

AB LIETUVOS ELEKTRINĖ

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

AB LIETUVOS ELEKTRINĖ

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Lietuvos Elektrinė:

1. We have audited the accompanying balance sheet of AB Lietuvos Elektrinė (hereinafter the Company) as of 31 December 2004 and the related statements of income, cash flow and changes in equity 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 the paragraph 3 below, we conducted our audit in accordance with Lithuanian National and International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have not audited the balance sheet as of 31 December 2003, adjustments of which, if any, could have a material impact on the statements of income and cash flow for the year ended 31 December 2004. As a result, we could not, and we did not express an opinion on the statements of income and cash flow for the year ended 31 December 2004.
4. On 31 December 2002 the Company revaluated the fixed assets and as a result on 1 January 2004 reduced the revaluation reserve by the reduction in values of fixed assets amounting to LTL'000 10,022. In our opinion, the Lithuanian Business Accounting Standards require such loss to be accounted for in the income statement for the period. If such loss was accounted for in the income statement, then the net income for the year ended 31 December 2004 would decrease by LTL'000 10,022.
5. At 31 December 2004 the Company did not estimate and did not account for liabilities arising from the derivative financial instruments. In our opinion, Lithuanian Business Accounting Standards require such effect to be estimated and accounted for. If the loss of LTL'000 6,980 arising from the derivative financial instruments was accounted for, then the Company's liabilities as of 31 December 2004 would increase and the net income for the year then ended would decrease by LTL'000 6,980.
6. During 2004 the Company increased the value of fixed assets by the main building's renovation expenses amounting to LTL'000 2,273, incurred until 31 December 2002. In our opinion, such expenses had to be charged to the income statement because the Company started to account for the fixed assets at the revaluated amount since 1 January 2004, as the property valuation was performed as of 31 December 2002. Therefore, the value of the reconstructions was already included in the revaluated amount of the main building. If the Company would have charged such expenses to the income statement, then the fixed assets of as 31 December 2004 and the net income for the year then ended would have decrease by LTL'000 2,273.

7. As of 31 December 2004 the Company did not accrue for vacation pay amounting to LTL'000 935. Lithuanian Business Accounting Standards require such expenses to be recognized in the period when they incurred. If such expenses were accrued, the Company's liabilities as of 31 December 2004 would increase, the equity as of 31 December 2004 and the profit for the year then ended would decrease by LTL'000 935.
8. During the year 2004 the Company's expenses in the amount of LTL'000 1,626 were charged to the shareholders' equity. Lithuanian Business Accounting Standards require expenses incurred during the reporting period to be recognized in the income statement of the reporting period. If such expenses were recognized in the income statement for the year ended 31 December 2004, net profit for the year would decrease by LTL'000 1,626.
9. In our opinion, except for the effect on the financial statements of the matters discussed in paragraphs 4-8 above, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004 in accordance with Lithuanian Business Accounting Standards.
10. We have not audited the financial statements for the year ended 31 December 2003, therefore we do not express our opinion on these financial statements.

