

RYTŲ SKIRSTOMIEJI TINKLAI AB
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

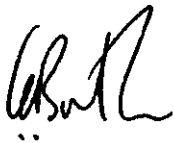
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AUDITOR'S REPORT TO THE SHAREHOLDERS OF RYTŲ SKIRSTOMIEJI TINKLAI AB

1. We have audited the accompanying balance sheet of Rytų Skirstomieji Tinklai AB (hereinafter "the Company") as at 31 December 2003 and the related statements of income and cash flows for the year 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.
2. Except as discussed in paragraphs 3 to 6, we conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have not audited the amounts in the balance sheet as at 31 December 2001, as that date was prior to our appointment as auditors of the Company. There were no practical audit procedures that we could apply to enable us to confirm the amounts in the balance sheet as at 31 December 2001 that enter into the determination of the results of operations and cash flows for the year ended 31 December 2002. Therefore, in our auditor's report dated 25 April 2003 on the financial statements for the year ended 31 December 2002 we were not able to express our opinion as to whether the financial statements for the year then ended gave a true and fair view of the results of the Company's operations and its cash flows.
4. Property, plant and equipment acquired before 1 January 1996 is accounted for at historical cost less subsequent depreciation as adjusted for indexation, using the indexation rates set by the Government of the Republic of Lithuania. The indexation rates are specified in Note B of the accounting policies to the accompanying financial statements. According to International Accounting Standard IAS 16 property, plant and equipment should be accounted for either at cost less subsequent depreciation or at a revalued amount (as determined by independent professionally qualified valuers). In our opinion, the Company should have used one of these methods to value its property, plant and equipment. There were no practical audit procedures that we could apply to enable us to determine the amount of adjustment, if any, which would be required if the historical cost had been restated or revaluation performed and which would have an impact on the carrying value of such property, plant and equipment in the balance sheet as at 31 December 2003 and 31 December 2002.
5. Depreciation charges amounting to LTL 72,562 thousand and LTL 62,692 thousand for the years ended 31 December 2003 and 31 December 2002, respectively, were calculated in accordance with new depreciation rates established on the basis of the cost or indexed cost of property, plant and equipment. The same depreciation rates were applied to the newly acquired assets and assets already in use. In our opinion, the depreciation charge for the year ended 31 December 2003 and 31 December 2002 should have been calculated in accordance with depreciation rates set for each significant group of assets to write off their net book value over the remaining useful life of the assets concerned. There were no practical audit procedures that we could apply to establish the amount of adjustment, if any, which would have an impact on the Company's assets, shareholders' equity and the results of the Company's operations for the years ended 31 December 2003 and 31 December 2002.

6. Contributions received from new customers for assets installed in order to connect to the Company's services amounting to LTL 16,473 thousand and LTL 11,358 thousand were recorded as sales revenue for the year ended 31 December 2003 and 2002 respectively. Related costs of installation, which include costs of fixed assets and other costs are capitalised and depreciated over the useful life of the assets. In our opinion, contributions received should be deferred and recognised as income to match the related costs over the period of the useful life of the capitalised assets. There were no practical audit procedures that we could apply to establish the exact amount of the adjustments required, which would have an impact on the Company's liabilities, shareholders' equity and the results of the Company's operations for the years ended 31 December 2003 and 31 December 2002.
7. The balance sheet as at 31 December 2003 and 31 December 2002 included slow moving spare parts and inventory items with a total net carrying value of LTL 3,842 thousand and LTL 2,861 thousand, respectively, which were classified under inventory. The Company established an impairment provision of LTL 3,824 thousand and LTL 868 thousand for slow moving and obsolete inventory items in the financial statements for the year ended 31 December 2003 and 31 December 2002, respectively. In our opinion, an additional provision of LTL 1,993 thousand should have been established for the impairment of slow moving spare parts and inventory items in the financial statements for the year ended 31 December 2002 and the carrying value of inventory, shareholders' equity and net profit for the year then ended should have been reduced accordingly, whereas the net profit for the year ended 31 December 2003 should have been increased by the same amount.
8. In our opinion, except for the possible effect on the corresponding figures for the year ended 31 December 2002 of the matters referred to in paragraphs 3 to 7 and except for the possible effect of the matters referred to in paragraphs 4 to 6, and for the effect of the matters referred to in paragraph 7 for the year ended 31 December 2003, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2003 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.
9. Without further qualifying our opinion, we draw attention to Note 20 to the financial statements, which indicates that the Company has a legal obligation to register some of its property, plant and equipment with a state enterprise Centre of Registers. The Company's management believes that no reliable estimate of the registration expenses can be made due to the nature of the registration process, therefore no provision for registration expenses is recognised in the financial statements of the Company. This inability to make an estimate of the obligation represents a material uncertainty, the outcome of which may be significant to the financial statements. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
29 April 2004

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Income statement

	Notes	Year ended 31 December	
		2003	2002
Sales	1	709,583	667,690
Cost of sales	2	(656,582)	(616,284)
Gross profit		53,001	51,406
Other operating income		8,124	11,504
Administrative expenses	3	(27,662)	(27,078)
Other operating expenses		(4,753)	(4,992)
Profit from operations		28,710	30,840
Finance costs, net	4	(4,639)	(4,739)
Profit before tax		24,071	26,101
Income tax	5	(6,220)	(3,584)
Net profit		17,851	22,517
Earnings per share (expressed in LTL per share)	6	0.04	0.05

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

The financial statements on pages 5 to 22 were approved by the General Director and the Finance Director on 29 April 2004.

Rimantas Milišauskas
 General Director



Arvydas Zakalskis
 Finance Director



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Balance sheet

	Notes	31 December	
		2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment	8	725,506	678,912
Intangible assets	9	3,271	1,598
Non-current receivables and prepayments	10	9,684	9,748
		<u>738,461</u>	<u>690,258</u>
Current assets			
Inventories	11	15,467	29,592
Receivables and prepayments	12	74,844	79,193
Cash and cash equivalents	13	5,968	6,341
		<u>96,279</u>	<u>115,126</u>
Total assets		<u>834,740</u>	<u>805,384</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	492,405	492,405
Reserves	15	31,471	16,384
Retained earnings		(6,722)	954
		<u>517,154</u>	<u>509,743</u>
Non-current liabilities			
Borrowings	17	87,138	80,715
Deferred tax liabilities	18	25,681	25,147
Other non-current liabilities	19	4,938	22
		<u>117,757</u>	<u>105,884</u>
Current liabilities			
Trade and other payables	16	129,260	119,752
Current tax liabilities		5,686	-
Borrowings	17	64,883	70,005
		<u>199,829</u>	<u>189,757</u>
Total equity and liabilities		<u>834,740</u>	<u>805,384</u>

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

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Statement of changes in shareholders' equity

	<u>Notes</u>	<u>Share capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 31 December 2001, as previously reported under Lithuanian regulatory legislation on accounting		492,405	16,384	-	508,789
Recognition of deferred tax liability due to the first-time application of IFRS		-	-	(21,563)	(21,563)
Balance at 31 December 2001 / 1 January 2002, restated		492,405	16,384	(21,563)	487,226
Reclassification		-	-	-	-
Net profit for the year		-	-	22,517	22,517
Balance at 31 December 2002 / 1 January 2003		492,405	16,384	954	509,743
Transfer to reserves		-	15,110	(15,110)	-
Transfer from reserves		-	(23)	23	-
Dividend relating to 2002	7	-	-	(10,440)	(10,440)
Net profit for the year		-	-	17,851	17,851
Balance at 31 December 2003		492,405	31,471	(6,722)	517,154

