AB RYTŲ SKIRSTOMIEJI TINKLAI

Independent Auditors' Report and Financial Statements for the year ended 31 December 2004

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Rytų Skirstomieji Tinklai:

1. We have audited the accompanying balance sheets of AB Rytų Skirstomieji Tinklai (thereafter – the Company) and the Company and subsidiaries (thereafter – the Group) as of December 31, 2004, and the related statements of income, changes in equity 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. The financial statements of the Company for the year ended 31 December 2003, before the restatement described in Note 22 to the financial statements, were audited by other auditors whose report, dated 29 April 2004, on those statements included the explanatory paragraph drawing attention to absence of a reliable estimate for the contingent liability related to fixed assets registration expenses and expressed a qualified opinion because of:

    a) Scope limitation because of the absence of practical audit procedures for the establishment of the amount of adjustment, if any, if the property plant and equipment with the net book value of LTL'000 727,065 would have been stated either at historical cost less depreciation and impairment or at fair value, instead of being stated at modified cost as adjusted for indexation less subsequent depreciation.

    b) Scope limitation because of the absence of practical audit procedures for the establishment of the amount of adjustment, if any, if the depreciation charge for the year (2003: LTL'000 72,562) would have been calculated using remaining useful lives of the assets concerned, instead of the same rates as for the newly acquired assets and assets already in use.

    c) Lack of the matching principal of accounting application in accounting for customer connection fees (2003: LTL'000 16,473) being recognized as income upon completion of the connection, witch is not matching the corresponding costs, which are predominantly made up of depreciation charges on the assets acquired in relation to establishing the connection and being spread over the estimated useful lives of those assets.

    d) Establishing an impairment provision of LTL'000 1,992 for slow moving and obsolete inventory items in the financial statements for the year ended 31 December 2003, not 2002, when the fact of the obsolescence was identified.

3. We conducted our audit in accordance with International Standards on Auditing. 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.

4. In our opinion, the 2004 financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2004, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

5. We also audited the adjustments described in Note 22 that were applied to restate the 2003 financial statements to give retroactive effect to the change in the method of accounting for new customer connection fees. In our opinion, such adjustments are appropriate and have been properly applied.

UAB Deloitte & Touche
Vilnius, Lithuania
31 March 2005

AB RYTŲ SKIRSTOMIEJI TINKLAI

BALANCE SHEET
AS OF 31 DECEMBER 2004

		The Group	The Company	
				(As restated, Note 22)
ASSETS	**Notes**	**2004 LTL'000**	**2004 LTL'000**	**2003 LTL'000**
Non-current assets:				
Property, plant and equipment	**3**	2,409,775	2,409,775	727,065
Intangible assets	**4**	3,439	3,439	3,271
Investments in subsidiaries		-	59	-
Long-term receivables	**5**	7,510	7,510	8,125
Total non-current assets		**2,420,724**	**2,420,783**	**738,461**
Current assets:				
Inventories	**6**	11,614	11,614	15,467
Receivables and prepayments	**7**	75,429	75,429	74,844
Cash and cash equivalents	**8**	1,380	1,320	5,968
Total current assets		**88,423**	**88,363**	**96,279**
TOTAL ASSETS		**2,509,147**	**2,509,146**	**834,740**
LIABILITIES AND EQUITY				
Equity:				
Share capital	**9**	492,405	492,405	492,405
Legal reserve	**10**	42,061	42,061	31,436
Revaluation reserve	**10**	1,500,944	1,500,944	35
Accumulated deficit		(123,872)	(123,872)	(21,655)
Total equity		**1,911,538**	**1,911,538**	**502,221**
Non-current liabilities:				
Borrowings	**12**	86,355	86,355	87,138
Deferred income from new customers	**13**	30,892	30,892	16,104
Deferred taxes	**20**	262,201	262,201	23,046
Grants, subsidies	**11**	4,163	4,163	4,938
Total non-current liabilities		**383,611**	**383,611**	**131,226**
Current liabilities:				
Borrowings	**12**	85,567	85,567	64,883
Trade and other payables	**14**	128,431	128,430	136,410
Total current liabilities		**213,998**	**213,997**	**201,293**
TOTAL LIABILITIES AND EQUITY		**2,509,147**	**2,509,146**	**834,740**

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

These financial statements were approved on 31 March 2005 and signed by:

Rimantas Milišauskas	Arvydas Zakalskis
Gen. director	Finance director

STATEMENT OF INCOME
AS OF 31 DECEMBER 2004

	Notes	The Group 2004 LTL'000	The Company 2004 LTL'000	The Company (As restated, Note 22) 2003 LTL'000
Revenue	**16**	741,585	741,585	698,095
Operating expenses	**17**	839,815	839,815	685,996
Other income, net	**18**	2,910	2,910	5,124
(Loss) profit from operations		**(95,320)**	**(95,320)**	**17,223**
Net financial (expense)	**19**	(4,529)	(4,529)	(4,640)
(Loss) profit before income tax		**(99,849)**	**(99,849)**	**12,583**
Income tax benefit (expense)	**20**	15,840	15,840	(3,587)
Net (loss) profit		**(84,009)**	**(84,009)**	**8,996**
Basic earnings per share (in LTL)		**(0.17)**	**(0.17)**	**0.02**

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

These financial statements were approved on 31 March 2005 and signed by:

Rimantas Milišauskas Gen. director	Arvydas Zakalskis Finance director

AB RYTŲ SKIRSTOMIEJI TINKLAI

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

The Group	Authorized capital LTL'000	Revaluation reserve LTL'000	Legal reserves LTL'000	Accumulated deficit LTL'000	Total LTL'000
As of 31 December 2003 (As restated, Note 22)	**492,405**	**35**	**31,436**	**(21,655)**	**502,221**
Revaluation of non-current tangible assets	-	1,765,775	-	-	1,765,775
Deferred tax liability recognized due to revaluation non-current tangible assets value	-	(264,866)	-	-	(264,866)
Loss for the year	-	-	-	(84,009)	(84,009)
Dividends	-	-	-	(7,583)	(7,583)
Reserves formed	-	-	10,625	(10,625)	-
Reserves used	-	-	-	-	-
As of 31 December 2004	**492,405**	**1,500,944**	**42,061**	**(123,872)**	**1,911,538**

The Company	Authorized capital LTL'000	Non-current assets revaluation reserve LTL'000	Legal reserves LTL'000	Retained earnings (accumulated deficit) LTL'000	Total LTL'000
As of 31 December 2002	**492,405**	**35**	**16,326**	**978**	**509,744**
Result of change in accounting policy of deferred income from new customers (Note 22)	-	-	-	(6,079)	(6,079)
Restated balance as of 31 December 2002 (Note 22)	**492,405**	**35**	**16,326**	**(5,101)**	**503,665**
Net profit for the year	-	-	-	8,996	8,996
Dividends	-	-	-	(10,440)	(10,440)
Reserves formed	-	-	15,110	(15,110)	-
As of 31 December 2003 (As restated, Note 22)	**492,405**	**35**	**31,436**	**(21,655)**	**502,221**
Revaluation of non-current tangible assets	-	1,765,775	-	-	1,765,775
Deferred tax liability recognized due to revaluation of non-current tangible assets value	-	(264,866)	-	-	(264,866)
Loss for the year	-	-	-	(84,009)	(84,009)
Dividends	-	-	-	(7,583)	(7,583)
Reserves formed	-	-	10,625	(10,625)	-
As of 31 December 2004	**492,405**	**1,500,944**	**42,061**	**(123,872)**	**1,911,538**

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

These financial statements were approved on 31 March 2005 and signed by:

Rimantas Milišauskas
Gen. director

Arvydas Zakalskis
Finance director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

	The Group	The Company	
			(As restated, Note 22)
	2004 LTL'000	2004 LTL'000	2003 LTL'000
OPERATING ACTIVITIES			
Net (loss) profit before income tax	**(99,849)**	**(99,849)**	**12,583**
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	80,262	80,262	73,405
Impairment of property, plant and equipment	130,605	130,605	-
Reversal of provisions for doubtful accounts	(2,017)	(2,017)	503
Adjustment of inventories net realizable value	(95)	(95)	-
Equity method of accounting for investments in subsidiaries adjustment	-	1	-
(Gain) loss on disposal of property, plant and equipment	(252)	(252)	1,256
Interest expense	4,721	4,721	5,350
Interest income	(95)	(95)	(140)
Operating cash flows before movements in working capital	**113,280**	**113,281**	**92,957**
Trade and other receivables	2,206	2,206	4,961
Inventories	3,948	3,948	14,125
Accounts payable	4,050	4,049	13,083
Cash generated by operations	**123,484**	**123,484**	**125,126**
Interest paid	(4,721)	(4,721)	(5,463)
Interest received	95	95	140
Income tax paid	(7,112)	(7,112)	-
Net cash from operating activities	**111,746**	**111,746**	**119,803**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets	(134,433)	(134,433)	(112,767)
Proceeds from sale of property, plant and equipment	5,166	5,166	458
Acquisition of subsidiaries	-	(60)	-
Repayment of loans granted	615	615	622
Net cash used in investing activities	**(128,652)**	**(128,712)**	**(111,687)**
FINANCING ACTIVITIES			
Proceeds from borrowings	140,914	140,914	38,685
Repayments of borrowings	(121,013)	(121,013)	(36,815)
Dividends paid	(7,583)	(7,583)	(10,359)
Net cash from (used in) financing activities	**12,318**	**12,318**	**(8,489)**
Net decrease in cash	**(4,588)**	**(4,648)**	**(373)**
CASH, BEGINNING OF THE YEAR	**5,968**	**5,968**	**6,341**
CASH, END OF THE YEAR	**1,380**	**1,320**	**5,968**

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

These financial statements were approved on 31 March 2005 and signed by:

Rimantas Milišauskas Gen. director	Arvydas Zakalskis Finance director

1. GENERAL INFORMATION

General information

AB Rytų Skirstomieji Tinklai (the Company) was registered on 31 December 2001 in the State Register of Enterprises. The Company's main office is situated in P. Lukšio g. 5b str., Vilnius, Lithuania. On 8 December 2004 the Company established two subsidiaries: UAB Elektros tinklo paslaugos and UAB Rytra (the Group). The Group's principal activity is distribution and supply of electricity to industrial users and households in Eastern Lithuania.

The Company was registered as the result of the reorganization of the Special Purpose Company Lietuvos Energija. Following the Law on Reorganization of the SPAB Lietuvos Energija No. VIII-1693, dated on 18 May 2000, Lietuvos Energija was reorganized through disintegration. Upon reorganization certain assets, rights and liabilities were transferred from AB Lietuvos Energija that continued its activities, to newly established companies AB Vakarų Skirstomieji Tinklai, AB Rytų Skirstomieji Tinklai, AB Lietuvos Elektrinė and AB Mažeikių Elektrinė.

