

11 Companies Listed in Vilnius

11.1 In Lithuania, companies listed on the official list (8) have been required to apply IFRS. Companies on the current list have been permitted to apply IFRS. At the present time there are 8 companies on the official list and 21 on the current list. 13 of the current list entities prepared IFRS financial statements for 2003 and 1 applied US GAAP.

11.2 As of 2001 unlisted entities must follow the three laws that regulate accounting – Law on Accounting, Law on Financial Statements and Law on Consolidated Accounts. The revised laws established the Accounting Institute (AI), which is responsible for issuing Business Accounting Standards (BAS). BAS are based on IFRS and the European accounting directives.

Under the present laws, the situation in Lithuania is as follows:

in 2005 all listed companies must consolidate under IAS and may apply IAS in their separate financial statements;
credit institutions must apply IAS/IFRS as interpreted by the BoL;*
Insurance companies are required to apply the regulations penned by SISA and approved by the MoF;
investment and pension funds apply regulations approved by the MoF;
other companies, are required to apply BAS as issued by the AI as of year-end 2004.**

* Of the 3 banks listed on the exchange, it should be noted that Bankas Nord's financials were accompanied by a qualified auditors' report. The qualification was due to the fact that the bank applied loan loss allowances as prescribed by the BoL, which are not compatible with IAS 39. The BoL insists it applies IFRS.

Bankas Snoras did not present financials in their annual report , but rather in what is called the Audit Report. This is a shame, because if you combined the good MD&A in the annual report with the financials in the audit report, it would make for a high quality annual report.

All three banks (Nord, Snoras and Ukio) presented statutory formats. Under the EU regulation of 2002, the BoL does not have the right to require formats or treatments, which are not in line with IAS. They may however require additional disclosures.

**BAS has developed very rapidly. Companies adept at applying BAS will not have a difficult time applying IFRS. They will however need to hone their disclosure skills.

11.3 On the Lithuania National Stock Exchange's web site we had difficulties in understanding the structure of the files posted and the difference between

Annual Reports and Audit Reports. In some cases the annual report did not include the financials, but was in effect an operating review/MD&A, in others it contained an MD&A, financial and auditors' report. In some cases the Audit Report contained the audited financials but in others only the auditors' opinion. In one case the Annual Report contained a detailed management letter from the entity's auditors to management.

11.4 We found 5 sets of financial statements (either IFRS or Lith GAAP), which featured KPMG's logo on each and every page. In all of these cases veritably no information about the entity or group was included in the notes or in an appended MD&A. This raises three issues. The first - a significant independence issue — as to whether the actual accounting policies followed by the entities comply with the “boilerplate” disclosures in the IFRS-based financial statements. The second - management's accountability for providing true and fair view financial statements. The third – “boiler-plate” financials do nothing to enhance the image of the company and are a definite turn-off for investors and analysts.

We found 1 case where the cover page featuring the entity's name and name of the document featured E&Y's logo in big bold letters. This case is unfortunate as the financial statements were of high quality and informative.

11.5 We could not open the files provided for Snaige. Neither could we find their annual report or financial statements on their web site.

11.6 It is unclear why Lietuvos Telekomas presented summary financials instead of full-fledged financials. The document mentions that the full-fledged financials are available on the company's web site. We were unable to find them in English.

11.7 The columns to the right confirm whether the entity's presented segmental data and the financial risks to be disclosed under IAS 32 (credit, fair value, interest rate, etc). The final column has been used to show whether the documents included an MD&A section, featured share price or gave a cursory description of the entity's establishment and business in the notes. VG stands for very good.

Company	Business	GAAP	Conso lidated	En g	Auditor	Seg	Risk s	MD&A
AB Ekranas	Television Tubes	IFRS except PPE	Yes P & G	Y	E&Y Qualified for tangibles	1	Y	Yes Share price
Lietuvos Telekomas	Telecomm unication	IFRS short- ened	Y P & G	Y	PwC	Y	Y	Yes Share price