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

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Cash flow statement

	Notes	Year ended 31 December	
		2003	2002
Cash flows from operating activities			
Cash generated from operations	22	125,126	107,182
Interest paid		(5,463)	(7,424)
Net cash from operating activities		119,663	99,758
Cash flows from investing activities			
Purchase of property, plant and equipment		(110,534)	(99,545)
Purchase of intangible assets		(2,233)	(1,480)
Proceeds from sale of property, plant and equipment		458	469
Loan repayments received		622	852
Interest received		140	810
Net cash used in investing activities		(111,547)	(98,894)
Cash flows from financing activities			
Proceeds from borrowings		38,685	46,329
Repayments of borrowings		(36,815)	(54,785)
Dividends paid	7	(10,359)	-
Net cash used in financing activities		(8,489)	(8,456)
(Decrease) in cash and cash equivalents		(373)	(7,592)
Cash and cash equivalents at beginning of year	13	6,341	13,933
Cash and cash equivalents at end of year	13	5,968	6,341

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General information

Rytų Skirstomieji Tinklai AB (hereinafter "the Company") was established following the reorganisation of Lietuvos Energija SPAB and registered on 31 December 2001. The address of its registered office is as follows:

P.Lukšio 5b
LT-2042 Vilnius
Lithuania

The Company's shares are included in the current list of the Lithuanian National Stock Exchange.

As at 31 December 2003, 71.8 % of ordinary shares of the Company (2002: 85.7 % of ordinary shares) were held by the state, represented by the State Property Fund (2002: Ministry of Economy of the Republic of Lithuania). E.ON Energie AG (Germany) held 20.3 % of ordinary shares (2002: 10.9 % of ordinary shares) with remaining shares belonging to minority shareholders.

The Company's principal activity is distribution and supply of electricity to industrial users and households in Eastern Lithuania. The Company has its central office in Vilnius and operates 6 branches - Vilniaus Elektros Tinklai, Panevėžio Elektros Tinklai, Alytaus Elektros Tinklai, Utenos Elektros Tinklai, Transport Service branch, and Electricity Network Service branch. Transport Service branch and Electricity Network Service branch started their activities in July 2003.

As at 31 December 2003, the Company employed 3,003 employees (2002: 3,226 employees).

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The Company applied IFRS in the preparation of the financial statements for the first time for the year ended 31 December 2002.

The financial statements are prepared under the historical cost convention as modified by the indexation of part of property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

The amounts shown in these financial statements are presented in the local currency, Litas (LTL). The Litas is the measurement currency of the Company. It best reflects the economic substance of the underlying events and circumstances relevant to the Company.

The exchange rate of the Litas was pegged to the US Dollar up to 1 February 2002 at a rate of LTL 4 = USD 1. On 2 February 2002, the anchor currency of the Litas was changed to the Euro. From that date, the Litas is pegged to the Euro at a rate of LTL 3.4528 = EUR 1.

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B Property, plant and equipment

Property, plant and equipment acquired on or after 1 January 1996 is stated at historical cost less accumulated depreciation. Property, plant and equipment acquired before 1 January 1996 is stated at historical cost less accumulated depreciation as adjusted for indexation, using indexation rates set by the Lithuanian Government for the different asset categories. Four revaluations of property, plant and equipment were performed during the period between 1 January 1992 and 31 December 1995.

Indexation rates used for the revaluations were as follows (depending upon the date of acquisition and type of asset):

Revaluation	The range of indices for PP&E revaluation
Revaluation effective 1 January 1992	2.2 times
Revaluation effective 1 July 1992	5 times
Revaluation effective 15 April 1994	10-14 times
Revaluation effective 31 December 1995	1.48-1.507 times

Depreciation is calculated on the straight-line method to write-off the cost of each asset to their residual values over their estimated useful life. The depreciation rates were applied on the basis of the cost or indexed cost. The same depreciation rates were applied for the newly acquired assets and assets already in use. Useful lives were set as follows:

Buildings	8 – 50 years
Plant and machinery	5 – 50 years
Electricity and communication equipment	10 – 25 years
Vehicles	4 – 10 years
Other property, plant and equipment	3 – 15 years

Construction in progress is transferred to appropriate group of property, plant and equipment when it is completed and ready for its intended use.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit from operations.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is capitalised when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company.

C Intangible assets

Intangible assets expected to provide economic benefit to the Company in future periods are valued at acquisition cost less subsequent amortisation. Amortisation is calculated on the straight-line method over estimated benefit period as follows:

Computer software	3 years
Other intangible assets	3 - 4 years

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D Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

E Inventories

The cost of inventory is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Company from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. The Company fully provides for the obsolete items identified during annual stock-count.

F Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

G Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank, and short-term deposits (with original maturities of up to 3 months).

H Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings or is capitalised to the property, plant and equipment.

I Deferred income tax

Deferred profit tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

J Government grants

Assets received from the state at no consideration are accounted for under property, plant and equipment and a corresponding liability recorded under other non-current liabilities. The value of such assets is determined in accordance with the certificates issued by the state enterprise Centre of Registers, which indicate an average market value of the item of property, plant and equipment concerned. Such property, plant and equipment is depreciated on a straight-line basis over the estimated useful life. Related liabilities are recognised as income over the useful life of the assets concerned.

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K Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

L Revenue recognition

Revenue on electricity sales to residential sector customers are recognised when payment is received. A revenue accrual is made to record amounts not yet paid at the end of each accounting period. Revenue accrual as at 31 December is estimated as 1/3 of payments received in December.

Revenue on electricity sales to business customers are recognised when the services are rendered based on the actual usage of the electricity net of value added tax and discounts directly related to the sales.

Customer connection fees are recognised as income upon completion of the connection.

Other revenues are recognised when products are delivered or services are rendered to customers.

M Foreign currencies

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement under net finance income or costs.

N Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

O Segment reporting

The Company operates in one geographical and business segment, therefore no segment information is presented in these financial statements.

P Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current period.

(all tabular amounts are in LTL '000 unless otherwise stated)

Financial risk management

Credit risk

The Company has no significant concentration of credit risk. Credit risks or the risks of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Flexibility in funding is maintained by keeping committed credit lines available.

As at 31 December 2003 the Company's current liabilities exceeded its current assets by LTL 103,550 thousand and current assets less inventory by LTL 119,017 thousand. Bank borrowings falling due within a 12 month period amounted to LTL 64,883 thousand (Note 17).

The management of the Company believes that sufficient cash flows will be generated by the Company and credit facilities will be available in order to continue to meet its current liabilities as they fall due.

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company's policy is to maintain a diversified debt portfolio. The split between fixed and floating interest rate depends on the actual situation in the market.

Fair value estimation

The carrying values for financial assets and liabilities are assumed to approximate their fair values.