Upon reorganization AB Lietuvos Energija continues its activity as the transmission network operator and dispatcher and energy market operator. AB Vakarų Skirstomieji Tinklai and AB Rytų Skirstomieji Tinklai operate as distribution network operators and independent suppliers. AB Lietuvos Elektrinė and AB Mažeikių Elektrinė operate as electricity and heat generators.

National Control Commission for Prices and Energy regulates the Company's pricing policy by setting price-caps. In 2004 the effective public tariff caps for electricity were as follows:

- customers, receiving electrical energy from 110 kV and higher voltage electricity network, - 12,24 ct/kWh;
- customers, receiving electrical energy from lower than 110 kV and not lower than 6kV voltage electricity network, - 16,75 ct/kWh;
- customers, receiving electrical energy from 0,4 kV voltage electricity network, - 25,72 ct/kWh.

Before 1 October 2004 the Group consisted of the Company with the head office in Vilnius and 6 branches: Vilnius Elektros tinklai, Panevėžys Elektros tinklai, Alytus Elektros tinklai, Utena Elektros tinklai, Transport service branch and Electricity Network service branch. After the reorganization on 1 October 2004 the Company's branches Vilnius Elektros tinklai, Panevėžys Elektros tinklai, Alytus Elektros tinklai, Utena Elektros tinklai discontinued their activities as branches.

Following the decision of transport and electricity network services separation were established separate subsidiaries: UAB Elektros tinklo paslaugos and UAB Rytra. The subsidiaries were registered at the State Register of Enterprises on 8 December 2004. Transport service branch and Electricity Network service branch discontinued their activities on 31 December 2004.

Addresses of the Company's branches:

Company/ Branch	Addresses
AB Rytų skirstomieji tinklai head office	Lukšio str. 5 b, Vilnius
Vilnius elektros tinklai branch	Motorų str. 2, Vilnius
Panevėžys elektros tinklai branch	Senamiesčio str. 102 b, Panevėžys
Alytus elektros tinklai branch	Pramonės str. 7, Alytus
Utena elektros tinklai branch	Užpalių str. 87, Utena
Transport service branch/UAB Rytra	Geologų str. 16, Vilnius
Electricity Network service branch/ UAB Elektros Tinklo Paslaugos	Motorų str. 2, Vilnius

As of 31 December 2004 the Group employed 2,169 people (As of 31 December 2003 the Group employed 3,003 people).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements are presented in the national currency of Lithuania, the Litas (LTL) since that is the currency in which the majority of the Group's transactions are denominated.

The financial statements have been prepared on the historical cost basis, except for the revaluation of property, plant and equipment. The principal accounting policies adopted are set out below.

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 disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and the Subsidiaries UAB Elektros tinklo paslaugos and UAB Rytra (the Group). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognized as goodwill (negative goodwill). The interest of minority shareholders' is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

The result of the subsidiary acquired during the year is included in the consolidated income statement from the date of control acquisition or the effective date of the acquisition of the subsidiary.

All significant intercompany balances, transactions, unrealized surpluses and deficits on transactions between Group enterprises have been eliminated.

Non-current Intangible assets
Expenses are recognized as intangible assets if they meet these criteria: it is reasonably expected to gain economic benefit from the assets in the future periods; it is possible to measure the cost of the acquisition (production) of asset and to separate it from the value of other assets; the Group has the right to dispose, control or restrict the right for third parties to use it.

Intangible assets are stated at historical cost, less accumulated amortization and impairment losses.

Amortization is computed using the straight-line method. Liquidation value is not established. Amortization costs are recognized as depreciation, amortization and impairment expenses in the income statement.

Non-current intangible assets amortization periods:

Group of non-current intangible assets	Useful life (in years)
Development works	3
Software	3

The impairment and write off losses are charged to depreciation, amortization and impairment expense in the income statement.

Gains and losses on disposal of intangible non-current assets are recognized in the income statement during the year of disposal.

Property, plant and equipment

Property, plant and equipment are such assets, which are under the Group's ownership and control; which are reasonably expected to generate economic benefits in future periods; which are going to be used longer than one year; which acquisition (production) cost can be reliably measured; and which acquisition value is exceeding 2,000 LTL.

Property, plant and equipment are carried at a revalued amount less any subsequent accumulated depreciation and impairment loss. The revaluated amount is the fair value at the date of the revaluation, which was carried out on 31 December 2003 by an independent Lithuanian certified appraisal UAB Korporacija Matininkai. Revaluation results were recorded in the accounting books on 1 December 2004.

Depreciation is computed using the straight-line method over the estimated useful lives of the related asset. Revalued assets are depreciated over their remaining useful lives. Liquidation value equals to 1 LTL. Depreciation is recognized as depreciation, amortization and impairment expense in the income statement.

Non-current tangible assets depreciation periods:

Group of property, plant and equipment	Average useful life (in years)
Buildings and constructions	8-50
Machinery and equipment	5-25
Vehicles	4-10
Other equipment	2-10
Other tangible assets	4-15

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

Property, plant and equipment revaluation methods

Property, plant and equipment initially are recorded at their acquisition cost and subsequently revalued recording at the revaluation amount and for the purposes of financial statements such assets are disclosed at the revaluation amount less accumulated depreciation and impairment.

If a revaluation of Property, plant and equipment is performed, such revaluation should be carried out on a regular basis, not less than once in five years. Non-current tangible assets (all assets or a particular group of assets) the fair value of which continuously and significantly changes should be revaluated more often.