Pleno Zvaigzdes	Milk production and distribution	IFRS on KPMG paper	Y G only	Y	KPMG Qualified for tangibles	Y	N	N
Rokiskio Suris	Cheese and milk	IFRS	Y G only	Y	PwC Audit report in separate file – not with FS	Y	Y RP	1p
Snaige	Refrigerators	? audit report file will not open						
Utenos Trikotazas	Knitted fabric	IFRS Cover page has E&Y logo	Y P and group Break-down of CGS	Y	E&Y	Y	Y	1 p. Share holders
Vilnius Baldu Kombinat	Furniture	IFRS	N	Y	E&Y	Y	Y	N
Vilnius Vingis	Electronic components	IFRS P also Lith and qualified	N	Y	KPMG Qualified for tangibles	1	No	Yes share price
Current list								
Alita	Alcoholic and non-alcoholic beverages Privatized 06.01.04	Lith GAAP scanned KPMG paper + Lith forms	N	Y	KPMG Qualified for prior year	N	N	N
Alytaus Tekstile	Cotton textiles	IFRS	N	Y	Deloitte Qualified for impairment	Y	Y	N
Anyksciu Vynas	Alcoholic and non-alcoholic beverages	IFRS scanned KPMG paper	N	Y	KPMG Qualified for tangibles	Y	Yes	N
Bankas	Banking	IFRS	Y	Y	PwC	Y	Y	Y

Nord	MoF is shareholder		G&P		Qualified for loan loss = entire amount BoL requirement			VG
Bankas Snoras	Banking	IFRS no FS in annual report FS in audit report	Y G&P	Y	D&T	Y	Y	Y in ann report and aud rep
Dvarcioniu Keramika	Ceramics	IFRS	N	Y	D&T Qualified impairment of invest in subsidiary and rec	1	Credit and liquidity	N
Grigiskes	Fiberboard and paper	IFRS But indexed assets	Y G only	Y	D&T	Y	Y	N
Klaipėdos Baldai	Manufacturing furniture	IFRS	Y	Y	PwC Qualified as subs have diff accounting policies for buildings Goodwill may be impaired	Y	Y	N
Klaipėdos Nafta	Oil terminal	IFRS	N	Y	E&Y Qualified for inv	Y	N	Info in notes on shareholders
Lietuvos Dujos	Gas distribution	Lith GAAP	N Insig sub	Y	E&Y	N	N	Y VG
Lietuvos Elektrine	Electrical and	Lith GAAP	N	Y	Accounting and	N	N	N

	thermal energy	Audit report?			Control Firm Auditas UAB			
Lietuvos Energija	Energy	IFRS Notes missing -metine ataskaita nice brochure	N	Y	D&T	N	N	Y VG
Lifosa	Fertilizers	IFRS	Y	Y	PwC	Y	Y	N info in notes on shareholders, etc.
Limarko Laivininkystes	Shipping	Lith GAAP On KPMG paper	N	Y	KPMG Qualified due to impairment	N	N	N
Linas	Textiles	Lith GAAP	N	Y	D&T	N	N	N
Lisco Baltic	Shipping	Lith GAAP	N Has subsidiaries	Y	KPMG Qualified for impairment of vessels	N	N	Y Share price VG
Mazeikiu Nafta	Oil	US GAAP In Litass	Y	Y	PwC	Y	Y	Y Share price VG
Panevezio Statybos Trestas	Construction	Lith GAAP Amended FS	N Has subsidiaries	Y	D&T	N	N	N
Rytu Skirstomieji Tinkiai	Energy	IFRS FS 22 pp. Presented 2 x in same file	N	Y	PwC 7 qualifications indexed tangibles depreciation	N	Y	N

					instalation rev inven- tories			
Ukio bankas	Banking	IFRS Regula- tory formats for BS, IS, CF	Y G&P	Y	D&T	Y	Y	Y VG
Vilnius Degtine	Alcoholic beverages	Lith GAAP KPMG Logos	N	Y	KMPG Qualified receiv inv construc	N	N	N

12 Issues

12.1 No unreserved declaration of compliance with IFRS

We found IFRS financial statements that did not feature an unreserved declaration of compliance. Instead, IFRS was claimed to be the chosen accounting platform except for how property, plant and equipment were accounted for. In some cases this lead to a qualified audit opinion.