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1 Sales

	2003	2002
Sales of electricity	692,726	656,263
New customer connection fees	16,473	11,358
Other	384	69
	<u>709,583</u>	<u>667,690</u>

2 Cost of sales

	2003	2002
Purchased electricity	447,533	437,246
Depreciation	72,090	62,291
Repairs and maintenance	51,865	44,354
Salaries	48,987	47,568
Social insurance	15,383	14,994
Change in impairment provision for accounts receivable	4,622	(1,437)
Cash collection expenses	3,490	3,159
Change in impairment provision for inventory	2,833	40
Other	9,779	8,069
	<u>656,582</u>	<u>616,284</u>

3 Administrative expenses

	2003	2002
Taxes not relating to income	14,371	13,472
Salaries	3,586	2,427
Communication	3,093	4,566
Repairs and maintenance	1,569	1,709
Social insurance	1,143	755
Depreciation and amortisation	945	353
Consulting	566	755
Other	2,389	3,041
	<u>27,662</u>	<u>27,078</u>

4 Finance costs, net

	2003	2002
Interest expenses	(5,350)	(7,565)
Interest income	140	810
Net foreign exchange transaction gains	571	2,016
	<u>(4,639)</u>	<u>(4,739)</u>

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5 Income tax expense

	2003	2002
Current tax	5,686	-
Deferred tax (Note 18)	534	3,584
	<u>6,220</u>	<u>3,584</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2003	2002
Profit before tax	24,071	26,526
Tax calculated at a tax rate of 15%	3,611	3,979
Income not subject to tax	(548)	(2,181)
Expenses not deductible for tax purposes	4,016	1,786
Income tax adjustments related to prior year	(841)	-
Income tax relief on dividends	(18)	-
	<u>6,220</u>	<u>3,584</u>
Tax charge	6,220	3,584

6 Earnings per share

	2003	2002
Net profit attributable to shareholders	17,851	22,517
Weighted average number of ordinary shares in issue (thousands)	492,405	492,405
	<u>0.04</u>	<u>0.05</u>
Basic earnings per share (LTL per share)	0.04	0.05

The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share are the same as basic earnings per share.

7 Dividend per share

At the Annual General Shareholders' Meeting on 30 April 2003 a dividend in respect of 2002 of LTL 0.02 per share amounting to a total dividend of LTL 10,440 thousand was declared. The Company paid out dividend amounting to LTL 10,359 thousand during year ended 31 December 2003.

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8 Property, plant and equipment

	Buildings	Plant and machinery	Vehicles	Other assets	Construction in progress	Total
Year ended						
31 December 2003						
Opening net book amount	137,378	481,420	16,089	24,796	19,229	678,912
Additions	2,892	4,765	2,102	4,661	106,564	120,984
Disposals	(9)	(110)	-	(76)	-	(195)
Retirements	(58)	(1,543)	(32)	-	-	(1,633)
Reclassifications	7,958	91,635	213	3,806	(103,612)	-
Depreciation charge	(7,255)	(53,541)	(5,149)	(6,617)	-	(72,562)
Closing net book amount	140,906	522,626	13,223	26,570	22,181	725,506
At 31 December 2003						
Cost or indexed cost	205,207	1,170,421	56,370	52,015	22,181	1,506,194
Accumulated depreciation	(64,301)	(647,795)	(43,147)	(25,445)	-	(780,688)
Net book amount	140,906	522,626	13,223	26,570	22,181	725,506
At 31 December 2002						
Cost or indexed cost	194,431	1,082,768	54,583	49,587	19,229	1,400,598
Accumulated depreciation	(57,053)	(601,348)	(38,494)	(24,791)	-	(721,686)
Net book amount	137,378	481,420	16,089	24,796	19,229	678,912

Certain of the Company's property, plant and equipment is not yet registered with the State Enterprise Centre of Register. Such a registration is formally required to establish legal ownership of property. The registration process has already started and is estimated to take several years to completion due to the nature of the Company's assets and registration process.

As at 31 December 2003 the cost of unregistered property, plant and equipment amounted to LTL 750,787 thousand (2002: LTL 696,099 thousand).

No borrowing costs (2002: LTL 181 thousand), arising on financing specifically entered into for the construction of property, plant and equipment, were capitalised during the year.

Property, plant and equipment with a carrying value of approximately LTL 300 million as of 31 December 2003 is stated at historical cost less subsequent depreciation as adjusted for indexation carried out between 1992 and 1996 in accordance with government indices.

Management believes that the carrying amount of indexed property, plant and equipment items as at 31 December 2003 is not significantly different from the restated cost that would arise if a restatement had been carried out in accordance with the requirements of International Financial Reporting Standards and that the recorded carrying values are recoverable.

In 2003, pursuant the order of the Lithuanian Minister of Economy certain assets used by the Company, to which the Company did not have an ownership title, were transferred to the Company. The Company accounted for those assets in its balance sheet at a value determined by the Centre of Registers, including inventorisation and legal registration expenses of the assets concerned. As at 31 December 2003, the cost and net book value of the above property, plant and equipment amounted to LTL 5,033 thousand and LTL 4,961 thousand, respectively.

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9 Intangible assets

	Computer software
Year ended 31 December 2003	
Opening net book amount	1,598
Additions	2,515
Amortisation charge	(842)
Closing net book amount	<u>3,271</u>
At 31 December 2003	
Cost	5,560
Accumulated amortisation	(2,289)
Net book amount	<u>3,271</u>
At 31 December 2002	
Cost	3,349
Accumulated amortisation	(1,751)
Net book amount	<u>1,598</u>

10 Non-current receivables and prepayments

	2003	2002
Mortgage loans granted	7,760	8,885
Prepayments for property, plant and equipment	1,559	-
Other receivables	365	863
	<u>9,684</u>	<u>9,748</u>

The mortgage loans granted are loans granted to private individuals for 25 years period. The mortgage loans are repayable in instalments by 2026. Interest of up to 1 per cent per annum is earned on the loans granted. The loans are secured over residential property. The current portion of mortgage loans amounted to LTL 307 thousand (2002: LTL 260 thousand) and is included within other receivables.

The mortgage loans are stated net of impairment provision of LTL 503 thousand (2002: nil). Other receivables are stated net of impairment provision of LTL 150 thousand (2002: LTL 112 thousand).

In the opinion of the Company's management, the carrying amounts of non-current receivables approximate their fair value.

11 Inventories

	2003	2002
Spare parts and supplies (at cost)	8,915	18,132
Electricity meters (at cost)	4,281	7,141
Fuel (at cost)	267	493
Other (at cost)	2,004	3,826
	<u>15,467</u>	<u>29,592</u>

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(all tabular amounts are in LTL '000 unless otherwise stated)

12 Receivables and prepayments

	2003	2002
Trade receivables	88,231	93,749
Less: provision for impairment of receivables	(21,638)	(20,416)
Trade receivables, net	<u>66,593</u>	<u>73,333</u>
VAT receivable	5,359	2,602
Prepayments	687	1,467
Accrued income and deferred charges	556	460
Other receivables	<u>1,649</u>	<u>1,331</u>
	<u>74,844</u>	<u>79,193</u>

Other receivables are stated net of impairment provision of LTL 1,267 thousand (2002: LTL 1,974 thousand).

13 Cash and cash equivalents

	2003	2002
Cash at bank	5,920	6,258
Cash on hand	<u>48</u>	<u>83</u>
	<u>5,968</u>	<u>6,341</u>

14 Share capital

As at 31 December 2003 the Company's share capital amounted to LTL 492,405 thousand (2002: LTL 492,405 thousand). Share capital is comprised of 492,404,653 authorised ordinary shares with a par value of LTL 1 each. All shares are fully paid.