UAB Deloitte & Touche
General Director Juozas Kabašinskas

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
31 March 2005

AB LIETUVOS ELEKTRINĖ

Company's code 1108 70933, Elektrinės str. 21, Elektrėnai

**BALANCE SHEET
AS OF 31 DECEMBER 2004**

Assets	Notes	2004 (LTL)	(unaudited) 2003 (LTL)
A. NON-CURRENT ASSETS			
I. INTANGIBLE ASSETS			
I.1. Software		138,385	196,296
I.2. Other intangible assets		562,733	2,250,935
	2	701,118	2,447,231
II. TANGIBLE ASSETS			
II.1. Buildings and constructions		175,032,646	55,392,971
II.2. Machinery and equipment		736,339,415	91,275,236
II.3. Vehicles		842,297	640,230
II.4. Other property, plant and equipment		72,451,225	7,850,928
II.5. Construction in progress		48,303,598	40,363,925
II.6. Other tangible assets		-	2,292,255
	3	1,032,969,181	197,815,545
III. FINANCIAL ASSETS			
III.1. Accounts receivable after one year	4	1,413,821	1,543,920
		1,413,821	1,543,920
TOTAL NON-CURRENT ASSETS		1,035,084,120	201,806,696
B. CURRENT ASSETS			
I. INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS			
I.1. Inventories		34,177,494	35,059,593
I.1.1. Raw materials and consumables	5	34,177,494	34,988,093
I.1.2. Goods for resale		-	71,500
I.2. Prepayments		823,924	224,542
		35,001,418	35,284,135
II. ACCOUNTS RECEIVABLE WITHIN ONE YEAR			
II.1. Trade accounts receivable		21,567,047	21,777,998
II.2. Other accounts receivable		2,260,321	3,278,068
	6	23,827,368	25,056,066
III. OTHER CURRENT ASSETS			
III.1. Term deposits	7	21,000,000	2,895,840
III.2. Other current assets		-	34,381
		21,000,000	2,930,221
IV. CASH AND CASH EQUIVALENTS			
	8	2,282,933	836,637
TOTAL CURRENT ASSETS		82,111,719	64,107,059
TOTAL ASSETS		1,117,195,839	265,913,755

(Continued)

AB LIETUVOS ELEKTRINĖ

Company's code 1108 70933, Elektrinės str. 21, Elektrėnai

**BALANCE SHEET
AS OF 31 DECEMBER 2004**

Equity and liabilities		Notes	2004 (LTL)	(unaudited) 2003 (LTL)
C. EQUITY				
I. CAPITAL				
I.1.	Authorised (subscribed)	9	145,800,689	145,800,689
II. REVALUATION RESERVE (RESULTS)				
		10	839,075,748	289,962
III. RESERVES				
III.1.	Legal reserve		6,910,546	6,001,094
III.2.	Other reserves		48,126,760	39,787,526
		10	55,037,306	45,788,620
IV. RETAINED EARNINGS				
IV.1.	Profit of the reporting year	11	11,839,185	18,150,495
IV.2.	Profit of the previous year		-	-
			11,839,185	18,150,495
TOTAL EQUITY			1,051,752,928	210,029,766
D. GRANTS AND SUBSIDIES				
		12	23,133,021	3,611,638
E. ACCOUNTS PAYABLE AND LIABILITIES				
I. NON-CURRENT ACCOUNTS PAYABLE AND LIABILITIES				
I.1.	Financial debts		24,656,990	29,382,985
I.1.1.	To credit institutions		24,656,990	29,382,985
		13	24,656,990	29,382,985
II. CURRENT ACCOUNTS PAYABLE AND LIABILITIES				
II.1.	Current portion of non-current debts		3,000,000	1,922,568
II.2.	Trade accounts payable		11,334,268	15,559,112
II.3.	Advances received		56,715	13,795
II.4.	Payroll related liabilities		1,296,436	3,423,591
II.5.	Other liabilities		1,965,481	1,970,300
		13	17,652,900	22,889,366
TOTAL ACCOUNTS PAYABLE AND LIABILITIES			42,309,890	52,272,351
TOTAL EQUITY AND LIABILITIES			1,117,195,839	265,913,755

(Concluded)

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

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

Pranas Noreika
General Director

Rolandas Jankauskas
Chief Accountant

AB LIETUVOS ELEKTRINĖ

Company's code 1108 70933, Elektrinės str. 21, Elektrėnai

INCOME STATEMENT AS OF 31 DECEMBER 2004

	Notes	2004 (LTL)	(unaudited) 2003 (LTL)
I. SALES	14, 16	175,670,559	173,237,601
II. COST OF SALES	15, 16	<u>(148,848,327)</u>	<u>(143,963,502)</u>
III. GROSS PROFIT		26,822,232	29,274,099
IV. OPERATING EXPENSES	17	(10,417,924)	(9,151,025)
V. OPERATING PROFIT		16,404,308	20,123,074
VI. OTHER ACTIVITIES			
VI.1. Income		3,178,145	3,253,025
VI.2. Expenses		<u>(2,321,631)</u>	<u>(2,672,614)</u>
	18	856,514	580,411
VII. FINANCING AND INVESTING ACTIVITIES			
VII.1. Income		345,379	2,839,251
VII.2. Expenses		<u>(3,273,243)</u>	<u>(1,916,650)</u>
	19	(2,927,864)	922,601
VIII. PROFIT FROM ORDINARY ACTIVITIES		14,332,958	21,626,086
IX. EXTRAORDINARY GAIN		-	87,756
X. EXTRAORDINARY LOSSES		-	(266,501)
XI. PROFIT BEFORE TAX		14,332,958	21,447,341
XII. PROFIT TAX EXPENSE		<u>(2,493,773)</u>	<u>(3,258,308)</u>
XIII. NET PROFIT		11,839,185	18,189,033

