LIETUVOS ELEKTRINĖ AB

Independent Auditor's Report,
Annual Report and
Financial Statements for the year
ended 31 December 2005

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Lietuvos Elektrinė AB:

We have audited the accompanying financial statements of Lietuvos Elektrinė AB (thereafter – the Company) (p. 16-48), which comprise the balance sheet as of 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and the result of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We have reviewed the Annual Report (page 4 to 15) for the year ended 31 December 2005 and we have not identified any material discrepancies between the historical financial information presented in the Annual Report and the accompanying financial statements for the year ended 31 December 2005.

Without qualifying our opinion we draw attention to the fact that the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards for the first time. The last published financial statements were prepared in accordance with Lithuanian Business Accounting Standards for the year ended 31 December 2004. The date of transition to IFRS is therefore 1 January 2004. The disclosures required by IFRS 1 concerning the transition from Lithuanian Business Accounting Standards to IFRSs are given in Note 32 to the financial statements.

Deloitte Lietuva UAB
General Director Juozas Kabašinskas

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
31 March 2006

PUBLIC COMPANY LIETUVOS ELEKTRINĖ
ANNUAL REPORT FOR THE FINANCIAL YEAR 2005

The Report on the activities of Lietuvos Elektrinė AB (hereinafter – the Company) was prepared by the Board of the Company in accordance with Article 36 of the Law on Companies of the Republic of Lithuania. The Activity Report is a public document. Every interested person may have access to it at the Company's registered office at 21 Elektrinės St., Elektrėnai.

During the reporting period the Company's Board comprised the following members:

Pranas Noreika – Chairman of the Board, Director General of the Company;

Vida Dzermeikienė – Head of Electricity and Heat Division of the Energy Department, Ministry of Economy of the Republic of Lithuania;

Domininkas Pečiulis – Head of State Property Privatisation and Management Division, Ministry of Economy of the Republic of Lithuania;

Arvydas Galinis – Senior research specialist of the Lithuanian Energy Institute;

Rolandas Jankauskas – Chief Financier of the Company.

During the year, the Board held 16 meetings, at which the Company's financial plans, investment projects and their implementation, quarterly results of economic activities, income and expenditure estimates, improvement of management functions and a great many of other issues within the competence of the Board were discussed. In 2005, the Administration held 41 meetings.

In the current Report the Company's Board presents to the Company's shareholders, creditors and other interested persons a survey of the operations in the financial year 2005**,** main events, the Company's plans and all other relevant information to be disclosed in the Activity Report as prescribed by law.

ACTIVITIES OF THE COMPANY'S BOARD IN 2005

March:

- The Activity Report and the financial statements for the year 2004 were discussed and approved.

April:

- Agreements between Lietuvos Elektrinė AB and RAFAKO (Poland) concerning modernization of regenerative air heaters and between Lietuvos Elektrinė AB and EMERSON (Switzerland) concerning modernization of control systems in energy units were approved.
- The Annual General Meeting (AGM) of the Company's shareholders approved the Annual Report 2004 and the financial statements for the year 2004, including the Balance Sheet, the Income Statement, and the Cash Flow Statement. The AGM approved the profit appropriation. The amount of LTL 4.736 m was allocated for dividends. In 2004, the Company's net profit amounted to LTL 11.839m, of which LTL 0.592m was transferred to the legal reserve, 5.532m was allocated to other reserves, LTL'000 30 was allocated to the bonuses of the members of the Board and LTL 0.950m devoted to the social needs of the Company's employees under the Collective Agreement.

These 2004 numbers, which were approved by the AGM, were based on the Company's 2004 financial statements prepared in accordance with Lithuanian Business Accounting Standards (BAS), and does not agree with the statement of changes in equity presented in the accompanying 2005 financial statements in accordance with International Financial Reporting Standards (IFRS). For a reconciliation of the BAS financial statements and the IFRS financial statements we refer to Note 32 in the accompanying 2005 financial statements.

May:

- During the first quarter of the year 2005, Lietuvos Elektrinė AB earned LTL 12.56 million of profit before taxes (unaudited).

June:

- Lietuvos Elektrinė AB was allowed to take a loan in the amount of EUR 49 million for the period of fifteen years.
- An agreement between Lietuvos Elektrinė AB and ALSTOM Power Ltd, Derby (England) concerning investment of EUR 31.929 million into installation of burners of low nitrogen oxide output for boilers in units 1, 2, 5, 7, and 8 was approved.

July:

- During the first half of the year 2005, Lietuvos Elektrinė AB earned LTL 17.07 million of profit before taxes (unaudited).

September:

- The relatively fixed costs and the remuneration fund were approved for the year 2006.

October:

- The National Control Commission for Prices and Energy fixed the purchase price of electricity produced in Lietuvos Elektrinė AB, where electricity production is necessary in order to ensure the reserves of the system, for 2006 at 13.77 ct/kWh, excluding VAT.
- During the period of nine months 2005, Lietuvos Elektrinė AB gained a profit of LTL 18.7 million before taxes (unaudited).

November

- The Company's Business Plan for the year 2006 was approved.
- The Company's Investment Plan for the year 2006 was approved.

December:

- An agreement for gas transfer and distribution in 2006 was signed with Lietuvos Dujos AB.

PERFORMANCE INDICATORS

Production of electricity:

In 2005, Lietuvos Elektrinė AB supplied 972 110 thousand kWh of busbar energy.

Table 1

Electricity trade balance by type

Electricity	Amount MWh	Average price, LT/kWh	Payments, LTL thousand
Supplied into the network	**970.850**	**0.12173**	**118177.13**
Bought from *Lietuvos Energija AB*			
Regulating (bought)	5.378	0.03000	161.35
Additional (bought)	0.000	0.00000	0.00
Balancing (bought)	0.097	0.09737	9.43
Balancing bought (in quota energy part)	3.276	0.13650	447.12
Sold to *Lietuvos Energija* AB			
Contractual:	0.000	0.00000	0.00
Quota:	659.904	0.13000	85787.52
Additionally:	244.065	0.10300	25138.70
Regulating (sold)	74.809	0.09655	7222.84
Balancing (sold)	0.823	0.03413	28.08
Sold from the transformers for the Company's own needs	1.260	0.13513	170.27
TOTAL :	**972.110**	**0.12174**	**118347.40**

Production of thermal energy:

In 2005, the sales of thermal energy of *Lietuvos Elektrinė AB* totaled 150 024 Gcal, including 75 831 Gcal supplied to Kietaviškės greenhouses *Gausa* and 71 087 Gcal to the town of Elektrėnai as well as other local consumers and 3 106 Gcal used in boiler-houses.

Income

In 2005, *Lietuvos Elektrinė AB* earned LTL 211 718 thousand.

Costs

In 2005, the Company's costs amounted to LTL 191.171 thousand.

Profit

The projected profit in the Financial Plan was LTL 12 120 thousand; actually the Company's pre-tax profit amounted to LTL 20 547 thousand. The composition of the income, costs and profit from the principal activities is shown in Tables 2 and 3 and that of relatively fixed costs is given in Table 4.

Table 2

BASIC PERFORMANCE INDICATORS IN THE YEAR 2005

No.	Indicator	Unit of measurement	Planned for 2005	Actual in 2005
	I. TECHNICAL INDICATORS			
1.	Electricity sold	t.kWh	710 770	972 110
1.1.	*To* Lietuvos Energija AB	**-"-**	710 770	970 850
1.1.1.	Of it quota electricity	**-"-**	660 000	659 904
1.2.	To other consumers	**-"-**	-	1 260
2.	Capacity sold:	MW*h		
2.1.	- Warm reserve	**-"-**	-	470 226
2.2.	- Cold reserve	**-"-**	-	4 852 150
3.	Thermal energy sold	Gcal	120 378	150 024
4.	Fuel input in production of electricity	g/kWh	-	391 4
5.	Fuel input in production of thermal energy	kg/Gcal	-	163 0
	II. INCOME – TOTAL:	t.LTL	**174 054**	**211 718**
1.	Income from sales of electricity	-"-	92 400	118 347
2.	- for cold reserve	-"-	70 026	69 589
3.	- for warm reserve	-"-	4 812	6 524
4.	- for thermal energy	-"-	6 816	8 498
5.	Income from ancillary activities	-"-	-	2 310
6.	Interest income	-"-	-	500
7.	Currency exchange gain			5 950
	III. COSTS – TOTAL:	t.LTL	**161 934**	**191 171**
1.	Variable	-"-	80 584	102 344
1.1.	Electricity	-"-	75 138	96 306
1.2.	Thermal energy	-"-	5 446	6 038
2.	Relatively fixed	-"-	81 350	85 844
2.1.	Depreciation	-"-	29 520	24 879
2.2.	Wages and salaries	-"-	17 271	17 271
2.3.	Social insurance	-"-	5 527	5 562
2.4.	Taxes	-"-	4 372	3 780
2.5.	Material costs	-"-	21 860	33 771
2.6.	Interest	-"-	2 800	581
3.	Ancillary activities	-"-	-	2 061
4.	Finance cost		-	922
	IV. PROFIT – TOTAL:	t.LTL	**12 120**	**20 547**
1 .	From principal activities	-"-	12 120	14 770
2.	From ancillary activities	-"-	-	248
3.	From financial investment activities	-"-	-	5 528