On 4 October 2002, it was resolved at the shareholders' meeting to increase the share capital of the Company by LTL 29,846,271 by way of issuing 29,846,271 ordinary shares with a par value of LTL 1 each. Newly issued shares had to be paid for by way of contributions in kind. One of the shareholders of the Company appealed against the decision of the shareholders' in the court and the process of registration of the increase in the share capital was suspended.

15 Reserves

As at 31 December 2003, a legal reserve amounted to LTL 31,436 thousand (2002: LTL 16,326 thousand). A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and can be applied to reduce future losses.

Appropriations of retained earnings brought forward from 2002 were made based on the retained earnings calculated in accordance with Lithuanian regulatory legislation on accounting. The retained earnings calculated in accordance with Lithuanian regulatory legislation on accounting amounted to LTL 26,101 thousand as at 31 December 2002.

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16 Trade and other payables

	2003	2002
Trade payables	112,521	101,832
Advances received	7,134	6,571
Taxes not relating to income, salaries and social insurance	6,440	8,522
Accrued expenses	3,005	2,707
Other payables	160	120
	<u>129,260</u>	<u>119,752</u>

17 Borrowings

	2003	2002
Current		
Bank overdrafts	8,971	16,298
Bank borrowings	55,912	53,707
	<u>64,883</u>	<u>70,005</u>
Non-current		
Bank borrowings	87,138	80,715
	<u>87,138</u>	<u>80,715</u>
Total borrowings	<u>152,021</u>	<u>150,720</u>

The effective interest rates at the balance sheet date were as follows:

	2003	2002
Bank overdrafts	2.9%	4.9%
Bank borrowings	2.9%	4.1%

The carrying amounts of non-current and current borrowings approximate their fair value.

Maturity of non-current borrowings:

	2003	2002
Between 1 and 2 years	55,553	44,353
Between 2 and 5 years	19,155	36,362
Over 5 years	12,430	-
	<u>87,138</u>	<u>80,715</u>

All borrowings are bearing floating interest rate with repricing period between 1 and 6 months.

The Company has the following undrawn committed borrowing facilities:

	2003	2002
Expiring within one year	11,983	2,202
Expiring beyond one year	16,546	-
	<u>28,529</u>	<u>2,202</u>

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18 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 15% (2002: 15%).

The movement in the deferred income tax account is as follows:

	2003	2002
At beginning of year	25,147	-
Recognition of deferred tax liability due to the first-time application of IFRS	-	21,563
Income statement charge (Note 5)	534	3,584
	<hr/>	<hr/>
At end of year	25,681	25,147

Deferred tax of LTL 21,563 thousand was charged to shareholders' equity as at 31 December 2001 because in 2002 the Company applied IFRS for the first time.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

Deferred tax assets	Taxable losses	Accrual for vacation reserve	Other	Total
At 1 January 2003	1,998	332	-	2,330
(Charged) / credited to net profit	(1,998)	-	471	(1,527)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	-	332	471	803
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax liabilities			Investment relief	Total
At 1 January 2003			27,477	27,477
(Credited) to net profit			(993)	(993)
			<hr/>	<hr/>
At 31 December 2003			26,484	26,484
			<hr/>	<hr/>

In accordance with Lithuanian tax legislation the investment relief represents a tax credit, which is given to the company when calculating taxable profit, i.e. the entire cost of acquisition of the property is deducted from the company's taxable profit (up-front tax deduction). However, in accordance with this tax incentive, depreciation expenses may not be deducted from the taxable profit. Therefore, the amount of saved income tax, in fact, is paid over the period that the assets would have been depreciated.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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18 Deferred income taxes (continued)

The amounts shown in the balance sheet include the following:

	2003	2002
Deferred tax assets to be recovered after more than 12 months	312	-
Deferred tax liabilities to be recovered after more than 12 months	23,529	24,499

19 Other non-current liabilities

Other non-current liabilities represent liabilities related to the assets received as government grant (Note 8).

20 Contingencies

In 2003, Sigma Telas UAB and A. Žilinskio ir Ko. limited partnership brought a legal action against the Company claiming to annul the results of tender for public procurement. The Company's management believe that the Company will be successful in defending the case, therefore, no provision for contingent liabilities has been established in the financial statements as at 31 December 2003.

Pursuant to the Law on Reorganisation of Lietuvos Energija SPAB, the Company committed itself to indemnify Lietuvos Energija AB for any amounts assessed by the tax administrator and/or any other state authorities before 1 January 2002 in relation to the activities of the Company's branches Vilniaus Elektros Tinklai, Panevėžio Elektros Tinklai, Utenos Elektros Tinklai and Alytaus Elektros Tinklai or through the fault of their employees.

The Company has a legal obligation to register some of its property, plant and equipment with the state enterprise Centre of Registers. Such registration is formally required to establish a legitimate title to such assets. Management have determined that due to the nature of the registration process no reliable estimate of the registration expenses can be made as at the date of issue of these financial statements. Therefore no provision for registration expenses is recognised in the financial statements of the Company.

Pursuant to the order of the Lithuanian Minister of Economy, dated 3 December 2003, the Company is obliged to buy out from enterprises and individual residents electric energy objects that are under their common use. The Company will be able to buy out those objects by one of the following ways: either by transferring its newly issued shares to the owners of those objects, the issue price of which should be paid by way of contributions in kind (i.e. electric energy objects under common use), or by signing the agreements on sale-purchase of electric energy objects under common use. The value of electric energy objects under common use will be determined in accordance with the methodology for evaluating electric energy objects under common use prepared by the Company and by the State Energy Pricing Committee. If the Company does not receive any requests in relation to buying out electric energy objects under common use, which are used by the Company for distribution of electricity, by 31 December 2004, it has to submit proposals to the owners of such objects on buying out those objects no later than by 31 January 2005. The Company will have to settle accounts with the owners of those electric energy objects no later than by 31 December 2010.

21 Commitments

As at 31 December 2003 commitments to purchase property, plant and equipment amounted to LTL 10,662 thousand (2002: nil).

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22 Cash generated from operations

	2003	2002
Net profit	17,851	22,517
Adjustments for:		
Tax (Note 5)	6,220	3,584
Depreciation (Note 8)	72,563	62,692
Amortisation (Note 9)	842	710
Net book value of property, plant and equipment written-off (Note 8)	1,633	1,696
(Profit) / loss on sale of property, plant and equipment	(377)	86
Impairment provision for loans granted (Note 10)	503	-
Interest income (Note 4)	(140)	(810)
Interest expense (Note 4)	5,350	7,565
Effects of exchange rate changes	(569)	-
Changes in working capital:		
Inventories	14,125	2,316
Trade and other receivables	4,961	4,640
Payables	2,164	2,186
Cash generated from operations	<u>125,126</u>	<u>107,182</u>

23 Related party transactions

In 2003, the total remuneration of the 36 directors of the Company (2002: 28 directors) amounted to LTL 3,067 thousand (2002: LTL 2,265 thousand).

24 Post balance sheet event

On 27 January 2004, a syndicate of Lithuanian banks granted a loan facility of EUR 16,220 thousand (LTL 56,004 thousand) to the Company to refinance its financial liabilities and working capital financing. The loan has to be repaid by 27 January 2011.

