AB Lietuvos Energija

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AB LIETUVOS ENERGIJA

1. We have audited the accompanying balance sheet of AB Lietuvos Energija (a joint stock company registered in the Republic of Lithuania, "the Company") as of 31 December 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of AB Lietuvos Energija management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. International Financial Reporting Standards require presentation of property, plant and equipment on a basis of historical cost or fair value (deemed cost). In accordance with resolutions of the Lithuanian Government, the Company's property, plant and equipment has been revalued four times prior to 1 January 1996 (Notes 2.1 and 5). Due to many movements and lack of separate registrations of the effect of indexations per asset, it is impossible to quantify the effect of indexations on the remaining balances of the property, plant and equipment as of 31 December 2004 and 2003. Accordingly, we are unable to express an opinion on either historical cost or fair value of the Company's property, plant and equipment in accordance with International Financial Reporting Standards.

4. In our opinion, except for the effect of such adjustments, if any, as might have been disclosed had we been able to perform the procedures described in paragraph 3 above, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board.

UAB ERNST & YOUNG BALTIC"
Audit company's licence No. 000514

Jonas Akelis	Rokas Masiulis
Auditor's licence	Auditor's licence
No. 000003	No. 000168

The audit was completed on 4 March 2005.

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BALANCE SHEET
AS OF 31 DECEMBER 2004

Assets	Notes	As of 31 December 2004 (LTL)	As of 31 December 2003 (LTL)
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Patents and licences		487.130	4
Software		2.692.464	347.102
Other intangible assets		70.929	1
	4	**3.250.523**	**347.107**
PROPERTY, PLANT AND EQUIPMENT			
Buildings and structures		764.295.195	654.666.047
Machinery and equipment		102.413.285	76.460.206
Vehicles		9.152.847	10.314.120
Other equipment, tools and devices		54.374.558	54.511.685
Construction in progress		108.539.379	161.769.493
Other property, plant and equipment		13.957.024	23.267.664
	5	**1.052.732.288**	**980.989.215**
FINANCIAL ASSETS			
Available-for-sale investments	**6**	2.115.078	2.218.852
Non-current accounts receivable		1.283.472	653.099
Other financial assets		92.348	138.522
		3.490.898	**3.010.473**
TOTAL NON-CURRENT ASSETS		**1.059.473.709**	**984.346.795**
CURRENT ASSETS			
INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS			
Inventories	**7**	6.625.904	8.886.860
Raw materials and spare parts		6.552.179	8.503.930
Goods for resale		73.725	382.930
Prepayments		1.005.085	726.151
		7.630.989	**9.613.011**
ACCOUNTS RECEIVABLE			
Trade accounts receivable		138.323.043	138.854.177
Accounts receivable from related companies		80.071	24.628
Other accounts receivable		18.137.441	14.293.928
		156.540.555	**153.172.733**
OTHER CURRENT ASSETS			
Held-for-trading investments	**6**	35.808.407	35.983.329
Other current assets		-	1.373.343
		35.808.407	**37.356.672**
CASH AND CASH EQUIVALENTS		**91.003**	**1.338.480**
TOTAL CURRENT ASSETS		**200.070.954**	**201.480.896**
TOTAL ASSETS		***1.259.544.663***	***1.185.827.691***

(Continued on the next page)

BALANCE SHEET
AS OF 31 DECEMBER 2004

Equity and liabilities	Notes	As of 31 December 2004 (LTL)	As of 31 December 2003 (LTL)
EQUITY			
CAPITAL			
Share capital	**8**	689.515.435	689.515.435
Share premium		2.744	2.744
		689.518.179	**689.518.179**
REVALUATION RESERVE (RESULTS)	**9**	**26.772**	**29.827**
RESERVES			
Legal reserve		68.951.544	68.951.544
Other reserves		34.607.348	(14.300.520)
	9	**103.558.892**	**54.651.024**
RETAINED EARNINGS (DEFICIT)			
Net profit (loss) for the current year		111.297.409	85.445.018
Net profit (loss) for the previous years		(33.455.434)	(36.045.061)
		77.841.975	**49.399.957**
TOTAL EQUITY		**870.945.818**	**793.598.987**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current borrowings	**10**	105.914.321	140.870.302
Provisions	**11**	3.606.040	6.143.083
Grants and subsidies (deferred revenue)		16.025.106	12.547.347
Deferred taxes	**12**	17.107.326	33.458.489
		142.652.793	**193.019.221**
CURRENT LIABILITIES			
Current portion of non-current borrowings	**10**	16.432.119	13.116.282
Current borrowings	**10**	22.644.029	17.796.639
From credit institutions		22.250.893	17.264.000
Other current borrowings		393.136	532.639
Trade payables		185.598.347	138.497.631
Advances received		2.191.388	1.816.431
Income tax liability		6.108.528	12.215.908
Labour related liabilities		923.232	838.834
Other current liabilities		12.048.409	14.927.758
		245.946.052	**199.209.483**
TOTAL LIABILITIES		**388.598.845**	**392.228.704**
TOTAL EQUITY AND LIABILITIES		***1.259.544.663***	***1.185.827.691***

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

The financial statements were approved and signed on 4 March 2005.

Rymantas Juozaitis	Sigitas Baranauskas
General Manager	Chief Accountant

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004	2003
SALES	**13**	934.187.422	919.631.224
COST OF SALES	**13**	819.499.559	808.367.088
PROFIT (LOSS) FROM OPERATIONS		**114.687.863**	**111.264.136**
OTHER INCOME			
Income		21.867.897	21.559.237
Expenses		21.252.299	27.351.499
		615.598	**(5.792.262)**
FINANCIAL AND INVESTMENT ACTIVITIES			
Income	**14**	503.418	3.051.721
Expenses	**14**	6.356.245	18.931.232
		(5.852.827)	**(15.879.511)**
PROFIT (LOSS) BEFORE TAX		**109.450.634**	**89.592.363**
PROFIT TAX	**12**	(1.846.775)	6.939.206
NET PROFIT (LOSS)		**111.297.409**	**82.653.157**

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

The financial statements were approved and signed on 4 March 2005.