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

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AB LIETUVOS ELEKTRINĖ

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

	Authorised capital (LTL)	Non-current assets revaluation reserve (LTL)	Legal reserves (LTL)	Other reserves (LTL)	Retained earnings (LTL)	Total (LTL)
Balance as of 31 December 2002 (unaudited)	150,743,012	289,962	4,997,832	29,481,596	20,065,236	205,577,638
Net profit of the reporting period	-	-	-	-	18,189,033	18,189,033
Dividends	-	-	-	-	(8,026,094)	(8,026,094)
Other payments	-	-	-	-	(661,000)	(661,000)
Other payments	-	-	-	-	(107,488)	(107,488)
Reserves used	-	-	-	(68,950)	68,950	-
Legal reserve formation	-	-	1,003,262	-	(1,003,262)	-
Other reserve formation	-	-	-	10,374,880	(10,374,880)	-
Reduction of authorised capital	(4,942,323)	-	-	-	-	(4,942,323)
Balance as of 31 December 2003 (unaudited)	145,800,689	289,962	6,001,094	39,787,526	18,150,495	210,029,766
Increase in non-current tangible assets' value	-	838,785,786	-	-	-	838,785,786
Net profit of the reporting period	-	-	-	-	11,839,185	11,839,185
Dividends	-	-	-	-	(7,275,614)	(7,275,614)
Reserves formed	-	-	-	9,342,969	(9,342,969)	-
Legal reserves formed	-	-	909,452	-	(909,452)	-
Reserves used	-	-	-	(1,003,735)	(622,460)	(1,626,195)
Balance as of 31 December 2004	145,800,689	839,075,748	6,910,546	48,126,760	11,839,185	1,051,752,928

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

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

Pranas Noreika
General Director

Rolandas Jankauskas
Chief Accountant

AB LIETUVOS ELEKTRINĖ

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	2004	(unaudited)
	(LTL)	2003
	(LTL)	(LTL)
I. Cash flows from (to) operating activities		
I.1. Net profit		
I.2. Depreciation and amortization costs		
I.3. Provisions for slow moving inventory		
I.4. Decrease (increase) in inventory		
I.5. Decrease (increase) in advances received		
I.6. Decrease (increase) in trade receivables		
I.7. Decrease (increase) in other amounts receivable		
I.8. Increase in current payables to suppliers and advances received		
I.9. Increase (decrease) in profit tax liability		
I.10. Increase (decrease) in liabilities related to remunerations		
I.11. Increase in provisions		
I.12. Increase (decrease) in other amounts payable and liabilities		
I.13. Elimination of financing and investing activity result		
I.14. Loss from disposals of non-current assets		
Net cash flows from operating activities		
II. Cash flows from (to) investing activities		
II.1. Acquisition of non-current assets (excluding investments)		
II.2. Disposal of non-current assets (excluding investments)		
Net cash flows from (to) investing activities		
III. Cash flows from (to) financing activities		
III.1. Loans received		
III.2. Loans repaid		
III.3. Interest paid		
III.4. Payments of finance lease liabilities		
III.5. Other increase in cash flows from financing activities		
III.6. Other decrease in cash flows from financing activities		
Net cash flows from (to) financing activities		
The effects of changes in foreign exchange rates of cash		
IV. Net increase (decrease) in cash flows		
VI. Cash at the beginning of period		
VII. Cash at the end of period		

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

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

Pranas Noreika
General Director

Rolandas Jankauskas
Chief Accountant

AB LIETUVOS ELEKTRINĖ

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. Accounting policies

General information

Special Purpose Company Lietuvos Energija was reorganized through disintegration under the Law on Reorganization of the Special Purpose Company Lietuvos Energija No. VIII-1693, dated 18 May 2000, i.e. certain assets, rights and liabilities were transferred from AB Lietuvos Energija (that continued its activities without Special Purpose Company status) to newly established companies AB Lietuvos Elektrinė, AB Mažeikių Elektrinė, AB Rytų Skirstomieji Tinklai and AB Vakarų Skirstomieji Tinklai.