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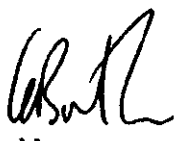
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AUDITOR'S REPORT TO THE SHAREHOLDERS OF RYTŲ SKIRSTOMIEJI TINKLAI AB

1. We have audited the accompanying balance sheet of Rytų Skirstomieji Tinklai AB (hereinafter "the Company") as at 31 December 2003 and the related statements of income and cash flows for the year 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.
2. Except as discussed in paragraphs 3 to 6, we conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have not audited the amounts in the balance sheet as at 31 December 2001, as that date was prior to our appointment as auditors of the Company. There were no practical audit procedures that we could apply to enable us to confirm the amounts in the balance sheet as at 31 December 2001 that enter into the determination of the results of operations and cash flows for the year ended 31 December 2002. Therefore, in our auditor's report dated 25 April 2003 on the financial statements for the year ended 31 December 2002 we were not able to express our opinion as to whether the financial statements for the year then ended gave a true and fair view of the results of the Company's operations and its cash flows.
4. Property, plant and equipment acquired before 1 January 1996 is accounted for at historical cost less subsequent depreciation as adjusted for indexation, using the indexation rates set by the Government of the Republic of Lithuania. The indexation rates are specified in Note B of the accounting policies to the accompanying financial statements. According to International Accounting Standard IAS 16 property, plant and equipment should be accounted for either at cost less subsequent depreciation or at a revalued amount (as determined by independent professionally qualified valuers). In our opinion, the Company should have used one of these methods to value its property, plant and equipment. There were no practical audit procedures that we could apply to enable us to determine the amount of adjustment, if any, which would be required if the historical cost had been restated or revaluation performed and which would have an impact on the carrying value of such property, plant and equipment in the balance sheet as at 31 December 2003 and 31 December 2002.
5. Depreciation charges amounting to LTL 72,562 thousand and LTL 62,692 thousand for the years ended 31 December 2003 and 31 December 2002, respectively, were calculated in accordance with new depreciation rates established on the basis of the cost or indexed cost of property, plant and equipment. The same depreciation rates were applied to the newly acquired assets and assets already in use. In our opinion, the depreciation charge for the year ended 31 December 2003 and 31 December 2002 should have been calculated in accordance with depreciation rates set for each significant group of assets to write off their net book value over the remaining useful life of the assets concerned. There were no practical audit procedures that we could apply to establish the amount of adjustment, if any, which would have an impact on the Company's assets, shareholders' equity and the results of the Company's operations for the years ended 31 December 2003 and 31 December 2002.

6. Contributions received from new customers for assets installed in order to connect to the Company's services amounting to LTL 16,473 thousand and LTL 11,358 thousand were recorded as sales revenue for the year ended 31 December 2003 and 2002 respectively. Related costs of installation, which include costs of fixed assets and other costs are capitalised and depreciated over the useful life of the assets. In our opinion, contributions received should be deferred and recognised as income to match the related costs over the period of the useful life of the capitalised assets. There were no practical audit procedures that we could apply to establish the exact amount of the adjustments required, which would have an impact on the Company's liabilities, shareholders' equity and the results of the Company's operations for the years ended 31 December 2003 and 31 December 2002.
7. The balance sheet as at 31 December 2003 and 31 December 2002 included slow moving spare parts and inventory items with a total net carrying value of LTL 3,842 thousand and LTL 2,861 thousand, respectively, which were classified under inventory. The Company established an impairment provision of LTL 3,824 thousand and LTL 868 thousand for slow moving and obsolete inventory items in the financial statements for the year ended 31 December 2003 and 31 December 2002, respectively. In our opinion, an additional provision of LTL 1,993 thousand should have been established for the impairment of slow moving spare parts and inventory items in the financial statements for the year ended 31 December 2002 and the carrying value of inventory, shareholders' equity and net profit for the year then ended should have been reduced accordingly, whereas the net profit for the year ended 31 December 2003 should have been increased by the same amount.
8. In our opinion, except for the possible effect on the corresponding figures for the year ended 31 December 2002 of the matters referred to in paragraphs 3 to 7 and except for the possible effect of the matters referred to in paragraphs 4 to 6, and for the effect of the matters referred to in paragraph 7 for the year ended 31 December 2003, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2003 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.
9. Without further qualifying our opinion, we draw attention to Note 20 to the financial statements, which indicates that the Company has a legal obligation to register some of its property, plant and equipment with a state enterprise Centre of Registers. The Company's management believes that no reliable estimate of the registration expenses can be made due to the nature of the registration process, therefore no provision for registration expenses is recognised in the financial statements of the Company. This inability to make an estimate of the obligation represents a material uncertainty, the outcome of which may be significant to the financial statements. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
29 April 2004

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Income statement

	Notes	Year ended 31 December	
		2003	2002
Sales	1	709,583	667,690
Cost of sales	2	(656,582)	(616,284)
Gross profit		53,001	51,406
Other operating income		8,124	11,504
Administrative expenses	3	(27,662)	(27,078)
Other operating expenses		(4,753)	(4,992)
Profit from operations		28,710	30,840
Finance costs, net	4	(4,639)	(4,739)
Profit before tax		24,071	26,101
Income tax	5	(6,220)	(3,584)
Net profit		17,851	22,517
Earnings per share (expressed in LTL per share)	6	0.04	0.05

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

The financial statements on pages 5 to 22 were approved by the General Director and the Finance Director on 29 April 2004.

Rimantas Milišauskas
 General Director



Arvydas Zakalskis
 Finance Director



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Balance sheet

	Notes	31 December	
		2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment	8	725,506	678,912
Intangible assets	9	3,271	1,598
Non-current receivables and prepayments	10	9,684	9,748
		<u>738,461</u>	<u>690,258</u>
Current assets			
Inventories	11	15,467	29,592
Receivables and prepayments	12	74,844	79,193
Cash and cash equivalents	13	5,968	6,341
		<u>96,279</u>	<u>115,126</u>
Total assets		<u>834,740</u>	<u>805,384</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	492,405	492,405
Reserves	15	31,471	16,384
Retained earnings		(6,722)	954
		<u>517,154</u>	<u>509,743</u>
Non-current liabilities			
Borrowings	17	87,138	80,715
Deferred tax liabilities	18	25,681	25,147
Other non-current liabilities	19	4,938	22
		<u>117,757</u>	<u>105,884</u>
Current liabilities			
Trade and other payables	16	129,260	119,752
Current tax liabilities		5,686	-
Borrowings	17	64,883	70,005
		<u>199,829</u>	<u>189,757</u>
Total equity and liabilities		<u>834,740</u>	<u>805,384</u>

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

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Statement of changes in shareholders' equity

	<u>Notes</u>	<u>Share capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 31 December 2001, as previously reported under Lithuanian regulatory legislation on accounting		492,405	16,384	-	508,789
Recognition of deferred tax liability due to the first-time application of IFRS		-	-	(21,563)	(21,563)
Balance at 31 December 2001 / 1 January 2002, restated		492,405	16,384	(21,563)	487,226
Reclassification		-	-	-	-
Net profit for the year		-	-	22,517	22,517
Balance at 31 December 2002 / 1 January 2003		492,405	16,384	954	509,743
Transfer to reserves		-	15,110	(15,110)	-
Transfer from reserves		-	(23)	23	-
Dividend relating to 2002	7	-	-	(10,440)	(10,440)
Net profit for the year		-	-	17,851	17,851
Balance at 31 December 2003		492,405	31,471	(6,722)	517,154

