .....	31
VII. UPDATED AND MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND PERSPECTIVES.....	33

## I. GENERAL PROVISIONS

### 1. Reporting period covered by this Annual Prospectus-Report

The Annual Prospectus-Report is prepared for the year 2003.

### 2. Main data about the issuer

Name of the company	Public company (AB) <b>Lietuvos Elektrinė</b>
Authorised capital	LTL 145,800,689
Address	21 Elektrinės St., LT- 26108, Elektrėnai
Telephone	(+370~528) 39 066
Fax	(+370~528) 39 733
E-mail address	<a href="mailto:info@lelektrine.lt">info@lelektrine.lt</a>
Internet website	<a href="http://www.lelektrine.lt">www.lelektrine.lt</a>
Legal and organisational form	Legal person of a limited liability; public company
Date and place of registration	31 December 2001; Ministry of Economy of the Republic of Lithuania
Registration code	BĮ 01-249
Code in the Register of Enterprises	1087093

### 3. Type of the issuer's principal activities

The branch of industry of AB Lietuvos Elektrinė: energy sector.

The company produces and sells electricity and thermal energy.

### 4. Information about where and how one can get acquainted with the Report, documents, on the basis of which it was prepared, and the designation of the means of mass media

One can get acquainted with the Report and the documents on the basis of which it was prepared at the company's registered office at 21 Elektrinės St., Elektrėnai and at the financial brokerage firm Finasta AB, 23 Konstitucijos St., Vilnius and the reading room of the Securities Commission 23 Konstitucijos St., Vilnius.

The mean of mass media: the daily "Lietuvos Rytas".

### 5. Persons responsible for the accuracy of information in the Report:

5.1. Members of the managing bodies of the issuer, employees and the Head of the Administration are responsible for the accuracy of the information:

Pranas Noreika, Director General, tel. (+370~528) 33 250, fax (+370~528) 39 733

Rolandas Jankauskas, Chief Financier, tel. (+370~528) 33 743, fax (+370~528) 39 733

5.2. The report was prepared with the assistance of Finasta AB (23 Konstitucijos St., Vilnius, tel. (+370~5) 278 68 44, fax (+370~5) 210 24 74), represented by Audrius Leitonas, financial broker.

**6. Declaration by the members of the issuer's managing bodies, employees, the Head of the Administration and the issuer's consultants that the information contained in the Report is in accordance with the facts and that the Report makes no omission likely to have an effect on the investors' decision concerning purchase, sale or valuation of the issuer's securities or on the market price of these securities.**

**Pranas Noreika**, Director General

\_\_\_\_\_

**Rolandas Jankauskas**, Chief Financier

\_\_\_\_\_

**Audrius Leitonas**, financial broker of Finasta AB

\_\_\_\_\_

Date of signing of the Report: 27 May 2004.

Place of preparation of the report: Finasta AB (23 Konstitucijos St., Vilnius)

## II. DATA ABOUT THE ISSUER'S AUTHORISED CAPITAL AND THE SECURITIES ISSUED

### 7. The issuer's authorized capital:

7.1. The authorized capital as registered in the Register of Enterprises

Table 7.1.1. Composition of the authorised capital.

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Share in the authorised capital, %
Ordinary registered shares	145,800,689	1.00	145,800,689.00	100.00

All shares of Lietuvos Elektrinė AB are fully paid up.

7.2. Information about the projected increase of the authorized capital in connection with conversion or exchange of convertible debt securities or derivative securities into shares:

The company issued no debt securities nor derivatives, therefore no increase of the authorized capital by conversion or exchange of convertible debt securities or derivative securities into shares is projected.

### 8. Shareholders

The Annual General Meeting (AGM) of Lietuvos Elektrinė AB shareholders was held on 28 April 2004. The Registration day of the AGM was 21 April 2004.

Number of shareholders: 5 656.

Table 8.1. Shareholders who have by the right of ownership or hold more than 5 percent of the issuer's authorized capital on the day of the AGM.

Names of the shareholders, types, addresses of head offices, and their enterprise codes	Number of ordinary registered shares held	Portion of the authorised capital/ votes held, %
The state, represented by the Ministry of Economy of the Republic of Lithuania 38/2 Gedimino St., LT-01104 Vilnius 8862191	140,711,469	96.51

### 9. Main characteristics of the shares issued for public trading

On 22 December 2001, the Securities Commission registered 150,743,012 ordinary registered shares of Lietuvos Elektrinė AB of one litas nominal value (Act No. AB-5018). The company's shares were issued for the formation of the authorised capital at the time of the company founding after reorganisation of the special purpose public company Lietuvos Energija in accordance with the company division method. The company was registered on 31 December 2001.

In 2003, the authorised capital of Lietuvos Elektrinė AB was reduced by LTL 4,942,323, i.e. by the value of the property transferred to Elektrėnai municipality when reducing the number of shares held by the state in Lietuvos Elektrinė AB. Amendments to the Articles of Association were registered on 9 May 2003.

### 10. Data about the shares offered for private placement

There were no private placements of shares.

### 11. Information about depositary receipts representing shares

No depositary receipts representing shares were issued.

**12. Main characteristics of the debt securities issued for public trading**

No debt securities were issued for public trading.

**13. Data about the debt securities offered for private placement**

No debt securities were offered for private placement.

**14. Securities not representing capital, the trading of which is regulated by the Law on Securities Market, except debt securities**

There were no issues of securities not representing capital, the trading of which is regulated by the Law on Securities Market.

### III. DATA ABOUT THE SECONDARY TRADING IN THE ISSUER'S SECURITIES

#### 15. Securities admitted to the trading lists of the Stock Exchanges

Securities of Lietuvos Elektrinė AB are on the Current List of the National Stock Exchange of Lithuania (hereinafter – NSEL).

Table 15.1. Main characteristics of shares of Lietuvos Elektrinė AB.

Type of shares	ISIN code	Number of shares	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares	LT0000126351	145,800,689	1.00	145,800,689.00

#### 16. Trading in the issuer's securities on the NSEL and other organized markets

##### 16.1. Trading on the NSEL

Table 16.1.1. Trading in ordinary registered shares of Lietuvos Elektrinė AB on the central market of the NSEL\*

Reporting period	Price, LTL			Turnover, LTL			Date of the last session	Total turnover	
	Highest	Lowest	Last session	Highest	Lowest	Last session		Units	LTL
2002, 1st quarter	0.36	0.26	0.26	1,210	-	-	29.03.2002	7,759	2,411
2002, 2nd quarter	0.62	0.18	0.36	30,972	-	551	28.06.2002	157,259	73,841
2002, 3rd quarter	0.44	0.33	0.40	1,860	-	-	30.09.2002	55,075	21,521
2002, 4th quarter	0.56	0.39	0.53	10,648	-	1 497	31.12.2002	159,603	75,308
2003, 1st quarter	0.70	0.53	0.60	19,931	-	713	31.03.2003	231,770	146,011
2003, 2nd quarter	1.09	0.57	1.05	56,737	-	14 005	30.06.2003	669,502	569,368
2003, 3rd quarter	1.52	0.96	1.35	52,878	-	2 750	30.09.2003	737,388	924,386
2003, 4th quarter	1.50	1.24	1.46	25,460	-	-	31.12.2003	207,016	284,645

Table 16.1.2. Trading in ordinary registered shares of Lietuvos Elektrinė AB by negotiated deals\*

Reporting period	Average price, LTL	Turnover	
		Units	LTL
2002, 1st quarter	0.29	1,039	301
2002, 2nd quarter	0.09	12,000	1,022
2002, 3rd quarter	0.52	820	426
2002, 4th quarter	0.49	53,883	26,419
2003, 1st quarter	0.56	26,000	14,665
2003, 2nd quarter	0.56	41,372	23,004
2003, 3rd quarter	0.86	21,473	18,452
2003, 4th quarter	1.09	6,283	6,839

##### 16.2. Trading on other exchanges

Securities of Lietuvos Elektrinė AB are not traded on any other exchanges.

##### 16.3. Trading on other organised markets

Securities of Lietuvos Elektrinė AB are not traded on any other organised markets.

\*According to the data of the NSEL ([www.nse.lt](http://www.nse.lt))

**17. Capitalization of securities**

Table 17.1. Capitalization of ordinary registered shares of Lietuvos Elektrinė AB\*

Date of the last session	Capitalization, LTL
29.03.2002	39,193,183
28.06.2002	54,267,484
30.09.2002	60,297,205
31.12.2002	79,893,796
31.03.2003	90,445,807
30.06.2003	153,090,723
30.09.2003	196,830,930
31.12.2003	212,896,006

**18. Trading in the issuer's securities on the OTC market**

Table 18.1. OTC transactions in securities of Lietuvos Elektrinė AB\*

Reporting period	Settlement in cash				Settlement in kind		
	Price, LTL		Number of securities	Amount, LTL	Number of transactions	Number of securities	Number of transactions
	Highest	Lowest					
2002, 1st quarter	-	-	-	-	-	2,445	2
2002, 2nd quarter	-	-	-	-	-	24,395	29
2002, 3rd quarter	-	-	-	-	-	4,528	9
2002, 4th quarter	-	-	-	-	-	18,038	29
2003, 1st quarter	-	-	-	-	-	12,217	23
2003, 2nd quarter	-	-	-	-	-	12,018	25
2003, 3rd quarter	-	-	-	-	-	16,450,880	35
2003, 4th quarter	-	-	-	-	-	8,653	15

**19. Data about the issuer's buying up of own shares**

During the reporting period no buying up of own shares was carried out by Lietuvos Elektrinė AB

**20. Indication of a tender offer**

No tender offer to acquire shares of the company was made during the reporting period. Neither did the issuer announce a tender offer to acquire securities issued by other entities.

