LIETUVOS ENERGIJA

2003 annual report

Lietuvos Energija AB

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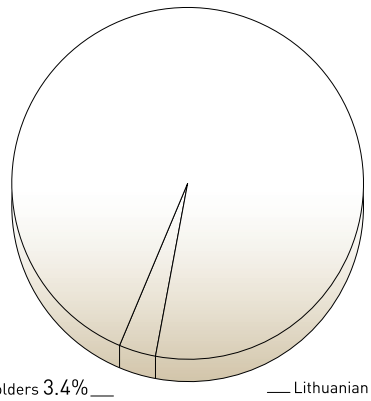
LIETUVOS ENERGIJA

Lietuvos Energija AB –
the Transmission System Operator –
maintains and develops Lithuania's
transmission grid, secures
electricity transmission
and reliable operation of
the power system.
The company facilitates
trade in electricity in an open
electricity market.

HIGHLIGHTS

Operating Activity Indicators, million LTL	2003	2002
Revenues	940	1098
Operating costs	830	987
EBITDA	177	171
Operating income	110	111
Net income	83	89
Assets	1186	1231
Shareholders' equity	794	749
Financial liabilities	171	204
Investments	148	120
Cash flows from operations	192	261
Return on assets (ROA), %	9.3	9.0
Return on equity (ROE), %	10.4	11.9
Return on capital employed (ROCE), %	11.4	11.6
Liability to equity ratio, %	45	60
Debt to equity ratio, %	22	27
Equity to assets ratio, %	67	61
Net income per share, LTL	0.12	0.13



Structure of Share Capital

CREDIT RATING

Standard & Poor's

Corporate long-term credit rating BBB-

Corporate short-term credit rating A-3

Outlook positive

GENERAL DIRECTOR'S REPORT

For Lietuvos Energija AB, 2003 was the year of remarkable results achieved by executing day-to-day responsibilities and by persistent labour. The speedy growth of the country's economy and a resulting increase in electricity consumption, thorough control over the company's expenses and the management of resources, high-level electricity exports as well as the commitment of our employees enabled us to achieve operational results that significantly surpassed projections – the company's profit exceeded LTL80m.

Last year a significant step was made in defining a clear vision of the company's future – we set our strategic objectives and established targets for our activity. We envisage Lietuvos Energija AB as the major power company in Lithuania with a growing value, a company that is ready to become a link between Western Europe and the Common Baltic Electricity Market.

The company's growing value and reliability were proven by a new reliance put on the company by international financial institutions – its long-term credit rating was improved from BB+ to BBB- in 2003, with a positive rating outlook.

In 2003, we created conditions for Lithuanian power plants to increase their generated output from 17.5 TWh (in 2002) up to 19.2 TWh. A lot of attention and funds were allocated for the upgrading and expansion of the power system, and hence we succeeded in accomplishing the assigned mission – to secure the reliability of the

power system. The funds allocated for investment projects exceeded LTL148m. They were used for the rehabilitation of transmission grid and upgrading of dispatch control equipment as well as the construction and refurbishment of electric and telecommunications lines. The company's investment policy was technically sound. In regard to the power systems' blackouts, which occurred last year in various parts of the world, we, jointly with our partners from the neighbouring power systems, identified all possible preventive measures and drew up a long-term plan for a reliable supply of electricity. To ensure the uninterruptible power system's operation throughout the country we installed modern equipment in the company-owned energy facilities and maintained strict adherence to safety principles in their operation. Last year we successfully carried out environmental protection programs in order to reduce negative impacts on the environment as required by EU environmental protection standards.

The development of Lithuania's electricity market was followed by the development of telecommunications and information technologies required for market management and system control. Our achievements in this field were indeed impressive – the company succeeded in strengthening its position in the wholesale market of telecommunications services and in enhancing its cooperation with power companies in neighbouring countries in the field of data transmission services. Lietuvos Energija AB consecutively implemented management and technological innovations while remaining a reliable and operationally efficient power company.

In the coming year we are ready to actively proceed with our efforts to interconnect the Baltic and Western European power systems and to act not only as an electricity exporter but also as a serious transit country. Our aspirations are strengthened by the fact that last year the Lithuanian-Polish Power Bridge Project was listed by the European Commission among EU priorities and included in the "quick start" programme as having outstanding importance in the development of an integrated EU electricity market and in improving the reliability of the power system.

The strategic importance of our company in the electricity sector of Lithuania and of the surrounding countries, quality of services, good reputation which throughout the entire power system is interpreted as the reliable operation and is well-known to our customers, market players and financial institutions; our precedence in the region in establishing the electricity market, highly developed infrastructure, high competence of our employees, experience and progressive management are the main factors of our success, which will also contribute to the development of our activity in the future. We are confident that after stepping over the threshold of Europe, we, together with other Baltic States, will become equal participants in the integrated electricity market.

Rymantas Juozaitis

General Director

BOARD OF DIRECTORS

Jurgis Vilemas

Chairman of the Board of Lietuvos Energija AB,

Professor, Doctor Habilitus, Director of the Lithuanian Energy Institute

Evaldas Bivilis

Advisor to the Minister of Economy

Vida Dzermeikienė

Head of Electricity and Heat Division,

Energy Department of the Ministry of Economy

Rymantas Juozaitis

General Director of Lietuvos Energija AB

Pijus Ralys

Advisor - Expert, Vice-Chairman of Energy Committee of the Lithuanian Confederation of Industrialists

Heinz-Peter Schierenbeck

Leading Expert, Merge and Acquisitions,

E.ON Energie AG

Algimantas Zaremba

Director of Energy Department of the Ministry of Economy

EXECUTIVE BOARD

Left to right:

Petras Povilas Škiudas

Grid Director

Rimantas Šukys

Finance Director

Algimantas Nemira

General Affairs Director

Nerilė Naprienė

Personnel Director

Rymantas Juozaitis

General Director

Vladas Paškevičius

Power System Director

Sigitas Baranauskas

Chief Financier

MAJOR EVENTS IN 2003

January

Lietuvos Energija AB together with Latvian power company Latvenergo and Estonian power company Eesti Energia started rendering telecommunications services in all three Baltic States.

February

Lietuvos Energija AB and Inter RAO UES of Russia signed supplementary agreements on electricity export to the Republic of Belarus and the Russian Federation.

March

The Electricity Export Agreement concluded with the Latvian state-owned power company Latvenergo was renewed.

April

The Rules of Trade in Electricity at the Auction were approved.

July

Standard & Poor's improved Lietuvos Energija AB corporate long-term credit rating from BB+ to BBB- and corporate short-term credit rating from B to A-3, issuing a positive rating outlook.

Lietuvos Energija AB won an open tender organized by the Academic and Research Network in Lithuania (LitNet) for rendering intercity data transmission services and became the main provider of these services to the academic community.

The Government of Lithuania passed a Resolution on the approval of the Draft Agreement regarding the exchange of state–owned shares held in Rytų Skirstomieji Tinklai AB and Vakarų Skirstomieji Tinklai AB to the shares held by E.ON Energie AG in Lietuvos Energija AB and in the Lithuanian Power Plant.

August

Lietuvos Energija AB together with the Elkraft System/Fingrid Consortium commenced the EU PHARE financed project for strengthening of the TSO and the MO functions after the restructuring of Lietuvos Energija AB.

The company sold 100 per cent of shares in its subsidiary Skaipas UAB.

The interconnection of fibre optic data transmission network with Polish Tel-Energo was completed.

September

The Board approved the company's strategic guidelines and objectives.

The National Control Commission for Prices and Energy revised and approved the electricity transmission price-cap, effective for the upcoming three-year period.

October

Lietuvos Energija AB became a member of the Alliance for Connecting People, uniting telecommunications operators of Western European power sector.

The company completed the interconnection of fibre optic communication network with the Kaliningrad Region of the Russian Federation and started rendering data transmission services in this direction.

November

The company established a new subsidiary, Energetikos Pajėgos UAB. The core activity of the new subsidiary will be the design of energy facilities.

The trade in peak electric energy was started.

The second interconnection of fibre optic data transmission network with Latvenergo was completed by the line Zarasai – Daugpilis.

December

The company sold its 63.67 per cent stake in the limited company Health Centre Energetikas.

The automated metering system was fully implemented in power plants, on cross-border electric lines, connection points with distribution networks and customers connected to the transmission grid. The provision of highly-reliable services of data centres was started.

The data transmission backbone ring Gigabit Ethernet, linking all major cities of Lithuania, was completed and the provision of intercity broad-band communication services was started.

ECONOMIC ENVIRONMENT

Lithuania's key economic indicators

	2003	2002
Unemployment rate, per cent	10.3	11.3
Inflation, per cent	-1.3	-1.0
Exports, million LTL	22 062	20 291
Imports, million LTL	29 968	28 562
GDP, million LTL	54 846	50 758
GDP change, per cent	8.9	6.8
GDP per capita, LTL	15 879	14 632

Data released by the Statistics Department of Lithuania.

From a macroeconomic point of view, the year 2003 was extremely successful to our country: Lithuania's robust GDP growth rate (preliminary estimates show an 8.9 per cent increase) was the highest in EU Member States and candidate countries. The rate of return in Lithuanian companies improved, the average income of the population increased, and the unemployment rate decreased. In spite of the decreasing Consumer Price Index for the second consecutive year (deflation was 1.3 per cent), this process did not make any noticeable negative impact on domestic economy.

