LIETUVOS ENERGIJA

LIETUVOS ENERGIJA AB | ANNUAL REPORT 2005

COMPETENCE IN ENERGY MANAGEMENT

Lietuvos Energija AB

2005 ANNUAL REPORT

LIETUVOS ENERGIJA

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Highlights

Operating activity indicators, million LTL	2005	2004*	2004
Operating income	930	934	934
Operating costs	908	912	819
EBITDA	178	179	179
Operating profit	22	22	115
Net profit	10	32	111
Assets	2733	2777	1260
Shareholders' equity	2159	2161	871
Financial liabilities	151	145	145
Investments	129	145	145
Cash flows from operating activities	161	200	200
Return on assets (ROA), %	0.4	1.15	9.2
Return on equity (ROE), %	0.5	1.5	12.8
Return on capital employed (ROCE), %	0.9	0.9	11.3
Debt to equity ratio, %	27	29	43
Financial debt to equity ratio, %	7	7	17
Equity to assets ratio, %	79	78	69
Profit per share, LTL	0.015	0.046	0.16

*performance indicators recalculated in accordance with the International Financial Reporting Standards

CREDIT RATING

Standard&Poor's

Corporate long-term credit rating BBB+

Corporate short-term credit rating A-2

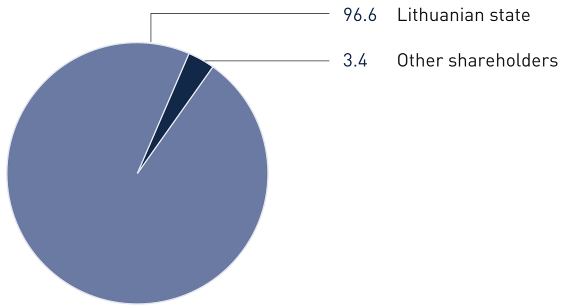
Outlook positive

Moody's

Corporate long-term credit rating A3

Outlook positive

Structure of share capital, %



General Director's Report

For Lietuvos Energija this was a year of considerable challenges demanding many joint and undiverted efforts. However, the company successfully achieved its goals by irreproachably implementing the targets raised for the power system and coming up to the shareholders' expectations.

This was the first year after the closure of Unit 1 of Ignalina Nuclear Power Plant, thus the country's power system was operated in an adjusted regime with generating capacities reduced by 1300 MW. Consequently, the company focused its attention on increasing the reliability and efficiency of electricity supply.

We passed a serious test when the biggest power generation source in Lithuania – Unit 2 of Ignalina NPP – was out of operation for a maintenance period exceeding one month, but preliminary preparation and well-tuned actions enabled us to ensure reliable and least-cost electricity supply to domestic consumers.

During the year we invested LTL129m to improve the power system's reliability through refurbishment of energy facilities. We reconstructed and developed the transmission grid and substations, implemented innovative technologies and new ITT systems, and rehabilitated the power plants.

Important tasks were accomplished not only in ensuring the reliability of the country's electricity supply, but in increasing energy security of the entire Baltic region. Our priority was the implementation of gathering pace interconnection projects. In 2005, the company participated in the implementation of a joint international project of Finland and the Baltic States aimed at interconnection of the power systems of Estonia and Finland. A feasibility study on interconnection of the power systems of Sweden and Lithuania was started. Negotiations continued on the construction of a power bridge between Lithuania and Poland, though due to differing economic interests of the project counterparts its implementation progressed slowly.

Participation in international projects on equal terms and representation of the interests of the company and the Lithuanian power system in international organisations is our ambitious objective for the achievement of which international acceptance is of immense importance. Hence we treat our true membership in the ESTO (Association of European Transmission System Operators), granted to the company in 2005, as one of the year's outstanding achievements. This was a big accomplishment for the company, which managed to prove that it complies with all requirements of the European Union Directives raised for transmission system operators. As equal partners of European power companies we are ready to contribute to the resolution of generally important issues of power systems' reliability and optimisation of energy resources.

However, not only the focus on our future plans but also the demanding approach to our everyday operations determined our high performance during the year – we earned more than LTL10m in profit and carried out all our financial obligations. Our profit significantly surpassed our financial projections because we improved our cost control and exported more electricity than planned. Most importantly, the volumes of electricity transmission increased by more than 4 per cent testifying to the growing welfare of the Lithuanian people and rapid growth of the economy.

The company continued gaining financial strength. This was confirmed by Moody's international rating agency, which issued a corporate long-term credit rating of A3 for borrowings in foreign currency (the same rating was issued by Moody's for the Lithuanian state), and Standard & Poor's, which increased the corporate long-term credit rating to BBB+. Both rating agencies confirmed a positive outlook.

The increasing value of the company serves as a major stimulus to contribute to the development of the society, to improve the quality of life, and to promote trust in the company. Our mission is based on the principles of reliance, respect, responsibility, and integrity. In our complex operations we pay great attention to environmental and social aspects by supporting research, culture, and community projects, thus becoming more useful for energy consumers, shareholders, employees, and the society as a whole.

Rymantas Juozaitis
General Director

Board

Jurgis Vilemas

Chairman of the Council of the Lithuanian Energy Institute, Chairman of the Board since 14/02/2000

Audrius Bulovas

Head of the Energy Development Division of the Ministry of Economy, member of the Board from 26/04/2004 until 02/05/2005

Vida Dzermeikienė

Head of the Electricity and Heat Division, Energy Department of the Ministry of Economy, member of the Board since 01/08/2002

Marijus Franckevičius

Director of SC Energy Agency, Lithuania, member of the Board since 08/11/2004

Rymantas Juozaitis

General Director of Lietuvos Energija AB, member of the Board since 07/02/2002

Dominikas Pečiulis

Head of the State Privatisation and Management Division, Enterprise Economics and Management Department of the Ministry of Economy, member of the Board since 08/11/2004

Algimantas Zaremba

Director of the Energy Department of the Ministry of Economy, member of the Board since 09/10/2001

Executive Board

Lietuvos Energija is led by

Rymantas Juozaitis
General Director

The company's major areas of activity are managed by:

Vladas Paškevičius
Power System Director

Algimantas Nemira
General Affairs Director

Nerilė Naprienė
Personnel Director

Rimantas Šukys
Finance Director

Petras Povilas Škiudas
Grid Director

Sigitas Baranauskas
Chief Financier

Economic Environment

Lithuania's key macroeconomic indicators

	2005*	2004	2003
Unemployment rate, %	8.2	11.4	12.4
Inflation, %	3.0	2.9	-1.3
Exports, million LTL	32807	25819	21263
Imports, million LTL	42975	34384	29438
GDP, million LTL	70763	62440	56772
GDP change, %	7.5	7.0	10.5
GDP per capita, LTL	20795	18174	16436

* data released by the Statistics Department of Lithuania

In 2005, calculated at respective prices of the year 2000, GDP increased by 7.5 per cent as compared to 2004 (in 2004, it increased by 7 per cent as compared to 2003).

GDP growth in Lithuania remained one of the highest in Europe. The GDP growth in 2005 was as follows: Poland – 3.2 per cent, Finland – 1.5 per cent, Sweden – 2.7 per cent. Based on the GDP growth rate in 2005, the economic development of Lithuania lagged behind the other two Baltic States. In 2005, the fastest economic development was in Latvia, where GDP growth equalled 10.2 per cent; in Estonia it was 9.8 per cent and in Lithuania - 7.5 per cent. GDP growth in Latvia was mostly fostered by increased export; in Lithuania and Estonia – by domestic household consumption. Domestic household consumption and investments were mainly influenced by the rapid growth of borrowing.

In December 2005, yearly inflation equalled 3.0 per cent. The level of yearly inflation can be accounted for by a 10.0 per cent increase in prices of transport goods and services, a 3.5 per cent increase in prices of food products and soft drinks, a 6.7 per cent increase in prices of accommodation, water, electricity, gas and other types of energy resources and related services, as well as by a 5.2 per cent drop in prices of communication services and goods. The higher level of inflation was caused in part by rising oil prices.