Rymantas Juozaitis	Sigitas Baranauskas
General Manager	Chief Accountant

AB LIETUVOS ENERGIJA
Company code 2055155, Žvejų Str. 14, LT-09310 Vilnius

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

	Share capital	Share premium	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 31 December 2002	**689.515.435**	**2.744**	**2.781.687**	**24.201.378**	**(26.687.704)**	**59.250.524**	**749.064.064**
Dividends declared	-	-	-	-	-	(38.118.234)	(38.118.234)
Transfer to reserves	-	-	-	44.750.166	12.387.184	(57.137.350)	-
Transfer from reserves	-	-	(2.751.860)	-	-	2.751.860	-
Net profit for the year	-	-	-	-	-	82.653.157	80.066.585
Balance as of 31 December 2003	**689.515.435**	**2.744**	**29.827**	**68.951.544**	**(14.300.520)**	**49.399.957**	**793.598.987**
Transfer from reserves	-	-	(3.055)	-	(2.018.000)	2.021.055	-
Dividends declared	-	-	-	-	-	(33.950.578)	(33.950.578)
Transfer to reserves	-	-	-	-	50.925.868	(50.925.868)	-
Net profit for the year	-	-	-	-	-	111.297.409	111.297.409
Balance as of 31 December 2004	**689.515.435**	**2.744**	**26.772**	**68.951.544**	**34.607.348**	**77.841.975**	**870.945.818**

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

The financial statements were approved and signed on 4 March 2005.

Rymantas Juozaitis
General Manager

Sigitas Baranauskas
Chief Accountant

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004	2003
Cash flows from (to) operating activities			
Net profit (loss)		111.297.409	82.653.157
Depreciation and amortisation		65.570.423	66.819.760
Increase (decrease) in provisions		(2.537.043)	(3.013.993)
Increase (decrease) in impairment of assets		(2.817.946)	(2.775.325)
(Increase) decrease in inventories		2.830.274	2.204.787
(Increase) decrease in prepayments		(278.934)	(340.211)
(Increase) decrease in trade receivables		1.552.801	13.374.098
(Increase) decrease in other receivables		(3.958.212)	63.401.219
(Increase) decrease in other current assets		1.373.343	(1.373.343)
Increase (decrease) in trade payables and advances received		47.475.674	(69.288.646)
Increase (decrease) in income tax payable		(22.458.543)	6.939.207
Increase (decrease) in labour related liabilities		84.398	(1.972.110)
Increase (decrease) in other accounts payable		(3.004.917)	12.740.869
Grants received		(114.855)	(114.855)
(Profit) loss from disposal of non-current assets (other than financial assets		396.409	757.806
-Dividend income		(124.458)	(202.023)
-Negative (positive) effect of foreign currency exchange, net		66.968	10.335.232
-Interest expenses		4.861.249	8.241.282
-Interest income		(233.136)	(2.560.096)
-(Profit) loss from disposal of financial assets		-	4.424.632
-Other (income) expenses from financial assets		(139.503)	532.639
-Interest paid		(4.875.426)	(9.368.641)
Net cash flows from (to) operating activities		***194.965.975***	***181.415.445***
Cash flows from (to) investing activities			
(Acquisition) of non-current assets (other than financial assets)		(137.353.377)	(151.965.246)
Proceeds from sale of non-current assets (other than financial assets)		1.830.614	8.035.007
Sale of investments		46.174	8.842.708
Loans (granted) collected		(630.373)	24.401
Dividends received		124.458	202.023
Interest received		233.136	2.560.096
Net cash flows from (to) investing activities		***(135.749.368)***	***(132.301.011)***
Cash flows from (to) financing activities			
Proceeds from loans		101.087.404	162.127.395
(Repayment) of loans		(127.740.655)	(194.785.810)
Dividends (paid)		(33.810.833)	(38.015.548)
Net cash flows from (to) financing activities		***(60.464.084)***	***(70.673.963)***
Net increase (decrease) in cash and cash equivalents		**(1.247.477)**	**(21.559.529)**
Cash and cash equivalents at the beginning of the year		**1.338.480**	**22.898.009**
Cash and cash equivalents at the end of the year		**91.003**	**1.338.480**

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

The financial statements were approved and signed on 4 March 2005.

Rymantas Juozaitis General Manager	Sigitas Baranauskas Chief Accountant

NOTES TO THE FINANCIAL STATEMENTS

1. General information

AB Lietuvos Energija is a joint stock company registered in the Republic of Lithuania. The address of its registration is: Žvejų Str. 14, LT-09310, Vilnius, Lithuania. AB Lietuvos Energija (hereinafter "the Company") is a limited liability profit-seeking entity, registered at the Register of Legal Persons managed by VĮ Registrų Centras. The Company's registration No. BĮ 99-74, company code 2055155 (as of 14/01/2005 changed into 220551550), VAT payer's code LT205515515. The Company is established for an unlimited period.

On 4 December 1995, the Company took over the rights of the former Production Energy and Electrification Board established originally in 1940 and reorganised into Lithuanian State Energy System on 27 March 1991, after the restoration of Independence of the Republic of Lithuania. The Company was re-registered on 13 April 1999 at the Ministry of Economy.

The share capital of the Company did not change during the financial year 2004 and as of 31 December 2004 it amounted to LTL 689.515.435 and was divided into 689.515.435 ordinary registered shares with the nominal value of one litas. All the shares are fully paid. The shares of the Company are traded on Vilnius Stock Exchange. In 2004 and 2003, the Company did not hold its own shares. The main shareholder of AB Lietuvos Energija is the state of Lithuania holding 96,62% of the Company's shares as of 31 December 2004. The key manager of the state-owned shares is the Ministry of Economy of the Republic of Lithuania. The remaining 3,38% of the Company's shares are held by minor shareholders.

Main activities of the Company in 2004 were as follows: transmission system operator, market operator and exporter of electricity. Apart from these key activities, the Company is entitled to carry out any other lawful commercial-economic activities indicated in the bylaws of the Company.

Licensed activities or activities that require permits can be carried out only after obtaining the appropriate licenses or permits. On 22 March 2002, the Company obtained a licence for energy transmission, which is valid for an unlimited period (unless it is suspended or cancelled). Apart from this licence, the Company has permits of unlimited validity to engage in production, import and export of electricity.

Branches are operating according to the regulations approved by the Board of the Company for every branch individually. As of 31 December 2004, the Company had Kaunas HPP and Kruonis HPPP as its branches.

The number of employees of the Company was 1.141 as of 31 December 2004 (1.156 as of 31 December 2003). 844 people were employed at the central office and transmission network (855 as of 31 December 2003), 297 people were employed at the branches (301 as of 31 December 2003).

As of the date of these financial statements, the Company had shareholdings in the following companies: SIA Baltijas Energosistemu Dispečeru Centrs (hereinafter, "DC Baltija"), UAB Energetikos Pajėgos, UAB Geoterma, UAB Kauno Energetikos Remontas, VšĮ Respublikinis Energetikų Mokymo Centras. Indirectly, through UAB Kauno Energetikos Remontas, the Company had the majority in UAB Gotlitas, SIA Rygas Energetikas Remonts (Latvija, Riga), ZAO Kaliningradskij Energoremont (Russia, Kaliningrad).