The accelerated development of the economy was basically preconditioned by the industry (including power companies' operations), domestic trade and construction business – half of the surplus value created in the country can be assigned to these economic activities. Despite the fact that 2003 saw the slowest growth rates of imports and exports in the past four years, the export of goods of Lithuanian origin was growing fast – a respective increase totalled 14.3 per cent and exceeded the average export level of 2001 - 2002.

An intensive growth of economy made a positive impact on the labour market. In 2003, the actual wages increased by 7.8 per cent while the unemployment rate dropped by 10.3 per cent.

Higher domestic demand and increased revenues of local companies in their own turn promoted investments. Preliminary data show a 6.8 per cent increase in domestic investments. For the three successive years both revenues and the rate of return in most companies have been rapidly growing, the number of loss-making enterprises has been getting smaller, the average return on assets equalled about 5.5 per cent. Higher investments and low interest rates on bank loans promoted borrowing, hence the total liabilities also grew rather quickly and accrued to nearly 10 per cent during the year.

In 2003, the rate of return of Lietuvos Energija AB exceeded the average country's rate due to a 1.1 - times increase in electricity exports. The high rate of return of the company accounted for its growing investments in the renovation of fixed tangible assets (an increase by more than 20 per cent) and the simultaneous decrease of financial liabilities (by 16 per cent).

Economic forecasts for the country in 2004-2005:

- It is projected that the rate of GDP growth will remain rather high, though more moderate than in 2003. A positive incentive for economic growth and development will be given by Lithuania's accession to the European Union.
- The employment situation will further improve. Decreasing unemployment and access to EU markets will alter labour costs in Lithuania. The expected rise in this category might be 8-10 per cent or even higher.
- Inflation will not be high because of more severe competition and price drops in certain consumer goods in global markets.
- The average interest rate on loans – one of the critical indicators for the development of economy – is not expected to increase much.

Based on the projected improvement in the country's economy, the outlook on Lietuvos Energija AB's operations is also optimistic.

THE TRANSMISSION SYSTEM OPERATOR

Lietuvos Energija AB is a company of strategic importance for the country. In Lithuania's electricity market it functions as a single Transmission System Operator:

- It maintains and develops the transmission system, acting as the owner of the transmission grid (110-330 kV).
- It ensures a balance between electricity production and consumption as well as reliable electricity transmission from Lithuania's power plants to its distribution companies.
- It coordinates the operation of Lithuania's power plants with neighbouring power systems, electricity export and import as well as electricity transit from neighbouring power systems.
- It performs the Market Operator's functions - organizes trade in electricity.

To ensure reliable electricity transmission, Lietuvos Energija AB operates and maintains high-voltage (110 and 330 kV) electric lines and substations, relay protection and automation systems; takes care of their rehabilitation, upgrading and development; develops and expands telecommunications networks and information technologies; closely cooperates with power companies in neighbouring countries.

Development of the Transmission Grid

To improve the operation efficiency of the power system, Lietuvos Energija AB is adhering to a technically and economically substantiated investment policy. In 2003, the company's investments amounted to LTL148.5m.

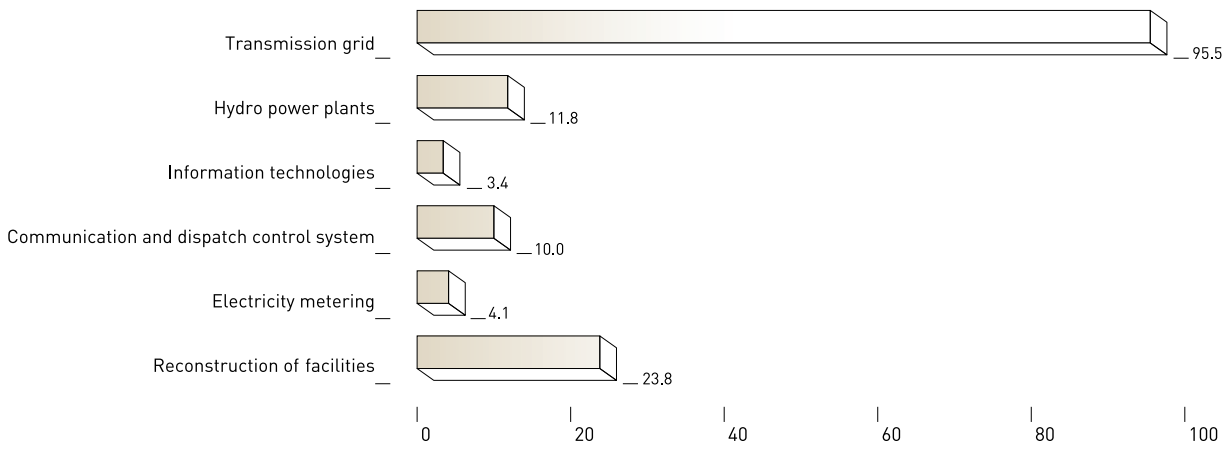
In 2003, investments were mainly aimed at the following:

- Development and reconstruction of the transmission grid;
- Development and upgrading of communications and dispatch control systems;
- Implementation of new metering systems;
- Rehabilitation of hydro power plants.

Reconstruction and Development of the Transmission Grid

In 2003, one of the biggest and most important projects was the reconstruction of 330 kV switchgear in the Lithuanian Power Plant. The value of this investment project totals about LTL53m.

The first stage of the reconstruction was completed in December 2003. It is necessary to finish the reconstruction project of the Lithuanian Power Plant's 330 kV switchgear by the end of 2004 – until the closure of Unit 1 of the Ignalina NPP.



Investments of Lietuvos Energija AB, million LTL

In 2003, the company reconstructed the 330/110 kV Kaunas substation which could be regarded as one of the most important facilities of the power system as well. The value of this investment project was approx. LTL60m.

A double-circuit 110 kV cable line linking the Šiaurinė and Centrinė substations was installed in Vilnius. This new cable line and the upgrade of Centrinė TS from 35 kV to 110 kV enabled improvements in electricity supply to downtown, where new commercial and residential buildings were being built quickly. The aggregate value of the reconstruction project of the Šiaurinė TS and Centrinė TS and the installation of double-circuit cable line amounted to approx. LTL19m.

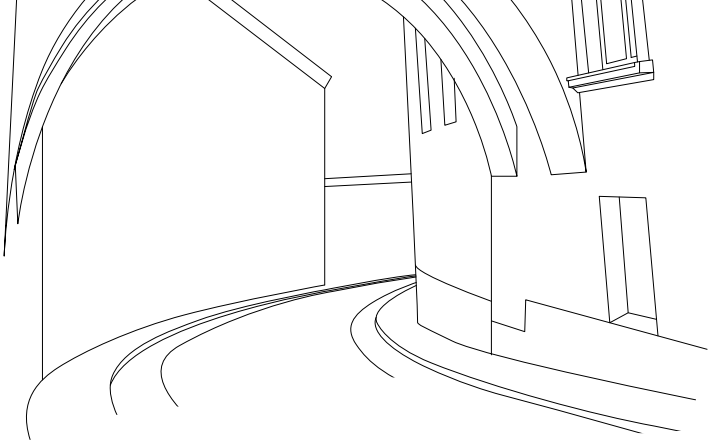
The construction of the 110/10 kV Jakai substation designed for supplying electricity to customers in the Klaipėda Free Economic Zone was completed in 2003. The company is continuing the construction of the Aukštrakiai substation necessary for supplying electricity to Šiauliai biological water treatment facilities.

In 2003, the following substations were reconstructed:

- Pasvalys 110/35/10 kV TS;
- Centrinė 35/10 kV TS was upgraded to a 110 kV TS;
- Lygumos TS 110/10 kV;
- Leipalingis TS 110/10 kV;
- Shunt reactors installed in Panevėžys TS.

The following substations are under reconstruction:

- 330 kV switchgear in the Lithuanian Power Plant;
- Kaunas 330/110/10 kV TS;
- Šiaurinė 110/35/10 kV TS;
- Eiguliai 110/35/10 kV TS;
- Radviliškis 110/10 kV TS;
- Šeduva 10/35/10 kV TS;
- Rašė 110/35/10 kV TS;
- Velžys 110/10 kV TS;
- Kupiškis 110/35/10 kV TS.



Development of Communications and Control Systems

In 2003, the following investment projects were completed:

- Renovation of the electricity transmission lines and rehabilitation of the communication lines Alytus - Šeštokai-Lazdijai, the Ignalina NPP – Latvian border, the Ignalina NPP – Vilnius;
- Installation of teleinformation collection and transmission equipment in Varduvos TS.

In 2003, side-by-side with the rehabilitation of electricity network, the fibre optic cable network was further developed:

- The data transmission networks were interconnected between Pagėgiai and Sovietsk (the Kaliningrad Region).
- The interconnection with Tel-Energo, the communications operator controlled by Polish power companies, was completed by the Lazdijai - Ogrodniki line.