The year 2005 saw the most rapid development in transport, communications, trade, construction and processing industries as well as in the hotel and restaurant business. Increased revenues and consumer borrowing in 2005 resulted in more expeditious growth of added value in consumption-related spheres than in those related to production.

The country's rapid economic development boosted electricity consumption. In 2005, to cover domestic demand, Lietuvos Energija transmitted 9.1 TWh of electricity via high voltage lines, i.e. 4.2 per cent more than in 2004 and 6.7 per cent more than in 2003.

The results of foreign trade in 2005 evidenced that Lithuania's economy remained competitive. In 2005, the bulk of exported goods consisted of mineral products (27.5 per cent), machinery and mechanic or electric equipment (12.4 per cent), and textile and soft goods (9.2 per cent). Mineral products (25.6 per cent), machinery and mechanic or electric equipment (17.9 per cent), and means of transport and auxiliary equipment (11.7 per cent) comprised the major portion of imports.

Export growth was promoted by liberalisation of trade, with the European Union granting more favourable conditions for trade. Increased oil prices as well as a shortage of production capacities served as preconditions for Mažeikių Nafta AB to gain better conditions for the export of oil products.

In 2005, after the closure of Unit 1 of Ignalina Nuclear Power Plant, Lietuvos Energija AB exported 45 per cent less electricity than in 2004.

The year 2005 saw a rapid growth in domestic investments. An upward trend of investments was observed in such fields as public health and social work (54.5 per cent), real estate (33.2 per cent), the construction industry (33.1 per cent), electricity, gas and water supply (21.9 per cent). The recent growth of investments has been promoted by EU funds, the availability of internal credit, and the increasing average profitability of Lithuanian companies.

In 2005, after revaluation of Lietuvos Energija's assets with regard to increased amortisation and depreciation costs and due to lower electricity export, the company's rate of return decreased, however its earnings before interest, taxes and depreciation (EBITDA) only slightly changed during the year. The company's high rate of return enabled it to maintain a sufficiently high level of investments in renovation of fixed tangible assets.

The country's economic forecasts for 2006-2008 are favourable:

- It is projected that GDP growth will remain rather high:
  in 2006 – 6 per cent;
  in 2007 – 5.3 per cent;
  in 2008 – 6.8 per cent.

- The unemployment level will further decrease:
  at the end of 2006 it will be 8.6 per cent;
  at the end of 2007 – 7.9 per cent;
  at the end of 2008 – 7.5 per cent.

  EU financial support will promote employment. Decreasing unemployment and access to the markets of the EU member states will alter labour costs in Lithuania. Wages will on average grow about 8 per cent per year.

- Inflation will reach:
  in 2006 – 2.6 per cent;
  in 2007 – 2.8 per cent;
  in 2008 – 2.5 per cent.

Based on the projected growth of the domestic economy, the outlook for Lietuvos Energija operations is quite optimistic.

LIETUVOS ENERGIJA

RELIABLE SYSTEM CONTROL

The ultimate objective of Lietuvos Energija in performing the transmission system operator's functions is to secure a reliable electricity supply.

In 2005, the company:

- Developed the identification and certification methodology of dynamic characteristics parameters of units of generation sources operating in the Lithuanian electric power system. This methodology enables the transmission system operator to define and to adapt for modelling the dynamic parameters and characteristics of generators, turbines and other equipment based on the results of real operation tests and to compare them with respective parameters and characteristics set forth in their manufacturer's certificates;

- Assessed the organisation of the transmission network's operative control with a goal of optimising its administrative and functional structure thus reducing the costs of operative control as well as improving operation efficiency and employee competence;

- Performed the analysis of accidents in the power system during the last five years and worked out recommendations for their prevention; analysed their reasons, hence facilitating future identification of impending accidents and their extent and enabling timely measures to be taken for their prevention and localisation.

Balance of electricity transmission, million kWh

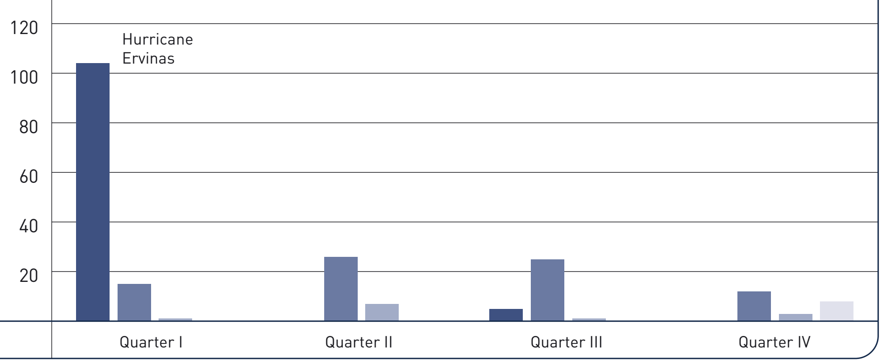
Supplied to the transmission grid	**14085**
Generated output of power plants of Lithuania	12998
Imported electricity	1087
Supplied from the transmission grid	**14085**
Technical losses in the transmission system	939
Supplied to consumers connected to the transmission grid	1167
Supplied to the distribution network	7926
Exported electricity	4053

Electric Power System Control in Co-operation with Neighbouring Systems

To ensure the reliability and stability of power system operation, the company collaborates and coordinates its actions with the transmission system operators of the parallely operating power systems of Latvia, Estonia, Belarus and Russia as well as with the transmission system operators from the EU member states in implementing the EU directives regulating the issues related to electric power system control.

Quality of electricity transmission in 2005. Average outage time, sec.

Force majeure	104	0	5	0
External factors	15	26	25	12
Operator's responsibility	1	7	1	3
Unspecified	0	0	0	8



Electric Power System Control

- In 2005, Lietuvos Energija specialists became committed participants in the activities of the ETSO Task Forces.
- At the Technical Committee of the Baltic States top managers and experts of the TSO companies of Lithuania, Latvia and Estonia solved problems related to the power system control. In 2005, two meetings of the Technical Committee were arranged, resulting in decisions enabling regulations of operative control to be conciliated by adapting them to the developing market conditions in the Baltic States.
- In 2005, two meetings of the BRELL Committee of the parallely operating power systems of Lithuania, Latvia, Estonia, Russia and Belarus, established for coordination of the issues related to the development of power systems and coordination of technical issues, were organised;
- Company specialists were actively involved in the preparation of the international feasibility study Synchronous Interconnection of the Power Systems of IPS/UPS with UCTE, commenced in 2005.

Power exchange with other countries

Major Investment Trends:

- Rehabilitation and development of the transmission grid;
- Implementation of new technologies;
- Development and upgrading of IT systems and telecommunications;
- Modernisation, construction and rehabilitation of power plants, construction and rehabilitation of industrial and other facilities;
- Acquisition of intangible assets.

In 2005, investments totalled LTL129m.

Rehabilitation and Development of the Transmission Grid

In 2005, rehabilitation of the 330/110/10 kV Vilnius substation was started. The value of this investment project is approx. LTL84m; the scheduled completion date is 2008.

Rehabilitation of Kaunas Hydro Power Plant

In 2005, the rehabilitation project of Kaunas HPP was launched.

The main goals of the project are reconstruction of the hydro power plant, upgrading of its control and regulation processes, and sustaining the protection of the environment. The value of the project is approx. LTL125m. For implementation of the project, LTL30m were assigned by the EU Regional Development Fund and the Republic of Lithuania (in accordance with the Single Programming Document 2004-2006, Priority 1, Measure 2 *Ensuring of Energy Supply Stability, Accessibility and Improvement of Efficiency*).

In the course of project implementation, plans are to modernise its obsolete technical equipment and to install a new control system.

Rehabilitation of this power plant was listed in the National Energy Strategy among the measures aimed at ensuring the least cost development and operation of the electric power supply systems and enhancing the reliability of power supply.

Completion of the project is scheduled for early 2008.