Table 3

BREAKDOWN OF THE PROFIT OF 2005 BY SOURCES OF INCOME

LTL thousand

Indicators	Income	Costs	Profit
Quota electricity sold	85 787.5		
Additionally:			
For regulating energy	7 222.8		
For additional energy	25 138.7		
For contractual energy	0.0		
For balancing energy	28.1		
From local consumers	170.3		
Capacity reserves:	76 113.4		
Relatively fixed for production of electricity (capacity used)		7 776.8	
Fuel costs		96.305.9	
Relatively fixed for capacity reserves		64.957.2	
Total for energy:	**194 460.8**	**169 039.9**	**25 420.9**
Thermal energy	8 497.7		
Fuel		5 830.9	
Fixed costs		200	
Total for thermal energy:	**8 497.7**	**6 030.9**	**2 466.8**
Operating expenses		13 117.7	(13 117.7)
Ancillary activities	2 309.9	2 061.4	248.5
Financial investment activities	6 449.9	921.5	5 528.4
Total:	**211 718.3**	**191 171.4**	**20 546.8**

Table 4

REPORT ON THE USE OF RELATIVELY FIXED COSTS FOR THE YEAR 2005

LTL thousand

No.	**Description of cost item**	**Annual plan**	**Actual for the year**	**%**
1	TOTAL	**81350.0**	**85843.9**	**104.2**
1.1.	Depreciation	29520.0	24879.9	101.2
1.2.	Wages and salaries	17271.0	17271.0	100
1.3.	Social insurance	5527.0	5561.6	100.1
1.4.	Taxes	4372.0	3779.9	103.4
1.5.	Material costs	21860.0	33771.0	118.6
1.6.	Interest	2800.0	580.5	38.3

*) Due to the savings of variable costs it was possible to exceed the relatively fixed costs, mainly the necessary repair costs.

Human Resources

In 2005, the average number of employees of Lietuvos Elektrinė AB according to the statistical pay-roll statement (form DA-03 annual):

Table 5

	2004	2005
Number of employees. Total:	791	744
Of which:		
- principal activity employees	737	687
- ancillary activity employees	54	57
Staff structure by nature of work:		
- specialists	220	206
- workers	571	538
Average wages, LTL	1830	2137
- specialists	2243	2638
- workers	1669	1939

Environment protection

Table 6

THE POWER PLANT'S EMISSIONS INTO THE ATMOSPHERE:

Pollutants		Current emissions		
Type of pollutant	Code	From 1 January 2005 to 31 December 2005		
		One-off value		Annual, t/m
		units	average	
Sulphur dioxide (A)	1753	Mg/Nm^3	1700	3612.98
Nitrogen oxides (A)	250	Mg/Nm^3	450	957.246
Carbon monoxide (A)	177	Mg/Nm^3	300	142.929
Solid particles (A)	6493	Mg/Nm^3	100	3.846
including V_2O_5	2023	Mg/Nm^3	-	2.659
	Total according to the type of activity			4719.66

In 2005, the power plant burnt 280969thou m^3 of gas, 1914 tonnes of heavy fuel oil and 86160 tonnes of orimulsion. Considerable emissions of all pollutants were reported compared to the figures in 2004, with an exception of V_2O_5, the emissions of which increased only slightly (from 2.21 tonnes in 2004 to 2.659 tonnes in 2005). Increased pollution resulted from more intense fuel firing because of closure of Ignalina nuclear power plant for repair works – in 2004, 55 501 tonnes of orimulsion were combusted in the plant, while in 2005 this figure reached 86 160 tonnes.

Orimulsion and heavy fuel oil firing trials were carried out at *Lietuvos Elektrinė AB* at different operating capacity of the boiler TGMP-114 8B. The goal of the trial was to determine the concentration level of the pollutants emitted from a boiler with a dry desulphurization system and an electrostatic precipitator as well as a solid particle filter installed.

Table 7

Emissions of air pollutants from boiler 8B when firing orimulsion and heavy fuel oil

Type of fuel, boiler's operating capacity	Type of pollutant	Before purification		After installation of an electrostatic filter		After purification (through a solid particle filter)	
		Average concentration, mg/Nm^3 at 3 % O_2	Amount of emitted pollutants, g/s	Average concentration, mg/Nm^3 at 3 % O_2	Amount of emitted pollutants, g/s	Average concentration, mg/Nm^3 at 3 % O_2	Amount of emitted pollutants, g/s
3	**4**	7	8	10	11	13	14
Orimulsion	**Solid particles**	263	28.7	154	26	10	1.06
	SO_2	7140	-	-	-	291	-
at the capacity of	**NOx**	531	-	-	-	509	-
40%	**CO**	<1	-	-	-	<1	-
	CO_2	9.20%	-	-	-	8.70%	-
Orimulsion	**solid particles**	246	45	117	17.42	2.2	0.35
	SO_2	7185	-	-	-	325	-
at the capacity of	**NOx**	724	-	-	-	716	-
100%	**CO**	<1	-	-	-	<1	-
	CO_2	10.60%	-	-	-	10.10%	-
Heavy fuel oil	**solid particles**	251	20,9			4.3	0.45
	SO_2	3892	-			140	-
at the capacity of	**NOx**	497	-			425	-
40%	**CO**	<1	-			<1	-
	CO_2	9.30%	-	-	-	8.40%	-
Heavy fuel oil	**solid particles**	194	35.04			1,9	0.31
	SO_2	3764	-			293	-
at the capacity of	**NOx**	1071	-			978	-
100%	**CO**	<1	-			<1	-
	CO_2	10.80%	-	-	-	10.00%	-

Investment

Investments financed from the depreciation funds and payment of loans is shown in Table 8.

Table 8

INVESTMENT PLAN IMPLEMENTATION IN 2005

LTL thousand

No.	Project description	Plan for 2005	Implementation in 2005
1	2	3	4
	I. Implemented projects		
1.1.	Replacement of 0.4 kV dispenser equipment in units 1-4		988
1.2.	Units 5-8. Replacement of 6 kV oil switches by vacuum switches; replacement of protectors by digital protectors		846
1.3.	Building of a new heavy fuel oil tank of 5000 m^3 capacity	260	278
1.4.	Electrolyser		38
1.5.	Turbo-generator excitation system in unit 5		1004
1.6.	Unit 8. Fume purification (desulphurisation equipment and solid particle filter)	2742	1001
	II. On-going projects		
2.1.	Construction of desulphurisation equipment and solid particle filters	8297	8297
2.2.	Installation of burners of low nitrogen oxide output in boilers 1, 2, 5A, 5B, 7A, 7B, 8A, 8B and forced air cooling equipment for heating surfaces in boilers 5A, 5B, 6A, 6B, 7A,7B, 8A, 8B	20504	20504
2.3.	Upgrading of regenerative air preheaters in boilers 5A, 5B, 6A, 6B, 7A, 7B, 8A and 8B	4259	4259
2.4.	Upgrading of the control system in units 5, 7 and 8	5467	5467
2.5.	Replacement of a turbo supply pump (TMS-6)	612	934
2.6.	Refurbishment of the main building	200	0
2.7.	Upgrading of computer and local network equipment	100	0
2.8.	Equipment not requiring installation	1000	2218
2.9.	Building of a new 2000 m3 water collection tank	1147	749
2.10.	Renovation of 1.2 km runway and of roads 101 and 108	3200	2479
	Total 1 and 2:	**49382**	**49062**

THE COMPANY'S PLANS FOR THE YEAR 2006

The Company's plans for the year 2006 are reflected in Tables 9 and 10.