The Company is a member of Lithuanian Electricity Association, Lithuanian Confederation of Industrialists, Vilnius Chamber of Trade, Industry and Crafts; it takes active participation in the activities of the association representing common interests of the European electricity in EUROELECTRIC. In February 2004, the Company became a member of CIGRE (International Council on Large Electric systems). Since 1998, the Company has been participating in the activities of BALTREL (Baltic Ring Electricity Co-operation Committee). Since 2004, the Company has been participating in the activities of ETSO (European Transmission System Operators) as an observer and expects to become a true member of this association in 2005.

In 2004, international rating agency Standard & Poor's granted to the Company BBB rating of long-term borrowing and A-2 rating for short-term borrowing and confirmed the positive rating perspective.

The shareholders have a right to amend the financial statements after issue.

2. Accounting principles

The principal accounting policies adopted in preparing the Company's financial statements for 2004 are as follows:

2.1 Basis of preparation

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

IASB has issued IFRS No. 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). IFRS 1 requires that an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts all IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRS. IFRS 1 requires the Company to prepare its IFRS financial statements as if it is a first-time adopter as the Company's financial statements in prior years did not have an explicit and unreserved statement of compliance with IFRS, owning to non implementation of IAS 29 Financial Reporting in Hyperinflationary Economies and the inclusion of indexations of buildings, including investment properties, which did not meet the requirements of IAS 16 Property, Plant and Equipment (see section 2.3 below).

IFRS 1 requires that the Company recognise all assets and liabilities that meet the recognitions criteria of IFRS and measure these assets in accordance with each IFRS. At the date of these financial statements the Company has not fully implemented IFRS 1.

The financial statements for the years ended 31 December 2004 and 2003 include only the financial statements of the Company. As of 31 December 2004, the Company controlled 100% of the shares of UAB Energetikos Pajėgos. The consolidation of this subsidiary has not been made in these financial statements due to its insignificance.

2.2 Presentation currency

The amounts shown in these financial statements are presented in the national currency of the Republic of Lithuania, Litas (LTL). In the notes to the financial statements the amounts may also be presented in other currencies with a special indication of the currency. Starting from 2 February 2002, Lithuanian Litas is pegged to EUR at the rate of 3,4528 Litas for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3 Property, plant and equipment and intangible assets

The Company's property, plant and equipment, acquired before 31 December 1995, are stated at indexed cost less indexed accumulated depreciation and impairment losses (note 5). Property, plant and equipment other than that acquired before 31 December 1995, are stated at cost less accumulated depreciation and impairment losses. In case of indication of the impairment of property, plant and equipment, the Company records the impairment in its financial statements if it can reliably estimate it. The carrying value of the property, plant and equipment is reduced by the amount of impairment in the balance sheet, and the impairment loss is recorded in the income statement.

The accounting policy applied for buildings represents a departure from International Financial Reporting Standards (IAS 16 and IAS 29), which require the use of either historical cost as adjusted for hyperinflation through a general price index, or a valuation supported by independent, professionally qualified valuers. The Company is unable to quantify the impact of non-compliance with IAS 29 on these financial statements. Also, the above indexation was not performed in accordance with the provisions of IAS 16 since the revaluation method did not assure the indexed amount of buildings to be approximate to their fair value as at the date of indexation.

2 Accounting principles (cont'd)

2.3 Property, plant and equipment and intangible assets (cont'd)

The initial cost of property, plant and equipment includes their acquisition price and other related costs: transportation, installation, testing, preparation of the place of exploitation, planning, repairing before the asset is put into operations, registration and other directly attributable costs, including non-refundable acquisition taxes other than VAT, which is not included into the acquisition cost.

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. The acquisition cost of intangible assets includes the price of acquisition plus the costs of bringing the asset to its working condition and non-refundable taxes (except the non-refundable value added tax).

Non-current assets are depreciated (amortised) on a straight-line basis over the best estimate of their useful lives. Depreciation (amortisation) is calculated starting from the 1st day of the next month after an asset is put into operation. By the Minutes No. 87 of the Company's administration meeting of 10 December 2002, the minimum acquisition price of non-current assets was approved at LTL 2.000 for all the groups of non-current assets, except the real estate, both for the purposes of financial and tax accounting. Real estate is regarded as non-current assets in all the cases. The Company amortises intangible assets and depreciates the acquisition value of property, plant and equipment in the financial statements by using the depreciation (amortisation) rates approved by the Minutes No. 5 of the Company's Board meeting of 30 September 2003. These rates apply to the non-current assets acquired after 1 January 2004. The assets acquired earlier are depreciated (amortised) according to the rates approved by the Minutes No. 26 of the Board meeting of 23 October 2000.

Non-current assets	Average useful lives (years)
Buildings and structures	10-50
Machinery and equipment	5-25
Vehicles	4-8
Other equipment, tools and devices	2-10
Other property, plant and equipments	2-10
Intangible assets	1-3

Average useful lives of property, plant and equipment, which are highly important for the main lines of the Company's business:

	Average useful lives (years)
Constructions of transformer substations	30
330, 110, 35 kV electricity transmission lines	35-40
330, 110, 35, 6-10 kV electricity distribution equipment	20
330, 110, 35, 6-10 kV power transformers	25
Relay security and automation equipment	15
Technological and dispatcher control equipment	5-8

2 Accounting principles (cont'd)

2.3 Non-current assets (cont'd)

Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance and / or that they have resulted in an increase of the useful life of the asset, the expenditures are capitalised as an additional cost of property, plant and equipment. The costs of modernisation, development and updating of intangible assets are recognised as expenses for the reporting period when they are incurred.

After the disposal of non-current assets, the result of the transaction, i. e. the difference between the amount received (receivable) and the carrying value of the disposed asset and all related costs is recognised as income (loss) in the income statement.

When a not fully depreciated (amortised) asset is written-off, the part of the value that is not depreciated (amortised) is charged to the income statement as the expenses of non-current assets write-off. If any materials are received when liquidating non-current assets, they are accounted at net realisable value reducing the expenses of the write-off of the non-current asset by such amount.

Until 2004 borrowing expenses were capitalised if they were directly attributed to the acquisition, construction or production of a specific asset. In 2004, the Company changed the policy of accounting of the borrowing expenses and these expenses are charged to the expenses when incurred as described in more detail in Note 3.