In 2005, the following substations were reconstructed:

- 110/10 kV Aerouostas substation (SS);
- 110/35/10 kV Vievis SS;
- 110/10 kV Žvėrynas SS;
- 110/10 kV Aukštrakiai SS (construction);
- 330 kV switchyard in 330/110/10 kV Jurbarkas SS;
- 110/10 kV Plungė SS;
- 110/10 kV Antalgė SS;
- 110/10 kV Užpaliai SS.

These substations are under reconstruction

- 330/110/10 kV Vilnius SS;
- 110/10 kV Kino Studija SS;
- 110/10 kV Centras SS;
- 110/35/10 kV Vilkaviškis SS;
- 110/10 kV Amaliai SS;
- 110/10 kV Žiežmariai SS;
- 110/10 kV Garliava SS;
- 110/10 kV Ketus SS;
- 110/10 kV Taika SS
- 110/10 kV Gedminai SS;
- 110/10 kV Šilutė SS;
- 110/10 kV Jakai SS;
- 110/10 kV Migla SS;
- 110/10 kV Smeltė SS, connection to 110 kV network;
- 110/35/10 kV Joniškis SS;
- 110/35/10 kV Naujoji Akmenė SS;
- 110/35/10 kV Molėtai SS;
- 110/35/10 kV Ukmergė SS;
- Design works of the newly constructed 110/10 kV Nemunas SS in Kaunas.

Interconnection Project of Lithuanian and Polish Power Systems

The project for construction of a double circuit 1000 MW line between Alytus and Elk (Poland) is of outstanding importance. The project is important for development of the integrated electricity market of the European Union, for increasing the energy independence of the Baltic States, and for reliability of energy supply. In June 2005, based on the decision of the European Parliament, the interconnection project of Lithuanian and Polish power systems was included in the list of priority projects in Europe.

In September 2005, the transmission system operators from Lithuania and Poland – Lietuvos Energija and Polskie Sieci Elektroenergetyczne SA – as well as the Ministry of Economy of Lithuania and the Ministry of Economy of Poland signed a Communiqué. The power companies continued their negotiations on the interconnection of the power systems.

Development of the Transmission Grid

BALTIC GRID 2025

In 2005, the transmission system operators of the three Baltic States – Lithuania, Latvia and Estonia – commenced the study Baltic Grid 2025. The main objective of the study is to assess potential perspectives of the development of the Baltic States' transmission network by the year 2025 by ensuring the security of network operation, reliability, quality of electricity supplied to consumers, as well as the interconnection possibilities with the UCTE and NORDEL power systems.

ESTLINK Project

This is a jointly implemented project of the power companies of Lithuania, Latvia, Estonia and Finland with a goal of constructing a 350 MW DC sea cable between the Baltic States and Finland. After completion of the project, the reliability of the Baltic States' power systems will be enhanced and the conditions for trade in electricity and services in the Nordic electricity market will be established. Completion of the project is scheduled for 2006.

SWINDLIT Project

This is a joint project of Lithuania and Sweden launched to assess the feasibility of constructing a 1000 MW DC cable across the Baltic Sea interconnecting Sweden and Lithuania.

The Study of Synchronous Interconnection of the Power Systems of IPS/UPS with UCTE

Fifteen power companies are involved in the international study, which was launched in 2005. Lietuvos Energija represented all three Baltic power systems in the preparation of this study. The main objective of the study is to assess the feasibility of synchronous operation of the two biggest power systems in Europe – the UCTE and IPS/UPS.

Renovation of Electricity Transmission Lines and Rehabilitation, Construction of Communication Lines

Renovated electricity transmission lines and rehabilitated communication lines:

- Alytus-Gardinas;
- Kapsai-Šeštokai;
- Vievis-Vilnius CHP-3;
- Garliava-Kaunas HPP.

The length of renovated electricity transmission lines and rehabilitated communication lines totalled 141 km.

Electricity transmission lines under refurbishment:

- Jurbarkas-Šakiai-Kybartai;
- Kaunas-Jonava-Kėdainiai-Panevėžys;
- Jurbarkas-Raseiniai-Kelmė-Šiauliai.

The length of electricity transmission lines under refurbishment totals 308 km.

Implementation of New Technologies

In 2005:

- The project undertaken for collection of real-time meter readings of active and reactive power and their transmission to Lietuvos Energija Dispatch Centre was completed;
- A capacitor bank was installed in the 330/110/10 kV Klaipėda substation;
- A shunt reactor was installed in the 330/110/10 kV Telšiai substation;
- Up-to-date TCP/IP data transmission protocols were started to be used in dispatch control and monitoring system XA/21;
- Remote terminal unit (RTU) for teleinformation collection and transmission was installed in the 110/10kV Šeškinė substation.

Installation of an automated commercial metering system was continued; this system is one of the most advanced not only in the Baltic States, but among Western power companies as well. In 2005, the commercial metering equipment installed in 25 substations was commissioned into operation; the technical supervision commission allowed the equipment to be launched for a testing period in 33 substations.

Reconstruction of Buildings and Facilities

In 2005, the company reconstructed the following buildings and facilities:

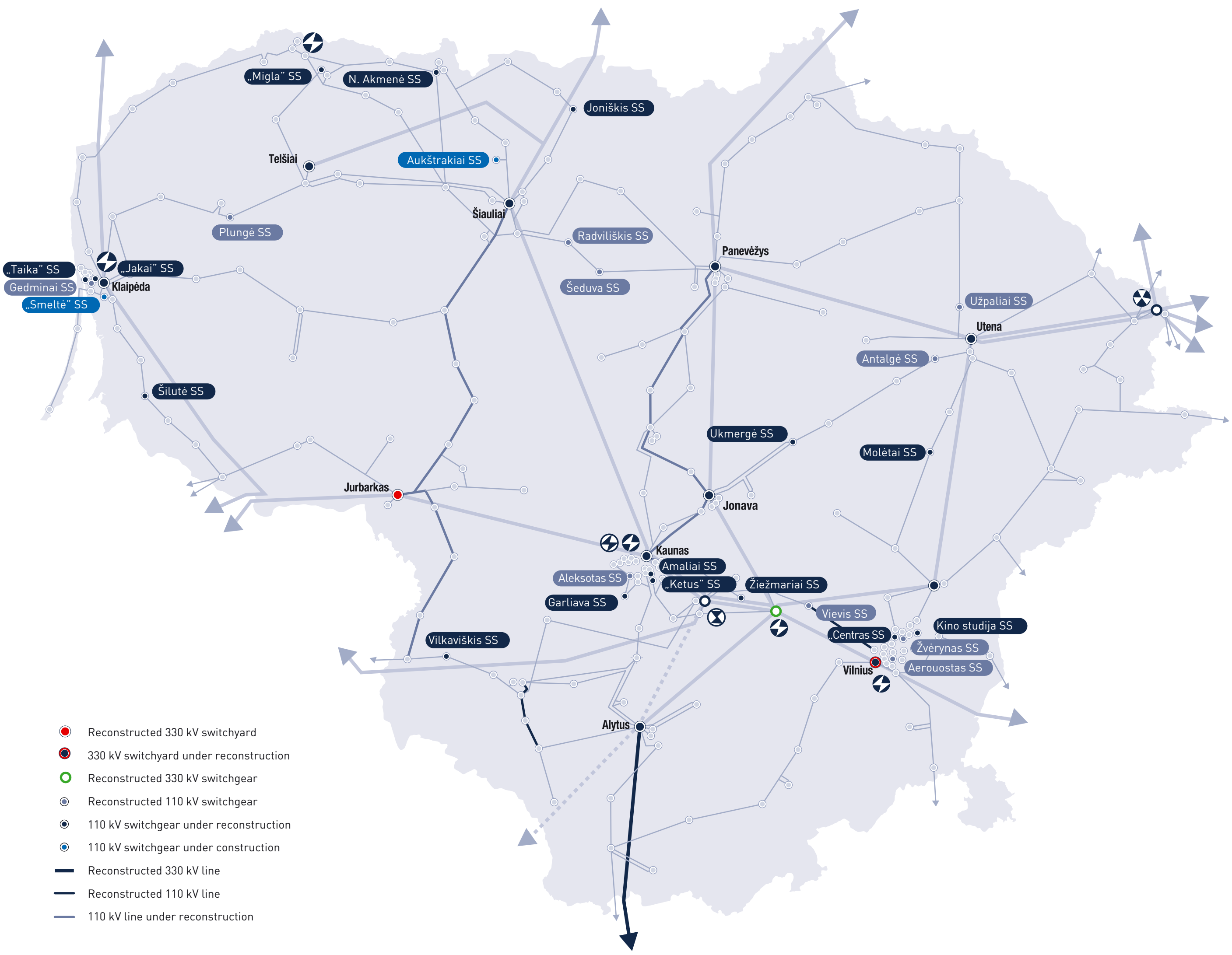
- Administration building in Dubingiai Seminar and Conference Centre;
- Headquarters and auxiliary premises in Vilnius;
- Administration building and industrial facilities of Vilnius Transmission Division;
- Storage facilities of Šiauliai Transmission Division.