This is a classic case of “cherry-picking”, which IAS 1 precluded and precludes. Management does not argue their case against the backdrop of the true and fair override nor explain why they are unable to apply IAS 16 Property, Plant and Equipment (PPE). If the lack of separate identification is the problem, as mentioned in the auditors’ report, management does not confirm this. Rather management states that that the indexation issue is confined to buildings acquired before 1996. Please note that previous “cherry-pickers” are first-time adopters under IFRS 1 and should apply that standard when preparing their financial statements for 2004.

We encourage companies to cease and desist “cherry-picking” and prepare IFRS financial statements, which include an unreserved declaration of compliance for 2004.

A Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect, except for the accounting for buildings, acquired before 1 January 1996, as disclosed in the accounting policies hereafter.

F Property, plant and equipment

The Company's and the Group's buildings, acquired before 1 January 1996, are stated at indexed cost less indexed accumulated depreciation and impairment losses evaluated (Note 11). Property, plant and equipment other than buildings acquired before 1 January 1996, are stated at cost less accumulated depreciation and evaluated impairment losses (IAS 16).

The accounting policy applied for buildings represents a departure from International Financial Reporting Standards (IAS 16 and IAS 29), which require the use of either historical cost as adjusted for hyperinflation through a general price index, or a valuation supported by independent, professionally qualified valuers.

12.2 Indexed assets

This issue is mentioned by a number of entities. In the table you can see that this has led to qualifications in auditors' report in some, but not all cases. Some entities, have resolved this problem via valuations by independent valuers. In other cases, we find unqualified audit reports, regardless of the fact that management does not describe any actions they may have taken. This may be due to materiality considerations. In some IFRS financial statements for 2002 we found long and multiple disclosures describing hyperinflation pre-1996 and the indexation issue.

We believe this is an issue, which requires a consensus by the profession. We suggest that impairment testing is the real issue. Long diatribes on hyperinflation (if that is what it was and not price stabilization), etc are detrimental to the image of the capital markets and entities affected. The issue needs to be resolved. Interestingly enough, this is not taken up as an issue in the financial statements of Estonian and Latvian entities, regardless of the fact that mandatory revaluations were performed.

IAS 16, 30 states that the fair value of land and buildings is usually market value as determined by appraisal normally undertaken by professional qualified valuers. IAS 16, 64 requires entity's to disclose whether an independent valuer was involved.

IFRS 1 states that indexed amounts may be considered as the deemed costs of PPE, if and only if, these values approximated fair value or cost at the time of the revaluations. First-time adopters will either need to use the services of an independent valuer or determine cost or fair value in some other reliable manner.

Property, plant and equipment

Items of property, plant and equipment acquired on or after 1 January 1996 are stated at cost, less accumulated depreciation and impairment losses. Items of property, plant and equipment acquired before 1 January 1996 are stated at cost less accumulated depreciation as adjusted for indexation, using indexation rates set by the Lithuanian Government for different categories of assets. The cost of self-constructed assets includes the cost of materials, direct labour cost and an appropriate proportion of production overheads.

The accounting policy of property, plant and equipment acquired prior to 1 January 1996 departed from International Financial Reporting Standards, requiring the use of either historical cost as adjusted for hyperinflation by a general price index, or a valuation supported by an independent value appraisal by a recognized firm. During 2001, the Company made a valuation of a major part of property, plant and equipment, which was acquired prior to 1 January 1996. The summary of valuation is provided in Note 9.

The range of revaluations and revaluation indexes was as follows:

Revaluation	<u>The range of indexes</u>
Effective from 1 July 1991	2.2 times
Effective from 1 March 1992	2 - 5 times
Effective from 1 April 1994	1.4 - 14 times
Effective from 31 December 1995	1.6 - 1.7 times

Buildings, which were indexed in the period of 1991 to 1995 have been subject to appraisal by an independent valuator in the end of 2001. The market value of fast sale as evaluated approximated the book value at the time of the appraisal. No independent valuation has been made afterwards and the assets are carried at indexed cost less accumulated depreciation.

The machinery and other assets, which were subject to indexation during 1991 to 1995 do not comprise a material amount compared to total property, plant and equipment.

There are no indications that the carrying amount of the indexed assets differs materially from that which would be determined using fair value at the balance sheet date.

12.3 Impairment

The presentation of financial ratios is best practice. We, the reviewers are very thankful for this presentation.