Table 9

PLAN OF THE MAIN INDICATORS FOR THE YEAR 2006

Indicators	Unit of measurement	Achieved in 2005	Planned for 2006
Supplied electricity to the network	Thousand kWh	972 110	850 000
Income from sales of electricity	LTL thou	118 347	109 879
Income from other principal activities	LTL thou	84 611	91 004
- for cold reserve	LTL thou	69 589	73 939
- for warm reserve	LTL thou	6 524	7 972
- for thermal energy	LTL thou	8 498	9 093
Income from ancillary activities	LTL thou	2 310	43 160
Financial investment activities	LTL thou	6 450	-
Total income	**LTL thou**	***211 718***	***244 042***
Total costs	**LTL thou**	***191 171***	***221 911***
- variable	LTL thou	102 344	124 777
- fixed	LTL thou	85 844	97 134
Costs of ancillary activities	LTL thou	2 061	-
Financial investment activities	LTL thou	922	-
Profit		**20 547**	**22 132**
Total relatively fixed costs	LTL thou	*85 844*	*97 134*
- amortization	LTL thou	*24 879*	*30 890*
- remuneration	LTL thou	*17 271*	*18 998*
- social insurance	LTL thou	*5 562*	*6 080*
- *taxes*	LTL thou	*3 780*	*4 278*
- *material*	LTL thou	*33 771*	*36 088*
- *interest*	LTL thou	*581*	*800*

The order No.4-285 of the Minister of Economy of the Republic of Lithuania of 29 July 2005 set the purchase volume of 660m kWh for the power plant for the year 2006. We plan to produce an additional amount of about 190m kWh in the third quarter of 2006 when Ignalina NPP is closed for repairs. *Lietuvos dujos AB* has considerably increased the price for gas (up to USD 160 per thou. m^3), but the price of the purchased energy has changed only slightly, therefore it is anticipated that in 2006 *Lietuvos Elektrinė AB* will operate at a loss.

Table 10

INVESTMENT PLAN FOR THE YEAR 2006

LTL thousand

No.	Project description	Planned for 2006	Sources of funding in 2006				
			Own funds	Loan	National Ignalina decommissioning fund	International Ignalina decommissioning fund	Swedish Government Funds
1	2	5	6	7	8	9	10
	I. Implemented projects						
1.1.	Units 1-4: Replacement of 0.4 kV dispenser equipment						
1.2.	Units 5-8. Replacement of 6 kV oil switches by vacuum switches; replacement of protectors by digital protectors						
1.3.	Building of a new heavy fuel oil tank of 5000 m^3 capacity						
1.4.	Electrolyser						
1.5.	Turbo-generator excitation system in unit 5						
1.6.	Unit 8. Fume purification (desulphurisation equipment and solid particle filter)	2800	2800				
1.7.	Feasibility study of environmental and technological projects, including						
a	Swedish Government Fund						
b	Payments to *SwedPower* by LE						
c	Special work and services of the LE staff						
	II. On-going projects						
2.1.	Construction of desulphurisation equipment and solid particle filters	111559	0	0	10910	100649	
2.2.	Installation of burners of low nitrogen oxide output in boilers 1, 2, 5A, 5B, 7A, 7B, 8A, and 8B and of forced air cooling equipment for heating surfaces in boilers 5A,5B,6A,6B,7A,7B,,8A,8B	41010	0	36940	4070		
2.3.	Upgrading of regenerative air preheaters in boilers 5A, 5B, 6A, 6B, 7A, 7B, 8A and 8B	20639		18909	1730		
2.4.	Upgrading of the control system in units 5, 7 and 8	28695		26145	2550		
2.5.	Replacement of a turbo supply pump (TMS-6)	50	50				
2.6.	Refurbishment of the main building	100	100				
2.7.	Upgrading of computer and local network equipment	100	100				
2.8.	Equipment not requiring installation	1500	1500				
2.9.	Building of a new 2000 m3 water collection tank	398	398				
2.10.	Renovation of 1.2 km of runway and of roads 101 and 108	721	721				

No.	Project description	Planned for 2006	Sources of funding in 2006				
			Own funds	Loan	National Ignalina decommissioning fund	International Ignalina decommissioning fund	Swedish Government Funds
	III. New projects						
3.1.	Environmental and technical upgrading project management group	4485				4485	
3.2.	Preparation of the ash pit for the desulphurised waste	400	400				
3.3.	Replacement of high presure preheater input-output valves by more reliable ones	100	100				
3.4.	Personal trainer	2500	2500				
3.5.	Assembly of new cooling equipment in units 7-8	400	400				
3.6.	Replacement of HRS and CRS control valves	300	300				
3.7.	Replacement of power supply pump and turbo supply pump control valves	80	80				
3.8.	Replacement of direct current panel	100	100				
	Total 1,2 and 3:	**215937**	**9549**	**81994**	**19260**	**105134**	

The key objective of investments is implementation of the measures planned for the year 2006 with regard to technical upgrading and improvement of environment protection standards in the Lithuanian power plant, in order to properly prepare for replacement of the capacity currently supplied by the Ignalina NPP after its decommissioning. Completion of works on fume purification equipment installation in boiler 8B and implementation of the following environmental and related technical projects is projected:

1. Modernization of regenerative air heaters for 300 MW capacity boilers 5, 6, 7, and 8
On 20 April 2005, an agreement was signed with RAFAKO (Poland).

2. Upgrading of control systems for 300 MW capacity boilers in units 5, 7, and 8
On 20 April 2005, an agreement was signed with EMERSON Process Management (Switzerland).

3. Installation of burners of low nitrogen oxide output for boilers in units 1, 2, 5, 7, and 8.
On 30 June 2005, an agreement was signed with ALSTOM Power Ltd, Derby (England).

4. Construction of fume purification (desulphurisation) equipment and solid particle filters for boilers 1, 2, 5, 7, and 8 (stage I in the financial year 2004-2006).
On 15 November 2005, an agreement was signed with ALSTOM Power Sweden AB.

5. Project management. The final proposal assessment report was sent to the EBRD. Signing of the agreement is anticipated in March 2006.

The first three projects will be financed from the national Ignalina NPP Decommissioning Support Fund and the Company's own and borrowed funds, while the last two will be funded from the international Ignalina NPP Decommissioning Support Fund, administered by the European Bank of Reconstruction and Development (EBRD).

Other major new projects to be financed from own funds for investment include the following:

- Preparation of the ash pit for the desulphurised waste for boiler 8B;
- Personal trainer (to train the operators how to work with modern unit operating systems);
- Assembly of new cooling equipment in units 7-8;
- Replacement of CIS and HIS control valves.

It is projected to continue the on-going projects, among them:

- Renovation of 1.2 km runway and of roads 101 and 108;
- Construction of a 2000 m^3 capacity water tank;
- Refurbishment of the main building.

Chairman of the Board **Pranas Noreika**

LIETUVOS ELEKTRINĖ AB

BALANCE SHEET
AS OF 31 DECEMBER 2005

	Notes	2005 (LTL)	2004 (Note 32) (LTL)
ASSETS			
Non-current assets:			
Plant, property and equipment	**5**	1,054,419,403	1,030,592,189
Intangible assets	**6**	216,091,452	701,118
Accounts receivable after one year	**7**	1,344,296	1,413,821
Deferred tax asset	**29**	206,820	140,250
Total non-current assets		**1,272,061,970**	**1,032,847,378**
Current assets:			
Inventories	**8**	33,353,748	34,177,494
Accounts receivable and prepayments	**9**	20,945,566	24,651,291
Term deposits	**10**	-	21,000,000
Cash and cash equivalents	**11**	14,092,527	2,282,933
Total current assets:		**68,391,841**	**82,111,719**
TOTAL ASSETS:		**1,340,453,811**	**1,114,959,097**
EQUITY AND LIABILITIES			
Equity:			
Share capital	**12**	145,800,689	145,800,689
Revaluation reserve	**13**	692,623,615	707,383,281
Legal reserve	**13**	7,502,505	6,910,546
Other reserves	**13**	54,091,852	49,135,664
Emission rights revaluation reserve	**14**	98,822,418	-
Retained earnings	**15**	26,447,778	5,651,728
Total equity		**1,025,288,857**	**914,881,908**
Grants and subsidies	**16**	107,708,465	23,133,021
Non-current liabilities:			
Bank loans	**17**	12,999,792	24,656,990
Finance lease liabilities	**18**	45,979	-
Deferred tax liability	**29**	125,499,659	127,161,297
Total non current liabilities:		**138,545,430**	**151,818,287**
Current liabilities:			
Trade and other accounts payable	**19**	13,427,079	13,585,264
Payroll related liabilities	**20**	1,712,780	1,560,617
Current income tax		1,533,614	-
Provision for used emission rights	**14**	52,199,792	-
Bank loans	**17**	-	3,000,000
Finance lease liabilities	**18**	37,794	-
Derivative financial instruments	**21**	-	6,980,000
Total current liabilities:		**68,911,059**	**25,125,881**
TOTAL EQUITY AND LIABILITIES		**1,340,453,811**	**1,114,959,097**