**21. The issuer's paying agents**

Lietuvos Elektrinė AB signed agreements with the financial brokerage firm Finasta AB (23 Konstitucijos St., Vilnius, tel. (+370~5) 278 68 44, fax (+370~5) 210 24 74) concerning payment of dividends to the shareholders for the financial years 2002 and 2003.

**22. Agreements with intermediaries of public trading in securities**

Lietuvos Elektrinė AB signed agreements with the financial brokerage firm Finasta AB (23 Konstitucijos St., Vilnius) concerning management of securities accounting and payment of dividends to the shareholders for the financial years 2002 and 2003.

\* According to the data of the NSEL ([www.nse.lt](http://www.nse.lt))



## IV. DATA ABOUT THE ISSUER'S ACTIVITY

### 23. Legal basis for the issuer's activity

Main legal acts regulating the issuer's activities:

- Law on Enterprises of the Republic of Lithuania;
- Law on Companies of the Republic of Lithuania;
- Law on the Register of Enterprises of the Republic of Lithuania;
- Law on Securities Market of the Republic of Lithuania;
- Law on Electricity of the Republic of Lithuania
- Other legal acts of the Republic of Lithuania;
- The Company's Articles of Association.

### 24. Membership in associated structures

Lietuvos Elektrinė AB is a member of the National Electric Energy Association. The company participates in this organisation by right of membership; it pays a membership fee. Representatives of the company are not members of the managing bodies of this organisation and have no participation in its capital.

The Association is a voluntary organisation, representing and defending interests of electricity producers and suppliers, organisations and other associated energy structures as well as of individual subjects acting in the sector of electricity production, transmission and energy construction. The Association organises seminars and meetings on urgent issues of the reorganisation of the energy sector.

### 25. Brief description of the issuer's history

Lietuvos Elektrinė AB was founded as a result of reorganisation of the special purpose public company Lietuvos Energija AB in accordance with the company division method. Prior to the reorganisation, Lietuvos Elektrinė AB was a branch of SP Lietuvos Energija AB. The newly founded company Lietuvos Elektrinė AB was registered with the Ministry of Economy of the Republic of Lithuania on 31 December 2001.

Building of the Lithuanian power plant began in July of 1960. The initial projected capacity of the power plant was 1200 MW to be generated by 4 units, comprising steam boilers with a capacity of 500 t/h, turbines with a capacity of 150 MW and electric generators with a capacity of 150 MW, and 2 units, comprising steam boilers with a capacity of 950 t/h, turbines with a capacity of 300 MW and electric generators with a capacity of 300MW. The first 150 MW capacity unit of the power plant was launched 28 months from the beginning of the construction, on 30 December 1962. The second unit of the power plant of the same capacity became operational on 4 November 1963; the third – on 12 September 1964, and the fourth on 8 August 1965. The fifth and the sixth units of the power plant were of double capacity – 300 MW each. They were launched on 22 June 1967 and on 30 June 1968 respectively.

The construction of the power plant did not end with the targeted initial capacity reached. It was decided to build two more units of 300 MW capacity with the same type of equipment. The seventh unit with a capacity of 300 MW was launched on 29 December 1971 and the eighth unit of the same capacity became operational on 28 September 1972.

The power plant was finally built when a capacity of 1800 MW was attained. Alongside with the power plant, power lines of 110- 330 kV voltage and sub-stations of 330 kV voltage were built to transmit the electricity produced by the plant.

In 1973, the Lithuanian power plant generated 90 percent of all electricity produced in Lithuania. Fuel oil was foreseen as the main fuel for the power plant and gas was reserved as a backup type of fuel. In 2003, construction of equipment for fume purification from sulphur and nitrogen compounds in the 300 MW power unit boiler 8B began.

In April 2003, the Securities Commission issued a permit to the company to reduce its authorised capital by LTL 4,942 million by transferring biological water treatment facilities and the building and equipment of the construction and repairs division to Elektrėnai municipality. In June 2003, the company signed the agreement with the Swedish consulting firm SwedPower concerning preparation of tender documents for technical and environmental renovation project of Lietuvos Elektrinė AB.

In 2003, the Minister of Economy approved the electricity quota of 610m kWh as mandatory for 2004 to be purchased from Lietuvos Elektrinė AB in order to ensure the reserves of the energy system. The National Control Commission for Prices and Energy established the purchase price for the energy produced by Lietuvos Elektrinė AB for 2004 at 13.52 ct/kWh, excluding VAT.

## 26. Characteristics of production (services)

Table 26.1. General volume of production (services rendered) in terms of value in 2002-2003, in LTL thousand

Indicators	Year 2002		Year 2003		Plan for 2004, LTL
	LTL	%	LTL	%	
Total sales and services	171,456	100,0	173,238	100,00	167,714
including:					
Electricity and capacity used	87,631	51.11	88,463	51.06	82,472
Cold capacity reserve	68,430	39.91	69,723	40.25	69,949
Spinning reserve	6,474	3.78	6,477	3.74	6,457
Thermal energy	8,921	5.20	8,575	4.95	8,836

Table 26.2. General volume of production (services rendered) in kind in 2002-2003.

	Unit of measurement	Year 2002	Year 2003
Electricity sold	KWh, thousand	656,218	645,192
Thermal energy produced	Gcal	156,161	152,599
Cold capacity reserve	MWh	8,590,056	8,297,527
Spinning reserve	MWh	761,414	412,809

Table 26.3. Prices of services rendered in 2002-2003

	Year 2002	Year 2003
Quota electricity LTL/kWh	0.1352	0.1352
Spinning reserve LTL/MW	8.45	8.45
Cold capacity reserve LTL/MW	7.90	7.90
Thermal energy LTL/Gcal	56.64	56.64

Table 26.4. Ratios characterizing the issuer's activity.

Ratio	Unit of measurement	Year 2002	Year 2003
Profit margin	%	11.68	10.50
Return on assets	%	7.91	7.00
Debt ratio	ratio	0.19	0.21
Debt-equity ratio	ratio	0.24	0.27
Current Ratio	ratio	2.92	2.80
Total assets turnover	ratio	0.68	0.65
Book value per share	LTL	1.36	1.44
Net profit per share	LTL	0.13	0.12

## 27. Sales markets

Table 27.1. Sales volume in 2002-2003.

Consumer of the production	Unit of measurement	Year 2002	Year 2003
Total electricity	KWh, thousand	656,218	645,192
including:			
Lietuvos Energija AB	“	655,983	643,979
Other consumers	“	235	1,213
Total thermal energy	Ggcal	156,161	152,599
including:			
- Kietaviškių gausa AB	“	80,769	83,488
- Elektrėnai municipality	“	70,613	64,297
- other consumers	“	4,779	4,814

A year-long agreement signed with Lietuvos Energija AB; long-term agreements signed with other consumers.

## 28. Procurement

The main suppliers of the inventories are Lietuvos Energija AB, Varicom UAB, Automatika UAB, Vilkara UAB and others.

Suppliers of construction works are Kauno Energetikos Remontas UAB, International Construction Corporation, ALSTOM, and others.

The main suppliers of fuel are Lietuvos Dujos AB and Bitor Europe.

The main suppliers of repair works: Irlanda UAB, Lietemas UAB, Kauno Energetikos Remontas, Konsolė UAB and others.

Nature of relations with the main suppliers: one year-long agreements.

## 29. Immovable property and other main facilities

Lietuvos Elektrinė AB is located at 21 Elektrinės St., Elektrėnai. All power plant occupies the land plot of 180 hectares. All land is leased from the state.

Table 29.1. Main buildings and constructions

Name	Functional purpose	Year of building	Status	Initial value, LTL	Carrying value, LTL
Main building	The building housing all power units	1962	Very good	45,192,434	20,066,201

Main investment is into desulphurisation equipment.

Table 29.2. Construction in progress.

Name of the project	Functional purpose	Beginning/end of construction	Project value (LTL, thousand)	Construction in progress (LTL, thousand)
Construction of desulphurisation filter	Purification of fume from sulphur	2003 – 2004	EUR 13.6 million	EUR 8.4 million

Table 29.3. Projects under implementation

Project	Data of 2003, in LTL thousand
I. Implemented projects	
Supply renovation at Unit 12 Control Division	19
Installation of passenger lift at boiler-2	97
Gas turbines study	8
II. On-going projects	
Surge suppressors	709
Units 5-8. Replacement of 6 kV oil switches by vacuum switches; replacement of protectors by digital protectors	1,518
Units 1-8: Replacement of 0,4 kV dispensers equipment	313
Units 1,2, 5-8. Replacement of direct current panels	117
Upgrading of computer and local network equipment	2,425
Computerisation of measurement of levels in fuel oil tanks and accounting of fuel oil	95
Equipment not requiring installation	1,453
Preparation of documents to the EU institutions	72
Unit 8. Fume treatment (desulphurisation and solid particle filter)	29,085
Feasibility study of environmental and technological projects	2,226
Swedish Government Fund	1,189
Payments of Lietuvos Elektrinė AB to SwedPower	673
Work and services of the Lietuvos Elektrinė AB specialists	364
<b>TOTAL</b>	<b>38,137</b>

### 30. Risk factors related to issuer's activity

Lietuvos Elektrinė AB is an enterprise producing electricity. Its potential competitors are other enterprises producing electricity.