Acquisition of Intangible Assets

In 2005, an application system for long-term planning was implemented; it is used in forecasting energy and capacity reserves and modelling future long-term demand of generating capacities in the power system. Implementation of the Repairs and Operation Management Information System (REVIS) continued.

Lietuvos Energija investments in 2005, million LTL

Investment	million LTL
Upgrading and development of IT systems and telecommunications	11.1
Implementation of technologies	9.7
Hydro power plants	11.2
Renovation of transmission lines, construction and rehabilitation of telecommunication lines	11.7
Construction and rehabilitation of administration, industrial and other buildings	17.8
Construction and rehabilitation of substations in the transmission grid	67.5



LIETUVOS ENERGIJA

OPEN MARKET

Trade in electricity is carried out in the domestic market as well as through export and import. In Lithuania, electricity is traded at:

- The wholesale electricity market, by concluding bilateral sale-purchase agreements between electricity producers and suppliers. They can sell or buy deficient or surplus quantities of electricity at the auction;
- The retail electricity market, by concluding bilateral sale-purchase agreements between customers and suppliers.

The electricity market in Lithuania is administrated by the market operator Lietuvos Energija, which performs:

- Registration of bilateral agreements concluded between the wholesale market players;
- Collection of bids for trade at the auction and their ranking by setting the priority of sales;
- Recording the trading transactions concluded by bilateral contracts and at the auction;
- Dissemination of trading results to the market players and supervisory authorities.

In 2005, in the Lithuanian wholesale electricity market the electricity suppliers bought 9.3 billion kWh of electricity, an eight per cent increase as compared to 2004.

5.5 billion kWh were purchased from producers by concluding bilateral agreements, 1.6 billion kWh by carrying out public service obligations (PSO), and 2.2 billion kWh of additional electricity were purchased at the auction administrated by the market operator.

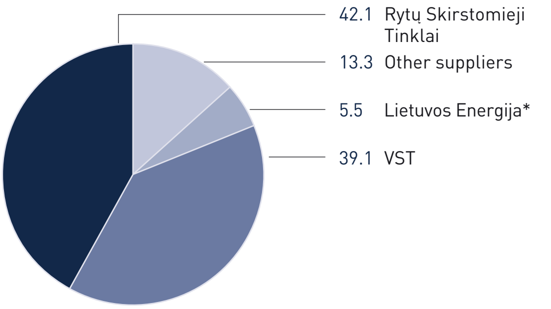
Suppliers purchased electricity complying with public service obligations and additional electricity through Lietuvos Energija.

In 2005, as in 2004, eight companies with an electricity supplier's license and nine companies with a permit for production were actively trading in the wholesale electricity market.

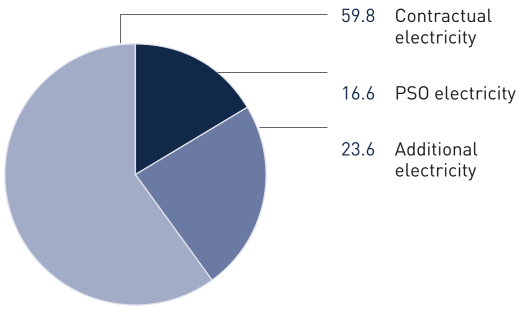
By concluding bilateral contracts, the largest quantity of electricity (4.5 billion kWh) was sold by Ignalina NPP, and purchased - by distribution company Rytų Skirstomieji Tinklai (2.5 billion kWh).

The suppliers' turnover from sale-purchase transactions through Lietuvos Energija equalled LTL414.6m.

Market share by electricity market players in 2005, %



Allocation of electricity sold in the wholesale market in 2005, %**



* Quantities of electricity purchased by Lietuvos Energija to compensate for technical losses in the transmission grid.

** Electricity complying with public service obligations (PSO) is purchased by the market operator from the power plants, the generation whereof is included into the list of public service obligations, and sold to all suppliers. The quotas of this type of electricity for producers are set by the Ministry of Economy, and the prices are set by the National Control Commission for Prices and Energy. A part of this electricity is purchased by public suppliers from producers connected to the distribution networks of a certain region.

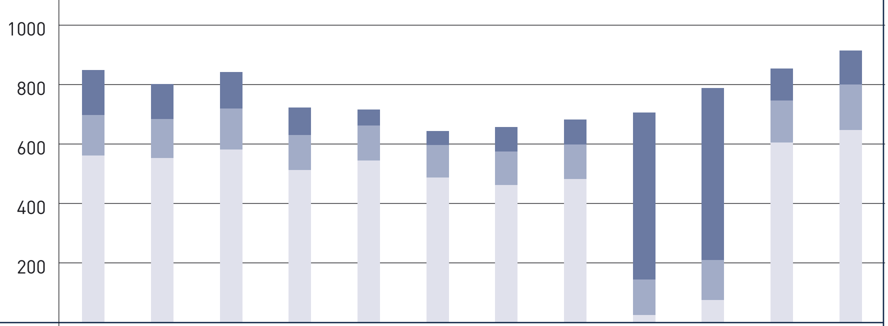
Contractual electricity is bought and sold under direct bilateral contracts signed between producers and suppliers.

Additional electricity is purchased by the market operator and sold to suppliers and the transmission system operator if the quantities of contractual electricity and electricity complying with public service obligations are not sufficient. Additional electricity is sold at the auction arranged for producers by the market operator.

Trade in Electricity

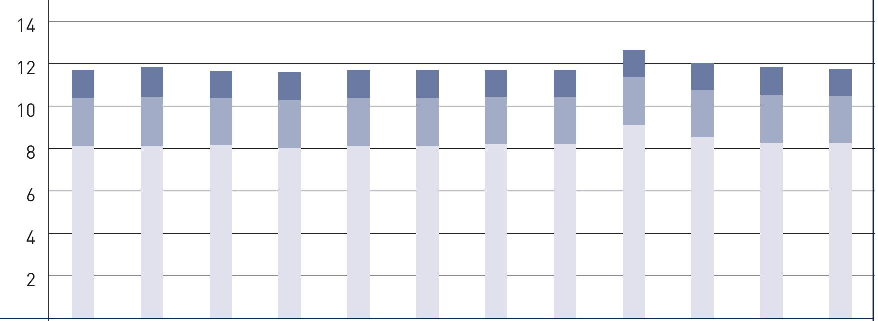
Trade in electricity by type, million kWh

Months	1	2	3	4	5	6	7	8	9	10	11	12
Additional electricity	561.4	552.7	581.2	513.1	543.9	487.4	462.4	482.7	24.2	74.6	604.5	647.8
PSO electricity	136.3	131.5	137.3	117.3	119.0	108.4	111.9	114.7	120.2	134.1	141.9	152.2
Contractual electricity	150.3	117.2	123.2	91.0	53.8	48.2	82.0	85.6	561.7	580.1	106.9	114.5



