

AB LIETUVOS ENERGIJA

**Independent Auditors' Report and
Financial Statements for
the year ended 31 December 2003**

AB LIETUVOS ENERGIJA

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Lietuvos Energija:

We have audited the accompanying balance sheets of AB Lietuvos Energija ("the Company") as of 31 December 2003 and 2002 and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2003 and 2002 and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche
Vilnius, Lithuania
24 March 2004

AB LIETUVOS ENERGIJA

BALANCE SHEET AS OF 31 DECEMBER 2003

ASSETS	Notes	2003 LTL'000	2002 LTL'000
Non-current assets:			
Tangible fixed assets	3	980,990	902,185
Intangible assets	4	347	1,927
Investments	5	2,357	2,971
Accounts receivable after one year	6	653	678
Total non-current assets		984,347	907,761
Current assets:			
Inventories		8,887	11,599
Accounts receivable	7	153,173	238,974
Prepayments and deferred charges		2,100	1,756
Investments	5	35,983	47,121
Cash and cash equivalents	8	1,338	23,849
Total current assets		201,481	323,299
TOTAL ASSETS		1,185,828	1,231,060
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9	689,515	689,515
Legal reserve	9	68,952	24,201
Other reserves	10	(16,286)	(23,903)
Retained earnings		51,417	59,250
Total capital and reserves		793,598	749,063
Non-current liabilities:			
Borrowings	11	140,870	46,891
Provisions	12	6,143	9,157
Deferred tax liability	17	33,459	36,045
Deferred income	13	12,547	12,662
Total non-current liabilities		193,019	104,755
Current liabilities:			
Borrowings	11	30,381	157,259
Trade and other payables and accrued charges	14	168,830	219,983
Total current liabilities		199,211	377,242
TOTAL EQUITY AND LIABILITIES		1,185,828	1,231,060

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

The financial statements were approved by the management on 24 March 2004 and signed on its behalf by:

R. Juozaitis
General Director

S. Baranauskas
Chief Financial Officer

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STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
Revenue	15	940,230	1,098,405
Operating expenses	16	(829,866)	(987,410)
Profit from operations		110,364	110,995
Income (loss) from investments		(4,223)	173
Interest income		2,560	6,772
Interest expense		(8,241)	(14,930)
Foreign exchange loss, net		(10,335)	(2,001)
Loss on derivative financial instruments		(533)	-
Profit before income tax		89,592	101,009
Income tax expense	17	(6,939)	(11,586)
NET PROFIT		82,653	89,423
Basic earnings per share (in LTL)		0.12	0.13

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

The financial statements were approved by the management on 24 March 2004 and signed on its behalf by:

R. Juozaitis
General Director

S. Baranauskas
Chief Financial Officer

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital LTL'000	Legal reserve LTL'000	Other reserves (Note 10) LTL'000	(Accumulated deficit) / retained earnings LTL'000	Total LTL'000
At 1 January 2002	729,954	24,201	(36,103)	(5,380)	712,672
Reduction of share capital (Note 9)	(40,439)	-	-	-	(40 439)
Transfer between reserves	-	-	9,695	(9,695)	-
Revaluation of fixed assets	-	-	2,505	-	2,505
Dividends (Note 9)	-	-	-	(15,098)	(15,098)
Net profit	-	-	-	89,423	89,423
At 31 December 2002	689,515	24,201	(23,903)	59,250	749,063
Transfer between reserves	-	44,751	10,369	(55,120)	-
Disposal of revalued assets	-	-	(2,752)	2,752	-
Dividends (Note 9)	-	-	-	(38,118)	(38,118)
Net profit	-	-	-	82,653	82,653
At 31 December 2003	689,515	68,952	(16,286)	51,417	793,598