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

The financial statements were approved on 31 March 2006 and signed by:

Pranas Noreika General Director	Rolandas Jankauskas Chief Accountant

LIETUVOS ELEKTRINĖ AB

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 (LTL)	2004 (Note 32) (LTL)
Sales	**22, 24**	202,958,526	175,670,559
Cost of sales	**23, 24**	(175,070,921)	(148,819,910)
Gross profit		**27,887,605**	**26,850,649**
Operating expenses	**25**	(13,117,755)	(22,596,667)
Other income	**26**	2,309,867	3,012,773
Other expenses	**26**	(2,061,449)	(2,192,279)
Interest income		499,803	273,342
Operating profit		**15,518,071**	**5,347,818**
Finance costs	**27**	(921,192)	(1,505,904)
Net foreign currency exchange gain (loss)	**21**	5,950,087	(8,741,648)
Profit (loss) before tax		**20,546,966**	**(4,899,734)**
Income tax	**28**	(3,317,123)	128,661
Net profit (loss)		**17,229,843**	**(4,771,073)**
Basic and diluted earnings per share	**30**	**0.12**	**(0.03)**

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

The financial statements were approved on 31 March 2006 and signed by:

Pranas Noreika General Director	Rolandas Jankauskas Chief Accountant

LIETUVOS ELEKTRINĖ AB

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital (LTL)	Revaluation reserve (LTL)	Legal reserves (LTL)	Other reserves (LTL)	Emission rights revaluation reserve (LTL)	Retained earnings (LTL)	Total (LTL)
At 31 December 2003	**145,800,689**	**289,962**	**6,001,094**	**39,787,526**	**-**	**18,150,497**	**210,029,768**
Effects of transition to IFRS (Note 32)		(289,962)		251,422	-	(4,169,518)	(4,208,058)
At 1 January 2004 (Note 32)	**145,800,689**	**-**	**6,001,094**	**40,038,948**	**-**	**13,980,979**	**205,821,710**
Revaluation of property, plant and equipment		721,106,885			-		721,106,885
Net loss	-	-	-	-	-	(4,771,073)	(4,771,073)
Dividends paid	-	-	-	-	-	(7,275,614)	(7,275,614)
Reserves used	-	-	-	(907,253)	-	907,253	
Transfer to legal reserve	-	-	909,452	-	-	(909,452)	-
Transfer to other reserves	-	-	-	10,003,969	-	(10,003,969)	-
Decrease in revaluation reserve due to depreciation and disposal of revalued property, plant and equipment	-	(13,723,604)	-	-	-	13,723,604	-
At 31 December 2004 (Note 32)	**145,800,689**	**707,383,281**	**6,910,546**	**49,135,664**	**-**	**5,651,728**	**914,881,908**
Net profit	-	-	-	-	-	17,229,843	17,229,843
Dividends	-	-	-	-	-	(4,735,674)	(4,735,674)
Transfer to other reserves	-	-	-	6,511,552	-	(6,511,552)	-
Reserves used				(1,555,364)		1,555,364	
Transfer to legal reserve	-	-	591,959	-	-	(591,959)	-
Decrease in revaluation reserve due to depreciation and disposal of revalued property, plant and equipment	-	(13,850,028)	-	-	-	13,850,028	-
Increase of deferred tax liability due to the change of the income tax rate		(909,638)				-	(909,638)
Revaluation of emission rights	-	-	-	-	98,822,418	-	98,822,418
At 31 December 2005	**145,800,689**	**692,623,615**	**7,502,505**	**54,091,852**	**98,822,418**	**26,447,778**	**1,025,288,857**

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

The financial statements were approved on 31 March 2006 and signed by:

Pranas Noreika
General Director

Rolandas Jankauskas
Chief Accountant

LIETUVOS ELEKTRINĖ AB

CASH FLOWS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 (LTL)	2004 (Note 32) (LTL)
OPERATING ACTIVITIES		
Cash receipts from customers	245,725,507	211,263,079
Other income	90,986	72,037
Cash paid to suppliers and employees	(188,527,676)	(161,212,193)
Other payments	(14,332,482)	(11,876,098)
Cash generated from operations	**42,956,335**	**38,246,825**
Income tax paid	(3,989,080)	(4,471,413)
Interest paid	(580,854)	(1,165,135)
Net cash from operating activities	**38,386,401**	**32,610,277**
INVESTING ACTIVITIES		
Acquisition of plant, property and equipment	(48,831,710)	(22,519,792)
Disposal of plant, property and equipment	-	161,700
Repayment of loans granted	69,525	130,099
Interest received	499,803	171,907
Term deposits	21,000,000	(21,000,000)
Net cash used in investing activities	**(27,262,382)**	**(43,056,086)**
FINANCING ACVITIES		
Proceeds of borrowings	-	14,657,198
Repayment of borrowings	(14,707,745)	(18,305,761)
Dividends paid	(4,703,787)	(7,250,173)
Grants received	19,971,000	19,895,000
Net cash from financing activities	**559,468**	**8,996,264**
Effect of foreign exchange rate changes	**126,107**	**-**
Net increase (decrease) in cash and cash equivalents	**11,809,594**	**(1,449,545)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**2,282,933**	**3,732,478**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**14,092,527**	**2,282,933**

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

The financial statements were approved on 31 March 2006 and signed by:

Pranas Noreika General Director	Rolandas Jankauskas Chief Accountant

1. General information

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 Lietuvos Elektrinė AB, Mažeikių Elektrinė AB, Rytų Skirstomieji Tinklai AB and Vakarų Skirstomieji Tinklai AB.

Lietuvos Elektrinė AB (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 – LT108709314;
- 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.

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

The shares of the Company are traded on Vilnius Stock Exchange.

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 2005 the Company employed 728 people (as of 31 December 2004 the company employed 830 people).

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in no significant impact to the Company's financial position and results of its operations.

At the date of authorization of these financial statements, the following Standards and Interpretations were issued but not yet effective:

New standard, interpretation, amendment	**Issued**	**Effective for annual periods beginning on or after**
Amendments to IAS 39 - Cash flow hedge of forecast intragroup transactions - Guarantee contracts (IFRS 4 amended accordingly) - Fair value option	2004	1 January 2006
Amendment to IAS 1 to add capital disclosures	2005	1 January 2007
Employee Benefits	2004	1 January 2006
Insurance Contracts Amendment for financial guarantee contracts	2005	1 January 2006
IFRS 6 Exploration for and evaluation of mineral resources (IFRS 1 amended accordingly)	2004	1 January 2006
IFRS 7 Financial Instruments: Disclosure (supersedes IAS 30)	2005	1 January 2007
IFRIC 4 – Determining whether an Agreement contains a Lease	2004	1 January 2006
IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	2004	1 January 2006
IFRIC 6 Liabilities arising from Participation in a specific market – Waste electrical and electronic references	2005	1 December 2005
IFRIC 7 Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies	2005	1 March 2006
IFRIC 8 Scope of IFRS 2	2006	1 May 2006
IFRIC 9 Reassessment of embedded derivatives	2006	1 June 2006

The management of the Company anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

In addition, please see note 32 for impact of first-time adoption of IFRS.

3. Accounting policy

Basis of preparation
For the first time, the Company's financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (IFRS) that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The disclosure of transition from Lithuanian Business Accounting Standards to IFRS, as required by IFRS 1 is disclosed in Note 32 to the financial statements.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of tangible fixed assets, revaluation of emission rights, provisions for used emission rights, related Government grants and certain financial instruments to fair value. The fair value of this property, plant and equipment as of 1 January 2004 (date of transition to IFRS) is considered the deemed cost as of that date.

The principal accounting policies adopted are set out below.

Intangible assets
The intangible assets are recognized if the following requirements are met: it is reasonably expected to receive a benefit from this asset; the acquisition cost can be credibly evaluated and distinguished from the value of other assets; the company is able to dispose and control the asset or to limit the usage of the item.

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. The liquidation value is not calculated. In the income statement amortization expenses are distributed into depreciation, amortization and impairment loss expenses.

The groups of intangible assets and their amortization periods are determined as follows:

Software	3
Other intangible assets	4

Property, plant and equipment
Property, plant and equipment are carried at a deemed cost less any subsequent accumulated depreciation and impairment loss. The property, plant and equipment at the date of transition to IFRS were stated at their fair value and the fair value was considered to be their deemed cost at the date of transition. The revaluation 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 installments 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.

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.

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.