AB Lietuvos Elektrinė (the Company) was registered in the Ministry of Economy on 31 December 2001 under the Law on the Register of Enterprises.

- Company's register number – BĮ 01-249;
- Company's code – 110870933;
- VAT payer code – 108709314;
- Insurer's registration number in the Social Insurance Fund – 853488;
- Location: Elektrinės str. 21, Elektrėnai, Lithuania;
- Share capital LTL 145,800,689.
- Main activity is the reliable, quality and effective generation of electricity and heat energy.

National Control Commission for Prices and Energy regulates the price of the electricity produced. The Commission established the price excluding VAT of 13.52 cnt/kWh for the year 2004 for the electricity essential to assure the reserves of the energy system.

The Company's financial year is the calendar year. Its business activity duration is unlimited.

The Company is a member of the Lithuanian electrical energy association. The Company is actively involved in the association, representing the common electro-energy interest of Europe (EUROELECTRIC).

As of 31 December 2004 the Company employed 830 people (as of 31 December 2003 the company employed 816 people).

The accompanying financial statements are presented in the national currency of Lithuania, the Litas (LTL).

Basis of preparation

The financial statements have been prepared in accordance with the Laws of Accounting and Companies' Financial Statements of the Republic of Lithuania and Lithuanian Business Accounting Standards (BAS).

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain tangible fixed assets. The following summarizes the most significant of these policies.

Use of estimates

The preparation of the financial statements in accordance with Lithuanian Business Accounting 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.

AB LIETUVOS ELEKTRINĖ

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Non-current intangible assets

Intangible assets are stated at historical cost, less accumulated amortization and impairment losses. Amortization is computed using the straight-line method over the estimated useful lives of the related assets.

Amortization is provided in equal monthly instalments except for the months placed in service over the expected useful lives as follows:

Software	3
Other intangible assets	4

Tangible assets

Tangible fixed assets are carried at a revaluated 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 2002 by an independent Lithuanian certified appraiser UAB Korporacija Matininkai. Revaluation results were recognized on 1 January 2004.

Depreciation is provided in equal monthly instalments except for the months placed in service over the expected useful lives as follows (in years):

Buildings	30-75
Constructions	10-70
Pipelines, lines	10-50
Caloric equipment	10-60
Electrical equipment	10-50
Meters	5-30
Computer equipment, operating and communication equipment	5-20
Other equipment	5-40
Vehicles	6-50
Tools	5-15
Other assets	4-15

All assets in excess of LTL 2,000 with the useful life of more than one year are capitalized.

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

Non-current tangible assets revaluation methods

Non-current tangible assets initially are recorded at their acquisition cost and subsequently revaluated 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 non-current tangible assets 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 non-current tangible assets, the revaluation should also apply to all groups of non-current tangible assets to which such asset item belongs. All assets attributed to one group should be revaluated at the same time.

Revaluation is performed and recorded on item by item basis. If revaluation of non-current tangible asset results in value increase, such increase is recorded as an increase in the value of non-current tangible assets and is credited to the revaluation reserve. If revaluation of non-current tangible asset results in value reduction, such reduction is recorded as a decline in the non-current tangible asset 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.

AB LIETUVOS ELEKTRINĖ

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

If an item of non-current tangible assets has been previously revaluated and the related revaluation reserve is outstanding, the reduction in its value is recorded as decrease in the revaluation reserve. 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 non-current tangible asset 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 reduction of impairment charge, the excess is charged to the revaluation reserve.

The revaluated asset's depreciation charge in following periods is adjusted so, that the revaluated 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 revaluation reserve is released to retained earnings (accumulated deficit).

Impairment of assets

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

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

Revenue recognition

Revenue

Revenues from electricity, heat energy and electrical energy reserves are recognized monthly based on meter measurements (accrual basis).

Revenue from the rendering of services

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.

Revenue from the sale of goods

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.

Interests

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 the accrual basis.

AB LIETUVOS ELEKTRINĖ

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Borrowing costs

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

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

Derivative financial instruments

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

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

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 Company 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 Company as lessee

Assets held under finance leases are recognized as assets of the Company 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.