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

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 LTL'000	2002 LTL'000
OPERATING ACTIVITIES		
Profit before income tax	89,592	101,009
Adjustments to reconcile profit before income tax to net cash provided by operating activities:		
Depreciation	64,767	57,590
Amortization	2,053	2,848
Interest income	(2,560)	(6,772)
Income from investments	(202)	(173)
Interest expense	8,241	14,930
Net foreign exchange loss	10,335	2,001
Loss on disposal of fixed assets	757	210
Write-off of intangible assets	-	85
Loss on derivative financial instruments	533	-
Loss on disposals of investments	4,425	-
Reduction in impairment losses on fixed assets	(911)	(10,933)
(Decrease) increase in provisions	(1,865)	9,444
Subsidy income	(115)	(115)
	175,050	170,124
Changes in operating assets and liabilities:		
Accounts receivable	77,068	(53,243)
Prepayments and deferred charges	(341)	16,609
Inventories	2,205	21,890
Trade and other payables and accrued charges	(61,826)	105,506
Cash flow from operations	192,156	260,886
Income tax paid	(1,373)	-
Interest paid	(9,369)	(15,022)
Net cash provided by operating activities	181,414	245,864
INVESTING ACTIVITIES		
Purchase of fixed assets	(152,364)	(136,695)
Proceeds from sale of fixed assets	8,907	5,084
Purchase of intangible assets	(473)	(2,830)
Interest received	2,560	6,772
Reimbursement of long term receivables	25	20
Dividends received	202	173
Proceeds from sale of investments	7,992	-
Acquisition of investments	(100)	(2,140)
Net cash used in investing activities	(133,251)	(129,616)
FINANCING ACTIVITIES		
Proceeds from borrowings	162,127	100,366
Repayments of borrowings	(194,785)	(184,348)
Dividends paid	(38,016)	(15,098)
Net cash used in financing activities	(70,674)	(99,080)
Net (decrease) increase in cash and cash equivalents	(22,511)	17,168
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	23,849	6,681
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,338	23,849

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

AB LIETUVOS ENERGIJA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1. GENERAL INFORMATION

AB Lietuvos Energija (“the Company”) is a limited liability company registered in the Republic of Lithuania on 4 December 1995 as the successor of the former Board of Production Energetics and Electrification, which was established in 1940 and subsequently reorganized into Lithuanian State Power System on 27 March 1991 following the restoration of Lithuania's independence. 96.62% of the Company's shares are owned by the Government of the Republic of Lithuania, the remainder being owned by numerous private shareholders. The Company's shares are traded on the Lithuanian National Stock Exchange.

The Company is registered at Žvejų 14, Vilnius, Lithuania, after the Company's reorganization on 1 January 2002, when distribution networks and thermal power stations were established as separate legal entities. Currently the Company operates as a transmission network operator, transmission energy trade operator and transmission energy generator.

The Company's activities are in compliance with The Regulations on Electricity Energy Trade approved by the Republic of Lithuania Economy Minister's order as of 18 December 2001, No. 380 (as amended on 17 December 2002, No. 453) and The Regulations on Electricity Energy Auctions approved by the Republic of Lithuania Economy Minister's order of 18 April 2003, No. 4-154. Prices of transmission, market operator services and other main activities of the Company, with the exception of export, are regulated by the National Control Commission for Prices and Energy.

The Company employed in average 1,150 people in 2003 (1,268 in 2002).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation – The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are presented in the national currency of Lithuania, the Litas (LTL).

As of 31 December 2003 and 2002 the financial statements include accounts of the Company only. As at 31 December 2003 the Company's wholly owned subsidiary UAB Energetikos Pajėgos has not been consolidated given that this company's statements are regarded as insignificant in terms of the Company's financial reporting. Investment in UAB Energetikos Pajėgos is carried at cost less diminution in their value.

The financial statements have been prepared on the historical cost basis, as modified by the indexation of certain fixed assets and the measurement of certain derivative financial instruments at fair value. The principal accounting policies adopted are set out below.