Implementation of Electricity Metering

In 2003, the company finished the implementation of the automated electricity metering system, which is one of the most advanced not only in the Baltic States, but also among Western power companies as well. The system's meters and software were developed and manufactured by Lithuanian companies. The electricity metering equipment was installed in seventeen substations, and in five more substations its installation has been nearly completed.

Information Technologies

Lietuvos Energija AB established a data centre that would ensure the security of highly important data. It is anticipated that this centre would handle some data security services for other customers.

Reconstruction of Facilities

In 2003, the company reconstructed the following facilities:

- Kaunas Transmission Division;
- Headquarters in Žvejų street;
- Alytus 330/110/10 kV TS facilities;
- Buildings and structures of the Dubingiai Seminar and Conference Centre.

Investments in the reconstruction of industrial facilities were based on the necessity to refurbish dispatch centres, administration and industrial buildings and facilities to adapt them to new operating conditions that occurred after the company's reorganisation.

New management solutions, investments in the latest technologies, and the refurbishment and development of infrastructure enable the company to quickly respond to market changes and to become a modern and progressive energy company.

Development of Electricity Market

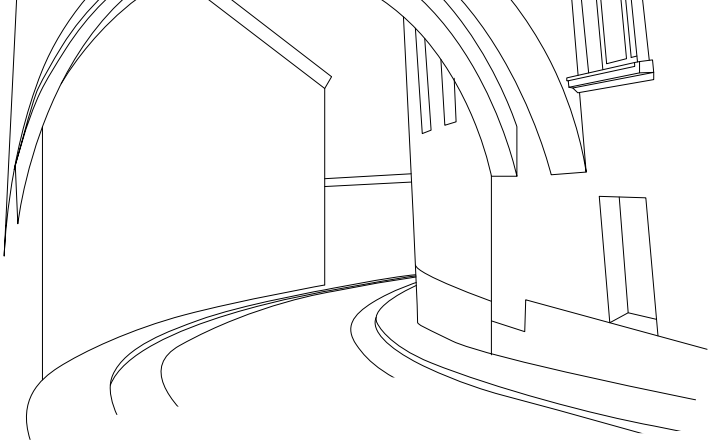
Lithuanian electricity market has been operating since 2002. According to the Law on Electricity of the Republic of Lithuania, the electricity market is based on bilateral contracts concluded between electricity producers and suppliers.

In the Lithuanian electricity market, Lietuvos Energija AB performs the functions of the Transmission System Operator and of the Market Operator (the market administrator):

- Buys and sells electricity under public service obligations as defined by the Government;
- Administers the market;
- Calculates energy volumes and prices and reports this information to market players.

The currently developed Baltic electricity market will not be big enough; however, it is necessary to gain experience prior to joining the integrated European electricity market.

One of the priority objectives of the European Union's electricity industry policy is to establish an integrated competitive electricity market in Europe.



Power Bridge – the Baltic Bridge to Europe

The Power Bridge to the West Project is of extreme importance – the powerful link to Poland would enable Lithuania and other Baltic States to significantly reduce their energy dependence on the operation of the CIS Unified Power System. The constructed line would be especially beneficial for Lithuania, because it would not only enable Lithuania to export electricity to the West, but also, after the planned closure of the Ignalina NPP in 2009, the country would be given a possibility to import electricity as well as to become an electricity transit country to Western Europe.

On January 31, 2003, the Lithuanian - Polish Interconnection Feasibility Study carried out by the consortium made up of the UK-based company IPA Energy Consulting Ltd., Swedish SEK Advisory Services and SwedPower Consulting was approved in the EBRD headquarters in London. The Feasibility Study Report recommended interconnecting Lithuanian - Polish grids by constructing a 1000 MW 400 kV electric line with a back-to-back converter. The cost of the project is over EUR400m. The interconnection of the Lithuanian - Polish power systems is not limited to the construction of an electric link. The modernization of Lithuanian, Latvian and Estonian power systems and their adjustment to be interoperable with Poland, which is a member of the UCTE, are indispensable tasks.

To make the project feasible, the study recommends covering 60 per cent of its costs by an EU grant. In 2003, after a joint application of the Prime Ministers of Lithuanian and Polish governments, the European Commission confirmed that the interconnection project was important, complied with the EU policy and should be treated as an EU priority. The Lithuanian - Polish power bridge project was included in the quick start program for its funding.

One of the key objectives of Lietuvos Energija AB is the integration of Lithuania's power systems with Western and Central European electricity markets and the strengthening of regional cooperation with an aim to develop a Common Baltic Electricity Market in the nearest future.

TRADE IN ELECTRICITY

As set forth in the Electricity Law of Lithuania, there are two types of electricity suppliers in Lithuania's electricity market – Public Suppliers and Independent Suppliers.

Public Suppliers are distribution companies holding a Supplier's License. Electricity is supplied to end-users at a price declared by the National Control Commission for Prices and Energy. In 2003, Public Supplier's Licenses were issued to two distribution companies, Rytų Skirstomieji Tinklai AB and Vakarų Skirstomieji Tinklai AB, and to Visagino Bendrovė AB.

Independent Suppliers are legal or natural entities holding a Supplier's License. Electricity is sold at a contractual price to legal entities that have been granted the status of an eligible customer. In 2003, there were 14 Independent Suppliers. This status may also be granted to electricity producers if they are involved in electricity trade with eligible customers.

Eligible Customers are entitled to freely choose their electricity supplier. In 2003, the status of an eligible customer was granted to customers that in 2002 consumed not less than 9 GWh of electricity. In 2004, this status will be given to customers that consumed not less than 3 GWh in 2003. According to the Directive passed by the European Parliament and the European Council in 2003, from July 2004 all non-residential customers in the EU countries will freely choose their electricity supplier, and from July 2007 this right will be enjoyed by all customers.

In 2003, there were 28 eligible customers in Lithuania. About 26 per cent of electricity were sold to these customers.

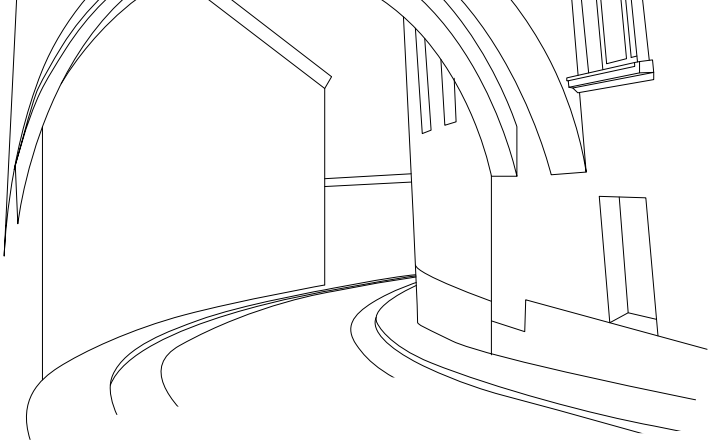
In 2003, market transactions with electricity suppliers were related to the following three types of electricity:

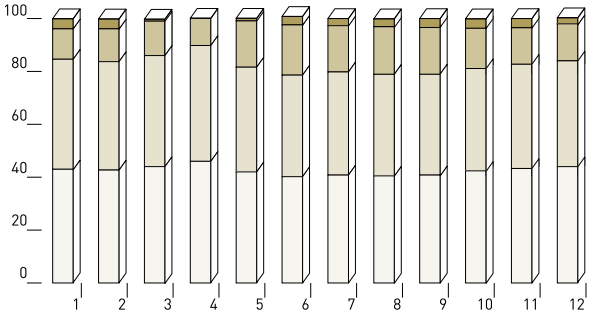
Contractual electricity – the quantities of electricity that are bought or sold by concluding direct bilateral contracts between Producers and Suppliers.

Public Service Obligations (PSO) electricity – the quantities of electricity that are bought by the Market Operator from the power plants included in the Public Service Obligations List and afterwards sold to all Suppliers. The quantities (quotas) of the PSO electricity are set forth by the Ministry of Economy, and the prices by the National Control Commission for Prices and Energy. A certain portion of the PSO electricity is bought by Public Suppliers from producers connected to the distribution network servicing a particular area.

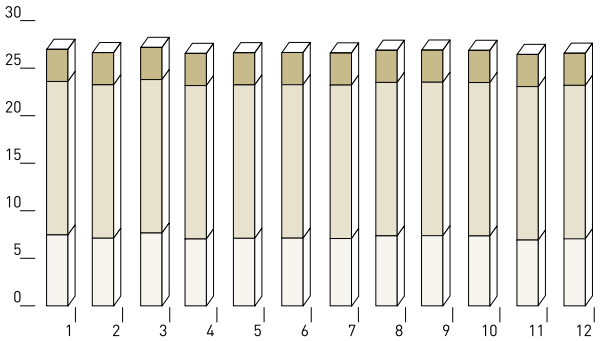
Additional electricity – the quantities of electricity that are bought by the Market Operator and sold to Suppliers and the Transmission System Operator if the quantities of contractual electricity and the PSO electricity are not sufficient. The additional electricity is sold at a Producer's auction organized by the Market Operator.

In transactions with Suppliers, quantities of electricity are defined on a monthly basis, in transactions with producers – on an hourly basis.