The caption of construction in progress includes property, plant and equipment that is under construction, reconstruction or repairs when it is known that this work will result in the improvement of useful qualities of the assets or prolonged its useful life period. Construction-in-progress is stated at cost, which includes the cost of design and construction (repair) work, equipment delivered for the installation and other direct costs. Construction-in-progress is not depreciated until it is put into operation.

2.4 Investments

Pursuant to IAS 39, Financial Instruments: Recognition and Measurement, investments are classified into the following categories: held-to-maturity, held-for-trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Company, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held-for-trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within twelve months of the balance sheet date. Investments held-for -trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realise them within twelve months of the balance sheet date.

All purchases and sales of investments are recognised on the trade date. Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale and held-for-trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that the Company may incur on their sale or other disposal. Gains or losses on measurement to fair value are recognised directly in net profit or loss for the period.

Changes in the fair values of held-for- trading investments are included in financial expenses or income.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method..

2 Accounting principles (cont'd)

2.4 Investments (cont'd)

Investments into associated companies are accounted in the financial statements by using equity method, except the cases when such investments are held for sale. Investments held for sale are accounted as non-current assets for sale. Investments into subsidiary, which is not included into the consolidation, are recorded in the financial statements of the Company by using equity method.

When preparing the financial statements for 2004, the Company did not apply equity method as it considered its effect to be insignificant. The Company accounted all of its investments (both long-term and short-term) at fair value.

The shares of the associated companies and subsidiaries held for sale are recorded at the acquisition cost of these financial assets at the moment of acquisition, later on – at fair value.

2.5 Inventories

Inventories are recorded at the actual acquisition or production cost. In the financial statements, inventories are stated at the lower of cost and net realisable value. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Acquisition cost of inventories includes acquisition price and related taxes (except non-refundable VAT), costs of transportation, bringing into operation and other costs directly related to the acquisition of inventories.

Net realisable value is the selling price in the ordinary course of business, less the costs of completion and selling.

The write-down of inventories down to the net realisable value is recognised as expense in the income statement for the reporting period. When calculating the cost of inventories used in the operation of the Company and/or sold, the Company applies the first-in, first-out (FIFO) method, i. e. an assumption is made that the inventories purchased earlier are consumed first. The Company registers every operation related with the use or sale of inventories in the accounts of financial statements. Unrealisable inventories are written-off.

2.6 Accounts receivable and loans granted

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortised cost, less impairment. Impairment is then recorded to profit and loss statement as bad debt provision.

2.7 Cash and cash equivalents

Cash includes cash on hand, cash in banks and cash equivalents that are short-term (up to 3 months), highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. Equities are not accounted as cash equivalents.

2.8 Borrowings

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the profit or loss over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

2 Accounting principles (cont'd)

2.9 Accounting of foreign exchange items and transactions in 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.

The applicable rates used for principal currencies as of 31 December 2004 and 2003 were as follows:

As of 31 December 2004			As of 31 December 2003		
1 EUR	=	3,4528 LTL	1 EUR	=	3,4528 LTL
1 LVL	=	4,9527 LTL	1 LVL	=	5,1629 LTL
10 SEK	=	3,8246 LTL	10 SEK	=	3,7970 LTL
1 USD	=	2,5345 LTL	1 USD	=	2,7621 LTL

At the end of every calendar month, the assets and liabilities denominated in foreign currency were translated at the official exchange rates of litas on the last day of the month and the rate of foreign currency against the national currency litas established by the Bank of Lithuania.

Positive and negative effect of the change in currency exchange rates are reflected in the income statement of the Company as income or expenses from financial activities for the period when these changes occurred. The income statement indicates only the net result of the positive or negative effect of the change in currency exchange rate.

2.10 Grants and subsidies (deferred revenue)

Grants represent property, plant and equipment received free of charge and the support of international funds for specific activities. Grants related to assets are recognised as income during the same period as depreciation of the related asset. Grants intended for compensating the incurred expenses are recognised by offsetting the incurred expenses, to compensate which the grant was received.

2.11 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.12 Business and geographical segments

In these financial statements a business segment means a constituent part of the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Company participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

2.13 Fair value of financial instruments

Financial assets and liabilities are recognised in the balance sheet of the Company when it acquires the right or obligation under the signed agreement on financial instruments. The fair value is the realisable value of financial instruments. In those cases when the fair value of financial instruments differs significantly from their book value, the fair value of such assets or liabilities is disclosed in the financial statements.

2 Accounting principles (cont'd)

2.14 Revenues and expenses recognition

The Company recognise revenue on accrual basis. Revenues are recorded in the accounting records and presented in the financial statements irrespective of cash inflows, i.e. when they are earned.

Revenue from the electricity-related services and sales is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer.

Interest income is accrued on a timely basis, considering the outstanding amount and the applicable interest rate. Received interest is recorded in the cash flow statement as the cash flows from investing activities.

Dividend income is recognised when the shareholders' rights to receive payment have been established. Received dividends are recorded in the cash flow statement as the cash flows from investing activities.

Expenses are recognised on the basis of accrual, irrespective of the time the money were spent. Only the part of expenses, which was intended to generate revenue for the Company, is charged to the expenses of the reporting period. In those cases when the costs incurred cannot be directly attributed to the specific income, they are expensed as incurred.

The Company presents its income statement on the basis of the function of expenses.

Income and expenses related to the IT services provided by the Company, related to the summer houses owned by the Company and the sales and lease of the non-current assets are accounted as other activities.

2.15 Borrowing costs

Until 2004, the borrowing costs were capitalised if they were directly attributable to the acquisition, construction or production of specific asset. In 2004, the Company changed the accounting policy for the borrowing costs and charges the borrowing costs to the expenses when incurred, as explained in more detail in Note 3.

2.16 Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The standard income tax rate in Lithuania is 15%. Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and / or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

2.17 Contingencies and subsequent events

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.18 Subsequent events

Post-year-end events that provide additional information about the Company's and Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Changes in accounting policies and estimates, correction of an error

Until year 2004 borrowing costs were capitalised if they were directly attributable to the acquisition, construction or production of a qualifying asset. In 2004 the Company changed the accounting principle for borrowings costs to interest being expensed as incurred. The change of accounting for borrowing costs was applied prospectively under IAS 8. Due to the lack of registration of capitalised interest and related depreciation on separate items, it is impossible to quantify exactly the effect of change in the accounting for borrowing cost on prior periods. Therefore, the new policy is applied from 2004 onwards only on borrowing costs that are incurred after the change in the accounting policy, without the adjustment for the accumulated effect of the change on prior periods.