Tangible and intangible fixed assets – Tangible and intangible fixed assets are stated at historical cost as modified by the indexation of certain assets, less accumulated depreciation and impairment losses. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Depreciation is provided in equal monthly installments except for the month placed in service over the expected useful lives as follows:

Buildings	10 – 50	years
Plant, machinery and equipment	5 – 25	years
Vehicles	5 – 6	years
Other equipment and other fixed assets	2 – 10	years
Intangible assets	1 – 4	years

Average useful lives of main property, plant and equipment based on their functional use are as follows:

Transformer substations	30	years
Electricity transmission lines	35	years
Transformers	25	years
Security and automation equipment	15	years
Technological and dispatch control equipment	5	years

Gains and losses on disposal of fixed assets are recognized in the year of disposal.

Impairment of assets – At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories – Inventories consist mainly of spare parts. Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Grants and subsidies related to assets – Subsidies received for the financing of acquisition of fixed assets and non-monetary grants received are recognized at the fair value of the consideration received and are recognized as income over the useful life of the related assets.

Financial instruments – Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits in banks and highly liquid investments with an original maturity of three months or less when purchased.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognized on a trade-date basis and are initially measured at cost.

Investments available for sale subsequently are measured at fair value. Equity instruments that do not have the quoted market prices subsequently are measured at cost less impairment losses recognized. Gain and loss on equity instruments available for sale are included in the statement of income for the period.

Investment securities with fixed maturity where management has both the intent and ability to hold to maturity are classified as held-to-maturity. Held to maturity investments are carried out at amortized cost using the effective yield method, less any provisions for impairment.

Equity securities are measured at cost less any impairment in the value of individual investments.

Bank borrowings

Bank loans and overdrafts are recorded at their nominal value of proceeds received.

Trade payables

Trade payables are stated at their nominal value.

Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, forward rate agreements and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in net income from investments.

Revenue and expense recognition – Revenues are recognized on an accrual basis when earned.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Expenses are charged to operations as incurred.

Leasing – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Foreign currencies – The Company performs the majority of transactions in the national currency Litas (LTL). Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rates used for principal currencies as of 31 December 2003 and 2002 were as follows:

	2003		2002
1 USD	= 2.7621 LTL	1 USD	= 3.3114 LTL
1 EUR	= 3.4528 LTL	1 EUR	= 3.4528 LTL
10 SEK	= 3.7970 LTL	10 SEK	= 3.7632 LTL
1 LVL	= 5.1629 LTL	1 LVL	= 5.6369 LTL

All resulting gains and losses relating to cash settlement are recorded in the statement of income in the period in which they arise. Gains and losses on translation are credited or charged to the statement of income by application of the foreign exchange rates prevailing at the year-end.

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets.

All other borrowing costs are dealt with in statement of income in the period in which they are incurred.

Taxation – The charge for current tax is based on the result before tax as adjusted for items, which are non-assessable or disallowed. It is calculated by using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is charged or credited in the statement of income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Earnings per share – For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2003 and 2002 was 689,959 thousand. The Company had no dilutive options outstanding during 2003 and 2002 or at 31 December 2003 and 2002.

Credit risk – The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company based on prior experience and the current economic environment.

The credit risk on liquid funds and derivative financial instruments is limited because the counter parties are banks with high credit – ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

Fair value of financial instruments – Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis. Where, in the opinion of management, the fair

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

value of financial assets and liabilities differs materially from their book value, such fair values are separately disclosed in the notes to the financial statements.

Use of Estimates – The preparation of the financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications – Certain 2002 amounts have been reclassified to conform to the 2003 basis of presentation.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

3. TANGIBLE FIXED ASSETS

At 31 December tangible fixed assets consisted of the following:

	Buildings LTL'000	Machinery and Equipment LTL'000	Vehicles and Other Fixed Assets LTL'000	Construction in Progress LTL'000	Total LTL'000
Modified historical cost					
31 December 2002	239,083	857,971	139,012	143,326	1,379,392
Additions	-	2,125	11,249	138,990	152,364
Disposals	(1,793)	(4,322)	(9,895)	(9,044)	(25,054)
Transfers	27,485	48,259	31,332	(107,076)	-
31 December 2003	264,775	904,033	171,698	166,196	1,506,702
Accumulated depreciation					
31 December 2002	60,946	343,021	68,500	4,740	477,207
Charge for the year	5,365	36,470	22,932	-	64,767
Disposals	(1,533)	(5,360)	(8,145)	(313)	(15,351)
Impairment loss (reversals)	5	(391)	(525)	-	(911)
31 December 2003	64,783	373,740	82,762	4,427	525,712
Net book value					
31 December 2002	178,137	514,950	70,512	138,586	902,185
31 December 2003	199,992	530,293	88,936	161,769	980,990