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

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Cash flow statement

	Notes	Year ended 31 December	
		2003	2002
Cash flows from operating activities			
Cash generated from operations	22	125,126	107,182
Interest paid		(5,463)	(7,424)
Net cash from operating activities		119,663	99,758
Cash flows from investing activities			
Purchase of property, plant and equipment		(110,534)	(99,545)
Purchase of intangible assets		(2,233)	(1,480)
Proceeds from sale of property, plant and equipment		458	469
Loan repayments received		622	852
Interest received		140	810
Net cash used in investing activities		(111,547)	(98,894)
Cash flows from financing activities			
Proceeds from borrowings		38,685	46,329
Repayments of borrowings		(36,815)	(54,785)
Dividends paid	7	(10,359)	-
Net cash used in financing activities		(8,489)	(8,456)
(Decrease) in cash and cash equivalents		(373)	(7,592)
Cash and cash equivalents at beginning of year	13	6,341	13,933
Cash and cash equivalents at end of year	13	5,968	6,341

The general information, accounting policies and the notes on pages 9 to 22 form an integral part of these financial statements.

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General information

Rytų Skirstomieji Tinklai AB (hereinafter "the Company") was established following the reorganisation of Lietuvos Energija SPAB and registered on 31 December 2001. The address of its registered office is as follows:

P.Lukšio 5b
LT-2042 Vilnius
Lithuania

The Company's shares are included in the current list of the Lithuanian National Stock Exchange.

As at 31 December 2003, 71.8 % of ordinary shares of the Company (2002: 85.7 % of ordinary shares) were held by the state, represented by the State Property Fund (2002: Ministry of Economy of the Republic of Lithuania). E.ON Energie AG (Germany) held 20.3 % of ordinary shares (2002: 10.9 % of ordinary shares) with remaining shares belonging to minority shareholders.

The Company's principal activity is distribution and supply of electricity to industrial users and households in Eastern Lithuania. The Company has its central office in Vilnius and operates 6 branches - Vilniaus Elektros Tinklai, Panevėžio Elektros Tinklai, Alytaus Elektros Tinklai, Utenos Elektros Tinklai, Transport Service branch, and Electricity Network Service branch. Transport Service branch and Electricity Network Service branch started their activities in July 2003.

As at 31 December 2003, the Company employed 3,003 employees (2002: 3,226 employees).

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The Company applied IFRS in the preparation of the financial statements for the first time for the year ended 31 December 2002.

The financial statements are prepared under the historical cost convention as modified by the indexation of part of property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

The amounts shown in these financial statements are presented in the local currency, Litas (LTL). The Litas is the measurement currency of the Company. It best reflects the economic substance of the underlying events and circumstances relevant to the Company.

The exchange rate of the Litas was pegged to the US Dollar up to 1 February 2002 at a rate of LTL 4 = USD 1. On 2 February 2002, the anchor currency of the Litas was changed to the Euro. From that date, the Litas is pegged to the Euro at a rate of LTL 3.4528 = EUR 1.

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B Property, plant and equipment

Property, plant and equipment acquired on or after 1 January 1996 is stated at historical cost less accumulated depreciation. Property, plant and equipment acquired before 1 January 1996 is stated at historical cost less accumulated depreciation as adjusted for indexation, using indexation rates set by the Lithuanian Government for the different asset categories. Four revaluations of property, plant and equipment were performed during the period between 1 January 1992 and 31 December 1995.

Indexation rates used for the revaluations were as follows (depending upon the date of acquisition and type of asset):

Revaluation	The range of indices for PP&E revaluation
Revaluation effective 1 January 1992	2.2 times
Revaluation effective 1 July 1992	5 times
Revaluation effective 15 April 1994	10-14 times
Revaluation effective 31 December 1995	1.48-1.507 times

Depreciation is calculated on the straight-line method to write-off the cost of each asset to their residual values over their estimated useful life. The depreciation rates were applied on the basis of the cost or indexed cost. The same depreciation rates were applied for the newly acquired assets and assets already in use. Useful lives were set as follows:

Buildings	8 – 50 years
Plant and machinery	5 – 50 years
Electricity and communication equipment	10 – 25 years
Vehicles	4 – 10 years
Other property, plant and equipment	3 – 15 years

Construction in progress is transferred to appropriate group of property, plant and equipment when it is completed and ready for its intended use.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit from operations.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is capitalised when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company.

C Intangible assets

Intangible assets expected to provide economic benefit to the Company in future periods are valued at acquisition cost less subsequent amortisation. Amortisation is calculated on the straight-line method over estimated benefit period as follows:

Computer software	3 years
Other intangible assets	3 - 4 years

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D Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

E Inventories

The cost of inventory is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Company from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. The Company fully provides for the obsolete items identified during annual stock-count.

F Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

G Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank, and short-term deposits (with original maturities of up to 3 months).

H Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings or is capitalised to the property, plant and equipment.

I Deferred income tax

Deferred profit tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

J Government grants

Assets received from the state at no consideration are accounted for under property, plant and equipment and a corresponding liability recorded under other non-current liabilities. The value of such assets is determined in accordance with the certificates issued by the state enterprise Centre of Registers, which indicate an average market value of the item of property, plant and equipment concerned. Such property, plant and equipment is depreciated on a straight-line basis over the estimated useful life. Related liabilities are recognised as income over the useful life of the assets concerned.

(all tabular amounts are in LTL '000 unless otherwise stated)

K Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

L Revenue recognition

Revenue on electricity sales to residential sector customers are recognised when payment is received. A revenue accrual is made to record amounts not yet paid at the end of each accounting period. Revenue accrual as at 31 December is estimated as 1/3 of payments received in December.

Revenue on electricity sales to business customers are recognised when the services are rendered based on the actual usage of the electricity net of value added tax and discounts directly related to the sales.

Customer connection fees are recognised as income upon completion of the connection.

Other revenues are recognised when products are delivered or services are rendered to customers.

M Foreign currencies

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement under net finance income or costs.

N Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

O Segment reporting

The Company operates in one geographical and business segment, therefore no segment information is presented in these financial statements.

P Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current period.

(all tabular amounts are in LTL '000 unless otherwise stated)

Financial risk management

Credit risk

The Company has no significant concentration of credit risk. Credit risks or the risks of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Flexibility in funding is maintained by keeping committed credit lines available.

As at 31 December 2003 the Company's current liabilities exceeded its current assets by LTL 103,550 thousand and current assets less inventory by LTL 119,017 thousand. Bank borrowings falling due within a 12 month period amounted to LTL 64,883 thousand (Note 17).

The management of the Company believes that sufficient cash flows will be generated by the Company and credit facilities will be available in order to continue to meet its current liabilities as they fall due.

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company's policy is to maintain a diversified debt portfolio. The split between fixed and floating interest rate depends on the actual situation in the market.

Fair value estimation

The carrying values for financial assets and liabilities are assumed to approximate their fair values.