Emission rights - The EU Emission Allowance Trading Scheme was established by Directive 2003/87/EC and commenced on 1 January 2005. The first phase runs for the three-year period from 2005 to 2007; the second will run for five years from 2008-2012 to coincide with the first Kyoto Commitment Period. The scheme works on a 'Cap and Trade' basis. EU Member States' governments are required to set an emission cap for each phase for all 'installations' covered by the Scheme. This cap is established in the National Allocation Plan (NAP), which is issued by the relevant authority in each Member State (The NAP describes the amount of yearly emissions (measured in tones of carbon dioxide equivalents) permitted per installation for each phase for which allowances will be allocated on an annual basis.

Member States are required to allocate allowances to installations by 28 February each year according to the NAP (a certain number of allowances are kept in reserve for new installations).

Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the preceding calendar year. Thus, installations will surrender allowances for the first time by 30 April 2006 equal to their emissions during 2005.

<u>Intangible asset</u>
EU emission rights represent an intangible asset received as a non-monetary government grant free of charge and is recognised initially at fair value when issued.

After initial recognition the intangible assets is re-measured at fair value by reference to an active market. Re-measurements related to not used emission rights are recognised directly in a separate component of equity. The revaluation results of obligations related to used emission rights (upon settlement or sale) are recognised in the income statement.

<u>Government grant</u>
The Company has received EU emission allowances for free, which represent a non-monetary government grant, which initially is recognised in the balance sheet at fair value of the related asset at the date of issue or allocation. Subsequently the government grant is recognised as income on a systematic basis over the compliance period for which the allowances were issued.

Emission liability
As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This is present market price of the number of allowances required to cover emissions made up to the balance sheet date. The obligation can only be settled by surrendering allowances to the appropriate authority. The revaluation of the emission liability to fair value is recognised in the income statement.

Revenue recognition

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

Revenue from the rendering of services
Revenue is 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 an accrual basis as incurred.

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.

The company has adopted this accounting policy on 1 January 2005. In prior periods all borrowing costs were recognized in the income statement in the period in which they 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.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of income when there is objective evidence that the asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an

impact on the estimated future cash flows of the asset that can be reliably estimated. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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 derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

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 recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of income.

Inventories
Inventories are stated at the lower of cost of purchase 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 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
Income tax expense represents the sum of the tax currently payable and movements in deferred income tax.

The charge for current tax is based on the result for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates (15%) 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. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 2005 and 2004 were as follows:

2005		2004	
1 USD	= 2.9102 Lt	1 USD	= 2.5345 Lt
1 EUR	= 3.4528 Lt	1 EUR	= 3.4528 Lt

All resulting gains and losses relating to cash are recognized in the statement of profit and loss in the period in which they arise. Gains and losses on translation are credited or charged to the income statement based on 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.
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
During 2004 the Company used 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
Grants are recognized on an 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 as 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.

Dividends
Dividends are recorded in the Company'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 (including other State controlled entities).

4. Critical judgments and uncertainty

Critical judgments in applying the entity's accounting policies

Fixed assets depreciation rates
In making its judgment for the remaining useful life of property, plant and equipment, management considered the conclusions from the employees responsible for technical maintenance of assets.

In the year 2004 the Company has changed the estimated useful lives of property plant and equipment. The effect of a change in an accounting estimate was recognized prospectively by including it in the income statement in the period of change, as it is required by IAS 8 Accounting policies, Change in Accounting Estimates and Errors.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of property, plant and equipment
The Company makes an assessment, at lease annually, whether there are any indications that property, plant and equipment have suffered any impairment. If that is the case, the Company makes an impairment test in accordance with the accounting policy set out in Note 3. The recoverable amount of cash-generating units is determined based on value-in-use calculations. As at 31 December 2005 there were no indications that property, plant and equipment might be impaired.

5. Property, plant and equipment

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

	Buildings and Construc-tions (LTL)	Machinery and equipment (LTL)	Vehicles (LTL)	Other property, plant and equipment (LTL)	Construction in progress (LTL)	Total (LTL)
Deemed cost						
At 31 December 2004	217,079,674	958,177,770	2,325,082	117,839,858	48,303,598	1,343,725,982
Acquisitions	-	-	250,830	1,927,253	46,207,485	48,385,568
Disposals	-	(15,315)	(7,351)	(575,683)	(304,147)	(904,496)
Transfer from intangible assets	-	-	-	-	562,733	562,733
Transfers	418,064	(69,967,540)	(44,764)	71,094,063	(1,499,823)	-
At 31 December 2005	**217,497,738**	**888,194,915**	**2,523,797**	**190,283,491**	**93,269,846**	**1,391,769,787**
Depreciation						
At 31 December 2004	44,225,453	222,013,997	1,480,028	45,394,315	-	313,133,793
Depreciation charge	2,548,575	16,514,936	128,549	5,622,730	-	24,814,790
Disposals	-	(15,203)	(7,350)	(575,646)	-	(598,199)
Transfers	699,108	6,038,467	(45,720)	(6,691,855)	-	-
At 31 December 2005	**47,493,136**	**244,552,197**	**1,555,507**	**43,749,544**	**-**	**337,350,384**
Net book value						
At 31 December 2004	**172,787,676**	**736,207,354**	**842,297**	**72,451,264**	**48,303,598**	**1,030,592,189**
At 31 December 2005	**170,004,602**	**643,642,718**	**968,290**	**146,533,947**	**93,269,846**	**1,054,419,403**

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 expenses (Notes 16, 23, 25).

At 31 December 2005 fully depreciated property, plant and equipment still in use consisted of the following:

Group	**Deemed cost (LTL)**
Buildings and constructions	1,651,965
Machinery and equipment	5,490,682
Vehicles	388,184
Other property, plant and equipment	5,488,600

At 31 December 2005 the Company has no pledges over its property, plant and equipment.

At 31 December 2005 the net book value of fixed assets being acquired under the finance lease was LTL 106,242 (2004: nil).

At 31 December 2005 the cost of construction in progress includes capitalized interest in the amount of LTL 408,406 (Note 27).

6. Intangible assets

At 31 December intangible assets consisted of the following:

	Software (LTL)	Other intangible assets (LTL)	Emission rights (Note 14) (LTL)	Total (LTL)
Cost				
At 31 December 2004	771,246	562,733	-	1,333,979
Acquisitions	17,728	-	216,000,273	216,018,001
Disposals	(386,739)	-	-	(386,739)
Transfers to property, plant and equipment	-	(562,733)	-	(562,733)
At 31 December 2005	**402,235**	**-**	**216,000,273**	**216,402,508**
Amortization				
At 31 December 2004	632,861	-	-	632,861
Amortization	64,934	-	-	64,934
Disposals	(386,739)	-	-	(386,739)
At 31 December 2005	**311,056**	**-**	**-**	**311,056**
Net book value				
At 31 December 2004	**138,385**	**562,733**	**-**	**701,118**
At 31 December 2005	**91,179**	**-**	**216,000,273**	**216,091,452**

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

At 31 December 2005 fully amortized intangible assets still in use consisted of the following:

Group	Acquisition cost (LTL)
Software	55,524

7. Accounts receivable after one year

At 31 December accounts receivable after one year consisted of the following:

	2005 (LTL)	2004 (LTL)
Loans granted to employees	1,344,296	1,413,821
Total:	**1,344,296**	**1,413,821**

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

8. Inventories

At 31 December inventories consisted of the following:

	2005 (LTL)	2004 (LTL)
Fuel	24,375,914	29,664,126
Inventory	4,039,527	2,651,728
Spare parts	4,686,025	1,571,240
Other	252,282	290,400
Total:	**33,353,748**	**34,177,494**

At 31 December 2005 the Company's fuel with a carrying amount of LTL 16,242,618 (2004: LTL 16,242,618) is pledged to secure the loan granted by AB bank Nord/LB (Note 17).

9. Accounts receivable and prepayments

At 31 December accounts receivable and prepayments consisted of the following:

	2005 (LTL)	2004 (LTL)
Trade receivable	19,901,971	23,071,546
Allowances for doubtful receivables	(1,143,288)	(1,540,706)
VAT receivable	1,224,856	2,249,129
Advances paid	920,245	823,924
Other	41,782	47,399
Total	**20,945,566**	**24,651,292**

The movements in the provision for doubtful accounts receivable were as follows:

	2005 (LTL)	2004 (LTL)
1 January	**1,540,706**	**1,648,120**
Reversal of provisions (Note 25)	(397,418)	(107,415)
31 December	**1,143,288**	**1,540,706**

10. Term deposits

At 31 December term deposits consisted of the following:

	2005 (LTL)	2004 (LTL)
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
Total	**-**	**21,000,000**

At 31 December 2004 funds in the amount of LTL 19,000,000 (Note 16), received from the State Company Ignalina Nuclear Power Station Cessation Fund, were transferred to the term deposits accounts. These funds will be used for the implementation of ecological and related technical projects by the Company.