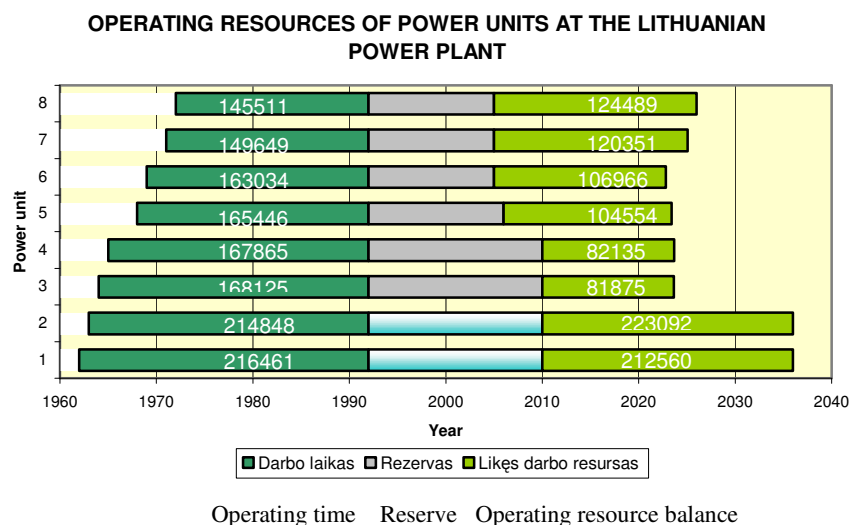
Lietuvos Elektrinė AB is functioning in the energy sector. Production and sales of electricity in Lithuania are subject to more stringent state regulations than any other branch of economy. The order of production and sales of electricity in Lithuania is regulated by the Law on Electricity of the Republic of Lithuania as of 20 July 2000 (No. VIII-1881). Frequent amendments to laws and other legal acts regulating enterprise activities produce a negative impact on the operation of Lietuvos Elektrinė AB, the same as on that of other companies.

The state regulates electricity prices. The Government's practice to solve social problems by fixing too low energy prices for consumers also has a negative effect. The state, represented by the Ministry of Economy, holds 96.51 percent of the company's capital by the right of ownership, therefore the state representatives are in a position to easily control management of the company. Trade unions and professional organisations operate within the power plant; the Collective Agreement ensures the employees a variety of social guarantees.

The residual value of the company's long-term assets did not reflect its fair value. Therefore in March 2003 a decision was adopted to evaluate the company's long-term assets at fair value. The assets will be disclosed at fair value in the financial statements as from 1 January 2004.

Main buildings and energy units are technically in order. One of the power units contains a modern computerised management system. Starting from 1992, it was mostly one power unit that was operated at a minimum capacity. However, the power plant had to maintain equipment in good order in order to be able to launch the power plant to its full capacity at any moment. **After decommissioning of the first power unit of Ignalina nuclear power plant**, the targeted increase in the production of electricity in the Lithuanian power plant is up to 4 billion kWh per year starting with the year 2005. Such a volume of electricity can be produced by three units with a capacity of 300 MW, as their efficiency is higher. Later the production will grow to embrace all units of the plant, which will collectively generate up to 10 billion kWh per year. **The main parameters of the Lithuanian power plant correspond to the parameters of modern power plants.** The efficiency of the power plant may be further increased by 2–3 percent with a help of cheap

measures by way of modernization of certain parts of the basic or supporting equipment. This type of work is performed every year. During the last 10 years LTL 500 million were spent on modernisation.



The amount of emissions into the atmosphere is limited by the “Permit for the Use of Natural Resources” issued to the company.

Table 30.1. Pollutants emitted into the atmosphere by Lietuvos Elektrinė AB

Pollutants		Emissions			
		From 1 January 2003 to 31 December 2003			Annual, t/m
Type of pollutant	Code	One-off amount			
		Units	Average	Maximum	
Sulphur dioxide (A)	1753	mg/Nm <sup>3</sup>	2,700	-	6,056.4
Nitrogen oxides (A)	250	mg/Nm <sup>3</sup>	450	-	1,374.7
Carbon monoxide (A)	177	mg/Nm <sup>3</sup>	300	-	646.38
Solid particles (A)	6493	mg/Nm <sup>3</sup>	100	-	63.96
including V <sub>2</sub> O <sub>5</sub> (A)	2023	mg/Nm <sup>3</sup>	-	-	30.6
Total according to the type of activity:					8 172.1
Total per piece of equipment:					8 172.1

Due to the decommissioning of Ignalina nuclear power plant, in the future power units of the Lithuanian power plant are anticipated to work in full capacity. The planned fuels are gas, fuel oil and, to the largest extent, a cheap type of fuel, orimulsion, which contains up to 3% of sulphur. Pursuant to the provisions of the EU Directive 2001/80/EC, as from 1 January 2008 the existing combustion plants shall be subject to a reduced limit value for SO<sub>2</sub> emissions of 400 mg/Nm<sup>3</sup>, while new plants or those changing the type of fuel shall be subject to a limit value of 200 mg/Nm<sup>3</sup>. The limit value for solid particles is reduced to 30 mg/Nm<sup>3</sup>. To meet these requirements it is necessary to mount fume purification equipment and modernize unit control systems and other equipment.

Environmental projects include building desulphurisation equipment and solid particle filters as well as installation of burners of low nitrogen oxide output.

Construction of desulphurisation equipment and solid particle filters is projected for boilers 1, 2, 5A, 5B, 6A, 6B, 7A, 7B, and 8A. The construction work will begin in 2005. Completion of construction works in all units is expected for March 2008. Currently desulphurisation equipment and solid particle filters are under construction in boiler 8B. The work should be completed and the equipment tested this year.

Installation of burners of low nitrogen oxide output is projected for boilers 1, 2, 5A, 5B, 7A, 7B, 8A, and 8B. Such burners have already been installed in boilers 6A and 6B; only they have to be adjusted for burning

orimulsion. The work should last for about three months. Completion of the reconstruction of burners in all boilers is planned in 5 months, devoting two months for testing. Burner control and ignition as well as explosion prevention devices for all three types of fuel will be fully automated. Implementation of the projects will ensure reliable operation of Lietuvos Elektrinė AB burning three types of fuel in compliance with the environmental requirements.

In 2003, the amounts payable and liabilities of Lietuvos Elektrinė AB increased by 7,504 thousand. Financial debts payable after one year grew from LTL 19,662 thousand to LTL 29,383 thousand, i.e. by LTL 9 721 thousand, because in 2003 a loan of EUR 3,765,000 was taken from the bank NORD/LB Lithuania for building the desulphurisation equipment. After the desulphurisation equipment is built, emissions of sulphur oxides into the atmosphere will be reduced and thus the pollution tax will also go down. The deadline for repayment of this loan is 1 May 2013.

The current portion of long-term liabilities decreased by LTL 4,519 thousand, because in 2003 Lietuvos Elektrinė AB covered its debt to the EBRD. The World Bank's loan will be settled in 2011. In 2003, Lietuvos Elektrinė AB exchanged the remaining portion of the US dollar loan into euros in order to hedge against the losses due to the unstable US dollar rate.

### 31. Halts or reductions of production that have exercised or are exercising material impact on the results of the issuer during the last two financial years

During the reporting period no instances of complete halt of production took place.

### 32. Patents, licenses, contracts

Operation of Lietuvos Elektrinė AB is licensed (production of electricity and thermal energy). Lietuvos Elektrinė AB buys fuel for production purposes (currently gas) from Lietuvos Dujos AB under a one-year agreement. As in the previous years, the price is fixed for one year, therefore the price of electricity and heat will depend upon its main constituent, namely, the price of the fuel. Another type of fuel, orimulsion, is bought from the company Bitor Europe, Venesuela, under a long-term fuel supply agreement effective until the year 2012. An electricity sales agreement between the issuer and Lietuvos Energija AB was signed for a period of one year. The Ministry of Economy of the Republic of Lithuania set a quota of 610million kWh.

### 33. Court (arbitration) proceedings

During the reporting period, no court (arbitration) proceedings likely to have had or to have a material effect on the financial position of Lietuvos Elektrinė AB took place.

### 34. Staff.

At the end of 2002, the company employed the staff of 836 persons; in 2003, there were 818 employees.

Table 34.1. Breakdown of the staff by education and average monthly salary by groups in 2002-2003.

Employee groups	Number		Average remuneration, LTL		Breakdown of employees according to education							
					Higher education		Vocational education		Secondary education		Incomplete secondary	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Managers	4	4	7,001	9,380	4	4	-	-	-	-	-	-
Specialists	197	216	1,918	1,946	149	156	47	54	14	6	-	-
Workers	637	598	1,444	1,561	33	43	143	134	370	357	78	64
<b>Total:</b>	<b>838</b>	<b>818</b>	<b>1,583</b>	<b>1,705</b>	<b>186</b>	<b>203</b>	<b>190</b>	<b>188</b>	<b>384</b>	<b>363</b>	<b>78</b>	<b>64</b>

### **35. Investment policy**

Lietuvos Elektrinė AB has not invested more than 30 percent of its authorized capital into any enterprise, nor are there any enterprises in the authorized capital of which the issuer's part comprises more than 30 percent.