4. Intangible assets

Intangible assets of the Company increased from LTL 347 thousand as of 31 December 2003 to LTL 3.251 as of 31 December 2004 in the Company's balance sheet. Such significant increase is basically caused by the acquisitions of new intangible assets. Information on the movement of the intangible assets is presented below (in LTL):

	Patents and licences	**Software**	**Other intangible assets**	**Total**
Net book value as of 31 December 2003	**4**	**347.102**	**1**	**347.107**
Cost of intangible assets				
As of 31 December 2003	309.735	7.256.760	6.720	7.573.215
Changes during the year:				
- acquisition	506.626	2.599.677	1.314.362	4.420.665
- disposals and retirements (-)	(7.060)	(287.236)	-	(294.296)
- reclassifications +/(-)	-	1.243.434	(1.243.434)	-
As of 31 December 2004	**809.301**	**10.812.635**	**77.648**	**11.699.584**
Amortisation				
As of 31 December 2003	309.731	6.909.658	6.719	7.226.108
Changes during the year:				
- charge for the year	13.224	1.465.770	-	1.478.994
- disposals and retirements (-)	(784)	(255.257)	-	(256.041)
As of 31 December 2004	**322.171**	**8.120.171**	**6.719**	**8.449.061**
Net book value as of 31 December 2004	**487.130**	**2.692.464**	**70.929**	**3.250.523**

The Company has no internally generated intangible assets. The Company amortises its licences over their useful lives. As of 31 December 2004, intangible assets with the acquisition value of LTL 7.771.844 were fully amortised but still in use.

5. *Property, plant and equipment*

(LTL)

	Buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Construction in progress	Other property, plant and equipment	Total
Net book value as of 31 December 2003	**654.666.047**	**76.460.206**	**10.314.120**	**54.511.685**	**161.769.493**	**23.267.664**	**980.989.215**
Acquisition (indexed) cost							
As of 31 December 2003	1.033.327.169	140.269.582	25.719.002	120.511.634	166.196.682	23.519.335	1.509.543.404
Changes during the year:							
- acquisitions	1.368.930	1.338.600	2.575.642	3.853.648	106.621.986	20.766.519	136.525.325
- disposals and retirements (-)	(7.333.885)	(1.283.272)	(740.765)	(2.312.403)	(747.376)	(615.615)	(13.033.316)
- reclassifications +/(-)	144.501.917	31.043.892	371.543	12.673.484	(159.133.532)	(29.457.304)	-
As of 31 December 2004	**1.171.864.131**	**171.368.802**	**27.925.422**	**134.726.363**	**112.937.760**	**14.212.935**	**1.633.035.413**
Depreciation							
As of 31 December 2003	378.092.986	60.875.088	15.404.882	65.999.949	-	240.836	520.613.741
Changes during the year:							
- charge for the year	35.667.765	8.043.560	3.847.788	16.516.789	-	15.527	64.091.429
- disposals and retirements (-)	(6.818.641)	(1.047.966)	(665.491)	(2.164.947)	-	(452)	(10.697.497)
- reclassifications +/(-)	186.025	(371.435)	185.396	14	-		-
As of 31 December 2004	**407.128.135**	**67.499.247**	**18.772.575**	**80.351.805**	**-**	**255.911**	**574.007.673**
Impairment							
As of 31 December 2003	568.136	2.934.288	-	-	4.427.189	10.835	7.940.448
Changes during the year:							
- reversals (-)	(127.335)	(1.478.018)	-	-	(28.808)	(10.835)	(1.644.996)
As of 31 December 2004	**440.801**	**1.456.270**	**-**	**-**	**4.398.381**	**-**	**6.295.452**
Net book value as of 31 December 2004	**764.295.195**	**102.413.285**	**9.152.847**	**54.374.558**	**108.539.379**	**13.957.024**	**1.052.732.288**

5. Property, plant and equipment (cont'd)

Over the year 2004, the net book value of property, plant and equipment increased from LTL 980.989 thousand as of 31 December 2003 to LTL 1.052.732 thousand as of 31 December 2004. Such increase was a result of active investment program. In 2004, the Company finished investment projects in reconstruction of buildings and structures with the acquisition cost of LTL 180.919 thousand. The major reconstructed and newly build objects put into operation were as follows: reconstruction of Kaunas TS – LTL 66.382 thousand, elements of Kruonis HPPP complex (Kruonis HPPP power station building, water collector, upper basin, administrative-production building, etc.) – LTL 33 million, reconstruction of Rašė TS – LTL 8.532 thousand, optic communications line Ignalina NPP -Vilnius – LTL 8.027 thousand, reconstruction of Šiaurinė TS – LTL 8.034 thousand, reconstruction of Kupiškis TS – LTL 6.003 thousand, reconstruction of Velžys TS – LTL 5.473 thousand.

Property, plant and equipment, fully depreciated but still in active use as of 31 December 2004.

Group of property, plant and equipment	Acquisition cost (LTL)
Buildings and structures	24.367.915
Machinery and equipment	5.527.881
Vehicles	6.585.807
Other equipment, tools and devices	36.676.370
Total	**73.157.973**

According to the Government decree of the Republic of Lithuania, four revaluations of property, plant and equipment were performed during a period of hyperinflation prior to 31 December 1995. Revaluations of property, plant and equipment were performed by indexing the cost and accumulated depreciation of property, plant and equipment, applying indexation rates set by the Lithuanian Government for different asset categories.

Indexation rates used for the four revaluations were as follows (depending upon the date of acquisition and category of property, plant and equipment):

Indexation	The range of indexes for property, plant and equipment revaluation
Indexation effective 1 July 1991	2,2 times
Indexation effective 1 January 1992	2 – 5 times
Indexation effective 1 April 1994	1,4 – 14 times
Indexation effective 31 December 1995	1,6 – 1,7 times

Because of major movements and lack of separate registrations of the effect of indexations per asset, the Company cannot quantify the remaining effect of indexation on the balance of property, plant and equipment as of 31 December 2004.

5. Property, plant and equipment (cont'd)

However, in 2004, a valuation of property, plant and equipment based mostly on the depreciated replacement cost as of 31 December 2003 was performed by the Company. Independent property valuers' company UAB Korporacija Matininkai provided the following summary data on the established fair values in the Property Valuation Report No.04-03-I-088 of 31/12/2004:

Names of asset group	**Book value (in LTL), 31/12/2003**	**Established value (in LTL), 31/12/2003**
Buildings and structures	654.666.047	2.953.203.751
Machines and equipment	76.460.206	490.285.423
Vehicles	10.314.120	12.179.891
Other equipment, instruments, tools and installations	54.511.685	75.045.870
Construction in progress	161.769.493	106.768.013
Other property, plant and equipment	23.267.664	26.767.562
Total	**980.989.215**	**3.664.250.510**

By the Minutes No. 8 of the Board meeting of 28 December 2004 it was agreed to present the property, plant and equipment in the financial statements at revaluated amounts in the 2005 financial statements. Following IFRS 1 „First-Time Adoption of International Financial Reporting Standards", the Company plans to select 1 January 2004 as the "date of transition to IFRS" in 2005.