Vast majority of the fixed assets are used in Company's business. Impairment losses for assets under construction are recognized for those assets which construction continuance or completion is not planned in the near future.

Construction in progress represents various construction, modernization and reconstruction projects related mainly to the Company's transmission network. It is expected that the major part of outstanding projects will be completed during 2004-2005.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

4. INTANGIBLE ASSETS

At 31 December intangible assets consisted of the following:

	Software LTL'000
Historical cost	
31 December 2002	7,120
Additions	473
Write-offs	(20)
31 December 2003	7,573
Accumulated amortization	
31 December 2002	5,193
Charge for the year	2,053
Write-offs	(20)
31 December 2003	7,226
Net book value	
31 December 2002	1,927
31 December 2003	347

5. INVESTMENTS

At 31 December investments consisted of the following:

	Voting rights, %	2003 LTL'000	2002 LTL'000
Equity securities			
SIA Baltijas Energosistemu Dispečeru Centrs	33	2,086	2,740
UAB Energetikos pajėgos	100	132	-
		<u>2,218</u>	<u>2,740</u>
Held to maturity investments			
Lithuanian Government bonds redeemable after 1 year		139	231
Lithuanian Government bonds redeemable within 1 year		46	-
		<u>185</u>	<u>231</u>
Available for sale investments			
UAB Kauno Energetikos Remontas	100	31,341	31,341
UAB Geoterma	23	4,347	4,215
VšĮ Respublikinis Energetikų Mokymo Centras	100	244	244
AB Ūkio Bankas	<1	5	5
UAB Skaipas	100	-	7,082
UAB Energetikas	64	-	4,234
		<u>35,937</u>	<u>47,121</u>
Total		<u>38,340</u>	<u>50,092</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Available for sale investments are held with the intention to sell them in the nearest future. Accordingly, the management decided not to consolidate the subsidiary companies, where the Company holds more than 50% of voting rights. Such investments are carried at cost less diminution in their value, if any.

As at 31 December 2003 the Company's wholly owned subsidiary UAB Energetikos Pajėgos has not been consolidated given that this company's statements are regarded as insignificant in terms of the Company's financial reporting. Investment in UAB Energetikos Pajėgos is carried at cost less diminution in their value.

The subsidiary UAB Energetikos Pajėgos was established on 26 November 2003.

Fair value of Lithuanian Government bonds as of 31 December 2003 was LTL'000 174. The fair value of debt securities was based on the quoted market prices.

The movement of investments for the year ended 31 December 2003 is as follows:

	<u>LTL'000</u>
Balance at 31 December 2002	50,092
Establishment of UAB Energetikos Pajėgos	132
Disposal of UAB Energetikas	(4,234)
Disposal of UAB Skaipas	(7,082)
Redemption of Lithuanian Government bonds	(46)
Impairment losses recognized in 2003	(522)
Balance at 31 December 2003	<u>38,340</u>

Impairment losses recognized on investments are included within the operating expenses.

6. ACCOUNTS RECEIVABLE AFTER ONE YEAR

Accounts receivable after one year represent loans to employees with variable maturities up to 24 years amounting to LTL'000 653 as of 31 December 2003 (2002: LTL'000 678). The Company earns 1 – 4% fixed interest per annum on these loans.

According to management, the fair value of the Company's accounts receivable after one year at 31 December 2003 approximated to LTL'000 495.

The fair value of amounts receivable after one year is estimated by discounting the expected future cash flows using the current market rates at which similar loans would be made to lenders with similar credit ratings and for the same remaining maturities.