In 2005, Lietuvos Elektrinė AB will launch the largest investment projects in the history of the power plant:

- Construction of fume desulphurisation equipment and solid particle filters,
- Mounting burners of low nitrogen oxide output,
- Modernization of regenerative air heaters
- Modernization of unit control systems.

These projects will be financed from the EU Ignalina NPP Decommissioning Support Fund (57 %), from the State INPP Decommissioning Fund (10 %), the remaining part will constitute the company means and borrowed funds. In 2005, the company is planning to borrow up to EUR 49 million for the implementation of these projects. Total value of the projects amounts to about EUR 243 million.

Lietuvos Elektrinė AB channels all the investment funds to increase reliability of the power plant, to meet ecological challenges and reduce operating costs.

### **36. Competitors**

Currently the main and only competitor on electricity sales market is Ignalina nuclear power plant.

### **37. Dividends paid**

On 25 April 2003, the AGM of shareholders of Lietuvos Elektrinė AB was held, which motioned to allocate LTL 8.026 million for payment of dividends (5.3 cents per share).

The AGM of shareholders held on 28 April 2004 decided to allocate LTL 7.276 million for payment of dividends (4.99 cents per share).

**V. FINANCIAL STATUS****38. Financial statements \*****Balance Sheet, LTL**

No.	ASSETS	31.12.2003	31.12.2002	31.12.2001
<b>A.</b>	<b>LONG TERM ASSETS</b>	<b>201,806,696</b>	<b>181,008,011</b>	<b>176,107,340</b>
I.	FORMATION COSTS			
II.	INTANGIBLE ASSETS	2,447,231	130,997	218,141
II.1.	Research and development costs			
II.2.	Obtained rights	2,447,231	130,997	218,141
II.3.	Goodwill			
II.4.	Prepaid charges			
III.	PROPERTY, PLANT AND EQUIPMENT	197,815,545	179,228,041	174,241,319
III.1.	Land			
III.2.	Buildings	55,392,971	61,729,797	67,942,173
III.3.	Plant and machinery	91,275,236	84,905,437	88,323,335
III.4.	Vehicles	640,230	652,129	671,805
III.5.	Other fixtures, fittings, tools and equipment	7,850,928	3,666,045	2,732,155
III.6.	Leasing and similar rights			
III.7.	Other fixed assets	2,292,255	3,911,282	2,948,510
III.8.	Non-operational fixed assets			
III.9.	Construction in progress and prepayments	40,363,925	24,363,351	11,623,341
IV	FINANCIAL LONG TERM ASSETS			
V	AMOUNTS RECEIVABLE AFTER ONE YEAR	1,543,920	1,648,973	1,647,880
<b>B</b>	<b>CURRENT ASSETS</b>	<b>64,072,678</b>	<b>72,790,468</b>	<b>77,539,340</b>
I	INVENTORIES AND CONTRACTS IN PROGRESS	35,284,135	33,088,562	54,751,555
I.1.	Inventories	35,284,135	33,088,562	54,751,555
I.1.1.	Raw materials and consumables	34,988,093	31,988,523	49,124,518
I.1.2.	Work in progress		73,102	23,571
I.1.3.	Finished products			
I.1.4.	Goods purchased for resale	71,500	71,500	71,500
I.1.5.	Immovable property intended for resale			
I.1.6.	Prepayments	224,542	955,437	5,531,966
I.2.	Contracts in progress			
II	AMOUNTS RECEIVABLE WITHIN ONE YEAR	25,056,066	19,227,836	20,480,702
II 1	Trade debtors	21,777,998	18,132,865	20,426,384
II 2	Other amounts receivable	3,278,068	1,094,971	54,318
II 2 1	Called unpaid capital			
II 2 2	Other debtors	3,278,068	1,094,971	
III	INVESTMENTS AND TERM DEPOSITS	2,895,840	4,942,323	
III 1	Own shares		4,942,323	
III 2	Other investments and term deposits	2,895,840		
IV	CASH AT BANK AND IN HAND	836,637	15,531,747	2,307,083
<b>C</b>	<b>ACCRUED INCOME AND DEFERRED CHARGES</b>	<b>34,381</b>	<b>129,608</b>	<b>24,651</b>
	<b>TOTAL ASSETS</b>	<b>265,913,755</b>	<b>253,928,087</b>	<b>253,671,331</b>

\*The Annual Prospectus-Report contains audited financial statements



No.	OWNER'S EQUITY AND LIABILITIES	31.12.2003	31.12.2002	31.12.2001
<b>A</b>	<b>CAPITAL AND RESERVES</b>	<b>210,029,766</b>	<b>205,577,638</b>	<b>186,392,340</b>
I.	CAPITAL	145,800,689	150,743,012	150,743,012
I.1.	Subscribed capital	145,800,689	150,743,012	150,743,012
I.2.	Uncalled capital			
II.	SHARE PREMIUM ACCOUNT			
III.	REVALUATION RESERVE	289,962	289,962	289,962
IV.	RESERVES	45,788,620	34,479,428	35,359,366
IV.1.	Legal reserve	6,001,094	4,997,832	4,997,832
IV.2.	Reserves not available for distribution	38,734,378	28,359,499	28,359,499
IV.3.	Reserves available for distribution	1,053,148	1,122,097	2,002,035
V.	PROFIT (LOSS) BROUGHT FORWARD	18,150,495	20,065,236	
V.1.	Profit (loss) of the current year	18,150,495	20,065,236	
V.2.	Profit (loss) of the previous year			
<b>B</b>	<b>FINANCING (GRANTS AND SUBSIDIES)</b>	<b>3,611,638</b>	<b>3,736,177</b>	<b>3,736,177</b>
<b>C</b>	<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
<b>D</b>	<b>AMOUNTS PAYABLE AND LIABILITIES</b>	<b>51,932,785</b>	<b>44,428,781</b>	<b>63,329,315</b>
I.	AMOUNTS PAYABLE AFTER ONE YEAR AND LONG TERM LIABILITIES	29,382,985	19,661,544	31,092,423
I.1.	Financial debts	29,382,985	19,661,544	31,092,423
I.1.4.	Financial debts to credit institutions	29,382,985	19,661,544	31,092,423
I.2.	Trade creditors			
I.3.	Prepayments received on contracts in progress			
I.4.	Other amounts payable and long term liabilities			
II.	AMOUNTS PAYABLE WITHIN ONE YEAR AND SHORT TERM LIABILITIES	22,549,800	24,767,237	32,236,892
II.1.	Short term portion of long term debts	1,922,568	6,451,810	13,517,136
II.2.	Financial debts			
II.3.	Trade creditors	15,559,112	13,214,758	16,228,439
II.3.1.	Debts to suppliers	15,559,112	13,214,758	16,228,439
II.4.	Prepayments received on contracts in progress	13,795	49,183	
II.5.	Taxes, remuneration, and social security payable	3,423,591	3,980,890	1,871,644
II.5.1.	Taxes	2,844,087	3,216,381	1,090,038
II.5.2.	Remuneration	211	243,266	277,914
II.5.3.	Social security payable	579,293	521,243	503,692
II.6.	Other amounts payable and short term liabilities	1,630,734	1,070,596	619,673
<b>E</b>	<b>ACCRUED CHARGES AND DEFERRED INCOME</b>	<b>339,566</b>	<b>185,491</b>	<b>213,499</b>
	<b>TOTAL OWNER'S EQUITY AND LIABILITIES</b>	<b>265,913,755</b>	<b>253,928,087</b>	<b>253,671,331</b>

**Income Statement, LTL**

NO	ITEMS	YEAR 2003	YEAR 2002
I.	SALES AND SERVICES	173,237,601	171,846,917
I.1.	Income from sales	164,662,972	171,456,363
I.2.	Income from services rendered	8,574,629	390,554
II.	COSTS OF GOODS SOLD AND WORK PERFORMED	143,963,502	145,438,453
II.1.	Raw materials, consumables and goods for resale	107,675,432	114,849,726
II.2.	Services, work and research	36,288,070	30,588,727
III.	GROSS PROFIT	29,274,099	26,408,464
	(LOSS)		
IV.	OPERATING EXPENDITURE	9,151,025	8,593,736
IV.1.	Sales	4,703,548	4,401,055
IV.2.	General and administrative	4,447,477	4,192,681
V.	OPERATING PROFIT	20,123,074	17,814,728
	(LOSS)		
VI.	OTHER ACTIVITIES	580,411	133,917
VI.1.	Income	3,253,025	3,386,318
VI.2.	Expenditure	2,672,614	3,252,401
VII.	FINANCIAL AND INVESTMENT ACTIVITIES	922,601	3,245,000
VII.1.	Income	2,839,251	6,133,631
VII.2.	Expenditure	1,916,650	2,888,631
VIII.	PROFIT FROM ORDINARY ACTIVITIES	21,626,086	21,193,645
	(LOSS)		
IX.	EXTRAORDINARY PROFIT	87,756	1,328,841
X.	EXTRAORDINARY LOSS	266,501	22,972
XI.	PROFIT BEFORE TAXES	21,447,341	22,499,514
	(LOSS)		
XII.	INCOME TAX	3,258,308	2,434,278
XIII.	NET PROFIT FOR APPROPRIATION	18,189,033	20,065,236
	(LOSS)		