In case of revaluation of one item of property, plant and equipment, the revaluation should also apply to all groups of Property, plant and equipment to which such asset item belongs. All assets attributed to one group should be revalued at the same time.

Revaluation is performed and recorded on item by item basis. If revaluation of property, plant and equipment results in value increase, such increase is recorded as an increase in the value of property, plant and equipment and is credited to the revaluation reserve. If revaluation of property, plant and equipment results in value reduction, such reduction is recorded as a decline in the property, plant and equipment value and is recognized as impairment loss in the reporting period income statement, unless previously the value of such assets has been increased as a result of revaluation.

If an item of property, plant and equipment has been previously revalued and the related revaluation reserve is outstanding, the reduction in its value is recorded as decrease in the revaluation reserve. If the amount of impairment in excess of revaluation reserve of the asset, is recognized as an impairment loss in the reporting period.

If the revaluation of a property, plant and equipment results in the value increase, for the assets where previously impairment was recognized, the increase in value not exceeding previously recognized impairment is recorded as reducing in impairment charge, the excess is charged to the revaluation reserve.

The revalued asset's depreciation charge in following periods is adjust so, that the revalued balance of the asset, after deduction of its liquidation value (if applicable), would be proportionally recognized as an expense throughout its remaining useful life.

When asset is disposed or written off the related of revaluation reserve is released to retained earnings (accumulated deficit).

When depreciating revalued assets, the revaluation reserve is reduced by the amount of depreciation charge related to revaluated surplus. Reduction in the revaluation reserve is released to retained earnings (accumulated deficit).

Impairment of assets
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have incurred 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 Group 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.

Revenue recognition
Revenues are recognized as income when the Group is likely to get economic benefits and the amount of revenue can be measured reliably.

<u>Revenue</u>
Revenues from industrial customers are recognized monthly based on meter measurements performed by the customer and checked by the Group (accrual basis).

Revenues from residential customers are recognized monthly based on cash receipts. A revenue accrual is made to record amounts already supplied but not yet paid at the end of each accounting period. Revenue accrual is estimated as 1/3 of payments received in December for the electricity.

Based on average useful live (30 years) of newly built or remodeled electricity equipment for the connecting new electricity users and the portion (40%) of financing which is reimbursed by the new customer, the following revenue recognition principles for income related to new customers are applied:

a) The income is recognized in the income statement when new customers pay the fee for the connection services based on the tariffs approved by National Control Commission for Prices and Energy Activities.

b) When income from new customer relates to the construction of the new electricity equipment, such income is recognized in the periods when the related costs are recognized, i.e. such income is deferred and recognized in the future periods in line with the depreciation expenses of the related assets that were built to connect the new customers. 1/12 portion of such income is recognized starting the next year after the contribution was received.

<u>Revenue from the rendering of services</u>
Revenues are recognized when the transaction is finished or the stage of completion of the transaction at the balance sheet date can be measured reliably.

<u>Revenue from the sale of goods</u>
Revenue from the sale of goods is recognized when significant risks related with sold goods and rewards of ownership of the goods are transferred to the buyer, and the amount of revenue can be measured reliably.

<u>Interests</u>
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Expenses recognition
Expenses are recognized on an accrual basis.

Borrowing costs
Borrowing costs are recognized in net profit or loss in the period in which they are incurred.

Trade payables

Trade payables are stated at their nominal value.

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.

The Group as lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets held under operating lease are recorded as non-current tangible assets. Such assets are depreciated over their estimated useful lives. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to expenses on a straight-line basis over the term of the relevant lease.

Inventories

Inventories consist mainly of raw materials, spare parts and meter measurements. 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.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantially enacted by 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 income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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 the principal currencies as of 31 December 2004 and 2003 were as follows:

2004	2003
1 USD = 2.5345 LTL	1 USD = 2.7621 LTL
1 EUR = 3.4528 LTL	1 EUR = 3.4528 LTL

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

Geographical segment
A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environment.

The geographical segments are not presented, since all services were provided in Lithuania.

Business segment
A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments.

There are two business segments within the Group's activities: electricity distribution and supply.

Cash and cash equivalents
Cash consist of the cash on hand and in bank. For the cash flows statement classification cash equivalents consists of short-term (up to three months) liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments in equities are not attributed to cash equivalents.

Financial Risk Management

Credit risk
The Group's credit risk is primarily attributable to its trade receivables. Credit risk, or the risk of counterparties defaulting, are controlled by the monitoring procedures. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history.

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

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

Interest rate risk
The Group's loans consist of loans with floating interest ratio, which is related with LIBOR (EURIBOR, VILIBOR). The Group did not use any financial instruments in order to control the risk of interest ratio changes.

Foreign currencies exchange risk
The Group has a policy to synchronize the cash flows from expected sales in the future with the expected purchases and other expenses in each foreign currency. At the moment the Group doesn't use any derivative financial instruments in order to control foreign currencies exchange risk.

Liquidity risk
In order to maintain a sufficient amount of cash and control over the liquidity risk, the Group makes monthly and annual cash flows forecasts.

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

Grants
Accounting for grants is carried out on accrual basis, i.e. received grants or their parts are recognized as utilized during periods in which grants-related expense is incurred.

Grants related to assets
Grants related to assets are obtained in non-current assets or for their acquisition. Such grants are carried at a fair value of received assets and are recorded as used portions by reducing the depreciation of the assets over its useful live.