11. Cash and cash equivalents

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

	2005 (LTL)	2004 (LTL)
Cash in the bank current accounts	4,461,781	1,269,568
Overnight deposit	9,630,746	1,013,365
Total	**14,092,527**	**2,282,933**

The Company has pledged current and future funds in the current accounts with AB bank Nord/LB to secure the credit agreement signed. At 31 December 2005 the balance of cash in the current accounts with AB bank Nord/LB was LTL 877,164 (2004 – LTL 399,653).

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

12. Share capital

At 31 December 2005 and 2004 the issued capital consisted of 145,800,689 authorized ordinary shares at par value of LTL 1 each. All shares were fully paid.

At 31 December 2005 Company's shareholders were:

Shareholders	Shares (LTL)	%
Government represented by the Ministry of Economy	140,711,469	96,51
Other	5,089,220	3,49
Total:	**145,800,689**	**100.00**

13. Reserves

Property, plant and equipment revaluation reserve consists of the positive revaluation surpluses. The revaluation was carried out on 31 December 2002 by an independent Lithuanian certified appraiser UAB Korporacija Matininkai. Revaluation results were recorded 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.

At 31 December 2005 other reserves amounted to LTL 54,091,852 Lt.

14. Emission rights

At 31 December 2005 the CO^2 emission rights consisted of the following:

	Emission rights (Note 6) (LTL)	Revaluation reserve (LTL)	Government grant (Note 16) (LTL)	Provision for used emission rights (LTL)	Income statement (LTL)
Grants received from the government (at fair value)	85,685,215	-	85,685,215	-	-
Revaluation	130,315,058	98,822,418	-	-	31,492,640
Provision for used emission rights	-	-	(20,707,152)	52,199,792	(31,492,640)
31 December 2005	**216,000,273**	**98,822,418**	**64,978,063**	**52,199,792**	**-**

15. Draft profit distribution

At 31 December 2005 the draft profit distribution subject to shareholders approval was as follows:

	2005 (LTL)
Retained earnings (accumulated deficit) at the beginning of the year	(4,771,073)
Net profit for the year	17,229,843
Retained earnings available for distribution at the end of the year	12,458,770
Distribution:	
Transfer to legal reserves	861,492
Transfer to other reserves	3,883,770
Dividends	4,983,508
Charity	1,200,000
Transfer to distributable reserves for social needs	1,500,000
Annual bonuses for the Board	30,000
Undistributed result at the end of the year	-

16. Grants

At 31 December grants were as follows:

	Grants related to assets (fuel burning equipment) (LTL)	Grants related to assets (renovation and safety norms improvement project) (LTL)	Grants of environment pollution limits (LTL)	Total (LTL)
At 31 December 2003	3,611,638	-	-	**3,611,638**
Depreciation of non-current assets	(373,617)	-	-	**(373,617)**
Grants received	-	19,895,000	-	**19,895,000**
At 31 December 2004	**3,238,021**	**19,895,000**	**-**	**23,133,021**
Depreciation of property, plant and equipment	(373,619)	-	-	(373,619)
Grants received	-	19,971,000	85,685,215	**105,656,215**
Emission rights used	-	-	(20,707,152)	**(20,707,152)**
At 31 December 2005	**2,864,402**	**39,866,000**	**64,978,063**	**107,708,465**

During 2005, the grants, related to assets, decreased by LTL 373,619, i.e. by the depreciation of the granted property, plant and equipment (2004 - LTL 373,617). The related amount of grant was credited to income statement to offset the depreciation expenses of the related assets charged.

During 2005 the Company received grants in the amount of LTL 19,971,000 (2004 - 19,895,000) from the State Company Ignalina Nuclear Power Station Cessation Fund. These funds will be used for the implementation of ecological and related technical projects in the Company. The grant was not used during 2005.

17. Bank loans

At 31 December bank loans consisted of the following:

	2005 (LTL)	2004 (LTL)
Loan from AB bank „Nord/LB”, denominated in EUR, matures on 1 May 2013, annual interest rate – 12 month LIBOR plus 0.84 percent margin	12,999,792	12,999,792
Overdraft facility with credit limit of LTL 28,000,000 from AB bank „Hansabankas”, denominated in LTL, matures on 1 July 2009, annual interest rate 4.35% percent	-	14,657,198
	12,999,792	**27,656,990**

Bank loans are repayable during:

First year	-	3,000,000
Second year	-	3,000,000
Third year	-	3,000,000
Fourth year	-	3,000,000
Fifth year	3,714,225	2,657,198
Thereafter	9,285,567	12,999,792
	12,999,792	**27,656,990**

Short term portion	-	3,000,000
Long term portion	12,999,792	24,656,990
	12,999,792	**27,656,990**

At 31 December 2005 the Company’s fuel with carrying amount of LTL 16,242,618 (2004: LTL 16,242,618) (Note 8) and current and future funds in the current accounts amounting to LTL 877,164 (2004 – LTL 399,653) (Note 11) were pledged to secure the loan granted by AB bank Nord/LB.

At 31 December 2004 he Company’s current and future funds in the current accounts in the amount of LTL 13,703 were pledged to secure the AB bank Hansabank overdraft facilities.

The carrying amount of bank loans approximates their fair value.

18. Finance lease liabilities

At 31 December 2005 the finance lease liabilities were as follows:

	Minimum lease payments 2005 (LTL)	Present value of minimum lease payments 2004 (LTL)
Amounts payable under finance leases:		
First year	40,371	37,794
Second – fifth year	47,099	45,979
Minimum lease payments	**87,470**	
Less: future finance charge	(3,697)	
Present value minimum lease payments	**83,773**	**83,773**

The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rate determined in the agreement is equal to 6 month EURIBOR plus 1,67% margin.

19. Trade and other accounts payable

At 31 December trade and other accounts payable consisted of the following:

	2005 (LTL)	2004 (LTL)
Payables for inventory	4,362,429	1,734,553
Payables for fuel	3,210,692	3,615,990
Payables for construction and investment	2,233,653	4,101,697
Payables for repairs	1,573,725	1,882,028
Unpaid dividends	974,007	949,045
Taxes payable (excluding income tax)	683,472	670,819
Advances received	54,653	56,715
Other	343,448	574,417
Total	**13,427,079**	**13,585,264**

20. Payroll related liabilities

At 31 December payroll related liabilities consisted of the following:

	2005 (LTL)	2004 (LTL)
Vacation reserve	1,088,526	935,000
Social insurance tax payable	624,254	625,617
Total	**1,712,780**	**1,560,617**

21. Derivative financial instruments

At 31 December 2004 under foreign currency forward agreements signed with AB bank Snoras, the Company had obligations to purchase USD 25,000,000 for LTL 70,342,500 in year 2005. At 31 December 2004 the Company has recognized derivative financial instruments - liability amounting to LTL 6,980,000 related to this forward agreement.

For the year ended 31 December gains and losses recognized in the income statement in respect to this forward agreement were as follows:

	2005 (LTL)	**2004 (LTL)**
Foreign currency exchange (loss)	(1,029,913)	(1,761,648)
Gain (loss) from derivative financial instruments	6,980,000	(6,980,000)
Total	**5,950,087**	**(8,741,648)**

22. Sales

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

	2005 (LTL)	**2004 (LTL)**
Electricity generation	118,176,862	89,833,409
Cold power reserves	69,589,440	58,300,624
Heat energy	8,497,652	9,225,291
Operational reserve	6,524,047	5,371,286
Other sales	170,525	205,567
Power reserves	-	12,734,382
Total	**202,958,526**	**175,670,559**

23. Cost of sales

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

	2005 (LTL)	**2004 (LTL)**
Gas	83,489,206	61,345,359
Depreciation and amortisation expenses	24,490,469	25,845,912
Materials	21,492,231	12,374,785
Payroll and social insurance	19,689,095	18,701,220
Oriemulsion	17,531,647	11,482,124
Repairs	6,113,757	15,694,732
Fuel oil	705,014	1,068,203
Other	1,559,502	2,307,575
Total	**175,070,921**	**148,819,910**

24. Business segments

There are two segments distinguished in the company: electricity generation and heat energy generation. At 31 December 2005 and for the year then ended segment information was as follows:

2005	Electricity generation LTL	Heat energy generation LTL	Other LTL	Total LTL
Sales	**194,460,874**	**8,497,652**	-	**202,958,526**
Cost of sales	(169,039,935)	(6,030,986)	-	(175,070,921)
Gross profit	**25,420,939**	**2,466,666**	-	**27,887,605**
Operating expenses				(13,117,755)
Other income				2,309,867
Other expenses				(2,061,449)
Interest income				499,803
Finance costs				(921,192)
Net foreign currency exchange (loss) gain				5,950,087
Profit tax expenses				(3,317,123)
Net profit				**17,229,843**
Other information				
Assets	1,167,777,540	9,463,468	163,212,803	1,340,453,811
Liabilities	-	-	207,456,489	207,456,489
Acquisition of tangible and intangible assets of the segment	-	-	264,403,569	264,403,569
Depreciation and amortization	24,664,724	200,000	15,000	24,879,724

At 31 December 2004 and for the year then ended segment information was as follows:

2004	Electricity generation LTL	Heat energy generation LTL	Other LTL	Total LTL
Sales	**166,445,268**	**9,225,291**	-	**175,670,559**
Cost of sales	(141,430,610)	(7,389,300)	-	(148,819,910)
Gross profit	**25,014,658**	**1,835,991**	-	**26,850,649**
Operating expenses				(22,596,667)
Other income				3,012,773
Other expenses				(2,192,279)
Interest income				273,342
Finance costs				(1,505,904)
Net foreign currency exchange (loss) gain				(8,741,648)
Profit tax benefit				128,661
Net profit				**(4,771,073)**
Other information				
Assets	975,087,766	7,901,943	131,969,388	1,114,959,097
Liabilities	-	-	176,944,168	176,944,168
Acquisition of tangible and intangible assets of the segment	-	-	23,766,260	23,766,260
Depreciation and amortization	26,019,529	200,000	15,000	26,234,529

25. Operating expenses

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

	2005 (LTL)	2004 (LTL)
Payroll and social insurance	3,143,515	2,719,414
Pollution tax	1,820,044	1,507,251
Consultation and translation services	1,701,905	808,309
Land lease tax	755,786	752,040
Repairs	744,051	616,319
Real estate tax	524,325	542,154
Security services	503,918	450,796
Road tax	443,906	847,781
Business trips	229,456	288,207
Communication and postal expenses	262,803	260,384
Vacation reserve	153,526	935,000
Trainings	129,435	113,212
Maintenance services	133,891	91,730
Medical services	81,162	222,633
Low value assets written-off	60,103	200,624
Electricity purchased	41,533	36,126
Impairment of non-current assets	-	10,306,153
Provisions for accounts receivable (Note 9)	(397,418)	(107,415)
Other	2,785,814	2,005,949
Total	**13,117,755**	**22,596,667**

26. Other income and other expenses

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

	2005 (LTL)	2004 (LTL)
Other income		
State fuel oil reserve storage income	1,530,439	1,676,112
Distribution stations maintenance income	426,567	710,000
Rental income	122,137	137,657
Other income	117,400	170,079
Gain on disposal of inventories	22,338	85,188
Fines and penalties received	90,986	72,037
Gain on disposal of property, plant and equipment	-	161,700
Total	**2,309,867**	**3,012,773**
Other expenses		
Storage costs	(1,522,411)	(1,612,300)
Depreciation related to storage	(15,000)	(15,000)
Distribution stations maintenance expense	(491,592)	(507,837)
Other expenses	(32,446)	(57,142)
Total	**(2,061,449)**	**(2,192,279)**

27. Finance costs

For the year ended 31 December finance costs consisted of the following:

	2005 (LTL)	2004 (LTL)
Interest expense	988,924	1,165,135
Contract administration fee	338,374	338,370
Other finance costs	2,300	2,399
	1,329,598	1,505,904
Less: capitalized interest	(408,406)	-
Total:	**921,192**	**1,505,904**

28. Income tax expense

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

	2005 (LTL)	%	2004 (LTL)	%
Profit (loss) before income tax	20,546,966		(4,899,734)	
Tax at the statutory income taxes rate (15 %)	3,082,045	15%	(734,960)	15%
Tax effect of revenue that are not taxable in determining taxable profit	(1,136,771)	(5%)	(1,433,925)	29%
Tax effect of expenses that are not deductible in determining taxable profit	267,128	1%	2,040,224	(41%)
Previous year current tax corrections	1,104,721	5%	-	-
Income tax expense (benefit)	**3,317,123**	**16%**	**(128,661)**	**3%**

	2005 (LTL)	2004 (LTL)
The components of income tax expense are as follows:		
Current tax expense	4,850,249	2,493,773
Previous year current tax corrections	1,104,721	-
Deferred income tax benefit	(2,637,847)	(2,622,434)
Income tax expense (benefit)	**3,317,123**	**(128,661)**

29. Deferred income tax

For the year ended 31 December the changes in deferred tax asset were as follows:

Deferred tax asset	Vacation reserve (LTL)
At 31 December 2003	**-**
Credited to income statement	(140,250)
At 31 December 2004	**(140,250)**
Credited to income statement	(66,570)
At 31 December 2005	**(206,820)**

For the year ended 31 December the changes in deferred tax liability were as follows:

Deferred tax liability	Accelerated depreciation (LTL)	Revaluation of property, plant and equipment (LTL)	Total (LTL)
At 31 December 2003	**4,208,058**	**125,435,423**	129,643,481
Credited to income statement	(178,897)	(2,303,287)	(2,482,184)
At 31 December 2004	**4,029,161**	**123,132,136**	**127,161,297**
Decrease (increase) in non-current assets revaluation reserve due to change in deferred income tax rates from 15% to 17 and 19% (charged to the revaluation reserve)	-	909,639	909,639
Credited to income statement	(177,946)	(2,393,331)	(2,571,277)
At 31 December 2005	**3,851,215**	**121,648,444**	**125,499,659**

30. Basic and diluted earnings per share

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2005 and 2004 was 145,800,689.

The Company had no dilutive options outstanding during 2005 and 2004 or at 31 December 2005 and 2004.

31. Related Party Transactions

At 31 December 2005 and for the year then ended related party transactions were as follows:

State controlled entities	Accounts payable (LTL)	Accounts receivable (LTL)	Income (LTL)	Expenses (LTL)
Lietuvos Energija AB	-	17,523,979	195,042,084	-
Elektrėnų Komunalinis Ūkis UAB	-	669,505	4,695,386	-
Abromiškių Reabilitacinė Ligoninė VšĮ	-	50,742	224,536	-
Rytų Skirstomieji Tinklai Vilniaus fil. AB	7,082	-	-	148,598
Lietuvos Geležinkeliai AB	615	-	-	3,413,199
Total	**7,697**	**18,244,226**	**199,962,006**	**3,561,797**

The transactions with related parties were concluded on an arm’s length basis.

The average number of management in 2005 and 2004 was 3. For the year ended 31 December 2005 the management remuneration amounted to LTL 502,777 (2004: LTL 570,909).

32. Transition to IFRS

For the first time, the Company's financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (IFRS) that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The transition to IFRS is accounted for in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, with 1 January 2004 as the date of transition. The changes in the accounting policies as a consequence of the transition to IFRS, and the reconciliations of the effect of the transition to IFRS are presented and described below.

The transition to IFRS resulted in the following changes in accounting policies:

- The Group and the Company has applied IAS 12 "Income Taxes" to temporary differences between the carrying amount of the assets and liabilities in its opening IFRS balance sheet and their tax bases. The resulting change was recognised by adjusting retained earnings.

Effects of IFRS adoption as at 1 January 2004:

	Notes	Under BAS	Effect of transition to IFRS	Under IFRS
TOTAL ASSETS:		**265,913,755**	**-**	**265,913,755**
EQUITY AND LIABILITIES				
Equity:				
Share capital		145,800,689	-	145,800,689
Revaluation reserve	**a**	289,962	(289,962)	-
Legal reserve		6,001,094	-	6,001,094
Other reserves	**a**	39,787,526	251,422	40,038,948
Retained earnings	**c**	18,150,497	(4,169,518)	13,980,979
Total equity		**210,029,768**	**(4,208,058)**	**205,821,710**
Grants and subsidies		3,611,638	-	3,611,638
Non-current liabilities:				
Bank loans		29,382,985	-	29,382,985
Deferred income tax liabilities	**b**	-	4,208,058	4,208,058
Total non current liabilities:		**29,382,985**	**4,208,058**	**33,591,043**
Total current liabilities		**22,889,364**	**-**	**22,889,364**
TOTAL EQUITY AND LIABILITIES		**265,913,755**	**-**	**265,913,755**

Note	Description	Amount
(a)	The Company eliminated the residual of revaluation reserve of the assets derecognized prior to 1 January 2004. The revaluation reserve decreased and the other reserves increased.	289,962
	Other	(38,540)
	Total impact –other reserves increase	**251,422**
(b)	The Company retrospectively accounted for the deferred income tax liability related to accelerated tax depreciation.	4,208,058
	Total impact – increase of deferred tax liability	**4,208,058**
(c)	The Company retrospectively accounted for the deferred income tax liability related to accelerated tax depreciation.	(4,208,058)
	Other	38,540
	Total impact – decrease of retained earnings	**(4,169,518)**