**Profit (loss) Appropriation Statement, LTL**

No.	ITEMS	YEAR 2003	YEAR 2002
I.	Profit brought forward at the beginning of the current year		
	(Loss)		
II.	Net profit of the current year	18,189,033	20,065,236
	(Loss)		
III.	Profit (loss) to be appropriated at the end of the current year	18,189,033	20,065,236
IV.	Shareholders' contribution against losses		
V.	Profit to be appropriated	18,189,033	20,065,236
VI.	Portion of profit allocated to legal reserve	909,452	1,003,262
VII.	Portion of profit allocated for purchasing own shares		
VIII.	Portion of profit allocated to other reserves	9,342,968	10,274,880
IX.	Portion of profit allocated for the payment of dividend	7,275,613	8,026,094
X.	Portion of profit allocated for the annual bonuses (tantiemes) to the Board and Supervisory Board members, payment of incentives to workers and allocations for social needs under the Collective Agreement	661,000	661,000
XI.	Profit (loss) to be carried forward at the end of the current year		

**Changes in the Financial Position (Cash Flow) Statement, LTL**

No.	ITEMS	YEAR 2003	YEAR 2002
I.	CASH FLOW FROM OPERATING ACTIVITIES		
I.1.	Net profit (loss) for the period	18,189,033	2,499,514
I.2.	Depreciation and amortization costs	16,645,682	17,156,161
I.3.	Negative (positive) effect of changes in exchange rate of foreign currency	(1,550,302)	4,969,035
I.4.	Loss on sale of fixed assets (Gain)	17,589	1,182
I.5.	Decrease (increase) in trade receivables	3,645,135	(2,159,267)
I.6.	Increase (decrease) in trade payables	2,344,345	(3,013,681)
I.7.	Increase (decrease) in other borrowings	(561,335)	440,953
I.8.	Increase (decrease) in amounts payable to Government and authorities	(557,299)	(777,569)
I.9.	Increase (decrease) in prepayments	(730,895)	(4,146,172)
I.10.	Profit (loss) from financial and investing activities	(627,701)	3,245,000
	Net cash flow from operating activities (+/-)	36,814,261	38,215,156
II.	CASH FLOW FROM INVESTING ACTIVITIES		
II.1.	Sales (acquisition) of fixed assets	(38,215,731)	(13,680,814)
II.2.	Acquisition (disposal) of financial assets	(2,895,840)	12,740,310
	Net cash flow from investing activities (+/-)	(41,111,571)	(940,504)
III.	CASH FLOW FROM FINANCING ACTIVITIES		
III.1.	Proceeds from issue of ordinary and preferred shares		
III.2.	Buy-up of own shares (-)		(4,942,323)
III.3.	Proceeds from issue of bonds		
III.4.	Payments of leasing commitments (-)		
III.5.	Increase (decrease) in amounts payable to banks	(2,839,274)	(19,738,043)
III.6.	Other companies:	432,900	(331,249)
III.6.1.	Increase (decrease) in amounts payable	432,900	(331,249)
III.6.2.	Decrease (increase) in amounts receivable		
III.7.	Dividends paid (-)	(7,115,516)	
III.8.	Other amounts received (paid)		
	Net cash flow from financial activities (+/-)	(9,521,890)	(25,011,615)
IV.	CASH FLOWS FROM EXTRAORDINARY ACTIVITIES		
IV.1.	Increase (decrease) of cash flows from extraordinary activities	(875,910)	961,627
	Net cash flows from extraordinary activities (+/-)	(875,910)	961,627
V.	INCREASE OF NET CASH FLOW (DECREASE)	(14,695,110)	13,224,304
VI.	CASH AT THE BEGINNING OF THE PERIOD	15,531,747	2,307,083
VII.	CASH AT THE END OF THE PERIOD	836,637	15,531,747

### 39. Comments on the financial statements

#### EXPLANATORY NOTES OF LIETUVOS ELEKTRINĖ AB

Pursuant to the Law on Reorganisation of the Special Purpose Company “Lietuvos Energija” as of 18 May 2000 (No VIII – 1693), Lietuvos Elektrinė AB was founded as a result of reorganisation of the special purpose company Lietuvos Energija AB in accordance with the company division method, i.e. by separating certain portions of the assets, rights and liabilities from the Special Purpose Company “Lietuvos Energija” which shall continue its activities, and setting up new companies: public company Lietuvos Elektrinė (Lithuanian Power Plant), public company Mažeikiai Elektrinė (Mažeikiai Power Plant), public company Rytų Skirstomieji Tinklai (East Transmission Network) and public company Vakarų Skirstomieji Tinklai (West Transmission Network).

The public company Lietuvos Elektrinė AB was registered with the Ministry of Economy on 31 December 2002 in accordance with the Law on the Register of Enterprises of the Republic of Lithuania.

- Company registration No: BĮ 01-249;
- Company code: 1087093;
- VAT payer’s code: 108709314;
- The code of the insured: 3853488;
- Registered 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, transmission and distribution of electricity and thermal energy of high quality;

The projected period of economic and business activities is unlimited.

The company’s accounting is conducted in accordance with the Law on Accounting of the Republic of Lithuania, the Law on Public Companies of the Republic of Lithuania, the Law on Financial Statements of the Republic of Lithuania, resolutions of the Government of the Republic of Lithuania, orders of the Ministry of Finance and the State Tax Inspectorate as well as other legal acts regulating financial accounting.

In 2003, the average number of employees in the company was 830.

The company is a member of the National Electric Energy Association, which is an active participant of the Union of Electricity Industry (EURELECTRIC) representing pan-European interests in energy sector. Independent audit of the financial statements of Lietuvos Elektrinė AB for the year 2003 was performed by the audit firm Auditas UAB.

Accounting at Lietuvos Elektrinė AB is carried out with the help of business and accounting software “Scala”.

The company draws up a complete set of annual accounts, including the Balance Sheet, the Income Statement, the Changes in the Financial Position (Cash Flow) Statement and the Explanatory Notes. The Company’s financial year is the calendar year. All amounts in the financial statements are disclosed in the national currency of Lithuania, litas (LTL).

Lietuvos Elektrinė AB calculates depreciation (amortisation) of the long-term assets on a straight – line basis over the estimated useful life of the assets starting from the first day of the following month after their first use in the company’s operations.

The company approved the amount of LTL 2000 as the minimum acquisition costs for all groups of assets to be recognised as long-term assets for the purposes of both financial and tax accounting. In the bookkeeping accounts the inventories are disclosed at the acquisition cost or at net realisable value. In the financial statements they are disclosed either at the acquisition cost or at net realisable value, whichever is lower.

The value of the inventories written down to net realisable value is recognised as costs in the Income Statement of the reporting period. When calculating the costs of inventories used in the company's operations and/or costs of sold inventories, the company applies the FIFO method, assuming that the inventories purchased or produced first are consumed first. The company applies the constant inventory accounting method and registers every operation related to the consumption or sales of the inventories in the bookkeeping accounts.

The Company calculated the profit tax payable on the taxable profit of the financial year 2003 applying the 15 % profit tax rate in accordance with the Law on Profit Tax of the Republic of Lithuania.

In the financial statements amounts receivable are disclosed at the nominal value less the written off part of the amounts receivable and bad debts. This difference is recognised in the Income Statement as costs of problematic and/or bad debts.

Amounts payable are disclosed according to the amounts of liabilities specified in the invoices, agreements and other bookkeeping documents, which will be paid up under normal business conditions.

Grants include property, plant and equipment obtained free of charge and the aid of international funds for certain particular operations. The grants obtained in relation to acquisition of assets are recognised to the extent of the used part during the useful life of the assets, i.e. by reducing the costs of asset depreciation. Grants for the compensation of the incurred costs are recognised as used to the extent the costs, for the compensation of which these grants were extended, have been incurred.

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. Assets and liabilities denominated in foreign currencies are translated into LTL at the end of each calendar month at the official rate valid on the last day of the month as fixed by the Bank of Lithuania. Gains and losses arising from the transactions in foreign currencies or from their accounting at a different exchange rate than first recorded are disclosed in the Income Statement as gains and losses for the period when these differences take place.

Income is recognised in the Company's bookkeeping accounts on the accrual basis and is considered earned at the time the goods are sold or services rendered, irrespective of the time the payment for them is received. The Company's costs are also recorded on the accrual basis irrespective of the expenses incurred. Only the portion of costs that was used to earn the company's income within the reporting period is recognised as costs of that period. In its bookkeeping the company does not use operating costs accounts as aggregating general and administrative costs.

The data of the Balance Sheet reveal that on 31 December 2003, compared to 31 December 2002, the value of the company's long-term assets augmented from LTL 181,008 thousand to LTL 201,807 thousand, i.e. by LTL 30,799 thousand. This increase was mainly the result of the increased construction in progress. Amounts receivable after one year remained almost unchanged. These amounts represent the employee debt to the Lithuanian power plant for the loans extended to them to buy apartments in 2001 (under the Collective Agreement by the decision of the Board of the special purpose company Lietuvos Energija) to be repaid in 25 years.

From the beginning of 2003 to 31 December 2003, the inventories increased from LTL 33,089 thousand to LTL 35,284 thousand, i.e. by 2,195 thousand. This rise was caused by the increase in raw materials and consumables, i.e. the increased amounts of fuel in stock (orimulsion) and the decreased amounts of pre-payments.

Amounts receivable within one year, compared to the situation at the beginning and end of 2003, went up from LTL 19,228 thousand to LTL 25,056 thousand, i.e. by LTL 5,828 thousand. The largest debt is with Lietuvos Energija AB for the sold capacity reserve and electricity.