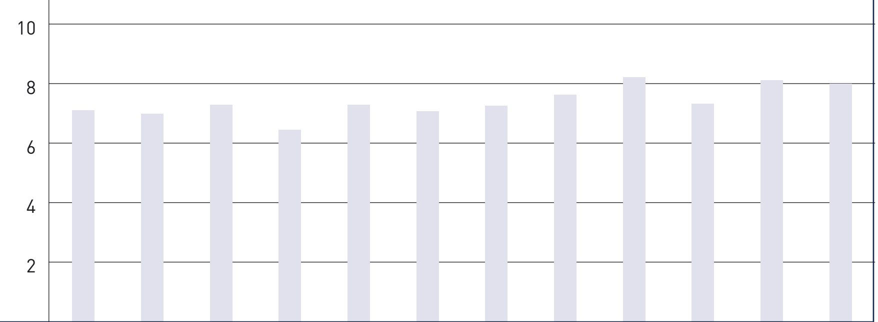
Average price structure of electricity and transmission service for consumers connected to the transmission grid, LTc/kWh

Months	1	2	3	4	5	6	7	8	9	10	11	12
Reservation service	1.3	1.4	1.29	1.32	1.32	1.32	1.27	1.27	1.27	1.29	1.33	1.29
Transmission service	2.25	2.33	2.2	2.25	2.26	2.25	2.22	2.22	2.25	2.24	2.25	2.22
Electricity price in the wholesale market	8.12	8.11	8.15	8.02	8.13	8.13	8.2	8.22	9.1	8.52	8.27	8.25



Prices of additional electricity purchased by suppliers, LTc/kWh

Months	1	2	3	4	5	6	7	8	9	10	11	12
	7.11	6.99	7.29	6.44	7.28	7.07	7.25	7.63	8.22	7.32	8.11	7.99



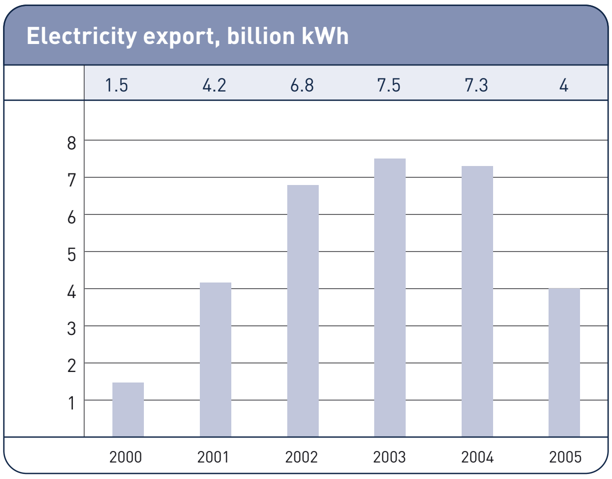
The purchasing price of electricity complying with the PSO was 15.57 LTc /kWh, and the purchasing price of additional electricity was 7.44 LTc/kWh.

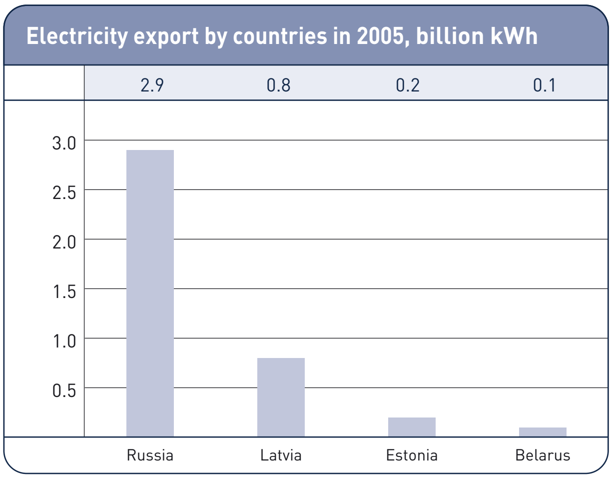
Last year, total generated output in Lithuanian power plants equalled 14.8 billion kWh. Domestic consumption was 11.8 billion kWh, sales in foreign markets – 4 billion kWh, and 1.1 billion kWh were imported from other countries.

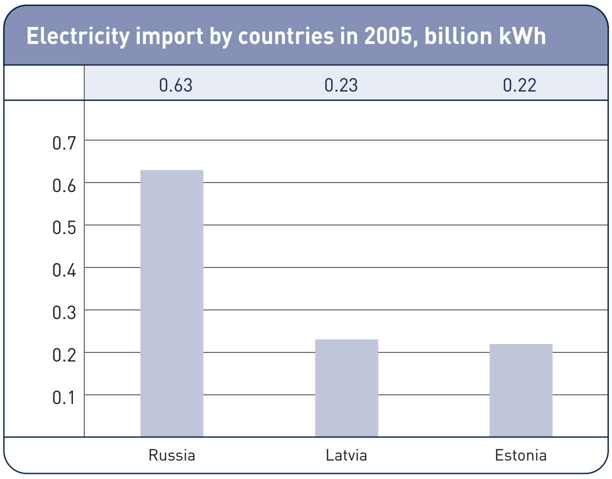
Electricity Export

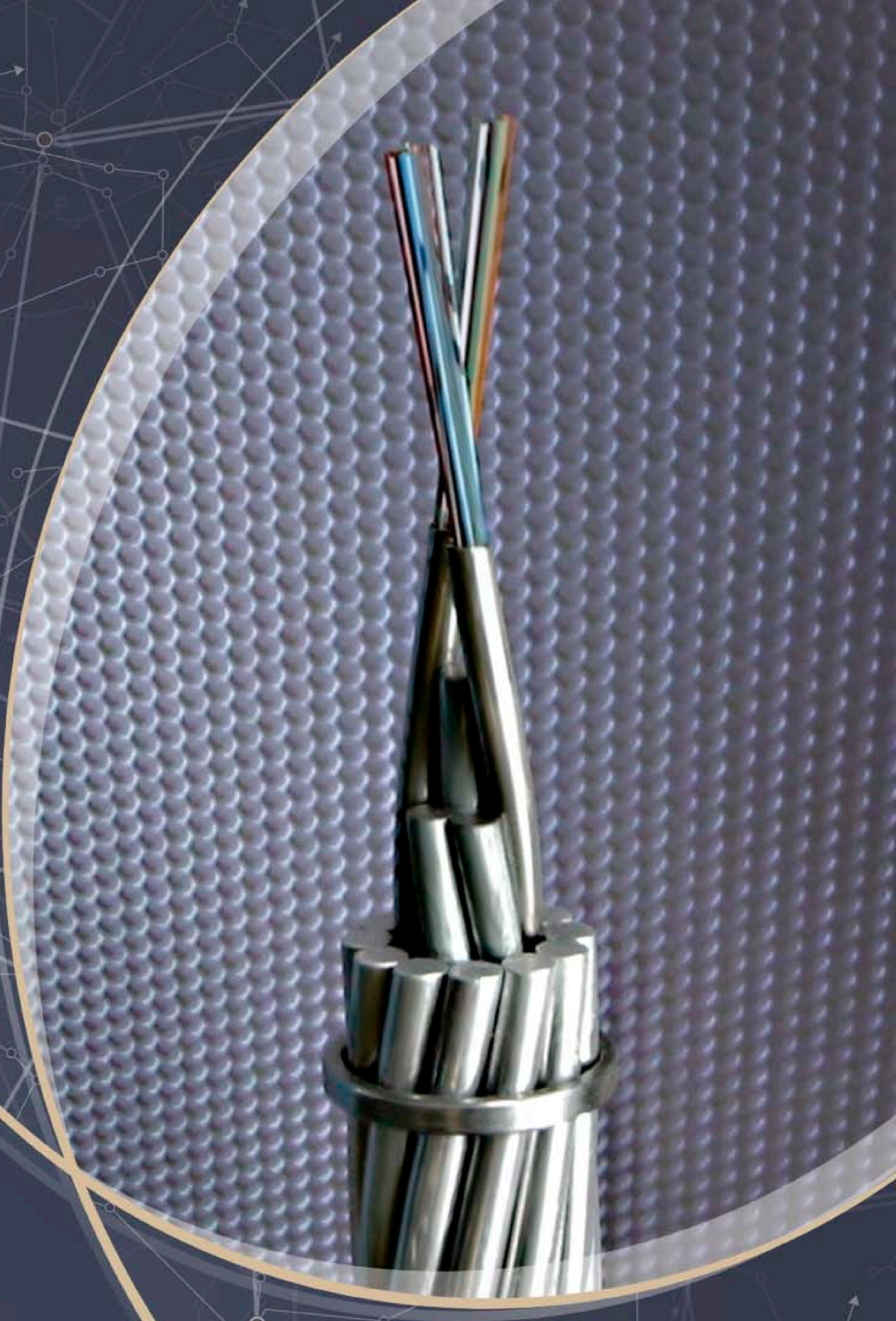
After the closure of Unit I of Ignalina NPP on December 31, 2004, the available capacity in the Lithuanian power system was reduced by 1300 MW. Electricity export equalled 4 billion kWh, a 45 per cent decrease as compared to 2004.