Grants related to income
Grants related to income are obtained for compensating the incurred expense and unearned income, also the grants other than grants related to assets. A grant is recognized when it is actually received, or when reasonable evidence or decisions confirming that it will be received exist. A grant aimed at compensating unearned income is recognized as utilized to the extent of estimated amount of unearned income during a certain period, and

increasing the item of compensatory income. A grant for compensating the incurred expense in installments is recognized as utilized to the extent of sustained expense for the compensation of which the grant is intended, and by reducing of compensatory income.

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

Earnings per share
For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2004 and 2003 was 492,405,653. The Company had no dilutive options outstanding during 2004 and 2003 or at 31 December 2004 and 2003.

Related parties
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the reporting entity.

Reclassification
Some amounts in the financial statements of year 2003 were reclassified to conform to the 2004 basis of presentation

3. PROPERTY, PLANT AND EQUIPMENT

At 31 December property plant and equipment consisted of the following:

The Group/The Company	Buildings and constructions	Machinery and equipment	Vehicles	Other equipment	Construction in progress	Other tangible assets	Total
Modified historical cost							
31 December 2003	**1,204,950**	**168,932**	**56,389**	**49,982**	**24,056**	**3,924**	**1,508,233**
acquisitions	701	2,573	3,097	6,641	120,101	93	133,206
disposals	(6,790)	(3,133)	(1,820)	(2,024)	(10)	(130)	(13,907)
transfers	101,774	8,306	(3)	15,429	(125,618)	(349)	(461)
revaluation increase (impairment)	1,493,734	138,334	3,689	(780)	-	194	1,635,171
31 December 2004	**2,794,369**	**315,012**	**61,352**	**69,248**	**18,529**	**3,732**	**3,262,242**
Impairment provisions							
31 December 2003	**-**	**-**	**-**	**979**	**316**	**-**	**1,295**
Impairment value / (reversals)	211	72	-	(641)	1,354	12	1,008
31 December 2004	**211**	**72**	**-**	**338**	**1,670**	**12**	**2,303**
Depreciation							
31 December 2003	**621,201**	**88,225**	**43,148**	**26,727**	**-**	**572**	**779,873**
depreciation	53,769	12,176	4,379	9,112	-	75	79,511
reversals	718	1,113	-	5	-		1,836
disposals and write-offs	(4,980)	(2,264)	(1,759)	(1,945)	-	(108)	(11,056)
transfers between items	182	(397)	(2)	17	-	200	-
31 December 2004	**670,890**	**98,853**	**45,766**	**33,916**	**-**	**739**	**850,164**
Modified net book value 31 December 2003	**583,749**	**80,707**	**13,241**	**22,276**	**23,740**	**3,352**	**727,065**
Net book value 31 December 2004	**2,123,268**	**216,087**	**15,586**	**34,994**	**16,859**	**2,981**	**2,409,775**

4. INTANGIBLE ASSETS

At 31 December intangible assets consisted of the following:

The Group/The Company	Development works LTL'000	Software LTL'000	Total LTL'000
Acquisition cost			
31 December 2003	**209**	**5,351**	**5,560**
Additions	55	1,172	1,227
Disposals	-	(143)	(143)
Transfers	-	461	461
31 December 2004	**264**	**6,841**	**7,105**
Accumulated amortization			
31 December 2003	**58**	**2,231**	**2,289**
Charge for the period	70	1,456	1,526
Disposals	-	6	6
Transfers	-	(155)	(155)
31 December 2004	**128**	**3,538**	**3,666**
Net book value			
31 December 2003	**151**	**3,120**	**3,271**
31 December 2004	**136**	**3,303**	**3,439**

5. LONG-TERM RECEIVABLES

At 31 December 2004 amounts receivable after one year consisted of the loans granted to employees in the amount of LTL'000 7,510 (2003: LTL'000 8,125).

The mortgage loans with variable maturities are repayable before the year 2026. The Group earns an average 1.00 % fixed interest per annum on these loans. The loans are secured over residential property.

6. INVENTORIES

At 31 December inventories consisted of the following:

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Raw material and spare parts	11,574	11,574	12,739
Meter measurements	1,192	1,192	4,281
Fuel	227	227	267
Other	2,350	2,350	2,004
Total	**15,343**	**15,343**	**19,291**
Less: write-down to net realizable value	(3,729)	(3,729)	(3,824)
Total	**11,614**	**11,614**	**15,467**

7. RECEIVABLES AND PREPAYMENTS

At 31 December receivables and prepayments consisted of the following:

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Trade amounts receivable	91,981	91,981	88,231
Other amounts receivable	3,557	3,557	8,275
Less: provision for doubtful amounts	(20,888)	(20,888)	(22,905)
Amounts receivable, net	**74,650**	**74,650**	**73,601**
Prepayments	779	779	1,243
Total	**75,429**	**75,429**	**74,844**

The movement for the years in the provision for doubtful accounts receivable consisted of the following:

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Provision at the beginning of the year	22,905	22,905	20,503
Increase during the year	-	-	2,402
Decrease during the year	(2,017)	(2,017)	-
Provision at the end of the year	**20,888**	**20,888**	**22,905**

8. CASH AND CASH EQUIVALENTS

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

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Cash at bank	1,198	1,138	5 920
Cash on hand	53	53	48
Cash in transit	129	129	-
Total	**1,380**	**1,320**	**5 968**

9. SHARE CAPITAL

As of 31 December 2004 and 31 December 2003 issued share capital consisted of 492,404,653 authorized ordinary shares at par value of LTL 1 each. All shares were fully paid.
There were no movements in the share capital of the Group during the year 2004 and 2003.
In April 2004 the shareholders of the Company declared and during the year 2004 paid dividends in the amount of LTL'000 7,583 (LTL 0.15 per share). In January 2003 the shareholders of the Company declared and during the year 2003 paid dividends in the amount of LTL'000 10,440 (LTL 0.21 per share).