Compared to the beginning of 2003, cash at bank and in hand decreased considerably, from LTL 15,532 thousand to LTL 837 thousand. Such an amount of cash in the account is due to the fact that Lietuvos

Energija AB, a major purchaser of the capacity reserve and electricity produced by the Lithuanian power plant, settles the accounts for the supplied production within 30 calendar days. In 2003, the amounts of cash decreased by LTL 16,001 thousand, because of the increase in construction in progress. In the event Lietuvos Elektrinė AB has disposable cash at bank, it is held as a term deposit generating additional income for the company.

The amounts of accrued income and deferred charges in 2003 decreased by LTL 96 thousand because of the decreased future holiday payments.

In 2003, a decrease of LTL 4,942 thousand in the share capital was registered (due to the property, plant and equipment transferred to the ownership of Elektrėnai municipality in 2002).

The item Financing discloses LTL 3.6 million of the assets received free of charge according to the Swiss aid programme.

In 2003, the amounts payable and liabilities of Lietuvos Elektrinė AB augmented considerably, by LTL 7,504 thousand. Amounts of financial liabilities payable after one year increased from LTL 19,662 thousand to LTL 29,383 thousand, i.e. by LTL 9,721 thousand, because in 2003 the bank NORD/LB Lithuania extended a loan of EUR 3,765,000 for the construction of desulphurisation equipment. After desulphurisation equipment is installed, emissions of sulphur oxides into the atmosphere will reduce and thus the pollution tax will reduce too. The deadline for repayment of this loan is 1 May 2013.

The short-term portion of long term debts reduced by LTL 4,519 thousand, because in 2003 Lietuvos Elektrinė AB repaid its debt to the EBRD. We will repay the loan to the World Bank in 2011. In 2003, in an attempt to hedge against the currency risk due to the unstable US dollar rate, Lietuvos Elektrinė AB exchanged the remaining portion of the loan from US dollars into euros.

Due to the increased volume of repairs and construction works as well as the increased gas consumption, in 2003 trade creditors grew by LTL 2,344 thousand. The debt to Lietuvos Dujos AB for the supplied gas makes up a significant amount of trade creditors, LTL 1,408 thousand, and to Lietemas UAB for repair works, LTL 1,013 thousand.

In 2003, the accrued charges and deferred income increased by LTL 155 thousand and reflect the accrued interest for the loan to the World Bank.

During 2003, Lietuvos Elektrinė AB received income in the amount of LTL 173,238 thousand for the goods sold and services rendered. The main source of income was the sold capacity reserve and electricity as well as supplies of thermal energy. Besides its principal activities, the Lithuanian power plant generated income from ancillary activities, such as greenhouses, dispenser servicing for Lietuvos Energija AB and storage of fuel oil reserve.

In 2003, due to the fall in the US dollar rate, Lietuvos Elektrinė AB generated LTL 2,104 thousand of additional income and incurred LTL 553 thousand of costs.

The operating result of the year 2003 was a profit of LTL 21,447,341 before taxes. In 2003, the profit tax amounted to LTL 3,258 thousand. In 2003, the net profit for appropriation generated by Lietuvos Elektrinė AB totalled LTL 18,189,033.

In 2003, mounting of fume purification equipment in the 300 MW power unit boiler 8B was launched. Aided by the SwedPower the company is preparing tender documentation for the implementation of other investment projects to be financed from the European Union, the National Fund for Decommissioning of Ignalina nuclear power plant and the company's own assets as well as borrowed funds.

In 2003, appraisal of the long-term assets at fair value was performed to be disclosed in the financial statements as from 1 January 2004. In 2003, a unit of ancillary activities, the greenhouses, was sold.

**40. Annual Report prepared by the issuer's Board or any other managing body performing its functions****Annual Report on the Company's Activities by the Board of Lietuvos Elektrinė AB**

The Report on the Activities of Lietuvos Elektrinė AB (hereinafter – company) was prepared by the Board of the company in accordance with Article 36 of the Law on Companies of the Republic of Lithuania. The company's Report is public. Every interested person may get acquainted with its content at the company's registered office at 21 Elektrinės St., Elektrėnai.

During the reporting period the Board comprised the following members:

- Pranas Noreika – Chairman of the Board, Director General of the company;
- Vida Dzermeikienė – Head of Electricity and Heat Division of the Ministry of Economy of the Republic of Lithuania;
- Domininkas Pečiulis – Head of the State Property Management Department of the Ministry of Economy;
- Arvydas Galinis – Senior research specialist of the Energy Institute;
- Rolandas Jankauskas – Chief financier of the company.

Last year the company's Board held 15 meetings, at which the company's financial plans, investment projects and their implementation, quarterly results of economic activities, income and expenditure estimates, improvement of management functions and a great many of other issues within the competence of the Board were discussed. In 2003, the Administration held 24 meetings.

In this Report the company's Board presents the company's shareholders, creditors and other interested persons a survey of the operations in the financial year 2003, main events, the company's plans and prospects and all other relevant information to be disclosed in the company's Report as prescribed by law.

**MAJOR EVENTS IN THE COMPANY IN 2003**

- Construction of the fume purification equipment for removal of sulphur and nitrogen compounds in the 300 MW power unit boiler 8B began.

**January:**

- Economic activities and financial statements for the year 2002 were discussed and the annual business plan for the coming 2003 approved;
- Investment plan for the year 2003 approved;
- Agreement of purchase – sales of electricity, capacity reserves and services between Lietuvos Energija AB and Lietuvos Elektrinė AB signed for the year 2003;
- Changes introduced into the management structure.

**March:**

- Decision concerning appraisal of the company's long-term assets at fair value adopted;
- Draft Collective Agreement approved.

**April:**

- The Securities Commission permitted the company to reduce the authorised capital by LTL 4.942 million, which corresponds to the value of assets transferred to Elektrėnai municipality, namely, the biological water treatment facilities and the buildings and equipment of the construction and repairs unit of the company;
- During the first quarter, Lietuvos Elektrinė AB earned a net unaudited profit of LTL 10.501 million;
- The Annual General Meeting of the company's shareholders approved the Annual Report 2002 and the financial statements for the year 2002: the Balance Sheet, the Income Statement, the Cash Flow Statement. LTL 8.026 million were allocated for dividends, 5.3 cents per share. The Company's Director General was authorised to sign the agreement with the audit firm Auditas UAB for conducting audit of the financial statements for the year 2003. The company's borrowing limit of LTL 13 million was approved.

**May :**

- The company's greenhouses sold;
- A decision to sign the contract with SwedPower was adopted.

**June :**

- The company signed the contract with the Swedish consulting firm SwedPower that, before the end of the year, had to draft and in March – June 2004 finalize a study and tender documents concerning technical and environmental renovation project. This order will be partially funded by the Swedish Government;
- Construction of the fume purification equipment (desulphurisation equipment and filter of solid particles) began.

**July:**

- Due to the contract with SwedPower, Investment Plan for 2003 was adjusted;
- Changes introduced into the management structure;
- Economic and business activities for the first quarter approved. During the first quarter 2003 the company gained a net unaudited profit of LTL 15,980,455;
- The Minister of Economy approved the mandatory electricity volume of 610 million kWh to be purchased from Lietuvos Elektrinė AB in 2004, as electricity production is necessary in order to ensure the reserves of the system.

**August:**

- Having employed 27 young specialists, the remuneration fund for 2003 was adjusted accordingly.

**September:**

- Appraisal of the company's long-term assets at fair value was carried out, which increased amortization in 2004;
- Relatively fixed costs for 2004 were approved.

**October:**

- After the Ministry of Economy increased sales of electricity, the Action Plan for 2003 was adjusted accordingly;
- The National Control Commission for Prices and Energy fixed the quota purchase price of electricity produced in Lietuvos Elektrinė AB at 13.52 ct/kWh, excluding VAT for 2004.

**November:**

- Changes introduced into the management structure;

**December:**

- Agreement for gas supply in 2004 was signed with Lietuvos Dujos AB;
- The roof, windows and floor of the main building repaired.

**PERFORMANCE INDICATORS****Production of electricity**

In 2003, Lietuvos Elektrinė AB supplied 645,192 thousand kWh of busbar energy and bought 357 thousand kWh of energy from the network for its own needs.

According to the type of energy the company sold:

- 651 417 thousand kWh of quota energy;
- 728 thousand kWh of regulating energy;
- 2718 thousand kWh of balancing energy;
- 1213 thousand kWh of energy from the transformers for the company's own needs.

According to the type of energy the company purchased:

- 140 thousand kWh of regulating energy;
- 11 101 thousand kWh of balancing energy.

**Production of thermal energy:**

In 2003, the sales of thermal energy of Lietuvos Elektrinė AB totalled 152 599 Gcal, including 83 488 Gcal to Kietaviškės greenhouses Gausa and 64 297 Gcal to the town of Elektrėnai.

**Income**

In 2003, Lietuvos Elektrinė AB earned LTL 179,415 thousand.