AB LIETUVOS ELEKTRINĖ

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Inventories

Inventories are stated at the lower of cost of purchase (production) or net realizable value.

The cost of purchase of inventories comprises the purchase price, all purchase-related taxes and charges (except for those to be recovered later), transportation, preparation for use and other costs directly attributable to the acquisition of inventories.

The cost of inventory is calculated using the FIFO method (which assumes that the items of inventory that were sold or used first are purchased first) and weighted average method (for fuel oil).

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 (15% as of 31 December 2004).

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 Lt	1 USD	= 2.7621 Lt
1 EUR	= 3.4528 Lt	1 EUR	= 3.4528 Lt

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.

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.

The main business segments within the Company's activities: electricity and heat energy production.

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.

Cash and cash equivalents

Cash consist of the cash on hand and in bank and 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

Financial risk management policy

Credit risk

The credit risk on trade receivables is limited because the main customer of the Company is AB Lietuvos Energija - a reliable client.

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

Interest rate risk

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

Foreign currencies exchange risk

At the moment the Company uses 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 Company makes monthly and annual cash flows forecasts.

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 instalments 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. Intangible assets (LTL)

	Software	Other intangible assets	Total
Cost			
31 December 2003 (unaudited)	765,968	2,250,935	3,016,903
Changes of the financial year:			
- acquisition of assets	5,612	89,080	94,692
- disposal of assets and write-offs (-)	(440)	(1,384,055)	(1,384,495)
- transfers +/-(-)	-	(393,227)	(393,227)
31 December 2004	771,140	562,733	1,333,873
Amortization			
31 December 2003 (unaudited)	569,672	-	569,672
Changes of the financial year:			
- amortization for the financial year	63,189	562,734	625,923
- disposals and write-offs	(106)	(562,734)	(562,840)
- transfers +/-(-)	-	-	-
31 December 2004	632,755	-	632,755
Net book value 31 December 2003 (unaudited)	196,296	2,250,935	2,447,231
Net book value 31 December 2004	138,385	562,733	701,118

Amortisation expenses are charged to the cost of sales and operating expenses.

Fully depreciated intangible assets still in use:

Asset group name	Acquisition cost (LTL)
Software	442,264
Other intangible assets	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. Non-current tangible assets (LTL)

	Buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Other tangible assets	Total
Modified cost							
31 December 2003 (unaudited)	124,268,416	294,762,471	1,663,255	17,034,709	40,363,925	7,220,863	485,313,639
Changes of the financial year:							
- acquisition of assets	71,500	-	85,648	1,032,685	22,481,735	-	23,671,568
- disposals and write-offs (-)	(46,108)	(1,902)	(96,064)	(70,982)	(1,174,978)	-	(1,390,034)
- transfers +/-(-)	(64,314,640)	(13,135,923)	628,121	97,803,616	(13,367,084)	(7,220,863)	393,227
31 December 2004	59,979,168	281,624,646	2,280,960	115,800,028	48,303,598	-	507,988,400
Revaluation							
31 December 2003	-	-	-	-	-	-	-
Changes for the financial year:							
- value increase (impairment) +/-(-)	159,306,931	677,147,568	2,321	2,053,020	-	-	838,509,840
- disposals and write-offs	-	-	-	-	-	-	-
- transfers +/-(-)	-	-	-	-	-	-	-
31 December 2004	159,306,931	677,147,568	2,321	2,053,020	-	-	838,509,840
Depreciation							
31 December 2003 (unaudited)	68,875,445	203,487,235	1,023,025	9,183,781	-	4,928,608	287,498,094
Changes of the financial year:							
- depreciation for the financial year	3,184,166	20,403,792	111,697	2,515,427	-	-	26,215,082
- disposals and write-offs	(19,611)	(1,824)	(94,562)	(68,120)	-	-	(184,117)
- transfers +/-(-)	(27,786,547)	(1,456,404)	400,824	33,770,735	-	(4,928,608)	-
31 December 2004	44,253,453	222,432,799	1,440,984	45,401,823	-	-	313,529,059
Net book value							
31 December 2003 (unaudited)	55,392,971	91,275,236	640,230	7,850,928	40,363,925	2,292,255	197,815,545
Net book value							
31 December 2004	175,032,646	736,339,415	842,297	72,451,225	48,303,598	-	1,032,969,181

The assets stated above are held for the Company's own use. The depreciation expenses are charged to the cost of sales, operating expenses and other activity expenses.