7. ACCOUNTS RECEIVABLE

At 31 December accounts receivable consisted of the following:

	<u>2003</u> <u>LTL'000</u>	<u>2002</u> <u>LTL'000</u>
Trade receivables	141,903	165,854
Other receivables	155,645	215,918
Total receivables	297,548	381,772
Less: provisions for doubtful amounts	(144,375)	(142,798)
Total	<u>153,173</u>	<u>238,974</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

An increase in provisions for doubtful accounts receivable amounting to LTL'000 3,371 relates to a reclassification of cash in bank and provision for cash in bank.

8. CASH AND CASH EQUIVALENTS

At 31 December cash and cash equivalents consisted of the following:

	<u>2003</u> <u>LTL'000</u>	<u>2002</u> <u>LTL'000</u>
Cash at bank and on hand	399	22,898
Short-term deposit	939	951
Total	<u>1,338</u>	<u>23,849</u>

Weighted average annual interest rate of short-term deposits is approx. 1% (2002: 0.75%).

9. SHARE CAPITAL AND LEGAL RESERVE

As of 31 December 2003 and 2002 issued share capital consisted of 689,515,435 ordinary shares at par value of LTL 1 each. All shares were fully paid and outstanding. On 4 January 2002 the share capital was reduced by 40,438,880 shares on the transfer of the Company's shareholding in subsidiary companies to the Company's shareholders.

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net distributable profit are required until the legal reserve reaches 10% of the registered share capital. The appropriation is restricted to reduction of the accumulated deficit.

On 29 April 2003 the shareholders of the Company declared dividends in the amount of LTL'000 38,118 (LTL 0.06 per share). On 30 January 2002 the shareholders of the Company declared dividends in the amount of LTL'000 39,942 (LTL 0.06 per share). LTL'000 24,844 of these dividends were paid by the distribution networks and thermal power stations in accordance with the provisions of the reorganization plan. The remaining amount of LTL'000 15,098 was paid by the Company. Dividends are declared based on Lithuanian statutory financial statements. For reconciliation of these financial statements to statutory financial statements see note 19.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

10. OTHER RESERVES

The movement of other reserves for the years ended 31 December 2003 and 2002 was as follows:

	Share premium LTL'000	Revaluation reserve LTL'000	Other restricted reserves LTL'000	Total LTL'000
At 1 January 2002	3	277	(36,383)	(36,103)
Transfer from retained earnings	-	-	9,695	9,695
Revaluation of fixed assets	-	2,505	-	2,505
At 31 December 2002	3	2,782	(26,688)	(23,903)
Transfer from retained earnings	-	-	10,369	10,369
Disposal of revalued fixed assets	-	(2,752)	-	(2,752)
At 31 December 2003	3	30	(16,319)	(16,286)

Other restricted reserves consist of a reserve related to the tax relief for the purchase of fixed assets in 1997 (LTL'000 27,394), reserve related to transferred oil tanks (LTL'000 (63,777)) and other restricted reserves (LTL'000 20,064). The distribution of the tax relief related reserve is restricted to the contribution to the share capital, otherwise it will attract the income tax of 29%. Other undistributable reserves relate to certain future capital expenditure and can be distributed once this expenditure has been incurred.

In 1999 the Company transferred its oil tanks to another state-owned entity in accordance with Lithuanian Government decrees. It is uncertain whether the value of the transferred reserves will be offset by reducing the Government's shareholding in the Company or by transferring part of the loans used to construct the tanks. The Company has requested the Government to solve this issue, however, at the time of issuance of these financial statements the issue has not been resolved. It is expected that the most likely resolution will result in a reduction of the Government's shareholding in the Company.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

11. BORROWINGS

	2003	2002
	LTL'000	LTL'000
The borrowings are repayable as follows:		
On demand or within one year	30,381	157,259
In the second year	16,137	17,550
In the third to fifth years inclusive	86,352	24,517
After five years	38,381	4,824
	171,251	204,150
Less: amount due for settlement within 12 months	30,381	157,259
Amount due for settlement after 12 months	140,870	46,891
Analysis of borrowings by currency:		
EUR	146,274	173,103
LTL	24,977	19,856
USD	-	11,191
Total	171,251	204,150

At 31 December 2003 borrowings of LTL'000 136,723 were arranged at floating interest rates averaging between 2.60 - 5.14% (2002: LTL'000 184,294 – 3.65 - 6.70%).