**INVESTMENTS**

Investments financed from the calculated depreciation funds and payment of loans is shown in Table 3

Table 3

**INVESTMENT PLAN IMPLEMENTATION IN 2003**

LTL thousand

No.	Project description	2003
1	2	3
	I. Completed projects	
1.	Supply renovation at Unit 12 Control Division	19
2.	Installation of passenger lift at boiler-2	97
3.	Gas turbines study	8
	II. On-going projects	
1.	Surge suppressors	709
2.	Units 5-8. Replacement of 6 kV oil switches by vacuum switches; replacement of protectors by digital protectors	1,518
3.	Units 1-8: Replacement of 0,4 kV dispensers equipment	313
4.	Units 1,2, 5-8. Replacement of direct current panels	117
5.	Upgrading of computer and local network equipment	2,425
6.	Computerisation of measurement of levels in fuel oil tanks and accounting of fuel oil	95
7.	Equipment not requiring installation	1,453
8.	Preparation of documents to the EU institutions	72
9.	Unit 8. Fume purification (desulphurisation equipment and solid particle filter)	29,085
10.	Feasibility study of environmental and technological projects	2,226
10.1	Swedish Government Fund	1,189
10.2	Payments to SwedPower by Lietuvos Elektrinė AB	673
10.3	Work and services of the Lietuvos Elektrinė AB specialists	364
	<b>TOTAL</b>	<b>38,137</b>

**HUMAN RESOURCES**

In 2003, the average number of employees of Lietuvos Elektrinė AB according to the statistical pay-roll statement (form DA-03 annual):

Table 4

	Year	
	2002	2003
Total:	836	818
Of which:		
- principal activity employees	771	758
- ancillary activity employees	65	60
Staff structure by nature of work:		
- specialists	201	220
- workers	635	598
Average pay in 2002, LTL	1,583	1,705
- specialists	2,023	2,083
- workers	1,444	1,561

**AMOUNTS PAYABLE AND LIABILITIES**

In 2003, the amounts payable and liabilities of Lietuvos Elektrinė AB augmented considerably, by LTL 7,504 thousand. Amounts of financial liabilities payable after one year increased from LTL 19,662 thousand to LTL 29,383 thousand, i.e. by LTL 9,721 thousand, because in 2003 the bank NORD/LB Lithuania extended a loan of EUR 3,765,000 for the construction of desulphurisation equipment. After desulphurisation equipment is mounted, emissions of sulphur oxides into the atmosphere will reduce and thus the pollution tax will reduce too. The deadline for repayment of this loan is 1 May 2013.

The short-term portion of long term debts reduced by LTL 4,519 thousand, because in 2003 Lietuvos Elektrinė AB repaid its debt to the EBRD. We will repay the loan to the World Bank in 2011. In 2003, in an attempt to hedge against the currency risk due to the unstable US dollar rate, Lietuvos Elektrinė AB exchanged the remaining portion of the loan from US dollars into euros.

**ENVIRONMENTAL PROTECTION**

Emissions of the Lithuanian power plant into the atmosphere:

Table 5

Pollutants		Current emissions			
		From 1 January 2003 to 31 December 2003			
Type of pollutant	Code	One-off value			Annual, t/m
		Units	Average	Max.	
Sulphur dioxide (A)	1753	mg/Nm <sup>3</sup>	2,700	-	6,056.4
Nitrogen oxides (A)	250	mg/Nm <sup>3</sup>	450	-	1374.7
Carbon monoxide (A)	177	mg/Nm <sup>3</sup>	300	-	646.38
Solid particles (A)	6493	mg/Nm <sup>3</sup>	100	-	63.96
including V <sub>2</sub> O <sub>5</sub> (A)	2023	mg/Nm <sup>3</sup>	-	-	30.6
Total according to the type of activity:					8,172.1
Total per piece of equipment:					8,172.1

Due to the decommissioning of Ignalina nuclear power plant, in the future power units of the Lithuanian power plant are anticipated to work in full capacity. The planned fuels are gas, fuel oil and, to the largest extent, a cheap type of fuel, orimulsion, which contains up to 3% of sulphur. Pursuant to the provisions of the EU Directive 2001/80/EC, as from 1 January 2008 the existing combustion plants shall be subject to a reduced limit value for SO<sub>2</sub> emissions of 400 mg/Nm<sup>3</sup>, while new plants or those changing the type of fuel shall be subject to a limit value of 200 mg/Nm<sup>3</sup>. The limit value for solid particles is reduced to 30 mg/Nm<sup>3</sup>. To meet these requirements it is necessary to mount fume purification equipment and modernize unit control systems and other equipment.

Environmental projects include mounting desulphurisation equipment and solid particle filters as well as installation of burners of low nitrogen oxide output.

Documentation for tenders of these projects is under preparation. Tenders will be announced only after Lithuania becomes member of the EU, therefore winners of the tenders will be known and contracts signed only at the beginning of December of the current year.

Construction of desulphurisation equipment and solid particle filters is projected for boilers 1, 2, 5A, 5B, 6A, 6B, 7A, 7B, and 8A. The beginning of the construction works is July 2005. The work will start at boiler 7 and proceed to boiler 6, 5, 8A, 1 and 2. The work at each subsequent unit will begin in three months. The approximate time for work at one unit is about 20 months. Completion of construction works in all units is expected in March 2008. Currently desulphurisation equipment and solid particle filters are under construction in boiler 8B. Completion of the work and testing of the equipment is projected for this year.

Installation of burners of low nitrogen oxide output is projected for boilers 1, 2, 5A, 5B, 7A, 7B, 8A, and 8B. Such burners have already been installed in boilers 6A and 6B, only they have to be adjusted for burning orimulsion. The work at boiler 6 should take about three months. Reconstruction of burners in all boilers is to be completed in 5 months, giving two months for testing. Burner control and ignition as well as explosion prevention devices for all three types of fuel will be fully automated.

Implementation of the projects at the Lithuanian power plant will allow burning the three types of fuel in compliance with the requirements of environmental protection.

#### THE COMPANY'S PLANS FOR THE YEAR 2004

The Company's objective for the year 2004 is to ensure the sale of electricity in volumes established by appropriate quotas and reliability of the reserves.

The company's plans for the year 2004 are disclosed in Tables 6 and 7.

#### PLAN OF THE MAIN INDICATORS FOR THE YEAR 2004

Table 6

Indicators	Unit of measurement.	In 2003	Planned for 2004
Supplied electricity to the network	t. kWh	645,192	610,000
Income from sales of electricity	t. Lt	88,463	82,472
Income from other principal activities	t. Lt	84,775	85,242
- for cold reserve	t. Lt	69,723	69,949
- for spinningreserve	t. Lt	6,477	6,457
- for thermal energy	t. Lt	8,575	8,836
Total Income	t. Lt	173,238	167,714
Total costs	t. Lt	154,410	153,414
- variable	t. Lt	79,187	72,960
- fixed	t. Lt	75,223	80,454
Profit	t. Lt	21,447	14,300
From ancillary activities	t. Lt	2,619	-
Total relatively fixed costs	t. Lt	75,223	80,454
- amortization	t. Lt	16,646	26,182
- remuneration	t. Lt	15,101	15,701
- social insurance	t. Lt	4,863	5,024
- taxes	t. Lt	2,972	3,711
- material	t. Lt	34,303	26,796
- interest	t. Lt	1,338	3,040

Table 7

**INVESTMENT PLAN -2004**

(in LTL thousand)

No	Project description	Plan for 2004	Financing source in 2004			
			Own funds	Loan	National fund	EU aid
1	2	3	4	5	6	7
	I. On-going projects					
1.1.	Surge suppressors	450	450			
1.2.	Units 5-8. Replacement of 6 kV oil switches by vacuum switches; replacement of protectors by digital protectors	1,085	1,085			
1.3.	Units 1-8: Replacement of 0,4 kV dispenser equipment	724	724			
1.4.	Units 1,2, 5-8. Replacement of direct current panels	37	37			
1.5.	Upgrading of electric section of traveller No.2 in the machinery room	331	331			
1.6.	Refurbishment of the main building	1,200	1,200			
1.7.	Upgrading of computer and local network equipment	100	100			
1.8.	Computerisation of measurement of levels in fuel oil tanks and accounting of fuel oil	60	60			
1.9.	Equipment not requiring installation	1,000	1,000			
1.10.	Preparation of documents to the EU institutions (agreements with AIE, LEI)	53	53			
1.11.	Unit 8. Fume purification (desulphurisation equipment and solid particle filter)	18,782	7,782	11,000		
1.12.	Feasibility study of environmental and technological projects					
	including: From the Swedish Government Fund: Total SEK 5,142,784	771				771
	Payments to SwedPower by LE: SEK 2,950,000	441	441			
	Work and services of the LE staff: SEK 1,700,000	255	255			
	Sinew projects					
2.1.	Implementation of environmental and upgrading projects (main funding from Ignalina NP decommissioning fund)	198,922	9,270	13,000	19,895	156,757
2.2.	Preparation of the ash pit for the desulphurised waste	750	750			
2.3.	Assembly of the pump and pipes for combustion of orimulsion in boilers 6A, 7A, 8A	100	100			
2.4.	Replacement of the inner body of TMS-6	300	300			
2.5.	Installation of pipes of a larger diameter for thermal network in 300 MW unit.	800	800			
2.6.	Installation of the second orimulsion screw-pump with a converter in the second fuel oil pumphouse	150	150			
2.7.	Installation of the orimulsion heater in the second fuel oil pumphouse	150	150			
2.8.	Upgrading of T-2 regulation system	200	200			
2.9.	Replacement of one turbopump by another	762	762			
	<b>Total I + II :</b>	<b>227,423</b>	<b>26,000</b>	<b>24,000</b>	<b>19,895</b>	<b>157,528</b>

#### 41. Information about the audit

Independent audit of the Balance Sheet and related Income Statement, Changes in the Financial Status (Cash Flows) Statement, draft statement on Profit Appropriation and the Explanatory Notes as of 31 December 2003 of Lietuvos Elektrinė AB was performed by the Accounting and Control Firm Auditas UAB.