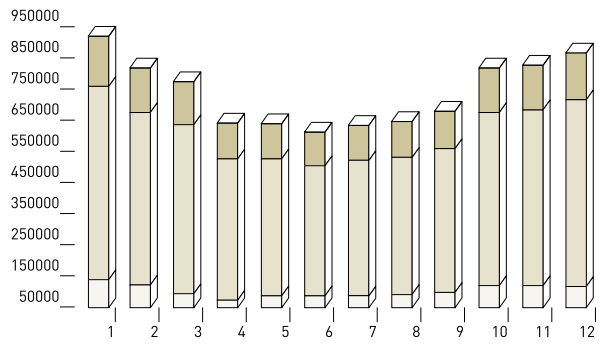




Market share by Lithuanian electricity market players, %



Price of additional electricity, PSO electricity and electricity transmission service, LTc/kWh



Trade in electricity by type, MWh

Electricity Metering System

In 2003, Lietuvos Energija AB implemented an automated electricity metering system (AEMS) that performs real-time meter readings and automatically transmits information from multi-tariff meters installed in energy facilities (power plants, 330/110 kV substations, interconnected transmission lines and large customers) to an ORACLE database.

The AEMS can read and transmit to the database the following meter readings:

- Active or reactive power in both directions per hour, half-hour or in 15-minute increments;
- Active or reactive energy in both directions per month or per 24 hour-periods, depending on the tariff zones;
- Instantaneous values (active and reactive power, current voltages) at pre-set time intervals.

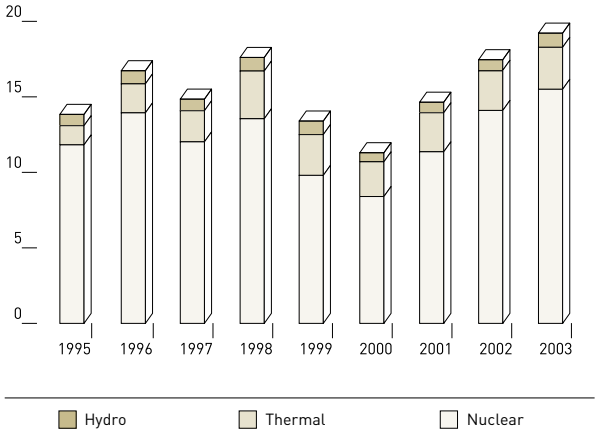
The system ensures updating and integrity of electric meter readings in the database, informs about the progress in data collection process, compiles data by using various means of communications: GPRS modems, data transmission network, standard GSM and phone communication modems. In 2004, we intend to complete the implementation of hourly electricity metering on the connection point with distribution companies, and in 2005, we hope to develop the same technical conditions for electronic trading in electricity as those present in the European Union countries.

ELECTRICITY PRODUCTION

In 2003, the total generated output in Lithuania amounted to 19.2 TWh, which represents a 9.7 per cent increase as compared with 2002.

The main electricity producer in Lithuania - the Ignalina Nuclear Power Plant – provided more than 3/4 of the total generated output.

In 2003, the structure of electricity production in Lithuania remained unchanged and was as follows: 80.6 per cent – nuclear power plant, 14.5 per cent – thermal power plants, 4.8 per cent – hydro power plants.

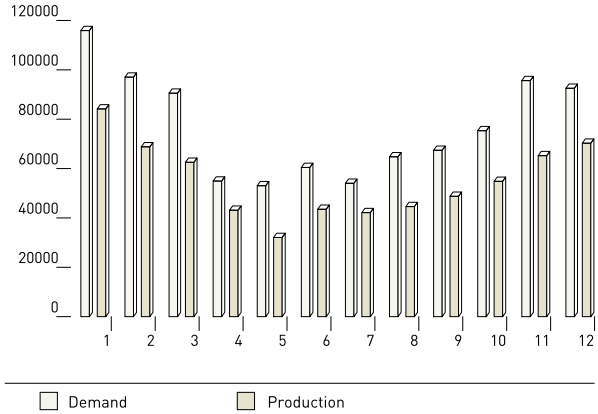


Electricity production in Lithuania, TWh

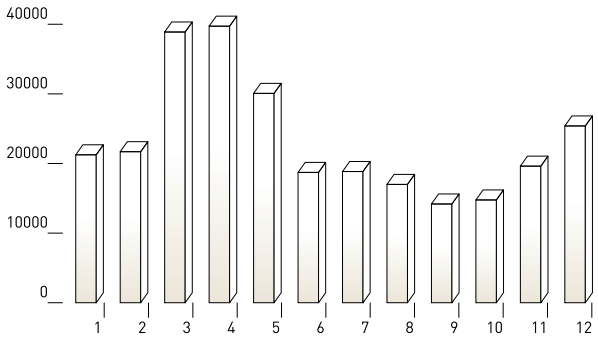
The Kruonis Pumped Storage Plant is used to balance electricity production and consumption, to regulate the power system's load curve during 24 hours, voltage and reactive power.

In the case of disconnection of the Ignalina NPP generator, the Kruonis PSP generators are automatically launched into operation to eliminate the capacity deficit.

The pumped storage plant uses artificial water reservoirs located at different geographical altitudes. The electric energy generated by this power plant is supplied to a 330 kV network.



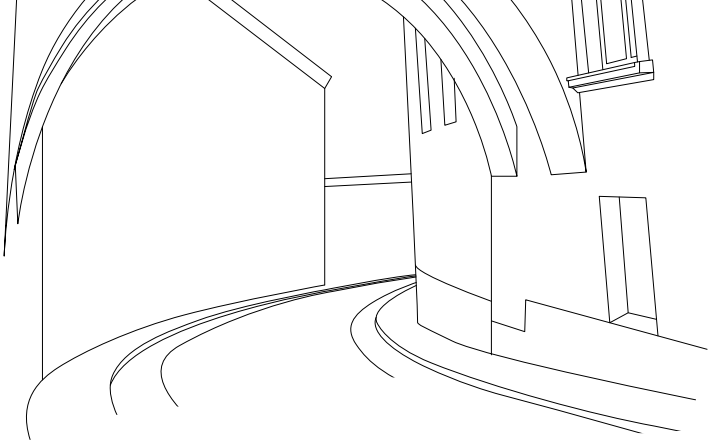
Kruonis PSP electricity demand and scope of production in 2003, MWh



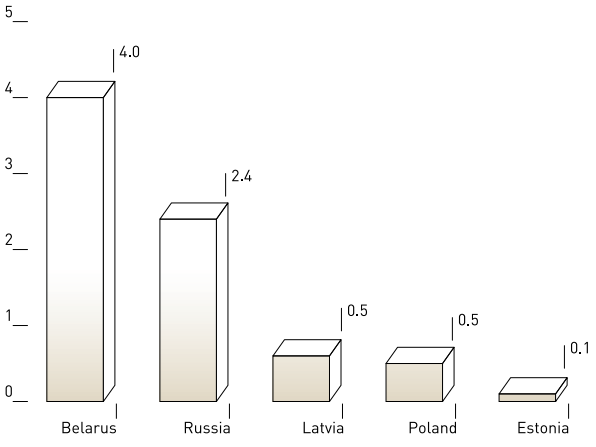
Electricity production in Kaunas HPP in 2003, MWh

The Kaunas Hydro Power Plant is used to compensate technical losses incurred during electricity transport via the transmission network.

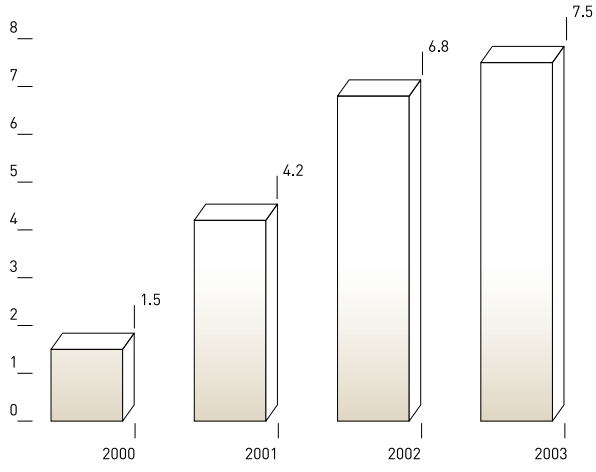
POWER EXCHANGE WITH OTHER COUNTRIES



ELECTRICITY EXPORT



Electricity export by countries in 2003, TWh



Electricity export in 2000 - 2003, TWh

The year 2003 was especially profitable in terms of electricity sales to foreign countries – Lietuvos Energija AB exported 7.5 TWh of electricity, an 11 per cent increase as compared with 2002.

In November 2003, the company started selling peak electric energy. Its sales amounted to 50 GWh.

Our main export partners were Inter RAO UES (Russia), Narva Elektrivork (Estonia), Latvenergo (Latvia) and Energijos Realizacijos Centras (Lithuania).

In 2002, the company signed long-term cooperation agreements with Inter RAO UES, a subsidiary of RAO UES of Russia, and with Estonian company Narva Elektrivork, ensuring stable exports of the total generated output of the Ignalina NPP until the end of 2004.

The agreement signed in November 2003 regarding the system balancing via the Unified Power System of Russia enabled Lietuvos Energija AB to proceed with the hourly trade in electricity.