Fully depreciated intangible assets still in use:

Asset group name	Modified cost (LTL)
Buildings and constructions	1,483,724
Machinery and equipment	5,102,043
Vehicles	437,398
Other property, plant and equipment	5,958,249
Other tangible assets	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

4. Accounts receivable after one year (LTL)

As of 31 December accounts receivable after one year were as follows:

	<u>2004</u>	<u>(unaudited) 2003</u>
Loans granted to employees	1,413,821	1,543,920
Total:	<u>1,413,821</u>	<u>1,543,920</u>

Annual interest rate for the loans granted ranges from 0.1 to 1 %, maturity – up to 25 years.

5. Inventories (LTL)

	Fuel	Inventory	Spare parts	Other	Goods for resale	Total
a) Acquisition cost of inventories						
31 December 2003	29,700,627	2,941,718	1,804,005	541,743	71,500	35,059,593
31 December 2004	29,664,126	2,673,986	1,571,240	290,400	-	- 34,199,752
b) Write-down to net realizable value (reversal)						
31 December 2003	-	-	-	-	-	-
31 December 2004	-	(22,258)	-	-	-	(22,258)
c) Net realizable value 31 December 2004						
(a) - (b)	<u>29,664,126</u>	<u>2,651,728</u>	<u>1,571,240</u>	<u>290,400</u>	<u>-</u>	<u>- 34,177,494</u>
Pledged inventories	16,242,618	-	-	-	-	- 16,242,618

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6. Accounts receivable within one year (LTL)

As of 31 December accounts receivable were as follows:

	<u>2004</u>	<u>(unaudited) 2003</u>
Trade receivable		
Trade debtors	23,071,546	23,385,271
Other receivables	36,207	40,847
Provisions for doubtful accounts (-)	<u>(1,540,706)</u>	<u>(1,648,120)</u>
	21,567,047	21,777,998
Other accounts receivable		
VAT receivable	2,249,129	3,187,663
Other	<u>11,192</u>	<u>90,405</u>
	2,260,321	3,278,068
Total	<u>23,827,368</u>	<u>25,056,066</u>

The movement in the provision for doubtful accounts receivable:

	<u>2004</u>	<u>(unaudited) 2003</u>
1 January	1,648,120	1,669,943
Reversal of provisions	(114,603)	(21,823)
Provisions provided for	7,189	-
31 December	<u>1,540,706</u>	<u>1,648,120</u>

7. Term deposits (LTL)

At 31 December the term deposits were as follows:

	<u>2004</u>	<u>(unaudited) 2003</u>
Term deposit in AB Vilniaus bankas, denominated in LTL, matures on 2 March 2005, annual interest rate - 2.65%.	19,000,000	-
Term deposit in AB bank Snoras, denominated in LTL, matures on 3 January 2005, annual interest rate - 3.10%	2,000,000	-
Term deposit in AB bank Hansabank	-	2,895,840
	<u>21,000,000</u>	<u>2,895,840</u>

Funds in the amount of LTL 19,895,000 (see Note 12), received from the State company Fund for the cessation of nuclear power station of Ignalina, were transferred to the term deposits accounts. These funds will be used for the implementation of ecological and related technical projects by the Company.

The Company has pledged a term deposit of LTL 2,000,000 to secure the obligation under the foreign currency purchase agreement signed with AB bank Snoras (see Note 21).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

8. Cash and cash equivalents (LTL)

At December 31 cash was as follows:

	<u>2004</u>	<u>(unaudited) 2003</u>
Cash in the bank current accounts	1,269,568	767,893
Overnight deposit	1,013,365	-
Cash on hand	-	68,744
Total	<u>2,282,933</u>	<u>836,637</u>

The Company has pledged the current and future funds in AB bank Nord/LB accounts to secure the credit agreement signed with the bank. On 31 December 2004 the balance of cash in AB bank Nord/LB was LTL 399,653.