As of 31 December 2004 the shareholders of the Group were as follows:

Shareholders	Proportion of ownership	
	LTL'000	Proc.
The State of Lithuania, represented by the Ministry of Economy	351,336	71,35
E.On Energie	99,845	20,28
Other	41,224	8,37
Total:	**492,405**	**100,00**

10. RESERVES

As at 31 December 2004, legal reserve amounted to LTL‘000 42,061 (31 December 2003 – LTL‘000 31,436). A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5 percent of net profit calculated in accordance with the Lithuanian regulatory legislation on accounting are compulsory until the total of the reserve reaches 10 percent of the share capital. The distribution of legal reserve is restricted to covering accumulated deficit.

Revaluation reserve is the value increase of the non-current tangible assets after revaluation. The Group revalued its‘ non-current tangible assets. As of 31 December 2004 revaluation reserve amounted to LTL’000 1,500,944.

11. GRANTS AND SUBSIDIES

Assets received from the state at no consideration are as Grants and subsidies. Such non-current tangible assets are depreciated on a straight-line basis over the useful life of the assets. Grants are recorded as income by reducing the depreciation charge over the useful lives of the assets concerned.

At 31 December 2003 grants amounted to LTL’000 4,938. During the year 2004 grants recognized to income amounted to LTL’000 775. At 31 December 2004 grants amounted to LTL’000 4,163.

12. BORROWINGS

At 31 December borrowing consisted of the following:

	The Group	The Company	
	2004 LTL’000	2004 LTL’000	2003 LTL’000
Current			
Bank credit lines	-	-	811
Bank overdraft	2,187	2,187	8,160
Bank borrowings	83,380	83,380	55,912
Non-current			
Bank borrowings	86,355	86,355	87,138
Total	**171,922**	**171,922**	**152,021**

Borrowings of LTL‘000 170,518 were arranged at floating interest rates raging between 2.51 % and 3.54%.

Borrowings of LTL‘000 1,404 were arranged at zero interest rate.

The loan from Unibank A/S in the amount of LTL‘000 1,404 is secured by the Government of Lithuania guarantee.

Borrowings by currencies at 31 December 2004 consisted of:

	The Group	The Company	
	2004 LTL’000	2004 LTL’000	2003 LTL’000
LTL	29,630	29,630	8,160
EUR	140,888	140,888	141,312
USD	1,404	1,404	2,549
Total	**171,922**	**171,922**	**152,021**

At 31 December the maturity of the borrowings was as follows:

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Within one year	85,567	85,567	64,883
In the second to fifth years inclusive	59,409	59,409	74,708
After five years	26,946	26,946	12,430
Total	**171,922**	**171,922**	**152,021**

The fair value of current and non-current borrowings approximates their book value.

At 31 December 2004 the maturity of the borrowings and effective interest rates were as follows:

	Debts due				
The Group/The Company	**Within one financial year**	**After one financial year, but no later than within five years**	**After five years**	**Total**	**Effective interest rate %**
Financial debts to credit institutions:					
AB bank Hansabankas	20,005	-	-	20,005	2.94
AB bank NORD/LB	-	6,906	3,453	10,359	2.51
AB Vilniaus bankas	8,427	-	-	8,427	2.65
Vereins und Westbank AG	-	6,906	3,453	10,359	3.54
Unibank A/S	1,404	-	-	1,404	0
Nordea Bank Finland Plc	-	24,860	6,215	31,075	3.17
Nordea Bank Finland Plc	-	20,737	13,825	34,562	2.63
Nordea Bank Finland Plc OV	19,016	-	-	19,016	2.93
Kredyt Bank S.A. (Nordea Bank Finland Plc)	34,528	-	-	34,528	2.60
Vereins und Westbank AG OV	2,187	-	-	2,187	3.15
Total	**85,567**	**59,409**	**26,946**	**171,922**	

13. DEFFERED INCOME FROM NEW CUCTOMERS

As of 31 December 2004 the amount of deferred income from new customers to be recognized after one year was LTL'000 30,892 (as of 31 December 2003: LTL'000 16,104), to be recognized within one year was LTL'000 2,807 (as of 31 December 2003: LTL'000 1,463).

As it is disclosed in Note 22 to the financial statements in the year 2004 the Group has adopted a new accounting policy for the new customers' income recognition, accordingly prior years financial statements were restated.

14. TRADE AND OTHER PAYABLES

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

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Trade payables	102,202	102,202	112,521
Advances received	6,609	6,609	7,134
Profit tax liabilities	8,446	8,446	5,686
Liabilities related to remunerations	2,548	2,547	3,544
Deferred income from new customers	2,807	2,807	1,463
Other amounts payable and liabilities	5,819	5,819	6,062
Total	**128,431**	**128,430**	**136,410**

15. OFF-BALANCE SHEET RIGHTS AND OBLIGATIONS

As of 31 December 2004 the Group‘s had no off-balance sheet obligations.