6. Investments

Non-current investments

As of 31 December 2004, the Company had the following long-term investments: BO SIA Baltijas Energosistemu Dispečeru Centrs (DC Baltija) with acquisition value of LTL 2.739.754 (33.33% control); UAB Energetikos Pajėgos with acquisition value of LTL 400.169 (100% control). As it was mentioned in the accounting policies section above, the value of investments presented in the financial statements is reduced by the share of the accumulated loss of the company invested into that is attributed to the Company. Following the approved policies, the value of long-term investment into DC Baltija was reduced to LTL 1.714.909 in the financial statements for 2004.

Current investments

The short-term investments of the Company accounted at fair value as of 31 December 2004 were as follows: UAB Kauno Energetikos Remontas – LTL 31.340.763 (100% control); UAB Geoterma – LTL 4.372.792 (23,44% control); AB Ūkio Bankas – LTL 4.980; VšĮ Respublikinis Energetikų Mokymo Centras – LTL 243.946 (The Company is the only founder of this enterprise). The Company has short-term Government securities for the amount of LTL 46.174. As a result of accumulated operating loss, impairment of investment into UAB Geoterma has been accounted. This investment was recorded in the financial statements for 2004 at the value of LTL 4.172.171. As of 31/12/2004, no indications of impairment were observed for other abovementioned financial investments.

These investments are intended to be sold in the near future

7. Inventories

(in LTL)

	Raw materials and spare parts	Goods for resale	Total
Acquisition cost of inventories			
As of 31 December 2003	8.558.506	1.311.263	9.869.769
As of 31 December 2004	6.696.988	214.000	6.910.988
Write-down to net realisable value			
As of 31 December 2003	54.576	928.333	982.909
As of 31 December 2004	144.809	140.275	285.084
Net realisable value as of 31 December 2004	**6.552.179**	**73.725**	**6.625.904**
Inventories held with third parties	82.544	-	82.544

The inventories decreased from LTL 8,9 million as of 31 December 2003 down to LTL 6,6 million as of 31 December 2004. Such decrease was the result of the actions aimed to control the inventories turnover in order to reduce the amount of inventories and increase their turnover.

The Company has 24,12 tons of transformer oil held in the storage with third parties due to the lack of specific containers.

8. Share capital

Items	Number of shares	Amount (in LTL)
The structure of the share capital at the end of the financial year		
By type of shares		
Ordinary shares	689.515.435	689.515.435
TOTAL:	**689.515.435**	**689.515.435**
State or municipal capital	667.023.968	667.023.968

As of 31 December 2004, the share capital of the Company was LTL 689.515.435 and it was divided into 689.515.435 ordinary registered shares with nominal value of one litas each. All the shares were fully paid. During 2004 the highest share price at the Stock Exchange session in 2004 was LTL 2,59 per share, the lowest – LTL 1,39 per share. The number of shareholders as of 31 December 2004 was 5.087.

9. Reserves

Revaluation reserve of the Company was decreased in the amount of LTL 3.055 for the disposed and depreciated share of the indexed property (see Note 5 above) during 2004 and amounted to LTL 26.772 at the end of the year.

In the financial year 2002, the Company fully formed the legal reserve, which accounted for 10% of the share capital as of 31 December 2002 and amounted to LTL 68.951.544. In 2003 and 2004 this reserve was not increased.

9. Reserves (cont'd)

Other reserves of the Company include: LTL (63.776.585) negative reserve of reducing the share capital that resulted from the transfer of fuel oil storage reservoirs to VĮ Vilniaus Mazuto Saugykla (although expected, the share capital has not been reduced by this amount until now), LTL 27.394.273 non-distributable reserve, including the transfers of taxable income in 1997 reflecting the investments into property, plant and equipment, which were subject to zero income tax rate, LTL 68.239.660 reserve for investments into property, plant and equipment (formed in 1999, 2002 and 2003) and LTL 2.750.000 reserve for management and employee bonuses and sponsorship. The total amount of other reserves accounted in the balance sheet as of 31 December 2004 is LTL 34.607.348.

10. Borrowings

	Outstanding loans or their parts (LTL)		
Break down of amounts payable by types	**Within one year**	**From one to five years**	**After five years**
Financial borrowings:			
From credit institutions	38.683.012	84.640.871	21.273.450
Other financial borrowings	393.136	-	-
TOTAL	**39.076.148**	**84.640.871**	**21.273.450**

Non-current loans (including the current portion) as of 31 December 2004:

Credit institution	Contractual amount of loan in foreign currency	Currency	Amount of used but not repaid loan in foreign currency	Amount of used but not repaid loan in LTL
Zurcher Kantonalbank	8.012.768	EUR	6.300.271	21.753.576
AB Vilniaus bankas	15.000.000	EUR	6.758.707	23.336.464
Nordea Bank Finland Plc Lithuanian division	15.000.000	EUR	12.375.000	42.728.400
Vereins-und Westbank AG Vilnius division*	15.000.000	EUR	10.000.000	34.528.000
Total non-current loans:				**122.346.440**

10. Borrowings (cont'd)

Current borrowings as of 31 December 2004 were as follows:

Credit institution	Contractual amount of loan in foreign currency	Currency	Amount of used but not repaid loan in foreign currency	Amount of used but not repaid loan in LTL
Vereins-und Westbank AG Vilnius division*	5.000.000	EUR	5.000.000	17.264.000
AB bankas Hansabankas (overdraft)	3.185.000	EUR	71.501	246.879
AB bankas Hansabankas (overdraft)	9.000.000	LTL	1.294.572	1.294.572
AB Vilniaus bankas (overdraft)	10.358.000	LTL	3.445.442	3.445.442
Nordea Bank Finland Plc Lithuanian division (derivative financial instrument presented at fair value)	-	EUR	113.860	393.136
Total non-current financial liabilities:				**22.644.029**

* As of February 2005 – Vilnius division of Bayerishe Hypo-und Vereinsbank AG.

As of 31 December 2004 the Company had not used the credit line of EUR 11.584.800 issued by AB bankas Hansabankas.

The Company does not have any loans secured by the state guarantee or Company's assets. Weighted average interest rates for the used and outstanding loans was 3,2% in 2004 (5% in 2003).