The Company has pledged the current and future funds in AB bank Hansabank accounts to secure the overdraft agreement signed with this bank. On 31 December 2004 the balance of cash in AB bank Hansabank was LTL 13,703.

9. Structure of Authorised Capital

	<u>Number of shares</u>	<u>Amount (LTL)</u>
Share capital structure at the end of the financial year		
By types of shares		
Ordinary shares	145,800,689	145,800,689
TOTAL:	<u>145,800,689</u>	<u>145,800,689</u>
State or municipal capital	140,711,469	140,711,469

As of 31 December 2004 the issued capital consisted of 145,800,689 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 Company during the year 2004.

10. Reserves (LTL)

Tangible fixed assets revaluation reserve consists of the surpluses after revaluation. The revaluation was carried out on 31 December 2002 by an independent Lithuanian certified appraiser UAB Korporacija Matininkai. Revaluation results were accounted for on 1 January 2004.

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

As of 31 December 2004 other reserves amounted to LTL 48,126,760.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

11. Draft Distribution of Profit

	Amount (LTL)
Undistributed result – profit - at the end of the previous financial year	-
Net result of the financial year – profit	11,839,185
Distributable result - profit - at the end of the financial year	11,839,185
Shareholders contributions for covering losses	-
Transfers from reserves	-
Distributable profit	11,839,185
Profit distribution:	
- to legal reserves	591,959
- to other reserves	5,531,552
- dividends	4,735,674
- distributable reserves for social needs	950,000
- bonus for the Board	30,000
Undistributed result – profit - at the end of the financial year	-

12. Grants and subsidies (LTL)

Balance of grants as of 31 December and movement of grants for the year 2004 were as follows:

	Grants, related to assets
Balance of grants at 31 December 2003	3,611,638
Depreciation of fixed assets	(373,617)
Grants received in 2004	19,895,000
Balance of grants at 31 December 2004	23,133,021

During 2004, the grants, related to assets, decreased by LTL 373,617, i.e. by the depreciation of fixed assets. The amount offset the depreciation expenses charged to the income statement.

During 2004 the Company received grants in the amount of LTL 19,895,000 from the State company Fund for the cessation of nuclear power station of Ignalina. These funds will be used for the implementation of ecological and related technical projects in the Company. The grant has not been used in 2004.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

13. Liabilities (LTL)

Classification of accounts due by type	Due debts or parts thereof		
	Within one financial year	After one financial year, but no later than within five years	After five years
Financial debts to financial institution			
AB bank Nord/LB	-	-	12,999,792
AB bank Hansabank	3,000,000	11,657,198	-
Other liabilities			
Trade payables			
For the construction works	4,101,697	-	-
For the fuel	3,615,990	-	-
For the repair works	1,882,028	-	-
For the inventory	1,734,553	-	-
Prepayments received	56,715	-	-
Payroll related liabilities	1,296,436	-	-
Other liabilities	1,965,481	-	-
TOTAL	17,652,900	11,657,198	12,999,792

The Company was granted a credit of EUR 3,765,000 in accordance with the credit agreement signed with AB bank Nord/LB. The maturity date is years 2010-2013. The credit was arranged at floating interest rate of 12 month LIBOR plus 0.84%. The Company has pledged the current and future funds in the accounts with this bank and the fuel in the amount of 16,242,618 Lt.

The Company was granted a credit limit of LTL 28,000,000 in accordance with the overdraft agreement signed with AB bank Hansabank, the amount of LTL 14,657,198 was used as of 31 December 2004. The maturity date is years 2005-2009. The overdraft was arranged at fixed interest rate of 4.35% until 16 May 2005, and at floating interest rate of 6 month VILIBOR plus 1.55% afterwards. The Company has pledged the current and future funds in the accounts with this bank.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

14. Sales (LTL)

	2004	(unaudited) 2003
Electricity generation	89,833,409	88,252,392
Cold power reserves	58,300,624	5,822,616
Power reserves	12,734,382	69,882,767
Heat energy	9,225,291	8,574,629
Operational reserve	5,371,286	494,572
Other sales	205,567	210,625
Total	175,670,559	173,237,601