At 31 December 2003 borrowings of LTL'000 34,528 were arranged at fixed interest rates averaging between 3.90 - 4.77% (2002: LTL'000 19,856 – 7.0%).

According to management, the fair value of the Company's long term and short term borrowings at 31 December 2003 approximated LTL'000 169,268 (2002: LTL'000 204,233).

The fair value of borrowings is estimated by discounting the expected future cash flows using the current market rates at which similar borrowings would be made to borrowers with similar credit ratings and for the same remaining maturities.

12. PROVISIONS

Provisions represent estimated cost for restoring a construction site in Kruonis Hydro Accumulation Power Station. It is expected to complete the restoration works in 2005. The estimated cost is based on a detailed project of restoration works prepared in 2002. The provisions have decreased due to actual restoration works amounting to LTL'000 3,014 performed during the year 2003.

13. DEFERRED INCOME

Deferred income represents fixed assets received for free and recognized as subsidies. The subsidies are recognized in the income statement in line with the depreciation charge of related fixed assets. The assets are expected to be fully depreciated and/or disposed off during the next 10-20 years.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

At 31 December trade and other payables and accrued charges consisted of the following:

	2003 LTL'000	2002 LTL'000
Trade payables	138,498	207,786
Taxes, salaries and social insurance payable	15,550	8,722
Accrued charges	1,992	2,739
Advances received	1,816	422
Derivative financial instruments	532	-
Other payables	10,442	314
Total	168,830	219,983

15. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Company is currently organized into five principal operating divisions. Segment information about these businesses is presented below.

Year 2003	Transmission operator* LTL'000	Transmission energy generator LTL'000	Transmission of energy trade LTL'000	Exports activity LTL'000	Other LTL'000	Total LTL'000
Revenue						
Sales	307,081	89,441	383,406	303,843	20,599	1,104,370
Less: Inter-segment sales	(7,238)	(89,441)	(54,853)	(12,608)	-	(164,140)
Total revenue	299,843	-	328,553	291,235	20,599	940,230
Result						
Segment result (operating profit)	85,984	(29,086)	(21,105)	75,471	(900)	110,364
Loss from investments						(4,223)
Interest income						2,560
Interest expense						(8,241)
Net foreign exchange loss						(10,335)
Loss on derivative financial instrument						(533)
Profit before income taxes						89,592
Income tax expense						(6,939)
Net profit						82,653

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Year 2002	Transmission operator* LTL'000	Transmission energy generator LTL'000	Transmission of energy trade LTL'000	Independent supplier** LTL'000	Other LTL'000	Total LTL'000
Revenue						
Sales	338,496	74,906	498,087	562,960	23,081	1,497,530
Less: Inter-segment sales	(43,621)	(74,906)	(255,052)	(25,546)	-	(399,125)
Total revenue	<u>294,875</u>	<u>-</u>	<u>243,035</u>	<u>537,414</u>	<u>23,081</u>	<u>1,098,405</u>
Result						
Segment result (operating profit)	56,477	8,774	1,064	45,288	(608)	110,995
Income from investments						173
Interest income						6,772
Interest expense						(14,930)
Foreign exchange loss, net						(2,001)
Profit before income taxes						<u>101,009</u>
Income tax expense						<u>(11,586)</u>
Net profit						<u>89,423</u>

* Dispatcher operator operating division are included within transmission operator operating division.