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1 Sales

	2003	2002
Sales of electricity	692,726	656,263
New customer connection fees	16,473	11,358
Other	384	69
	<u>709,583</u>	<u>667,690</u>

2 Cost of sales

	2003	2002
Purchased electricity	447,533	437,246
Depreciation	72,090	62,291
Repairs and maintenance	51,865	44,354
Salaries	48,987	47,568
Social insurance	15,383	14,994
Change in impairment provision for accounts receivable	4,622	(1,437)
Cash collection expenses	3,490	3,159
Change in impairment provision for inventory	2,833	40
Other	9,779	8,069
	<u>656,582</u>	<u>616,284</u>

3 Administrative expenses

	2003	2002
Taxes not relating to income	14,371	13,472
Salaries	3,586	2,427
Communication	3,093	4,566
Repairs and maintenance	1,569	1,709
Social insurance	1,143	755
Depreciation and amortisation	945	353
Consulting	566	755
Other	2,389	3,041
	<u>27,662</u>	<u>27,078</u>

4 Finance costs, net

	2003	2002
Interest expenses	(5,350)	(7,565)
Interest income	140	810
Net foreign exchange transaction gains	571	2,016
	<u>(4,639)</u>	<u>(4,739)</u>

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5 Income tax expense

	2003	2002
Current tax	5,686	-
Deferred tax (Note 18)	534	3,584
	<u>6,220</u>	<u>3,584</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2003	2002
Profit before tax	24,071	26,526
Tax calculated at a tax rate of 15%	3,611	3,979
Income not subject to tax	(548)	(2,181)
Expenses not deductible for tax purposes	4,016	1,786
Income tax adjustments related to prior year	(841)	-
Income tax relief on dividends	(18)	-
	<u>6,220</u>	<u>3,584</u>

6 Earnings per share

	2003	2002
Net profit attributable to shareholders	17,851	22,517
Weighted average number of ordinary shares in issue (thousands)	492,405	492,405
	<u>0.04</u>	<u>0.05</u>

The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share are the same as basic earnings per share.

7 Dividend per share

At the Annual General Shareholders' Meeting on 30 April 2003 a dividend in respect of 2002 of LTL 0.02 per share amounting to a total dividend of LTL 10,440 thousand was declared. The Company paid out dividend amounting to LTL 10,359 thousand during year ended 31 December 2003.

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8 Property, plant and equipment

	Buildings	Plant and machinery	Vehicles	Other assets	Construction in progress	Total
Year ended						
31 December 2003						
Opening net book amount	137,378	481,420	16,089	24,796	19,229	678,912
Additions	2,892	4,765	2,102	4,661	106,564	120,984
Disposals	(9)	(110)	-	(76)	-	(195)
Retirements	(58)	(1,543)	(32)	-	-	(1,633)
Reclassifications	7,958	91,635	213	3,806	(103,612)	-
Depreciation charge	(7,255)	(53,541)	(5,149)	(6,617)	-	(72,562)
Closing net book amount	140,906	522,626	13,223	26,570	22,181	725,506
At 31 December 2003						
Cost or indexed cost	205,207	1,170,421	56,370	52,015	22,181	1,506,194
Accumulated depreciation	(64,301)	(647,795)	(43,147)	(25,445)	-	(780,688)
Net book amount	140,906	522,626	13,223	26,570	22,181	725,506
At 31 December 2002						
Cost or indexed cost	194,431	1,082,768	54,583	49,587	19,229	1,400,598
Accumulated depreciation	(57,053)	(601,348)	(38,494)	(24,791)	-	(721,686)
Net book amount	137,378	481,420	16,089	24,796	19,229	678,912

Certain of the Company's property, plant and equipment is not yet registered with the State Enterprise Centre of Register. Such a registration is formally required to establish legal ownership of property. The registration process has already started and is estimated to take several years to completion due to the nature of the Company's assets and registration process.

As at 31 December 2003 the cost of unregistered property, plant and equipment amounted to LTL 750,787 thousand (2002: LTL 696,099 thousand).

No borrowing costs (2002: LTL 181 thousand), arising on financing specifically entered into for the construction of property, plant and equipment, were capitalised during the year.

Property, plant and equipment with a carrying value of approximately LTL 300 million as of 31 December 2003 is stated at historical cost less subsequent depreciation as adjusted for indexation carried out between 1992 and 1996 in accordance with government indices.

Management believes that the carrying amount of indexed property, plant and equipment items as at 31 December 2003 is not significantly different from the restated cost that would arise if a restatement had been carried out in accordance with the requirements of International Financial Reporting Standards and that the recorded carrying values are recoverable.

In 2003, pursuant the order of the Lithuanian Minister of Economy certain assets used by the Company, to which the Company did not have an ownership title, were transferred to the Company. The Company accounted for those assets in its balance sheet at a value determined by the Centre of Registers, including inventorisation and legal registration expenses of the assets concerned. As at 31 December 2003, the cost and net book value of the above property, plant and equipment amounted to LTL 5,033 thousand and LTL 4,961 thousand, respectively.

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9 Intangible assets

	Computer software
Year ended 31 December 2003	
Opening net book amount	1,598
Additions	2,515
Amortisation charge	(842)
Closing net book amount	<u>3,271</u>
At 31 December 2003	
Cost	5,560
Accumulated amortisation	(2,289)
Net book amount	<u>3,271</u>
At 31 December 2002	
Cost	3,349
Accumulated amortisation	(1,751)
Net book amount	<u>1,598</u>

10 Non-current receivables and prepayments

	2003	2002
Mortgage loans granted	7,760	8,885
Prepayments for property, plant and equipment	1,559	-
Other receivables	365	863
	<u>9,684</u>	<u>9,748</u>

The mortgage loans granted are loans granted to private individuals for 25 years period. The mortgage loans are repayable in instalments by 2026. Interest of up to 1 per cent per annum is earned on the loans granted. The loans are secured over residential property. The current portion of mortgage loans amounted to LTL 307 thousand (2002: LTL 260 thousand) and is included within other receivables.

The mortgage loans are stated net of impairment provision of LTL 503 thousand (2002: nil). Other receivables are stated net of impairment provision of LTL 150 thousand (2002: LTL 112 thousand).

In the opinion of the Company's management, the carrying amounts of non-current receivables approximate their fair value.

11 Inventories

	2003	2002
Spare parts and supplies (at cost)	8,915	18,132
Electricity meters (at cost)	4,281	7,141
Fuel (at cost)	267	493
Other (at cost)	2,004	3,826
	<u>15,467</u>	<u>29,592</u>

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12 Receivables and prepayments

	2003	2002
Trade receivables	88,231	93,749
Less: provision for impairment of receivables	(21,638)	(20,416)
Trade receivables, net	<u>66,593</u>	<u>73,333</u>
VAT receivable	5,359	2,602
Prepayments	687	1,467
Accrued income and deferred charges	556	460
Other receivables	<u>1,649</u>	<u>1,331</u>
	<u>74,844</u>	<u>79,193</u>

Other receivables are stated net of impairment provision of LTL 1,267 thousand (2002: LTL 1,974 thousand).

13 Cash and cash equivalents

	2003	2002
Cash at bank	5,920	6,258
Cash on hand	<u>48</u>	<u>83</u>
	<u>5,968</u>	<u>6,341</u>

14 Share capital

As at 31 December 2003 the Company's share capital amounted to LTL 492,405 thousand (2002: LTL 492,405 thousand). Share capital is comprised of 492,404,653 authorised ordinary shares with a par value of LTL 1 each. All shares are fully paid.