15. Cost of sales (Lt)

	2004	(unaudited) 2003
Gas	61,345,359	70,556,028
Depreciation and amortisation expenses	25,874,329	16,645,682
Payroll and social insurance	18,701,220	17,368,220
Repairs	15,694,732	19,045,190
Materials	12,374,785	12,369,191
Oriemulsion	11,482,124	5,027,989
Fuel oil	1,068,203	2,035,802
Other	2,307,575	915,400
Total	148,848,327	143,963,502

16. Business segments

2004	Electricity generation	Heat energy generation	Total
Sales	166,445,268	9,225,291	175,670,559
Cost of sales	(141,459,027)	(7,389,300)	(148,848,327)
Gross profit	24,986,241	1,835,991	26,822,232

2003	Electricity generation	Heat energy generation	Total
Sales	164,662,972	8,574,629	173,237,601
Cost of sales	(136,456,979)	(7,506,523)	(143,963,502)
Gross profit	28,205,993	1,068,106	29,274,099

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****17. Operating expenses (LTL)**

	2004	(unaudited) 2003
Payroll and social insurance	2,719,414	2,595,758
Pollution tax	1,507,251	788,950
Road tax	847,781	837,706
Consultation and interpretation services	808,309	6,759
Land rent tax	752,040	644,980
Repairs	616,319	56,414
Real estate tax	542,154	487,150
Security services	450,796	418,026
Business trips	288,207	147,226
Communication and postal expenses	260,384	265,264
Medical services	222,633	175,270
Low value assets written-off	200,624	-
Trainings	113,212	145,684
Maintenance services	91,730	102,548
Electricity purchased	36,126	1,595,079
Other	960,944	884,211
Total	10,417,924	9,151,025

18. Other activity (LTL)

	2004	(unaudited) 2003
OTHER ACTIVITY INCOME		
Income from storing state fuel oil reserve	1,676,112	1,649,679
Income from maintaining the distribution stations	710,000	740,004
Sold current assets	214,540	137,232
Gain on fixed assets disposal	162,342	220,000
Rental income	137,657	130,326
Other income	277,494	375,784
	3,178,145	3,253,025
OTHER ACTIVITY EXPENSES		
Expenses of storing state fuel oil reserve	(1,627,300)	(1,590,761)
Expenses of maintaining the distribution stations	(507,837)	(509,112)
Cost of sold current assets	(129,352)	-
Other expenses	(57,142)	(572,741)
	(2,321,631)	(2,672,614)
NET RESULT OF OTHER ACTIVITY	856,514	580,411

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

19. Results of Financial and Investing activity (LTL)

	2004	(unaudited) 2003
INCOME FROM FINANCIAL AND INVESTING ACTIVITIES		
Interest income	134,274	23,974
Fines received	72,037	4,747
Foreign exchange translation gain	-	2,103,670
Other financial income	139,068	706,860
	<u>345,379</u>	<u>2,839,251</u>
EXPENSES FOR FINANCIAL AND INVESTING ACTIVITIES		
Interest expenses	(1,165,135)	(1,343,406)
Foreign exchange translation loss	(1,761,648)	(553,368)
Other financial expenses	(346,460)	(19,876)
	<u>(3,273,243)</u>	<u>(1,916,650)</u>
NET RESULT OF FINANCIAL AND INVESTING ACTIVITY	<u>(2,927,864)</u>	<u>922,601</u>

20. Financial Relations with Company's Management and Other Related Parties (LTL)

	2004	2003	Closing balance as of 31 December 2004
Amounts calculated during a year in connection with employment:			
Management	570,909	450,253	-
Average annual number of managers	4	4	

21. Off-Balance sheet Rights and Obligations (LTL)

The Company has obligations under the foreign currency purchase agreements signed with AB bank Snoras to purchase USD 25,000,000 for LTL 70,342,500 in year 2005. The Company has pledged the term deposit of LTL 2,000,000 in AB bank Snoras to secure this agreement.

The Company has signed the long-term contract maturing in 2012 for the orimulsion purchase (forward contract) with the Venezuelan company Bitor Europe. According to the terms of this contract the Company's non-revocable commitment for purchase of fixed quantity of fuel for the fixed price, total minimum annual purchases amounts to mio USD 2.7 - 5.4.

22. Contingencies and commitments

As of 31 December 2004 the Company was not involved in any legal proceedings that could have significant impact to the financial statements.