** Independent supplier operating division consist of independent supplier and exports activities.

Geographical segments

Substantially all of the Company's assets, except for investment in SIA Baltijas Energosistemu Dispečeru Centrs (a Latvian company) amounting to LTL'000 2,086, are located in the Republic of Lithuania. During the year ended 31 December 2003, the Company's revenue from sales in the local market and export were LTL'000 648,995 and LTL'000 291,235, respectively (2002: LTL'000 791,598 and LTL'000 306,807, respectively).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

16. OPERATING EXPENSES

For the years ended 31 December operating expenses consisted of the following:

	2003 LTL'000	2002 LTL'000
Purchases of electric power, reserves and electric power transit services	650,345	810,609
Depreciation	64,652	57,591
<i>including subsidy income</i>	(115)	-
Direct labor costs	36,703	37,473
Repairs	17,525	15,352
Taxes	15,263	16,454
Parts for technical service	10,360	11,455
Communication services	9,266	8,966
Amortization	2,053	2,847
Electric power torrent coordination services	1,758	2,318
Fuel	1,622	1,467
Impairment loss reversals	(911)	(10,933)
Fines	70	3,129
Kruonis site restoration provisions	-	9,157
Other	21,160	21,525
Total	829,866	987,410

17. INCOME TAX EXPENSE

A reconciliation of income tax expense at the statutory rate to income tax expense (benefit) at the Company's effective rate for the years ended 31 December is as follows:

	2003 LTL'000	%	2002 LTL'000	%
Profit before income tax	89,592		101,009	
Tax at the statutory income tax rate (15%)	13,439	15	15,151	15
Tax effect of items that are not deductible or taxable in determining taxable profit	846	1	(3,565)	(4)
Adjustment of prior years income tax	(2,690)	(3)	-	-
Less: income tax paid for dividends	(4,656)	(5)	-	-
Income tax expense	6,939	8	11,586	11
The components of income tax expense are as follows:				
Current income tax expense	9,525		3,059	
Deferred income tax (benefit) expense	(2,586)		8,527	
Income tax expense	6,939		11,586	

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

In accordance with IAS 12, the Company recognizes a deferred tax liability or asset for temporary differences where amounts of income taxes are probable for payment or recovery in future periods. At each balance sheet date the Company re-assesses all unrecognized deferred tax assets and recognizes the previously unrecognized portion to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

At 31 December the components of deferred income tax were as follows:

	2003 LTL'000	2002 LTL'000
Deferred tax assets:		
Provisions	921	1,374
Accruals	256	186
Revaluation of derivative financial instruments	80	-
Not finished reconstruction works	69	-
Total deferred tax asset	1,326	1,560
Deferred tax liabilities:		
Accelerated depreciation	34,785	37,605
Total deferred tax liability	34,785	37,605
Total deferred tax liability, net	33,459	36,045

18. RELATED PARTY TRANSACTIONS

During 2003 the Company entered into the following transactions and had the following outstanding balances at 31 December 2003 with related parties (subsidiaries of the Company):

	Sales LTL'000	Expense LTL'000	Amounts receivable from related parties LTL'000	Amounts payable to related parties LTL'000
UAB Kauno Energetikos Remontas	214	2,209	5	2,890
VšĮ Respublikinis Energetikų Mokymo Centras	201	72	19	2
SIA Baltijas Energosistemu Dispečeru Centrs	-	1,758	-	-
Total	415	4,039	24	2,892

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

19. RECONCILIATION OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS WITH STATUTORY FINANCIAL STATEMENTS

	<u>Net profit</u>	<u>Equity</u>
Statutory financial statements as of and for the year ended 31 December 2003	80,067	827,057
Deferred tax liability recognized in prior periods	-	(36,045)
Change in net deferred tax liability	<u>2,586</u>	<u>2,586</u>
Financial statements as of and for the year ended 31 December 2003 prepared in accordance with IFRS	<u>82,653</u>	<u>793,598</u>

20. SUBSEQUENT EVENTS

It is expected that the shareholders will vote for declaration of dividends in the amount of LTL'000 33,951 (LTL 0.05 per share). The actual dividend declaration will be determined in the general annual meeting of the shareholders.