Effects of IFRS adoption as at 31 December 2004 (the most recent published annual financial statements):

	Notes	BAS	Effect of transition to IFRS	Correction of errors	IFRS
ASSETS					
Non-current assets:					
Tangible assets	d	1,032,969,181		(2,376,992)	1,030,592,189
Intangible assets		701,118	-	-	701,118
Accounts receivable after one year		1,413,821	-	-	1,413,821
Deferred income tax assets	e	-	140,250	-	140,250
Total non-current assets		**1,035,084,120**	**140,250**	**(2,376,992)**	**1,032,847,378**
Total current assets:		82,111,719			**82,111,719**
TOTAL ASSETS:		**1,117,195,839**	**140,250**	**(2,376,992)**	**1,114,959,097**
EQUITY AND LIABILITIES					
Equity:					
Share capital		145,800,689	-	-	145,800,689
Revaluation reserve	f	839,075,747	(139,448,952)	7,756,486	707,383,281
Legal reserve		6,910,546	-	-	6,910,546
Other reserves	g	48,126,760	289,962	718,942	49,135,664
Retained earnings	l	11,839,185	12,137,943	(18,325,400)	5,651,728
Total equity		**1,051,752,927**	**(127,021,047)**	**(9,849,972)**	**914,881,908**
Grants		**23,133,021**	**-**	**-**	**23,133,021**
Non-current liabilities:					
Bank loans		24,656,990	-	-	24,656,990
Deferred income tax liabilities	h	-	127,161,297	**-**	**127,161,297**
Total non current liabilities:		**24,656,990**	**127,161,297**	**-**	**151,818,287**
Current liabilities:					
Trade and other accounts payable	i	14,027,284	**-**	(442,020)	13,585,264
Payroll related liabilities	j	625,617	**-**	935,000	1,560,617
Bank loans		3,000,000	**-**	-	3,000,000
Total current liabilities	k	-	**-**	6,980,000	6,980,000
		17,652,901	**-**	**7,472,980**	**25,125,881**
TOTAL EQUITY AND LIABILITIES		**1,117,195,839**	**140,250**	**(2,376,992)**	**1,114,959,097**

The effect of the transitions to IFRS (the most recent annual financial statement under BAS):

Note	Description	Amount
(d)	The Company has accounted for the main building's reconstruction expenses incurred until 31 December 2002, in the profit (loss) statement of the year ended 31 December 2004. Company started to account for the fixed assets at the revaluated amount since 1 January 2004, and 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.	(2,244,970)
	The Company wrote-off non-current assets which did not qualify as a fixed asset.	(132,022)
	Total impact – decrease of non-current assets	**(2,376,992)**
(e)	The Company retrospectively accounted for the deferred income tax	140,250
	Total impact – increase of deferred income tax	**140,250**
(f)	*Effect of transition to IFRS*	
	Deferred income tax (related to revaluation of non-current assets) as of 1 January 2004	(125,435,423)
	Changes of deferred income tax for 2004 (income tax benefit was recognized in the income statement)	2,303,287
	Depreciation of value increase of the revaluated assets	(16,025,772)
	The Company eliminated the balance of the revaluation reserve as of January 1, 2004: the revaluation reserve decreased and the other reserves increased by LTL 289,962 (reclassification).	(289,962)
	Other	(1,082)
		(139,448,952)
	Correction of mistakes	
	Written – off expenses of the main building renovation	(2,273,387)
	Non-current assets written -off	(276,280)
	The value decrease of non-current assets after revaluation was recorded in income statement	10,306,153
		7,756,486
	Total impact – decrease of revaluation reserve	**(131,692,466)**
(g)	**Other reserves**	
	The company eliminated the balance of revaluation reserve as of January 1, 2004: the revaluation reserve decreased and the other reserves increased by LTL 289,962.	289,962
	Reclassification to other accounts payable	442,020
	Non-current assets written –off	276,922
		718,942
	Total impact – increase of other reserves	**1,008,904**
(h)	Deferred income tax (revaluation of non-current assets)	125,435,423
	Changes of deferred income tax in year 2004 (income tax benefit credited to the income statement)	(2,303,287)
	The Company retrospectively accounted for the deferred income tax liability	4,208,058
	Changes of deferred income tax in year 2004 (income tax benefit credited to the income statement)	(178,897)
	Total impact – increase of deferred income tax liability	**127,161,297**
(i)	Reclassification to other reserves	442,020
	Total impact – decrease of trade and other accounts payable	**(442,020)**
(j)	Accrued vacation reserve as of 31 December 2004 accounted for in the income statement	935,000
	Total impact – increase of payroll related liabilities	**935,000**

(k)	The derivative financial instruments accounted for in the income statement	6,980,000
	Total impact – increase of the derivative financial instruments	**6,980,000**
(l)	The above mentioned adjustments decreased the retained earnings as of December 31, 2004	
	Deferred income tax of the revaluated assets (reclassification)	(2,303,287)
	Deferred income tax liability (accelerated depreciation)	(4,208,058)
	Depreciation of value increase of the revaluated assets	16,025,772
	Assets written-off in 2004	1,120
	Other corrections accounted in profit (loss) statement	(16,610,258)
	Distribution from the profit previously recognized in equity reclassified to the income statement	907,254
	Total impact – decrease of retained earnings	**(6,187,457)**

Reconciliation the net profit (loss) for the year ended 31 December 2004:

	Note	BAS	Effect of transition to IFRS	Correction of errors	TFAS
Sales		175,670,559	-	-	175,670,559
Cost of sales	**m**	(148,848,327)	-	28,417	(148,819,910)
Gross profit		**26,822,232**		**28,417**	**26,850,649**
Operating expenses	**n**	(10,316,200)	-	(12,280,467)	(22,596,667)
Other activities		821,136	-	(642)	820,494
Interest income		273,342	-	-	273,342
Operating profit (loss)		**17,600,510**		(12,252,692)	**5,347,818**
Finance costs		(1,505,904)	-	-	(1,505,904)
Net foreign currency exchange (loss) gain	**o**	(1,761,648)	**-**	(6,980,000)	(8,741,648)
Profit (loss) before taxes		**14,332,958**	**-**	**(19,232,692)**	**(4,899,734)**
Income tax	**p**	(2,493,773)	2,622,434	-	128,661
Net profit (loss)	**q**	**11,839,185**	**2,622,434**	**(19,232,692)**	**(4,771,073)**

The effect of the transitions to IFRS:

Note	Description	Amount
(m)	Reversal main building's reconstruction expenses capitalized	28,417
	Total impact – decrease of cost of sales	**28,417**
(n)	The decrease of the value of non-current assets after revaluation	(10,306,153)
	Accrued vacation reserve as of 31 December 2004	(935,000)
	The company wrote-off non-current assets which did not qualify as fixed asset.	(132,022)
	Payments from profit previously recognized in equity reclassified to the profit (loss) statement	(907,254)
	Other	(38)
	Total impact – increase of operating expenses	**(12,280,467)**
(o)	The derivative financial instruments accounted for in the income statement	(6,980,000)
	Total impact – increase of net foreign currency exchange (loss) gain	**(6,980,000)**
(p)	Deferred income tax benefit (revaluation reserve)	2,303,287
	Deferred income tax benefit (accelerated depreciation)	178,897
	Deferred income tax benefit (vacation reserve)	140,250
	Total impact – deferred income tax benefit	**2,622,434**
(q)	Total impact of corrections mentioned above: profit for the year ended 31 December 2004 decreased by LTL 16,610,258.	**16,610,258**

33. Contingencies and commitments

The Company has signed a long-term orimulsion purchase commitment maturing in 2012. The Company has committed to the minimum annual purchases of the fixed quantities at the fixed price in the amount of USD’000 5,160 each year till 2012.

The Company has valid capital commitments for the purchase of property, plant and equipment in the amount of LTL 915,923,165.

34. Post balance sheet events

On 28 March 2006 the Company has pledged the equipment and buildings at the carrying amounts of LTL‘000 343,539 and LTL‘000 140,986, respectively, to secure syndicated loan agreement signed on 9 November 2005 with AB bank Hansabankas, AB SEB Vilniaus bank, Nordea Bank Finland Plc Lithuania department and AB bank Nord/LB Lietuva with total credit facility amounting to EUR 49,000,000. As at the financial statements issuance date the withdrawn amount under this agreement was nil. The purpose of the is credit property, plant and equipment acquisition financing.

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