11. Provisions

Deferred liabilities of Kruonis HPPP related to the liquidation of the construction base of Kruonis HPPP and recultivation work and amounting to LTL 3.606.040 are accounted in this caption of the balance sheet.

12. Income tax

As of 31 December 2004 and 2003, the income tax consist of the following components (in LTL):

	2004	2003
Components of the income tax expense (income)		
Current income tax for the reporting year	14.504.387	12.215.908
Adjustments of income tax expense for the previous years	-	(2.690.130)
Deferred income tax expense (income)	(16.351.162)	(2.586.572)
Income tax expenses (income) recorded in income statement	(1.846.775)	6.939.206

	2004	2003
Deferred income tax asset		
Accruals (vacation pay accrual)	272.084	256.179
Provisions for Kruonis HPPP recultivation project	540.906	921.462
Allowance for bad debts	14.277.375	-
Other	58.970	148.432
Deferred income tax asset before valuation allowance	15.149.335	1.326.073
Less: valuation allowance	-	-
Deferred income tax asset, net	15.149.335	1.326.073
Deferred income tax liability		
Depreciation of property, plant and equipment	(32.256.661)	(34.784.562)
Deferred income tax liability	(32.256.661)	(34.784.562)
Deferred income tax liability, net	**(17.107.326)**	**(33.458.489)**

Deferred income tax asset and liability were accounted at 15% rate. The changes of temporary differences in the Company were as follows:

	Balance as of 31 December 2003	Recognised in income statement	Balance as of 31 December 2004
Accruals (vacation pay accrual)	256.179	15.905	272.084
Provisions for Kruonis HPPP recultivation project	921.462	(380.556)	540.906
Allowance for bad debts	-	14.277.375	14.277.375
Depreciation of property, plant and equipment	(34.784.562)	2.527.901	(32.256.661)
Other	148.432	(89.462)	58.970
Total temporary differences	(33.458.489)	16.351.163	(17.107.326)
Deferred income tax, net	**(33.458.489)**	**16.351.163**	**(17.107.326)**

The reconciliation of the total income tax to the theoretical amount that would arise using the tax rate of the Company is as follows:

	2004	2003
Profit before income tax	**109.450.634**	**89.592.363**
Tax calculated at the tax rate of 15%	16.417.595	13.438.854
Allowance for bad debts recognised as tax deductible in 2004	(14.277.375)	
Adjustment of prior years income tax	-	(2.690.000)
Other	(3.986.995)	(3.809.648)
Income tax expense	**(1.846.775)**	**6.939.206**

13. Business and geographical segments

The Company has separated business segments (activities) in order to determine the risks and profitability of individual segments. The data is provided in LTL.

2004	**Segments (types of products, goods and activities)**				
	Transmission system operation	**Energy trade**	**Generation**	**Export activity**	**Total**
Income	308.070.018	359.076.413	64.758.892	322.495.239	1.054.400.562
Incl. internal turnover	*6.486.323*	*25.269.507*	*64.758.892*	*23.698.418*	*120.213.140*
Income after eliminating internal turnover	301.583.695	333.806.906	-	298.796.821	934.187.422
Expenses	257.343.457	359.167.989	61.733.325	261.477.852	939.722.623
Incl. internal turnover	*39.728.202*	*25.963.824*	*29.309.378*	*25.221.660*	*120.223.064*
Expenses after eliminating internal turnover	217.615.255	333.204.165	32.423.947	236.256.192	819.499.559
Break-down of significant items of expenses:					
Electricity purchase, purchase of capacity reserve, transmission, regulation, balancing expenses	94.222.391	330.430.039	-	234.427.524	659.079.954
Repairs and maintenance expenses	29.536.410	33.679	5.076.199	32.948	34.679.236
Depreciation and amortisation	46.541.626	378.943	10.478.290	13.332	57.412.191
Wages, salaries and social insurance užmokestis ir	29.122.162	368.962	6.643.191	286.901	36.421.216
Taxes other than income tax	4.837.903	1.617.236	6.650.524	1.449.416	14.555.079
Communications and IT expenses	4.671.511	48.902	95.765	16.903	4.833.081
Utilities	2.958.547	3.242	79.291	3.242	3.044.322
R&D	1.118.528	178.518	185.811	-	1.482.857
Other	4.606.177	144.644	3.214.876	25.926	7.991.623
Profit (loss) from ordinary activities (before eliminating internal turnover)	**50.726.561**	**(91.576)**	**3.025.567**	**61.017.387**	**114.677.939**
Profit (loss) from ordinary activities (after eliminating internal turnover)	**83.968.440**	**602.741**	**(32.423.947)**	**62.540.629**	**114.687.863**
Assets	**672.390.763**	**-**	**380.341.525**	**-**	**1.052.732.288**
Liabilities	**-**	**49.478.039**	**-**	**79.800.301**	**129.278.340**
Unallocated liabilities	**-**	**-**	**-**	**-**	**259.320.505**
Capital expenditures	**126.035.513**	**-**	**10.489.812**	**-**	**136.525.325**
Depreciation	**50.268.028**	**-**	**13.823.401**	**-**	**64.091.429**

13. *Business and geographical segments (cont'd)*

The primary reporting format of the Company is business segment.

2003	Segments (types of products, goods and activities)				
	Transmission system operation	**Energy trade**	**Generation**	**Export activity**	**Total**
Income	307.080.851	383.405.812	89.440.997	303.843.206	1.083.770.866
Incl. internal turnover	*7.237.665*	*54.853.227*	*89.440.997*	*12.607.753*	*164.139.642*
Income after eliminating internal turnover	299.843.186	328.552.585	-	291.235.453	919.631.224
Expenses	260.050.545	385.566.577	79.284.176	247.626.065	972.527.363
Incl. internal turnover	*46.191.066*	*35.908.633*	*50.198.528*	*31.862.048*	*164.160.275*
Expenses after eliminating internal turnover	213.859.479	349.657.944	29.085.648	215.764.017	808.367.088
Break-down of significant items of expenses:					
Electricity purchase, purchase of capacity reserve, transmission, regulation, balancing expenses	92.113.822	345.951.005	-	214.039.220	652.104.047
Repairs and maintenance expenses	28.616.717	30.081	4.556.497	22.355	33.225.650
Depreciation and amortisation	47.216.699	11.175	10.328.461	12.626	57.568.961
Wages, salaries and social insurance užmokestis ir	27.507.497	347.858	6.364.406	253.733	34.473.494
Taxes other than income tax	5.929.778	1.605.234	6.540.398	1.425.118	15.500.528
Communications and IT expenses	5.053.537	1.216.819	98.392	16.927	6.385.675
Utilities	3.053.607	7	41.784	7	3.095.405
R&D	815.091	341.695	114.853	-	1.271.639
Other	3.552.731	154.070	1.040.857	(5.969)	4.741.689
Profit (loss) from ordinary activities (before eliminating internal turnover)	**47.030.306**	**(2.160.765)**	**10.156.821**	**56.217.141**	**111.243.503**
Profit (loss) from ordinary activities (after eliminating internal turnover)	**85.983.707**	**(21.105.359)**	**(29.085.648)**	**75.471.436**	**111.264.136**
Assets	**597.583.974**	**-**	**383.405.241**	**-**	**980.989.215**
Liabilities	**-**	**26.539.106**	**-**	**83.824.691**	**110.363.797**
Unallocated liabilities	**-**	**-**	**-**	**-**	**281.864.907**
Capital expenditures	**140.736.013**	**-**	**11.778.406**	**-**	**152.514.419**
Depreciation	**51.016.521**	**-**	**13.750.475**	**-**	**64.766.996**