##### Information about the audit firm

Address	Gedimino pr. 24–11, LT–01103 Vilnius
Telephone	(+370~5) 261 97 72
Fax	(+370~5) 212 16 72
E-mail	<a href="mailto:audito@takas.lt">audito@takas.lt</a>
Enterprise code	2061271

The audit opinion was signed by Rišardas Krinickis, Director and auditor of the Accounting and Control Firm Auditas UAB, (auditor's certificate No 000136) and Alma Lizunova, auditor, (auditor's certificate No 000152)

The audit was performed pursuant to the Law on Audit of the Republic of Lithuania, the National Standard on Auditing and current practice.

In the auditor's opinion, the financial statements, in all material respects, give a true and fair view of the financial position of the Company as of 31 December 2003, of the results of its operations in 2003 and its cash flows in accordance with the General Accounting Principles. The data in the Annual Report of Lietuvos Elektrinė AB correspond with the data in the financial statements.

The audit was completed on 5 April 2004.

The auditor's opinion and the Auditor's Report are attached to the Annual Prospectus – Report.

## VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES

### 42. Members of the managing bodies

#### 42.1. Position held, names and surnames, data about participation in the issuer's authorized capital

Table 42.1.1. Members of the managing bodies of Lietuvos Elektrinė AB.

Name, surname	Position held	Share of the capital/ votes held, %
<b>THE SUPERVISORY BOARD</b>		
Artūras Dainius	Chairman	-
Saulius Spėčius	Member	-
Laima Sidarkevičienė	Member	-
Faustas Juška (until 28.04.2004)	Member	-
Rimantas Cicėnas (until 28.04.2004)	Member	0,002
Nijolė Bujauskienė (from 28.04.2004)	Member	-
Marija Siniavska (from 28.04.2004)	Member	-
<b>THE BOARD</b>		
Pranas Noreika	Chairman, Director General	0,004
Vida Dzermeikienė	Member	-
Arvydas Galinis	Member	-
Rolandas Jankauskas	Member, Chief Financier	-
Domininkas Pečiulis	Member	-
<b>ADMINISTRATION</b>		
Pranas Noreika	Director General	0,004
Rolandas Jankauskas	Chief Financier	-

#### 42.2. Data about the Chairman of the Board, the Head of the Administration and the Chief Financier:

**Pranas Noreika** - Director General of Lietuvos Elektrinė AB, Chairman of the Board.

Educational background: higher education; profession: engineer; over the past 10 years worked as Director General of Lietuvos Elektrinė AB.

**Rolandas Jankauskas** – Chief Financier of Lietuvos Elektrinė AB

Educational background: higher education; profession: engineer; over the past 10 years worked as an expert for Vilniaus Bankas AB, as an engineer; Deputy Chief Financier; Chief Financier with Lietuvos Elektrinė AB.

#### 42.3. Data about participation in the activities of other companies, enterprises and organizations (name of the company, enterprise, or organization and position held), over 5 percent of capital and votes held in other enterprises (percentage);

Table 42.3.1. Participation in the activities of other companies, enterprises and organizations.

Name, surname	Name of the company, enterprise, organization; position held	Share of capital and votes held in other enterprises
Artūras Dainius	Vice-minister of the Ministry of Economy of the Republic of Lithuania	-
	Chairman of the Board of "Ignalinos Atominė Elektrinė"	-
Laima Sidarkevičienė	Senior specialist of State Property Privatisation and Management Department of the Ministry of Economy of the Republic of Lithuania	-
Saulius Spėčius	Advisor to the Prime Minister of the Republic of Lithuania	-
	Member of the Board of Naftos Terminalas AB	-
	Member of the Board of Klaipėdos Nafta AB	-
	Member of the Supervisory Board of Lietuvos Energija AB	-
Nijolė Bujauskienė	Member of the Supervisory Board of Rytų Skirstomieji Tinklai AB	-
	Specialist of State Property Privatisation and Management Department of the Ministry of Economy of the Republic of Lithuania	-

Name, surname	Name of the company, enterprise, organization; position held	Share of capital and votes held in other enterprises
Marija Siniavska	Senior specialist of Analysis and Forecast Department of the Ministry of Economy of the Republic of Lithuania	-
Vida Dzermeikienė	Deputy head of Electricity and Heat Division of the Ministry of Economy of the Republic of Lithuania	-
	Member of the Board of Mažeikių Elektrinė AB	-
	Member of the Board of Lietuvos Energija AB	-
Arvydas Galinis	Senior research specialist of the Energy Institute	-
Rolandas Jankauskas	-	-
Pranas Noreika	-	-
Domininkas Pečiulis	Head of the State Property Management Department of the Ministry of Economy	-
	Chairman of the Board of Naftos Terminalas AB	-
	Member of the Board of Lietuvos Eksporto ir Importo draudimas UAB	-

42.4. Data about the effective conviction of members of managing bodies for the economic crimes and crimes against property, business procedures, and finances

Members of managing bodies are not convicted and have never been convicted for economic crimes and crimes against property, business procedures, and finances.

42.5. Data about the beginning and the end of the term of office of each managing body member.

The Supervisory Board and the Board of Lietuvos Elektrinė AB were elected in December 2001 for the term of four years.

### 43. Information about payments and loans extended to the members of managing bodies

43.1. Information about average amounts of tantiemes, salaries and other payments made

Table 43.1.1. Tantiemes, salaries and other payments made to the members of the Supervisory Board, the Board, and the Administration.

	Remuneration, LTL	Tantiemes, LTL	Other payments, LTL
Members of the Supervisory Board	-	-	-
Members of the Board	-	-	-
Administration*	450,253	-	40,388

43.2. Total amounts of tantiemes, salaries and other payments made during the accountable period from profit to members of the Supervisory Board, the Board and the administration, received from enterprises wherein the issuer's part in the authorized capital makes up more than 20 per cent

There were none.

43.3. Loans granted to members of managing bodies over the accountable period, guarantees and warranties given with respect to fulfilment of their obligations

In 2003, no loans were granted, guarantees and warranties given to members of the Supervisory Board, the Board and the administration of Lietuvos Elektrinė AB.

### 44. Transactions with persons concerned

There were no transactions unusual to the principal activities of Lietuvos Elektrinė AB with enterprises, organisations and institutions, in the activities or capital of which the issuer or members of its managing bodies participate.

\* Administration Members of Lietuvos Elektrinė AB (Director General Pranas Noreika and Chief Financier Rolandas Jankauskas) are the only members of the Board, who were paid salaries. The amounts paid to them are disclosed in the Table.



## VII. UPDATED AND MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND PERSPECTIVES

### 45. Updated events in the issuer's activity

**On 28 April 2004**, the Annual General Meeting of Lietuvos Elektrinė AB shareholders was held, which resolved to take into consideration the Auditor's Report when approving the Annual Report and the annual financial statements for the year 2003, to approve the company's Annual Report 2003, the annual financial statements for the year 2003, the draft profit appropriation (it was resolved to pay dividends to the shareholders, in total LTL 7 275 613 and to approve the new wording of the company's Articles of Association. It was decided to remove Faustas Juška and Rimantas Cicėnas from the Supervisory Board, replacing them by Nijolė Bujauskienė and Marija Siniavska. The audit firm „Deloitte & Touche” UAB was elected to conduct the audit of the company's financial statements for the years 2004 and 2005. Conditions of payment for audit services were approved.

**During the first quarter of 2004**, Lietuvos Elektrinė AB earned 6.112 million of unaudited profit before taxes.

### 46. Material events in the issuer's activities

Notices about material events are submitted to the Securities Commission, the National Stock Exchange of Lithuania, the daily Lietuvos Rytas, the Lithuanian news agency ELTA and the news agency BNS.

**During the first quarter 2003**, Lietuvos Elektrinė AB earned LTL 10.501 million of unaudited net profit. **On 25 April 2003**, the Annual General Meeting of shareholders of Lietuvos Elektrinė AB was held, which decided to approve the company's Annual Report 2002; recognised that the financial statements of the company are managed and the relevant documentation is drawn up in accordance with the effective laws and other legal requirements. The company's financial statements were approved taking into account the Auditor's Report. The AGM approved the annual statements for 2002: the Balance Sheet, the Income Statement, the Cash Flow Statement and the Explanatory Notes. The AGM also approved the company's profit (loss) appropriation allocating for dividends LTL 8.026 million, i.e. 5.3 cents per share. The company's Director General Pranas Noreika was authorized to sign an agreement with the audit firm Auditas UAB to conduct the audit of the company's financial statements for the year 2003. It was approved that the reserves available for distribution should be used to meet the social needs of the employees in the manner prescribed by the Collective Agreement. The company's borrowing limit of LTL 13 million was set for the year 2003 and the company's Director General Pranas Noreika was authorized to sign the loan agreement.

**During the first quarter of 2003**, Lietuvos Elektrinė AB earned a net unaudited profit of LTL 15,980,455.

**During the first three quarters of 2003**, Lietuvos Elektrinė AB earned LTL a net unaudited profit of 21.388 million.

### 47. Strategy of activity and its prospective changes during current and coming financial (business) years.

The company's objective in 2004 is to guarantee sales of the quota energy and reliability of the reserves. The company's major projects for the year 2004 are presented in the Report prepared by the company's Board (see item 40 of the Prospectus-Report).