INFORMATION TECHNOLOGIES AND TELECOMMUNICATIONS

The reliable and efficient power system's operation is hardly possible without modern information technologies and telecommunications.
In 2003, the company focused its efforts on the implementation of modern ITIL (Information Technology Inventory Library) quality management processes. This enabled the company to secure high-quality information technologies and telecommunications services both to the company's departments and divisions as well as to other service users – companies operating in the energy sector, telecommunications operators in Lithuania and other countries, providers of Internet services, governmental and academic institutions.

Lietuvos Energija AB strengthened its position in Lithuania's wholesale telecommunications services market and intensively developed international cooperation with power companies in neighbouring states. New services in the form of data centres were introduced to the information technologies market.

Information Systems

The company implemented the Automated Electricity Metering System designed to perform automated meter readings and data entry to the database, calculation of balances, and to draw up monthly reports.

The development of the Electricity Market Information System was completed, and its testing was started. The system created an information environment for data exchange between market players and market supervision institutions.

The common Communication Network's Documentation System was developed on the basis of GIS data. The implemented system promoted the provision of services and expedited the elimination of faults. Moreover, the Geographical Information System for Transmission Grid and Telecommunications was developed, which would be accessible to its users in the GIS Internet/Intranet environment.

Development of Infrastructure

The crucial stage for securing the network reliability was completed by expanding fibre optic cable data transmission network – the installation of the Ignalina NPP - Vilnius communication line closed the backbone ring providing a reliable back-up for data transmission channels.

By installing the optic fibre communication line Zarasai – Daugpilis, the interconnection with Latvia was given another stand-by line. The interconnection with Tel-Energo, telecommunications operator for Polish power

companies, provided interconnection between Lazdijai and Ogrodniki. The interconnection with the Kalinigrad Region of Russia was put through in the Pagėgiai - Sovietsk line.
In 2003, the data transmission ring interconnection Gigabit Ethernet, linking all major cities of Lithuania, was completed.

To ensure the security and reliability of the company's information and dispatch control systems, data centres were established. They comply with the highest requirements and enable the company to sell its respective services on the market.

Development of Services

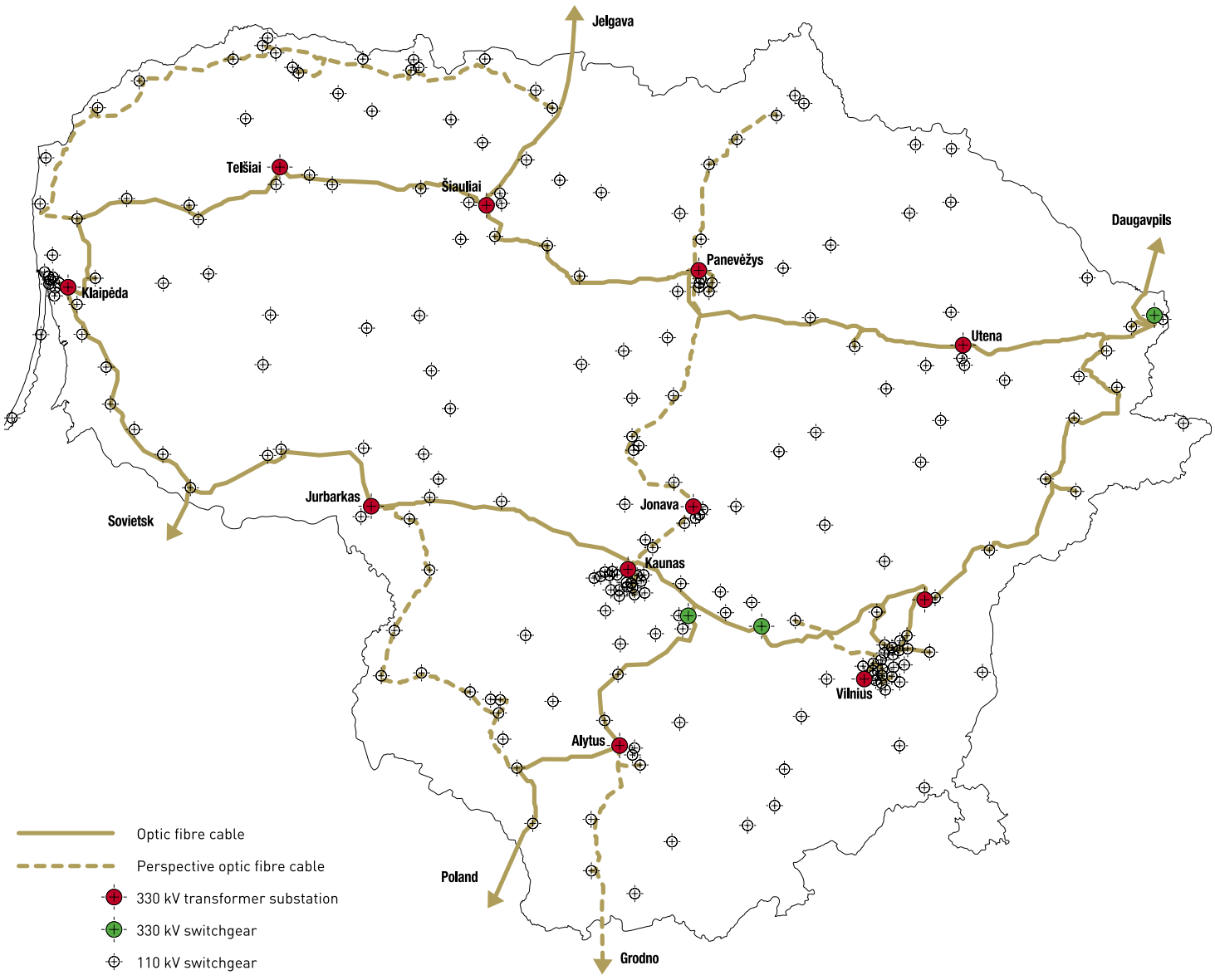
Lietuvos Energija AB, together with Latvenergo and Eesti Energia, started rendering telecommunications services in all three Baltic States. Cooperation with the Nordic Countries' operators was enhanced by providing them with the possibility to render telecommunications services in the Baltic States.

After the interconnection of the data transmission network with Polish company Tel-Energo, Lietuvos Energija AB became a member of the Alliance for Connecting People uniting the telecommunications operators of Central and Western European power companies. This enabled us to offer to the company's customers data transmission services to all main European economic centres.

The spectrum of information technology services was replenished with highly reliable data centres; and that of telecommunications services – with broad-band communication services.

The company won an open tender organized by the Academic and Research Network in Lithuania (LitNet) for rendering data transmission services. Lietuvos Energija AB became the main provider of these services to the academic community.

OPTIC FIBRE CABLE DATA TRANSMISSION NETWORK



ENVIRONMENTAL PROTECTION

While carrying out its operations, Lietuvos Energija AB strives to reduce a negative impact on the environment, to operate the transmission system in the safest and most economical way.

Transmission Network and Transformer Substations

• Waste Inventory and Utilisation

In 2003, 25 tonnes of compressor oil waste containing water, spent oil mixtures, lead and electrolyte scrap from accumulator batteries as well as other hazardous waste were utilised. The entire process of waste utilisation was supervised. Moreover, we handed over for processing 101.5 tonnes of reinforced concrete and porcelain waste for the production of break-stone to be used in road construction.

• Rainwater Treatment

To prevent the pollution of rainwater with oil products in the territories of transformer substations, rainwater was continuously monitored. In 2003 new rainwater treatment facilities were installed and started operating at the Alytus and Jonava 330 kV substations.

• Waste Water Treatment

In 2003, new biological wastewater treatment facilities were installed at the Alytus 330 kV substation. To prevent the pollution of the environment, modern biological wastewater treatment facilities were also installed at the Alytus, Kaunas, Vilnius and Panevėžys transformer substations ensuring wastewater treatment in compliance with set standards.

Kaunas Hydro Power Plant

To ensure the optimum and ecologically safe operation of the Kaunas HPP and the Kaunas Lagoon, the Operation and Maintenance Rules of the Kaunas Hydro Power Plant's Pool were updated and approved by the Ministry of Environment. An integrated assessment was carried out for the filtration of soil and the concrete dike, and the status of underwater hydro technical structures was monitored.

In 2003, outdoor oil facilities were refurbished in the Kaunas HPP:

- A new underground oil collection tank with a tightness monitoring system was installed;
- A wastewater pump-house was rehabilitated.

Kruonis Pumped Storage Plant

In 2003, the facility was supplemented with a new electronic water measurement device used to measure the quantity of discharged water from biological water treatment facilities. The wastewater does not cause pollution. The implemented requirements of the Regulations for Polluted and Oily Water Collection and Maintenance of Bypass Systems in the Kruonis PSP helped to prevent the penetration of polluted water into the Kaunas Lagoon. The outlet system of rainwater to the Kaunas Lagoon was modernized, which allowed the rainwater to be monitored.