13. Business and geographical segments (cont'd)

Secondary reporting format – geographical segments. The Company exports electricity to Russia and the countries of the European Union. In 2004, it exported 7.3 TWh electricity and earned LTL 268 million on the exports (in 2003 m. – LTL 288 million):

	2004 in LTL	2003 in LTL
Russia	228.276.437	247.609.593
Latvia	36.849.954	37.812.122
Estonia	2.778.869	3.051.498
Total:	**267.905.260**	**288.473.213**

Apart from direct exports, AB Lietuvos Energija sells peak energy intended for exports. During 2004, LTL 16 million was earned from the sales of peak energy. The Company started selling this type of energy on November 2003. Since May 2004, the Company has been selling for export the electricity produced during holidays and weekends. From May to December 2004, the income from such sales amounted to LTL 14,7 million. All of the Company's assets are located in Lithuania and all additions are related to the Lithuanian geographical segment.

Other income is generated on the local market.

14. Results of financing and investing activities

After the Company changed all contracts on sales of electricity and changed the payment currency from USD to EUR, the effect of currency fluctuations on the results of financing activities was reduced significantly. The loss from financing activities basically resulted from interest expenses.

The positive and negative effect of currency exchange is netted in the Company's income statement.

Information about the results from financing and investing activities is presented below:

	2004	2003
INCOME FROM FINANCING AND INVESTING ACTIVITIES, in LTL		
Significant amounts:		
Received penalty interest	179.101	415.136
Received dividends	124.458	202.023
Interest income *	54.034	2.144.955
Other	145.825	289.607
	503.418	3.051.721
EXPENSES OF FINANCING AND INVESTING ACTIVITIES, in LTL		
Significant amounts:		
Interest expenses	4.861.249	8.241.282
Negative effect of currency exchange	66.967	10.335.232
Other	1.428.029	354.718
	6.356.245	18.931.232
RESULT OF FINANCING AND INVESTING ACTIVITIES, in LTL	**(5.852.827)**	**(15.879.511)**

* In 2003, most of the interest income was received due to the repayment by the Company of the loans re-allocated to the spin-off companies during the reorganisation in 2001.

*15. Financial relations with Company's management **

Items	2004 in LTL	2003 in LTL
Labour-related payments calculated for the management during the reporting period	1.034.988	812.182
Other significant amounts calculated for the management during the reporting period (bonuses to the Board members)	37.000	34.500
Average number of managers during the reporting period	12	12

* In this table, the management of the Company include Board members, head of administration and his deputies, and chief financial officer.

16. Financial instruments and risk management

Credit risk

The credit risk of the Company is mostly related to the trade receivables. Accounts receivable are presented in the balance sheet less doubtful receivables, estimated by the management of the Company on the basis of previous experience and current economic environment.

The Company is not exposed to significant credit risk concentration as the credit risk is distributed among major profit-making Lithuanian industrial enterprises and reliable foreign customers.

Liquidity risk

The liquidity risk is managed by planning the movement of Company's cash flows. In order to reduce the liquidity risk, cash flow forecasts are produced. Overdraft and credit line agreements are used to manage the difference between the risk of late coverage of receivables and the short-term cash flows (income and payments).

When concluding credit contracts, the Company follows the following principles: the amount of liquid assets and unused credit lines and credits in the bank accounts, must cover the current liabilities of the Company, including the current portion non-current loans.

Interest rate risk

According to the principles of financial risk management approved by the Company, the interest expenses must be forecasted with sufficient precision for a period that is not shorter than the period of establishing the ceiling price of the electricity transmission service (three years). The loan portfolio of the Company is formed on the basis of the following principle: at least 50% of all the loans must be with fixed interest rate, the remaining loans – with variable interest rate.

The Company has loans with fixed and variable interest rates, related to EURIBOR, EUR LIBOR and VILIBOR. In order to manage the risk of interest rate fluctuations, the Company concluded interest rate swap contract at the end of 2003, which will be fully realised on 30/06/2007.

Foreign exchange risk

In order to manage the foreign exchange risk, the Company concludes credit contracts only in euros and litas. The sales/purchase contracts are also denominated mostly in euros and litas.

The Company has no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments to help controlling the foreign exchange risk in 2004.

16. Financial instruments and risk management (cont'd)

Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade accounts receivable, current accounts payable and short-term borrowings approximates fair value.
(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

17. Subsequent events and off-balance liabilities

On 31 December 2004 the 1st reactor of Ignalina NPP was stopped. The scheduled stoppage of the reactor did not have any negative impact on the stability of the operations of energy grid and the electricity supply in the country. The 2nd reactor of Ignalina NPP and other Lithuanian power plants supplying local consumers with electricity are operating under normal working schedule as planned. Starting from 1 January 2005, only the surplus energy that is not consumed locally is sold abroad (exported); however, with only one unit of Ignalina NPP operating, the amount of such surplus energy is 2,5 lower than it was in 2004, when both units were functioning. Therefore, the Company's income from exports decreased 3 times in January 2005 compared to the same period in 2004.

The Company actively searches for the possibilities in various electricity markets to compensate for the reduced export income and join the alternative energy grids of the Western Europe. On 4 May 2004, the Board of the Company discussed the issue of investing into the international investment project ESTLINK (laying of underwater 350 MW power cable, connecting the Baltic and Scandinavian countries) and approved the Company's participation in it. The Company was offered to buy 25% of the shares of the newly established company Nordic Energy Link AS, investing approximately EUR 5,5 million. The cost of the cable from Estonia to Finland will amount to EUR 110 million: 20% of the budget will be financed from the funds of Nordic Energy Link AS, the remaining part – from the borrowed funds.