However, the fact that the book value of equity exceeds market capitalization is of concern. In accordance with IAS 36 this is one of the external indicators, which should trigger impairment testing. This is not a one-off situation but has existed during 1999-2003. The difference is approx. 120 million litas on 31 December 2003. We would expect market capitalization to exceed the book value of equity as share prices reflect the expectations of shareholders regarding future cash flows.

The reasons for this difference may be many, however we do want to turn managements' attention to the fact that investors take note of this situation.

Key financial indicators of 2003

Indicators	1999	2000	2001	2002	2003
Sales, LTL mill.	279,4	438,9	434,8	422,1	462,3
EBIT, LTL mill.	9,4	55,9	47,1	17,0	17,3
EBITDA (operating profit + depreciation + amortization), LTL mill.	29,1	80,8	78,7	69,9	72,9
Net profit, LTL mill.	2,7	50,3	43,1	12,3	20,2
Assets, LTL mill.	280,0	357,8	505,9	575,4	653,0
Equity, LTL mill.	178,9	226,2	291,3	302,6	321,8
Equity per share, LTL	5,9	7,5	8,3	8,7	9,2
Net margin, %	1,0	11,5	9,9	2,9	4,4
EBIT margin, %	3,4	12,7	10,8	4,0	3,8
EBITDA margin, %	10,4	18,4	18,1	16,6	15,8
ROA, %	1,0	15,8	10,0	2,1	3,3
ROE, %	1,5	25,0	16,7	4,1	6,5
Capitalization, LTL mill.	80,3	204,8	204,2	205,9	200,7
Price / earnings per share ratio	26,5	4,0	4,5	16,9	9,9
Earnings per share, LTL	0,1	1,7	1,3	0,4	0,6
Dividends per share, LTL	-	0,033	0,029	0,029	0,037

In the notes to the entity's financial statements we find that an independent valuation was carried out in 2000, which confirmed that the fair values of the assets valued (we do not know which) exceeded carrying amount but that the results of the valuation were not recorded in the financial statements. If the intent of this statement is to allay our fears regarding the impairment of assets, then it does not work. It does not work because the valuation was carried out in 2000, which was also the year in which market capitalization and the book value of equity were the closest in amount.

If a company purports to having tested assets for impairment, we would like to know at which level impairment was tested and the underlying assumption employed.

We encourage the managements of companies whose book value of equity exceeds market capitalization to apply IAS 36 (revised 2004) for 2004 and test their assets at the cash-generating unit (CGU) level.

12.4 Cash flows and non-cash items

IAS 7 states that under the indirect method for presenting cash flows from operations income should be adjusted for

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed profits of associates, and minority interests; **and**
- (c) **all other items** for which the cash effects are investing or financing cash flows.

Cash flow statement

	<u>2003</u>	<u>2002</u>
Result after tax	9,531	13,656
Adjustments for:		
Depreciation and amortisation	10,301	9,230
Amortisation of grants	0	-17
Subsidies received	-86	-77
Property, plant and equipment sold, written off, etc.	477	-1
Result from sale of securities	0	-22
Deferred taxation	16	66
Provision for obsolete inventories	83	-175
Provision for doubtful receivables	-61	199
Accrual for current taxation	1,619	2,562
Vacation reserve	-193	50
Financial income and expenses	658	942
Net cash inflow from ordinary activities before any change in working capital	22,345	26,413
Change in trade and other receivables	4,685	-1,959
Change in inventories	-1,174	352
Change in trade creditors and other creditors	2,031	-2,657
Net cash inflow from ordinary activities	27,887	22,149
Net interest received/paid	-658	-942
Profit tax paid	-3,214	0

At first glance we failed to understand why “provisions” and vacation pay accruals are added/deducted as these items clear out via the changes in working capital calculation. We now suspect that the reason lies in the word **provision**. These items are not provisions in accordance with IAS 37. They are allowances. Accruing vacation pay does not result in a reserve. It is an accrual. Please see IAS 37, 11b.

The down side of adding back allowances and accruals is that the user cannot confirm the amount presented for changes in working capital by comparing the opening and closing balances (net of allowances and including accruals) of working capital line items in the balance sheet.

We encourage management to reconsider adding back “provisions” and vacation pay accruals when using the indirect method.