In 2005, Lietuvos Energija exported 255 million kWh of peak energy and 387 million kWh of surplus electricity produced during weekends and days off.









LIETUVOS ENERGIJA

INNOVATIONS

Information Systems

Information systems implemented in the company enhance the efficiency of the power system operation.

In 2005, the development of the Repairs and Operation Management Information System (REVIS) was completed and its implementation was started. The system was developed with a goal of facilitating the activities related to operation of the transmission grid: record keeping of the transmission equipment's operation works, registration of defects, faults, damages, accidents in the electric network and use of collected data to draw up analytical reports.

A new functional data management application system was installed in Kaunas HPP. The system will be helpful in management and classification of the significantly increased flow of technical documents related to the commencement of the Kaunas HPP rehabilitation project.

The IT infrastructure management processes were further improved. Side by side with the ongoing upgrades, services, documentation, implementation and security control processes, ITT specialists started the development of a new process of correction and management of preventive actions.

Lietuvos Energija Data Centres

To ensure clockwork control and supervision of the power system, a back-up data centre was installed and the design and construction works of a stand-by dispatch centre were commenced.

During the design and construction stages of these sites, technical solutions ensuring a maximum level of reliability of information technologies and information security were selected. Apart from the conventional systems installed in the data centres and assigned to maintain the required ambient conditions and fire safety systems, the systems of autonomous power supply, shielding of magnetic and electromagnetic fields, multi-stage access control and visual observation were installed in the new facilities. These systems were integrated with the automated control system of the company's premises. This enables monitoring and control of the centre from any other facility of the company connected to the backbone data network.

Security of Information Technologies

In compliance with legal acts of the European Union and Lithuania on protection of information in companies of strategic significance to national security, the company has been implementing IT security control projects:

- The project for development of an information security control system in Vilnius and Kaunas data centres. This security system is being developed in accordance with CRAMM[1] methodology. The goal is certification of data centres in accordance with international information security standard BS 7799.
- The project for implementation of information security control procedures (in accordance with ITIL[2] methodology) and upgrade of the company's information protection measures.

Both projects will make a significant impact on the development of modern infrastructure complying with the maximum requirements of information security, they will ensure even better conditions for information protection in the telecommunications and information systems monitored by the data centre.

Development of Infrastructure

In 2005, more than 100 km of fibre optic communication lines were constructed; about 20 substations were connected to the telecommunications network.

In expansion of the fibre optic data transmission network, the fibre optic cable installation works were completed and technical preparatory works were finalised for interconnection with the fibre optic network owned by Belenergo. This new infrastructure will replace the old analogue technological communication channels between the power systems of Lithuania and Belarus with reliable digital communication technologies.

Development of Services

In cooperation with other suppliers from neighbouring countries, the company successfully participated in the tenders arranged by the European Union to interconnect the integrated data and voice transmission networks of Lithuania's academic institutions with the respective networks of European institutions via high-speed data transmission channels.

The sales of services rendered by the data centres have been continuously increasing. These services are used by financial and state institutions demanding exclusive guarantees for data security and reliability of services.

1) CRAMM – Central Computing and Telecommunication Agency Risk Analysis and Management Methodology

2) ITIL – IT Infrastructure Library (a standard set for management of IT services)

LIETUVOS ENERGIJA

SOCIAL RESPONSIBILITY

In 2005, Lietuvos Energija employed about 1,140 people. This number, as compared to the previous year, remained nearly the same. The average age of a company employee is 44.

Year by year the number of employees with university degrees is increasing as undergraduates finish their studies. When recruiting new employees, priority is given to those with a technical university background. The long-standing relationship with Kaunas University of Technology in preparing future specialists of the company continues.

The Personnel Department has been continuously developing the system of qualification improvement and training. This system promotes the efficiency of company operations by maintaining a high level of professional knowledge, skills and qualification by motivating the staff to develop and to purposively increase competences necessary to achieve the objectives related to their jobs.

A significant role in the entire training system was assigned to training courses and factory testing related to investment projects. They provided the necessary mental tools for operation of newly constructed or refurbished facilities and equipment. In 2005, company expenditure for training and factory testing within the scope of investment projects was 35 per cent higher than in 2004.

Exclusive attention to qualification improvement motivated the employees to strive for better personal results in their jobs, increased their job satisfaction, created a culture of a continuously learning organisation, supported changes in the company and strengthened its positive image in attracting potential employees. Personnel training is considered to be a meaningful investment in the development of human resources.

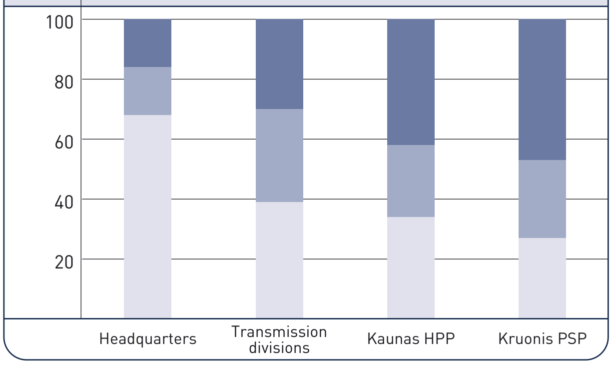
The Collective Agreement signed in 2005 will remain valid until 2007. It provides for additional social guarantees (allowances, additional yearly vacations depending on job experience, etc.).

The project of Competence Enhancement Dialogue among managers and their subordinates was started in 2005, and it will be continued. Competence Enhancement Dialogue is a pre-planned conversation between a manager and an employee arranged once per year and aimed at discussing his or her performance of job assignments and achievement of the set objectives as well as identifying measures which may be useful for enhancement of competences in the future. During the Dialogue, an employee's training needs and career perspectives are discussed, and new objectives for the next year are defined.

All ideas, proposals and expectations expressed during the Dialogue are summarised by the Personnel Department. This material is useful in planning employees' vertical or horizontal rotation, in organising internal training, and in developing the motivation system.