Pursuant to the order of the Lithuanian Minister of Economy, dated 3 December 2003, the Group is obliged to buy out from enterprises and individual residents electric energy objects that are under their common use. The group 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, or by signing the agreements 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 Group and coordinated with the National Control Commission for Prices and Energy. As of 31 December 2004 the total requests amount to purchase common used objects was LTL'000 7,400. The Group will have to settle accounts with the owners of those electric energy objects no later than by 31 December 2010.

16. BUSINESS SEGMENTS

AB Rytų Skirstomieji Tinklai activities are regulated by the Republic of Lithuania Law on Electricity of 20 July 2000, No VIII-1881 (as amended on 26 June 2001, No IX-408). The law is effective from 1 January 2002. Article 8 of aforementioned law stipulates the provisions for separating the Group's accounts for each of its activities: distribution and supply. The Group presented its reportable segments to comply with the provisions of the law.

There are two business segments within the Group's activities: electricity distribution and supply. The segment information for the year ended 31 December was as follows:

The Company	2004 LTL'000 Distribution	2004 LTL'000 Supply	2004 LTL'000 Other	2004 LTL'000 Total
Revenue	321,372	420,212	-	741,585
Electricity purchase including selling services	(51,613)	(407,483)	-	(459,096)
Depreciation, amortization and impairment	(214,588)	(280)	-	(214,868)
Other expenses	(155,885)	(9,966)	-	(165,851)
Segment result	(100,714)	2,484	-	(98,230)
Other income, net	-	-	2,910	2,910
Net financial expenses	-	-	(4,529)	(4,529)
Income tax benefit	-	-	-	15,840
Net loss	**-**	**-**	**-**	**(84,009)**

The Company	2003 LTL'000 Distribution	2003 LTL'000 Supply	2003 LTL'000 Other	2003 LTL'000 Total
Revenue	295,983	402,112	-	698,095
Electricity energy, including selling services	(57,611)	(389,922)	-	(447,533)
Depreciation, amortization and impairment	(80,145)	(348)	-	(80,493)
Other expenses	(149,310)	(8,661)	-	(157,971)
Segment result	8,918	3,181	-	12,099
Other income, net	-	-	5,124	5,124
Net financial expenses	-	-	(4,640)	(4,640)
Income tax expense	-	-	-	(3,587)
Net profit	**-**	**-**	**-**	**8,996**

Geographical segments

All the revenues of the Group are generated and assets are located in the Republic of Lithuania.

17. OPERATING EXPENSES

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

	The Group	The Company	
	2004	2004	2003
	LTL'000	LTL'000	LTL'000
Electricity purchase	(327,537)	(327,537)	(318,051)
Depreciation, amortization and impairment	(214,868)	(214,868)	(80,493)
Other expenses	(297,410)	(297,410)	(287,452)
Total operating expenses	**839,815**	**839,815**	**685,996**

For the year ended 31 December depreciation, amortization and impairment were as follows:

	The Group	The Company	
	2004	2004	2003
	LTL'000	LTL'000	LTL'000
Non-current assets impairment (related to the revaluation)	130,605	130,605	-
Depreciation and amortization expenses	80,913	80,913	72,272
Non-current assets impairment	1,618	1,618	329
Construction in progress impairment	1,400	1,400	313
Amounts receivable provisions	419	419	4,622
Inventory provisions (reversals)	(87)	(87)	2,957
Total	**214,868**	**214,868**	**80,493**

For the year ended 31 December other expenses consisted of the following:

	The Group	The Company	
	2004	2004	2003
	LTL'000	LTL'000	LTL'000
Electricity distribution services expenses	131,559	131,559	129,482
Remuneration and related taxes	68,002	68,002	64,049
Raw materials, stock and fuel expenses	20,401	20,401	23,912
Taxes	11,886	11,886	14,371
Repair and maintenance expense	11,219	11,219	9,794
Meter measurements (only electricity meters)	10,578	10,578	10,489
Property maintenance expenses (excluding repairs)	8,160	8,160	4,732
Vacation reserve and social security tax expenses	7,163	7,163	5,931
Other inventory	5,886	5,886	6,661
Communication expenses	4,916	4,916	4,534
Cash collection expenses	3,599	3,599	3,505
Assets appraisal fees	1,699	1,699	833
Consulting expenses	1,259	1,259	583
Cleaning expenses	1,226	1,226	-
Heating expenses	947	947	1,291
Allowances and charity	872	872	848
Property security services	849	849	492
Equipment rent expenses	697	697	335
Office supplies expenses	652	652	569
Premises rent expenses	482	482	817
Employee training expenses	433	433	321
Public relations and advertising expenses	425	425	-
Post services	423	423	364
Public utilities expenses	413	413	418
Business trips	328	328	355
Bank fees	107	107	143
Representation expenses	103	103	88
Other expenses	3,127	3,127	2,535
Total	**297,410**	**297,410**	**287,452**

18. OTHER INCOME, NET

For the year ended 31 December other income, net consisted of the following:

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Income	**5,275**	**5,275**	**4,122**
Repair and testing services income	1,058	1,058	336
Contract works and other services income	913	913	1,526
Transportation services income	859	859	328
Fines	721	721	1,439
Gain from fixed assets disposals	252	252	-
Rent income	220	220	272
Income from the accounted surplus of inventory	81	81	-
Income from sale of inventory	80	80	25
Other income	2,095	2,095	2,269
	6,279	**6,279**	**6,195**
Expenses			
Depreciation of the residential premises	124	124	29
Maintenance of the health objects	43	43	27
Residential premises repair and maintenance expenses	10	10	183
Other expenses of service branches	3,064	3,064	639
Loss from fixed assets disposals	-	-	48
Other expenses	128	128	145
	3,369	**3,369**	**1,071**
Total	**2,910**	**2,910**	**5,124**