12.5 Cost of sales

IAS 1, 83 states that if an enterprise classifies expenses by function, additional information should be disclosed on the nature of expenses, including depreciation and amortization expense and staff costs.

Many entities do not provide us with this information regarding cost of sales and yet provide a detailed breakdown of administrative expenses. We have not been able to ascertain the criteria used for disaggregating expenses. Please note that the amount shown for other expenses is substantial.

Considering the fact that cost of sales is often the largest line item in the income statement, we encourage companies to present a breakdown of cost of sales - by nature.

15. COST OF SALES

For the year ended 31 December cost of sales consisted of the following:

	2003	2002
	LTL'000	LTL'000
Cost of finished goods	25,856	23,508
Cost of goods for resale	9,004	9,625
Other	580	889
Total	35,440	34,022

17. ADMINISTRATIVE EXPENSES

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

	2003	2002
	LTL'000	LTL'000
Personnel expenses	1,985	2,142
Repair and maintenance of assets	472	551
Depreciation and amortization	490	428
Business trips	448	423
Communication expenses	512	402
Security expenses	355	357
Taxes	712	343
(Decrease) / increase in provision for doubtful account receivables	(101)	745
Representation expenses	315	147
Fines (reversal)	21	(1,504)
Other expenses	1,030	1,164
Total	6,239	5,198

12.6 Formats and the notes

The following company prepares its financial statements in accordance with Lithuanian GAAP. Their MD&A was very good. The note on accounting policies was good. If they could get rid of the first column and present cross-references to the notes on the face of the financial statements, they would be well on their way to living up to the spirit of international GAAP.

No.	Liabilities and Shareholders' Equity	2003 (LTL)	2002 (LTL)
A.	Share capital and reserves	429,315,604	382,157,938
I.	SHARE CAPITAL	340,877,835	340,877,835
I.1.	Subscribed share capital	340,877,835	340,877,835
I.2.	Uncalled share capital (-)	-	-
II.	SHARE PREMIUM	-	-
III.	REVALUATION RESERVE	-	-
IV.	RESERVES	29,713,127	4,742,817
IV.1.	Legal reserves	9,143,459	4,225,824
IV.2.	Reserves not available for distribution	17,552,675	-
IV.3.	Reserves available for distribution	3,016,993	516,993
V.	PROFIT (LOSS) BROUGHT FORWARD	58,724,642	36,537,286
V.1.	Current year profit (loss)	58,724,642	57,325,958
V.2.	Previous year profit (loss)	-	(20,788,672)
B.	Financing (grants and subsidies)	670,777	920,167
C.	Provisions and deferred taxes	-	-

12.7 Materiality and thresholds for asset capitalization

The company whose note is presented below applied Lithuanian GAAP. Please note their total assets. We noted other entities with stated thresholds of 1 000 Litass for tangibles. We commend them for changing their accounting policies, however there is nothing extraordinary about these expenses, they are common changes in accounting policy.

TURTAS IŠ VISO TOTAL ASSETS	427.765.251	406.609.993
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CHANGES OF ACCOUNTING PRINCIPLES AND ACCOUNTING ASSESSMENTS

As of 1 January 2003, the capitalisation limit applied in respect of intangible assets changed. Starting from 1 January 2003, software should be capitalised only when its acquisition cost exceeds total 500 tLTL. In addition, the amortisation period of goodwill has been shortened from 15 to 2 years.

The changes of accounting principles and accounting assessments were applied retroactively. Consequently, the residual value of intangible assets as of 1 January 2003 was reduced by 210.000 LTL. This amount is counted as an extraordinary loss in the profit and loss account for 2003.

As of 1 January 2003, the rules for capitalisation of fixed tangible assets were changed. Prior to 1 January 2003, capitalisation was applied to the fixed tangible assets whose cost price exceeded 1.000 LTL. As of 1 January 2003, capitalisation has been applied to the fixed tangible assets whose cost price exceeds 50 tLTL.

Furthermore, as of 1 January 2003 new depreciation terms have been applied to fixed tangible assets, excluding the vessels.

As a result, the residual value of fixed tangible assets as of 1 January 2003 was adjusted by 1.957 tLTL, which was accounted for as an extraordinary loss in the profit and loss account for 2003.