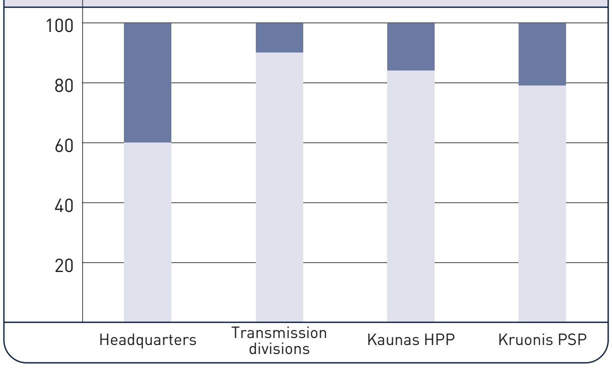
Employees by educational background, %

	Headquarters	Transmission divisions	Kaunas HPP	Kruonis PSP
Vocational/ secondary school	16	30	42	47
College	16	31	24	26
University	68	39	34	27



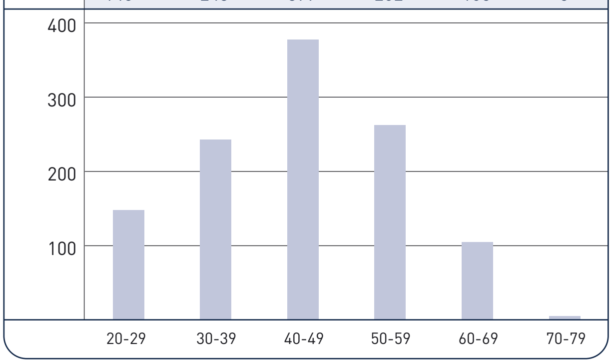
Employees by gender, %

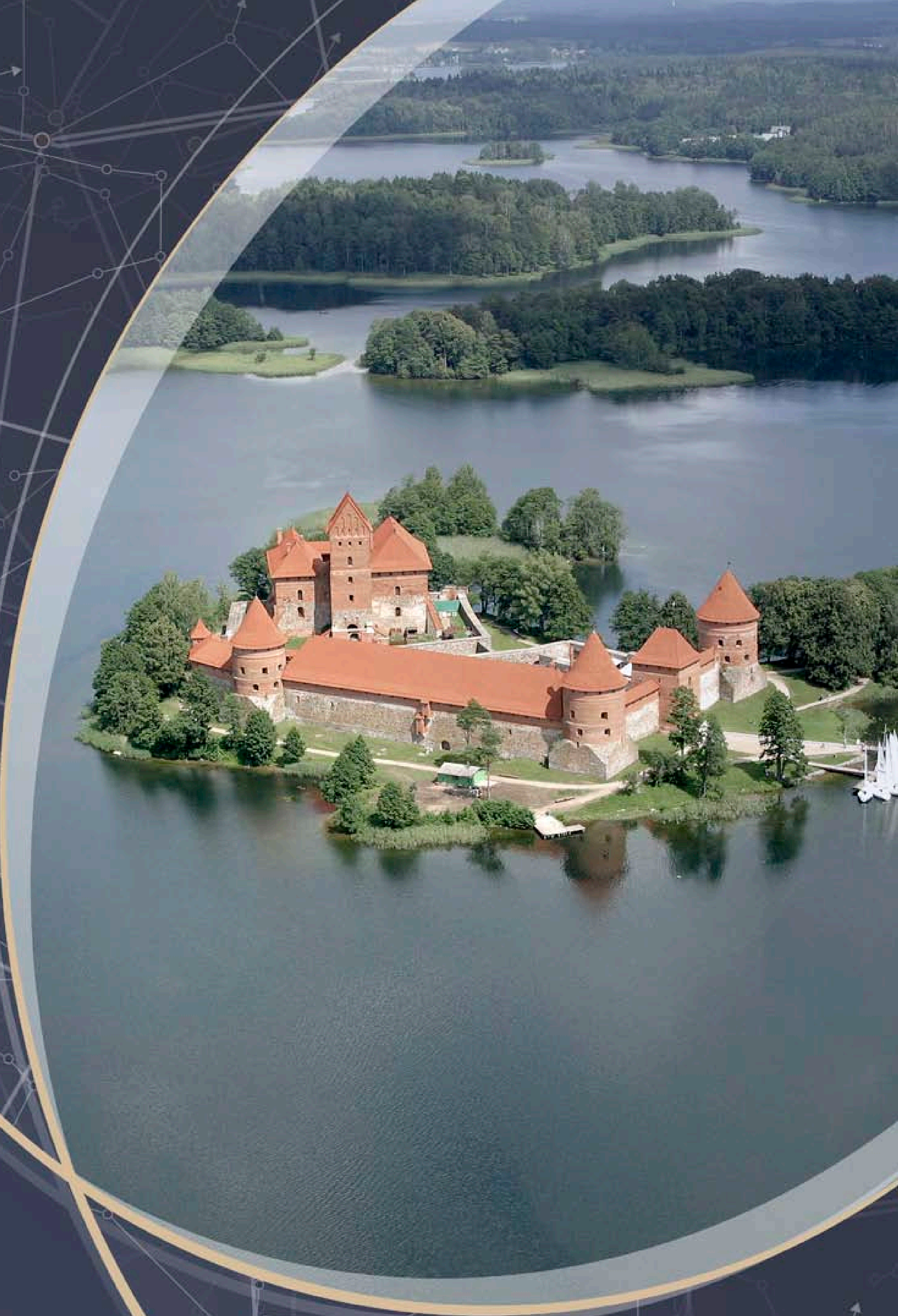
	Headquarters	Transmission divisions	Kaunas HPP	Kruonis PSP
Females	40	10	16	21
Males	60	90	84	79



Employees by age

20-29	30-39	40-49	50-59	60-69	70-79
148	243	377	262	105	5





LIETUVOS ENERGIJA

In its operations, Lietuvos Energija follows the principle that further development of the company is only possible in harmony with the environment in which we work and live.

Waste Management

In accordance with the legal acts of the Republic of Lithuania, the company prepared documents regulating inventory taking and management of waste formed in the company's branches and divisions, of imported taxable products and packaging. The responsibility for waste management was assigned to respective company employees who had been specially trained and obtained a qualification certificate issued by the Certification Centre of Building Products.

All hazardous waste (compressor oil waste containing water, other spent oils and their mixtures, lead and electrolyte scrap from accumulator batteries, luminescence lamps, etc.) was continuously utilised in the company. Special licensed companies were hired for this purpose. The entire process of utilisation of all hazardous waste was supervised and controlled.

Abiding by Council Directive 96/59/EC, prohibiting the use of equipment containing polychlorinated biphenyls (PCB) beginning in 2010, nine samples of Kruonis PSP transformer oil were collected and examined to establish the quantity of polychlorinated biphenyls in them. No PCBs were detected in any of the samples.

In 2005, 144 tonnes of reinforced concrete and porcelain insulator waste were handed over for processing and for the production of break stone to be used in road construction, as well as 142 tonnes of ferrous scrap metal and 5.1 tonnes of non-ferrous scrap metal.

Preventive Measures to Ensure a Safe Environment

In 2005, applications for adjustments in integrated pollution prevention and control permits for the 330kV Alytus, Klaipėda, Utena substations and Dubingiai Seminar and Conference Centre were prepared.

The rules for the use and maintenance of the Kaunas HPP dam were updated by taking into consideration the requirements of the Natura 2000 Network for special protection and conservation areas of European importance and of other environmental protection institutions. On the strand of Kaunas Lagoon the construction works for the reinforcement of the sides of Pakalniškiai mound were started.

Pollution Calculations

The company continuously performed pollution measurements from stationary and mobile pollution sources, inventory taking of taxable products and taxable packing, calculated pollution taxes, and submitted the reports.

Investment Projects

In 2005, the construction of a new facility for household effluent water treatment in Dubingiai Seminar and Conference Centre was started.

Kaunas HPP

Implementation of the Kaunas HPP rehabilitation project was started, which also involves measures aimed at reducing the impact of the power plant's operations on the environment, such as installation of equipment collecting outwash in Kaunas Lagoon and use of ecologically clean oil in the controls of new turbines.

Kruonis PSP

The design works of water purification equipment to be used for treatment of technical water spent for cooling units and their bearings as well as of biological treatment equipment of sewerage water were completed.

Upon the completion of Kruonis PSP construction, the landscape in an 11-hectare area was restored, young pine trees were planted in a 0.5-hectare area, and a 37-hectare area of demolished houses was smoothed out.

In its operations, Lietuvos Energija will further strive to use natural resources sparingly, will continue to implement new and environmentally friendly technologies, and will abide by the requirements of laws and norms on environmental protection.

Co-operation

International co-operation plays an important role in company activities.