19. NET FINANCIAL EXPENSES

For the year ended 31 December net financial expenses consisted of the following:

	The Group	The Company	
	2004 LTL'000	2004 LTL'000	2003 LTL'000
Interest income	97	97	140
Foreign currency exchange gain	95	95	571
Interest expense	(4,721)	(4,721)	(5,351)
Total	**(4,529)**	**(4,529)**	**(4,640)**

20. INCOME TAX (BENEFIT)/EXPENSE

A reconciliation of income tax expense at the statutory rate to income tax (benefit)/expense at the Group's effective rate is as follows:

	2004 LTL'000	%	2003 LTL'000	%
(Loss) profit before income tax	(99,849)		12,583	
Tax at the statutory income taxes rate (15 %)	(14,978)	15	1,888	15
Tax effect of items that are not deductible or taxable in determining taxable profit	24,849	25	3,799	30.19
Tax effect of increase in deferred tax asset	(25,711)	(26)	(2,100)	(16)
Income tax (benefit)/ expense	**(15,840)**	**16**	**3,587**	**29**
The components of income tax expense are as follows:				
Current income tax expense	9,871		5,687	
Deferred income tax benefit	(25,711)		(2,100)	
Income tax (benefit)/ expense	**(15,840)**		**3,587**	

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

The management has recorded a valuation allowance in the amount it believes is necessary to reduce the deferred tax asset to the amount that will most likely be realized. The components of deferred income tax assets and liability are summarized as follows:

	2004 LTL'000	2003 LTL'000
Deferred tax assets:		
Provisions	1,565	471
Accruals	279	332
Impairment of non–current tangible assets	19,591	-
Deferred income from new customers	5,054	2,635
Total deferred tax asset	**26,489**	**3,438**
Deferred tax liability:		
Accelerated depreciation (tax relief on acquisition of non - current tangible assets)	23,824	26,484
Revaluation of non-current tangible assets	264,866	-
Total deferred tax liability	**288,690**	**26,484**
Deferred tax liability, net	**262,201**	**23,046**

The movement for the year ended 31 December 2004 in the Group's net deferred tax liability position was as follows:

	2004 LTL'000	2003 LTL'000
At 1 January 2004	**23,046**	**25,146**
Charge to income for year	(25,711)	(2,100)
Revaluation of non-current tangible assets	264,866	-
At 31 December 2004	**262,201**	**23,046**

21. POST BALANCE SHEET EVENTS

On 29 December 2004 The Board of the Group decided to increase the share capital of the subsidiaries UAB Rytra and UAB Elektros tinklo paslaugos by the 12,543,000 and 4,080,000 authorized ordinary shares respectively. The nominal value of the newly issued shares is LTL 1. The new emission of the shares of the subsidiaries UAB Rytra and UAB Elektros tinklo paslaugos was paid by non-monetary items (non-current tangible assets). Non-current tangible assets were evaluated by the independent valuators. At 1 January 2005 non-current tangible assets were transferred to the subsidiaries.

In January and February 2005 the Company sold the inventory to the subsidiaries UAB Rytra and UAB Elektros tinklo paslaugos in the amount of LTL 782,655 and LTL 6,346,243 respectively.

From 1 January 2005 the Group changed non-current tangible and non-current intangible assets average useful lives. After the estimation of the conditions of the assets in use, the remaining useful lives were estimated.

National Control Commission for Prices and Energy Activities from 1 January 2005 stated the effective public tariff caps for electricity as follows:
- customers, receiving electrical energy from 110 kV and higher voltage electricity network, - 12,43 ct/kWh;
- customers, receiving electrical energy from lower than 110 kV and not lower than 6kV voltage electricity network, - 18,87 ct/kWh;
- customers, receiving electrical energy from 0,4 kV voltage electricity network, - 29,40 ct/kWh.

22. RESTATEMENT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

In the year 2004 the Group has adopted a new accounting policy for the recognition of the purchase allowances received from suppliers. The comparative financial statements of the Group as of 1 January 2003 were retroactively restated to reflect the changes in accounting policy, as required by International Accounting Standard 8 (Revised) "Accounting Policies, Changes in Accounting Estimates and Errors".

According to the new policy, income service connection fees received from new customers, when no non-current tangible asset is built, are recognized when the connection work is completed. When income from new customer is related to the construction of the new electricity equipment, then such income is recognized in the periods when directly related costs are incurred, i.e. such income is deferred and recognized in the future periods in line with the depreciation expenses of the related assets that were built to connect new customers.

As a result of the above mentioned restatement as of 31 December 2003 and for the year then ended income from new customers decreased by LTL'000 11,488, income tax expense and deferred tax liability decreased by LTL'000 2,635, liabilities (deferred income) increased by LTL'000 17,567 and equity decreased by LTL'000 14,933.

The total impact of the above discussed restatements to the financial statements was as follows:

	As restated	**As previously reported**
	LTL'000	**LTL'000**
As of 31 December 2003:		
Deferred tax liability	23,046	25,681
Deferred income from new customers	17,567	-
Total liabilities	**332,519**	**286,968**
Retained earnings	(21,655)	(6,722)
Total equity	**502,221**	**517,154**
For the year ended 31 December 2003:		
Income from new customers	4,985	16,473
Income tax	(3,587)	(6,220)
Net profit	**8,996**	**17,851**

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