On 4 October 2002, it was resolved at the shareholders' meeting to increase the share capital of the Company by LTL 29,846,271 by way of issuing 29,846,271 ordinary shares with a par value of LTL 1 each. Newly issued shares had to be paid for by way of contributions in kind. One of the shareholders of the Company appealed against the decision of the shareholders' in the court and the process of registration of the increase in the share capital was suspended.

15 Reserves

As at 31 December 2003, a legal reserve amounted to LTL 31,436 thousand (2002: LTL 16,326 thousand). A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and can be applied to reduce future losses.

Appropriations of retained earnings brought forward from 2002 were made based on the retained earnings calculated in accordance with Lithuanian regulatory legislation on accounting. The retained earnings calculated in accordance with Lithuanian regulatory legislation on accounting amounted to LTL 26,101 thousand as at 31 December 2002.

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16 Trade and other payables

	2003	2002
Trade payables	112,521	101,832
Advances received	7,134	6,571
Taxes not relating to income, salaries and social insurance	6,440	8,522
Accrued expenses	3,005	2,707
Other payables	160	120
	<u>129,260</u>	<u>119,752</u>

17 Borrowings

	2003	2002
Current		
Bank overdrafts	8,971	16,298
Bank borrowings	55,912	53,707
	<u>64,883</u>	<u>70,005</u>
Non-current		
Bank borrowings	87,138	80,715
	<u>87,138</u>	<u>80,715</u>
Total borrowings	<u>152,021</u>	<u>150,720</u>

The effective interest rates at the balance sheet date were as follows:

	2003	2002
Bank overdrafts	2.9%	4.9%
Bank borrowings	2.9%	4.1%

The carrying amounts of non-current and current borrowings approximate their fair value.

Maturity of non-current borrowings:

	2003	2002
Between 1 and 2 years	55,553	44,353
Between 2 and 5 years	19,155	36,362
Over 5 years	12,430	-
	<u>87,138</u>	<u>80,715</u>

All borrowings are bearing floating interest rate with repricing period between 1 and 6 months.

The Company has the following undrawn committed borrowing facilities:

	2003	2002
Expiring within one year	11,983	2,202
Expiring beyond one year	16,546	-
	<u>28,529</u>	<u>2,202</u>

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18 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 15% (2002: 15%).

The movement in the deferred income tax account is as follows:

	2003	2002
At beginning of year	25,147	-
Recognition of deferred tax liability due to the first-time application of IFRS	-	21,563
Income statement charge (Note 5)	534	3,584
	<hr/>	<hr/>
At end of year	25,681	25,147

Deferred tax of LTL 21,563 thousand was charged to shareholders' equity as at 31 December 2001 because in 2002 the Company applied IFRS for the first time.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

Deferred tax assets	Taxable losses	Accrual for vacation reserve	Other	Total
At 1 January 2003	1,998	332	-	2,330
(Charged) / credited to net profit	(1,998)	-	471	(1,527)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	-	332	471	803
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax liabilities			Investment relief	Total
At 1 January 2003			27,477	27,477
(Credited) to net profit			(993)	(993)
			<hr/>	<hr/>
At 31 December 2003			26,484	26,484
			<hr/>	<hr/>

In accordance with Lithuanian tax legislation the investment relief represents a tax credit, which is given to the company when calculating taxable profit, i.e. the entire cost of acquisition of the property is deducted from the company's taxable profit (up-front tax deduction). However, in accordance with this tax incentive, depreciation expenses may not be deducted from the taxable profit. Therefore, the amount of saved income tax, in fact, is paid over the period that the assets would have been depreciated.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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18 Deferred income taxes (continued)

The amounts shown in the balance sheet include the following:

	2003	2002
Deferred tax assets to be recovered after more than 12 months	312	-
Deferred tax liabilities to be recovered after more than 12 months	23,529	24,499

19 Other non-current liabilities

Other non-current liabilities represent liabilities related to the assets received as government grant (Note 8).

20 Contingencies

In 2003, Sigma Telas UAB and A. Žilinskio ir Ko. limited partnership brought a legal action against the Company claiming to annul the results of tender for public procurement. The Company's management believe that the Company will be successful in defending the case, therefore, no provision for contingent liabilities has been established in the financial statements as at 31 December 2003.

Pursuant to the Law on Reorganisation of Lietuvos Energija SPAB, the Company committed itself to indemnify Lietuvos Energija AB for any amounts assessed by the tax administrator and/or any other state authorities before 1 January 2002 in relation to the activities of the Company's branches Vilniaus Elektros Tinklai, Panevėžio Elektros Tinklai, Utenos Elektros Tinklai and Alytaus Elektros Tinklai or through the fault of their employees.

The Company has a legal obligation to register some of its property, plant and equipment with the state enterprise Centre of Registers. Such registration is formally required to establish a legitimate title to such assets. Management have determined that due to the nature of the registration process no reliable estimate of the registration expenses can be made as at the date of issue of these financial statements. Therefore no provision for registration expenses is recognised in the financial statements of the Company.

Pursuant to the order of the Lithuanian Minister of Economy, dated 3 December 2003, the Company is obliged to buy out from enterprises and individual residents electric energy objects that are under their common use. The Company will be able to buy out those objects by one of the following ways: either by transferring its newly issued shares to the owners of those objects, the issue price of which should be paid by way of contributions in kind (i.e. electric energy objects under common use), or by signing the agreements on sale-purchase of electric energy objects under common use. The value of electric energy objects under common use will be determined in accordance with the methodology for evaluating electric energy objects under common use prepared by the Company and by the State Energy Pricing Committee. If the Company does not receive any requests in relation to buying out electric energy objects under common use, which are used by the Company for distribution of electricity, by 31 December 2004, it has to submit proposals to the owners of such objects on buying out those objects no later than by 31 January 2005. The Company will have to settle accounts with the owners of those electric energy objects no later than by 31 December 2010.

21 Commitments

As at 31 December 2003 commitments to purchase property, plant and equipment amounted to LTL 10,662 thousand (2002: nil).

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22 Cash generated from operations

	2003	2002
Net profit	17,851	22,517
Adjustments for:		
Tax (Note 5)	6,220	3,584
Depreciation (Note 8)	72,563	62,692
Amortisation (Note 9)	842	710
Net book value of property, plant and equipment written-off (Note 8)	1,633	1,696
(Profit) / loss on sale of property, plant and equipment	(377)	86
Impairment provision for loans granted (Note 10)	503	-
Interest income (Note 4)	(140)	(810)
Interest expense (Note 4)	5,350	7,565
Effects of exchange rate changes	(569)	-
Changes in working capital:		
Inventories	14,125	2,316
Trade and other receivables	4,961	4,640
Payables	2,164	2,186
Cash generated from operations	<u>125,126</u>	<u>107,182</u>

23 Related party transactions

In 2003, the total remuneration of the 36 directors of the Company (2002: 28 directors) amounted to LTL 3,067 thousand (2002: LTL 2,265 thousand).

24 Post balance sheet event

On 27 January 2004, a syndicate of Lithuanian banks granted a loan facility of EUR 16,220 thousand (LTL 56,004 thousand) to the Company to refinance its financial liabilities and working capital financing. The loan has to be repaid by 27 January 2011.