COOPERATION

After the successful completion of the Twinning Project financed by PHARE and aimed at providing assistance in the restructuring of the company, it was decided that cooperation between Lietuvos Energija AB and Elkraft System would continue in 2003. The government of Denmark provided financing for the Bridging Project for the development of Lietuvos Energija AB as the Transmission System Operator and the Market Operator after the restructuring. This project was completed in July 2003. In August 2003, upon the consent of the European Commission, the EU Delegation to Vilnius approved the Twinning Project for the further improvement of Lietuvos Energija AB's TSO and MO functions to be implemented by Lietuvos Energija AB and system operators from Denmark and Finland - the Elkraft System/Fingrid Oyj consortium. Thanks to the efforts of specialists from all three power companies, the Project is being successfully implemented.

In 2003, Lietuvos Energija AB participated in the activities of international organizations and sought to maintain close relations with its partners in the electricity market, mainly Eesti Energia and Latvenergo. Due to the necessity of securing the reliable operation of the Lithuanian power system, equally important is our cooperation with RAO UES of Russia and Belenergo.

With regard to the EU-accession aspirations of the Baltic States, Lietuvos Energija AB together with Latvian power company Latvenergo and Estonian power company Eesti Energia have been making every effort to legally formalize the relations of the power companies of the Baltic States with Russian and Belarusian companies to achieve compliance with the practice established in EU power industry.

With regard to the ongoing EU-Russia Energy Dialogue, the UCTE (the Union for Coordination of Transmission of Electricity) as well as the UPS (the CIS and the Baltic States' Power System) are involved in the analysis of technical, economic and legal feasibility to interconnect the two immense power systems – the West (UCTE) and the East (UPS) – into parallel operation. Lietuvos Energija AB's specialists are taking part in this research together with the specialists from other Baltic power companies.

The company's specialists were committed participants in the EURELECTRIC Committees and Working Groups, the BALTREL Association, and in the activities of Lithuanian Electricity Association. The company's specialists have been involved in the activities of CIGRE (International Council on Large Power Systems) and the WEC (World Energy Council). The company also seeks membership in the ETSO (Association of European Transmission System Operators) and the UCTE (Union for Co-ordinations of Transmission of Electricity).

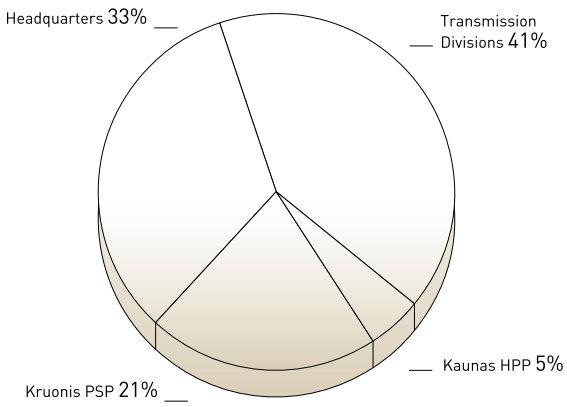
PERSONNEL

Lietuvos Energija AB is an ever-changing organisation. It employs 1,142 people. To promote the efficiency of its operations, the company has been continuously improving human resources management and has been fostering cooperation between employees, their personal initiatives.

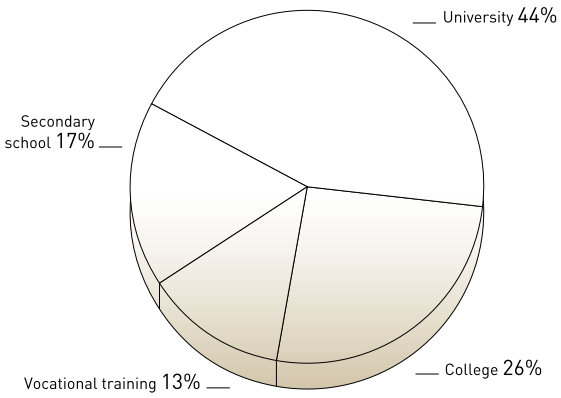
The company is considered to be an attractive workplace where a lot of attention is paid to safe working conditions, employees' health and qualification improvement.

Lietuvos Energija AB is a learning organisation, where the training of personnel is arranged in the following main areas:

- Compulsory training (qualification assessment, certification, etc.);
- Improvement of professional qualifications (training according to the requirements set for a specific job or related to amended legal framework as well as necessitated by the implementation of new equipment or technologies);
- Development of personal abilities (scheduling of work tasks, project management, improvement of management skills).



Lietuvos Energija AB personnel sructure



Education of Lietuvos Energija AB employees

The company's employees are provided with the possibility of gaining experience in foreign power companies. A number of employees are continuing their studies by combining their education with their job.
The company makes every effort to create an atmosphere of job satisfaction, promote the improvement of skills and competencies, and achieve efficient results. The employees are provided with the possibility of exercising in health clubs; various sport competitions are rather often arranged. Each September the company holds a traditional company-wide contest Autumn's Energy, and usually our employees meet the New Year in together.

The company has created an internal culture that promotes motivation, strives to maintain a dynamic team and is based on its own stringent set of work ethics and guidelines. Though employee turnover is not significant – less than 5 per cent per year, the Human Resources Department has developed an adaptation program for newly recruited employees aimed at expediting their integration into the new team and achieving good results during their probationary periods.

REVIEW OF FINANCIAL ACTIVITIES

The results of the financial year of 2003 exceeded the company's expectations – nearly all projected indicators were surpassed. Better than expected electricity exports, the rapid development of economy, higher electricity consumption, better cost control and the effective management of financial resources accounted for the success of the company's operations.

After Lietuvos Energija AB's reorganisation in 2001, this was the second year of the company's operations in the liberalised electricity trade market. In 2003, the company was involved in the activities of Transmission System Operator, Market Operator, generation, electricity export as well as non-core activities. Profit (loss) statements were drawn for each of the aforesaid activities.

An increase in electricity consumption in most industries for the second consecutive year promoted the respective growth of electricity transmission. In 2003, by performing the functions of Transmission System Operator, the company transmitted 8.5 TWh of electricity by high voltage electricity lines to satisfy the domestic demand (as compared with 8 TWh in 2002). Electricity export totalled 7.5 TWh, i.e. 11 per cent increase as compared with 2002.

As a Market Operator, the company purchased from producers electric energy assigned to public service obligations as well as balancing and regulating energy, and provided market administration services to market players. Electricity generated in the Kaunas HPP was used for the company's technological needs while the output of the Kruonis PSP kept the balance between production and consumption.

In 2003, by using the available capacities of telecommunications and information technologies, the company increased its sales of ITT services.

Operating Income

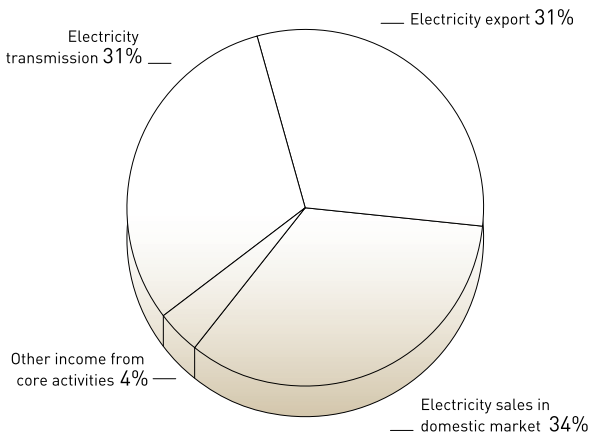
In spite of growing electricity transmission and exports in 2003, the company's revenues decreased. The main reason for this shortfall was the decline in domestic sales due to the amended Electricity Trading Rules and because the company was deprived of an Independent Supplier's license in 2003.

The downfall of the US dollar exchange rate reduced the company's export revenues by 6 per cent; however, transmission revenues increased by 1.4 per cent because of the growing demand for electricity.

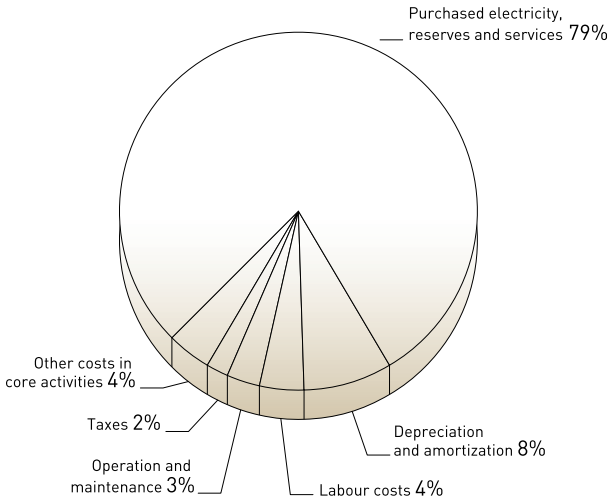
In 2003, the total operating income equalled LTL940.2m (LTL1098.4m) and was earned mainly from: electricity transmission and capacity reserve services – 31 per cent, sales of public service obligations, additional, balancing and regulating electricity – 34 per cent, and electricity export - 31 per cent .

Operating Costs

In 2003, the company's operating costs equalled LTL829.9m (LTL987.4m). The main reason for the cost decrease was reduced costs incurred by purchasing electricity from producers, resultant of the amended Electricity Trading Rules. The bulk of costs were born in purchasing electricity, capacity reserves and transit services, some – 79 per cent, while depreciation and amortisation accounted for 8 per cent.



Structure of operating income, 2003



Structure of operating costs, 2003

Profitability

In 2003, according to International Accounting Standards the company earned LTL110.4m (LTL111.0m) in operating income, its net income totalled LTL82.7m (LTL89.4m). Earnings before interest, taxes, depreciation and amortisation (EBITDA, defining the status of the cash flows) equalled LTL177.2m.

The decrease in net income was mainly attributable to an increased profit tax incurred after payment of accrued losses.

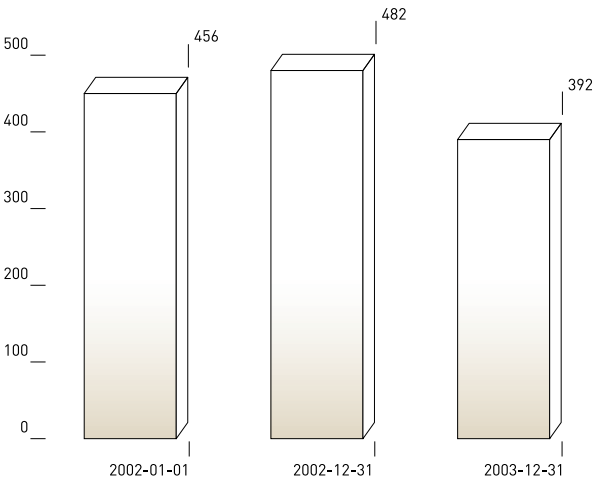
The bulk of profit was earned from electricity exports and electricity transmission service.

Though the net income was lower than in 2002, the company's return on investments and return on assets remained rather high - 11.4 (11.6) per cent and 9.3 (9.0) per cent, respectively.

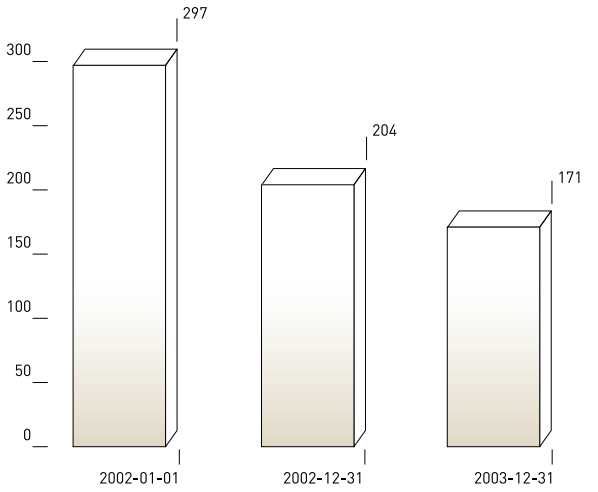
Earnings per share were LTL0.12 (LTL0.13).

Assets and Liabilities

At the end of 2003, the value of the company's assets totalled LTL1186m (at the end of 2002 – LTL1231m); the value of fixed assets equalled LTL984m (LTL908m), of current assets – LTL201m (LTL323m). During the year, the value of fixed tangible assets increased by 8.4 per cent, largely due to the investment programme implemented by the company. The value of current assets decreased because of altered receivables, mainly because of re-allocation of loans that had been transferred to the companies established in the process of Lietuvos Energija AB's reorganization. Moreover, to achieve the optimum efficiency in the management of inventories, the control over the procurement of new goods enabled the company to decrease available inventories by LTL2.7m.



Liabilities, LTLm



Financial debt, LTLm

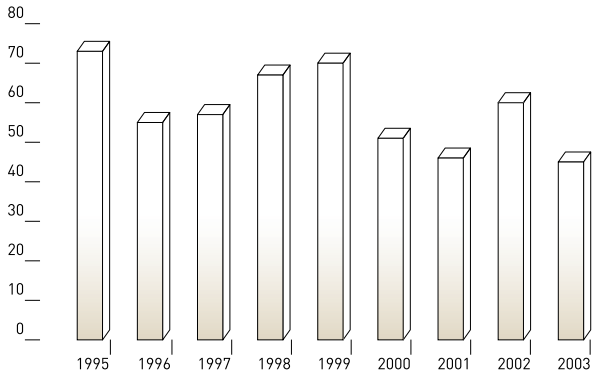
Financial Liabilities

In 2003, Lietuvos Energija AB used medium-term and long - term credits to refinance its loans and to implement its investment programme. To manage the risk of delayed receivables and discrepancies in cash flows (between revenues and due payments) the company used credit facilities.

In 2003, the company borrowed LTL162m. About 75 per cent of these loans were used in conformity with EUR65m long-term borrowing programme approved in 2002. According to this programme, the following credit-line and specific loan agreements were concluded with financial institutions:

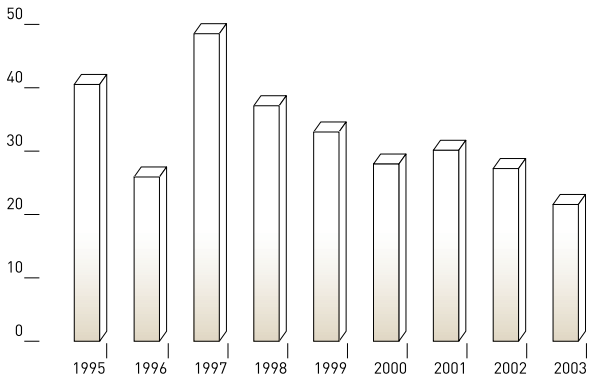
- EUR15m credit line expiring by 2012 and EUR18m credit line expiring by 2009, both allocated to finance the company's investment programme and to refinance previous investments;
- EUR15m credit with the term of repayment in the middle of 2007 that was allocated to refinance a loan with an approaching repayment deadline;
- LTL60m credit line, effective till mid-2009, allocated to supplement the company's working capital.

According to the financing agreement concluded in 2002, with the maturity date falling in September 2005, Lietuvos Energija AB further used a EUR5m credit line for refinancing loans and for covering a short-term shortage of working capital.



Liability to equity ratio, % *

*) Since 2002 - performance indicators of Lietuvos Energija AB after the reorganisation.



Borrowing to equity ratio, %*

Besides, the company utilised the disbursements of a EUR8m loan agreement concluded in 2001 to finance the 330 kV switchgear reconstruction project in the Lithuanian Power Plant. Lietuvos Energija AB's loan portfolio has been compiled with the aim of maintaining not less than 70 per cent of the portfolio of medium-term (3-5 years) and long-term (5-10 years) loans.

In the middle of 2003, upon the assessment of Lietuvos Energija AB's performance indicators and the future perspectives, the rating agency Standard & Poor's improved the company's credit ratings: its corporate long-term credit rating was raised from BB+ to BBB-; its corporate short-term credit rating was raised from B to A-3. The positive outlook illustrates the potential for an upgrade of the company's ratings in the future.

In 2003, Lietuvos Energija AB paid back to credit institutions LTL195m, which resulted in a LTL33m reduction in its financial liabilities.

At the end of 2003, the undisbursed loans and credit lines amounted to nearly LTL100m. This enabled Lietuvos Energija AB to cover its financing needs till the end of 2004.

Management of Financial Risk

In 2003, for risk hedging purposes, i.e. to hedge against the fluctuations of financial markets and to decrease the impact of adverse effects on future profit or cash flows, Lietuvos Energija AB concluded derivative agreements.

In order to minimize the exchange rate risk, the company's borrowings were denominated either in LTL or EUR. At the end of 2003, 85 per cent of all disbursed loans were denominated in EUR, the remaining 15 per cent - in LTL. The concluded selling-purchasing agreements were also mainly quoted either in LTL or EUR.

**) Since 2002 - performance indicators of Lietuvos Energija AB after the reorganisation.*

However, in 2003 the revenues earned by Lietuvos Energija AB for a major portion of exported electricity were in USD, the payments with the Ignalina NPP for the electricity purchased for export were also settled in USD. Hence seeking to minimize the USD/LTL exchange risks the company entered into currency swap agreements.

Besides, financial costs incurred during the re-evaluation of the amounts receivable for the exported electricity in USD were counterbalanced by the respective price adjustment of electricity purchased for export.

To manage the interest rate risk, Lietuvos Energija AB set a target to take not less than 50 per cent of all borrowings with a fixed interest rate, the remaining portion – with a floating interest rate. In 2003 the company entered into 3.5 years' EUR15m interest swap agreement. This transaction set forth a fixed interest rate to be paid to another party (the bank), and the bank would pay to the company the floating interest rate. Thus at the end of the year 50 per cent of the company's borrowings were with a fixed interest rate, and 50 per cent - with a floating interest rate.

Credit Risk

Lietuvos Energija AB faced a minimum credit risk because the users of electricity transmission service were the largest, profitably operating and timely paying companies of Lithuania. The terms of payment set forth in the concluded agreements did not exceed a 30-day period. Besides, the number of customers was rather small. The main customers of the company were the distribution companies Rytų Skirstomieji Tinklai AB and Vakarų Skirstomieji Tinklai AB as well as 6 large industrial consumers of Lithuania: Mažeikių Nafta AB, Achema AB, Ekranas AB, Akmenės Cementas AB, Lifosa AB and Visagino Energija AB.

LIETUVOS ENERGIJA AB
Financial statements for the year 2003

INDEPENDENT AUDITORS' REPORT

To the shareholders of Lietuvos Energija AB:

We have audited the accompanying balance sheets of Lietuvos Energija AB ("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

Deloitte & Touche
Vilnius, Lithuania
24 March 2004

BALANCE SHEET

AS OF 31 DECEMBER 2003

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

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 LTL'000	2002 LTL'000
Revenue	940,230	1,098,405
Operating expenses	(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	(6,939)	(11,586)
NET PROFIT	**82,653**	**89,423**
Basic earnings per share (in LTL)	**0.12**	**0.13**

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**

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

1. GENERAL INFORMATION

Lietuvos Energija AB ("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.

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.

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. 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

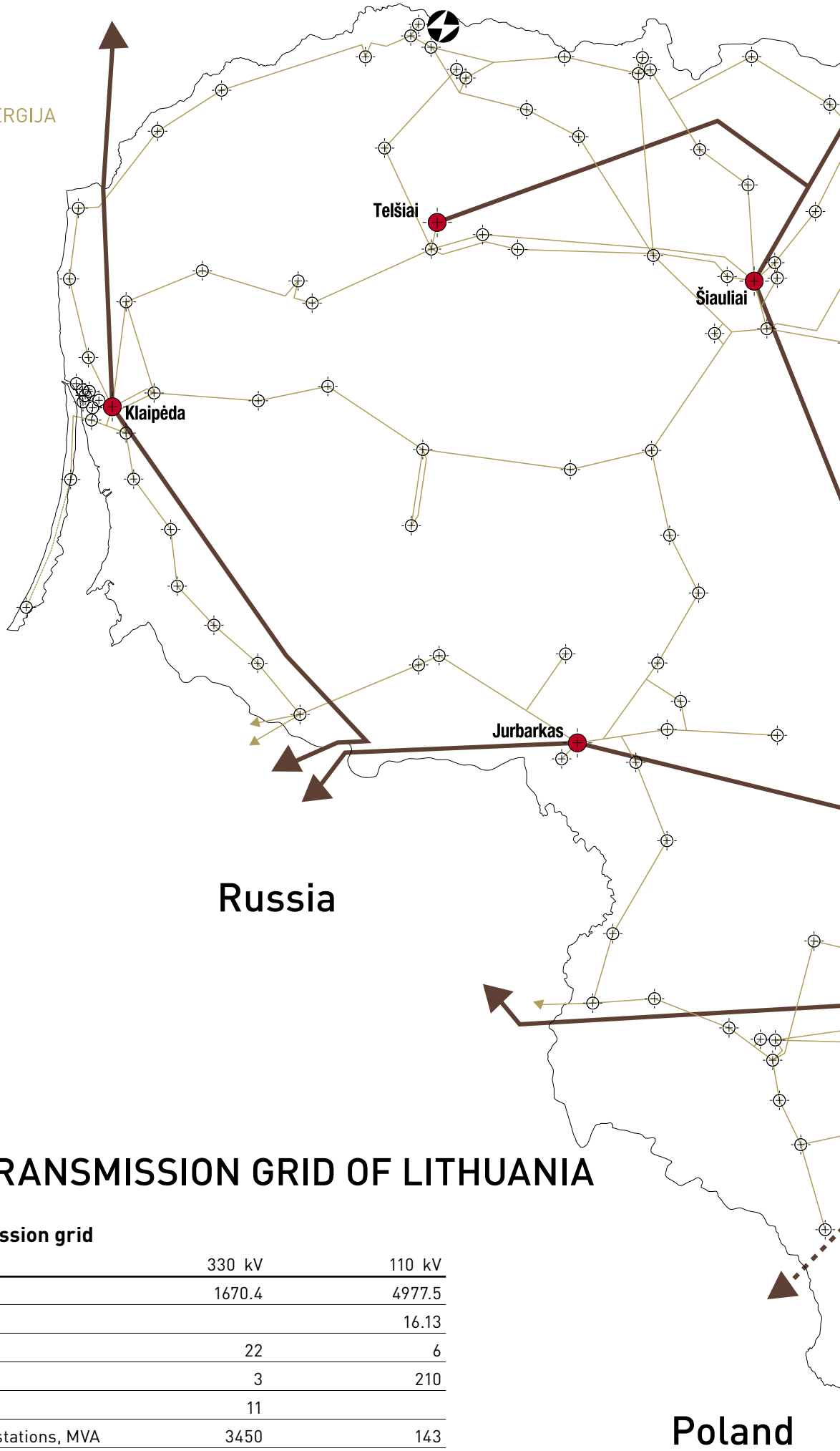
Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis. Where, in the opinion of management, the fair value of financial assets and liabilities differs materially from their book value, such fair values are separately disclosed in the notes 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

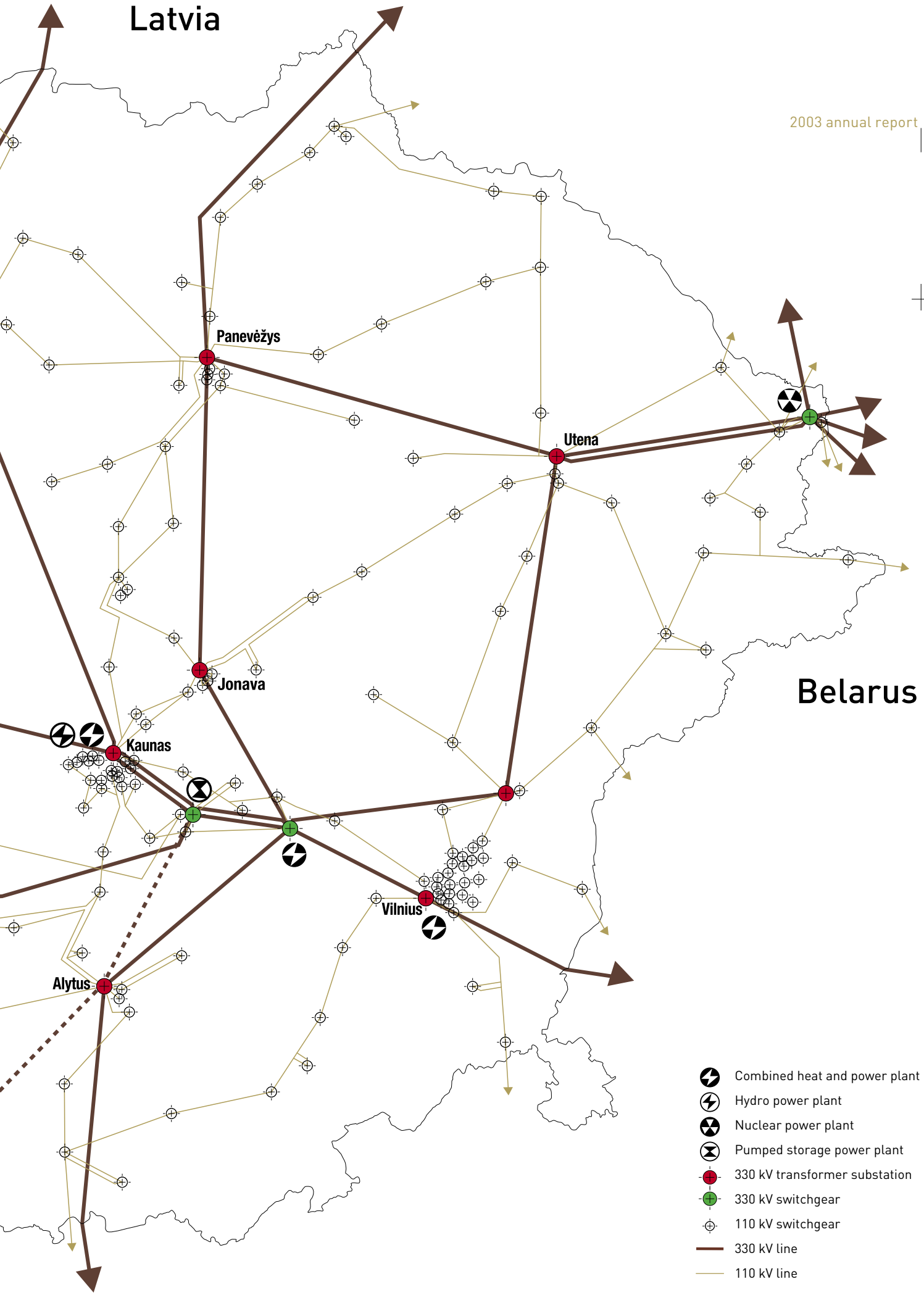
Certain 2002 amounts have been reclassified to conform to the 2003 basis of presentation.



330/110 kV TRANSMISSION GRID OF LITHUANIA

Key data of the transmission grid

	330 kV	110 kV
Length of overhead lines, km	1670.4	4977.5
Length of cable lines, km		16.13
Transformers	22	6
Switchgears	3	210
Transformer substations	11	
Capacity of transformer substations, MVA	3450	143


Latvia
Panevėžys
Utena
Jonava
Kaunas
Vilnius
Alytus
Belarus
Combined heat and power plant
Hydro power plant
Nuclear power plant
Pumped storage power plant
330 kV transformer substation
330 kV switchgear
110 kV switchgear
330 kV line
110 kV line

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