In 2005, the Twinning Project *Strengthening the Transmission System Operator and the Market Operator after the Restructuring of Lietuvos Energija AB*, financed by the EU PHARE programme and jointly implemented by Lietuvos Energija and the Elkraft System and Fingrid Oyj consortium, was successfully completed.

Meetings of the Steering Committee, working groups and round-table discussions were arranged in Vilnius, Copenhagen and Helsinki. At the Dissemination Seminar, which took place in September 2005, the project results were summarised by the representatives of the project counterparts – the companies from Denmark, Finland and Lithuania, by the Danish Energy Agency and Lithuanian authorities. The meeting of top managers of Lietuvos Energija, Fingrid (Finland) and Energinet.dk (Denmark) was arranged on September 27-28, 2005 to discuss further co-operation possibilities among the companies.

The Twinning Project helped Lietuvos Energija to become a company complying with the requirements raised for the TSO companies in the European Union. This was endorsed by the ETSO (Association of European Transmission System Operators) when on November 7, 2005 the ETSO Assembly granted Lietuvos Energija the status of a full member of the ETSO. In 2005, company specialists were included and actively worked in seven ESTO Task Forces (from eight altogether). In October 2005, the company arranged in Vilnius a meeting of ETSO Task Force *Electronic Data Interchange*.

In 2005, Lietuvos Energija continued productive collaboration with Latvenergo, Eesti Energia, Elkraft System and COWI and completed the joint project *Power Sector Development in a Common Baltic Electricity Market* financed by the Danish Energy Agency since 2003.

The power companies of the Baltic States – Lietuvos Energija, Latvenergo and Eesti Energia – continued their traditional co-operation in solving issues related to the parallel operation of the power systems. In 2005, this co-operation assumed a new form and nature: the three companies started the new investment project Estlink aimed at interconnecting the transmission systems of Estonia and Finland by constructing a sea cable, thus providing access to the well-operating electricity market of the Nordic countries.

In 2005, collaboration continued in the BRELL Committee of the parallely operating power systems of Lithuania, Latvia, Estonia, Russia and Belarus. This collaboration was aimed not only at solving the problems of parallel operation, but, jointly with the ETSO, at working out the TSO compensation mechanism for transit, i.e. harmonising the transit compensation mechanism effective among the Baltic States, Russia and Belarus with the EU compensation mechanism, which became a topical issue after the Baltic States joined the European Union and Russia and Belarus became so-called EU perimeter countries.

Lietuvos Energija has been involved in preparing the international feasibility study *Synchronous Interconnection of the Power Systems of IPS/UPS with UCTE*, which commenced in 2005. Completion of the study is scheduled for 2008. The results of the study will be of great significance to the electricity market and electricity sectors of Lithuania and the Baltic States.

Lietuvos Energija specialists took part in the activities of the WEC (World Energy Council) and CIGRE (International Council on Large Electric Systems). Company representatives participated in the WEC Executive Assembly in Colombo, Sri Lanka, in the activities of the Working Group *Vulnerability of Europe and its Economy to Energy Crises* and in the meeting of the Nordic Regional Council of CIGRE in Trondhaim, Norway.

Company specialists were active participants in the activity of Eurelectric's (Union of the Electricity Industry) Committees and Working Groups.

To combine the needs of electricity producers and consumers and to secure efficient and reliable operation of the transmission system without violating the interests of other market players, Lietuvos Energija has been involved in the activities of other local organisations, including the Confederation of Lithuanian Industrialists, without violating the interests of other market players.

Community Support

Lietuvos Energija contributes to the prosperity of society by supporting Lithuania's institutions and organisations.

The company's priorities in providing community support were sports, culture and arts, science, and social and public support. In 2005, a portion of donated funds was designated not only to popularise specific sports, but also to train young athletes. Basketball, football, athletics, and yachting require sizeable investments to prepare athletes to take part in international competitions, European and World championships.

In 2005, further support was given to the already traditional and popular sporting events in branches such as tennis, chess, and motor sports, which year after year attract quite a number of fans. The interest in these events is evidence that sports are not limited to only basketball and football – other sports are cultivated in Lithuania as well, and they must be supported to get promoted and become popular.

Music, including classical and pop music concerts, theatrical opera performances, festivals and other shows, the fine arts, history reminiscent of long-time dates and events of energy development represent another group of priorities in the company's community support – culture and arts. Support and donations to artists promote a generation of creative ideas and their implementation, enable the works of great artists to be immortalised, and restore historic events. Fostering culture and science strengthens the society and ethics of the nation and accentuates its unique features.

In assigning support to science, the predominant areas were economics, business and sociology.

Growth in the prosperity and welfare of society is inseparable from advancement in science and technology. This year a portion of funds was designated to one of the hospitals to procure modern medical diagnostic equipment. The disabled and low income groups of society were supported by allocating funds to Lithuanian charities.

The company's benevolence influences the social environment in which it operates. Lietuvos Energija is well aware that in a socially prosperous society the conditions for operating an organisation are much better. Nowadays social responsibility is becoming a priority of increasing significance.

LIETUVOS ENERGIJA

INCREASING VALUE

Lietuvos Energija operations in 2005 remained the same as in 2004: the company acted as the transmission system operator, market operator, and was involved in electricity export. The company also carried out other, non-core activities. This was the first year that the Lithuanian power system functioned with only one Ignalina NPP unit operative, thus more attention was given to the reliability of electricity supply and efficiency.

The company's Financial Statements for 2005 were drawn up by applying the International Financial Reporting Standards (IFRS). The biggest adjustment, as compared to the prior reporting period, was the equation of fixed tangible assets to their fair value. Abiding by the IFRS, the company stated the adjusted value of the fixed tangible assets at deemed cost and will depreciate it as acquisition cost, without periodic revaluation in the future. In the Financial Statements, the fixed tangible assets were recorded by deducting from the acquisition cost the accrued depreciation and the difference in the asset value. Another change in the Financial Statements was that the company compiled not only its own Financial Statements as the patronising company, but the Consolidated Financial Statements as the group as well. The group consists of Lietuvos Energija and the company's subsidiaries which are in its direct and/or indirect control. The company directly controls Energetikos Pajėgos UAB (it is involved in design preparation for construction, reconstruction and refurbishment projects, acts as a technical and engineering consultant, and prepares schemes and plans for special planning of territories and development of energy infrastructure) and Kauno Energetikos Remontas UAB (specialises in maintenance, rehabilitation, diagnostics, installation works, production of spare parts and various metal constructions). In addition, indirectly, via Kauno Energetikos Remontas UAB, Lietuvos Energija has control over Gotlitas UAB, Rygas Energetikas Remonts SIA (Riga, Latvia), and Kaliningradskij Energoremont ZAO (Kaliningrad, Russia).

All Financial Statement indicators mentioned in this chapter of the Annual Report are provided on the basis of the data of the patronising company.

Because of the increased asset value, the depreciation costs, as compared with the respective period of the previous year, grew LTL91m. The cost build-up was not included in the electricity transmission price, however this did not have any negative impact on the company's cash flows and earnings before interest, taxes and depreciation (EBITDA). These earnings totalled LTL178m, LTL1.6m lower than in 2004.

The main activity of the company - to perform the transmission system operator (TSO) functions in Lithuania. For this activity Lietuvos Energija obtained a licence for electricity transmission operations with an unlimited period of validity. The increased electricity demand in most industries for several years in a row promoted electricity transmission. Whereas electricity demand in most areas of the economy has been growing, the scope of electricity transmission has been growing as well. In 2005, the company, by performing TSO functions, transmitted 9.1 billion kWh of electricity by high voltage lines (in 2004 – 8.7 billion kWh).

Two power plants – Kaunas HPP and Kruonis PSP – were operated as constituent parts of the electricity transmission system, and electricity generated in these power plants was mostly used to cover the company's technical losses as well as to maintain the balance between electricity production and consumption.

The company exported 4 billion kWh of electricity. After the closure of Unit 1 of Ignalina NPP, electricity exports, as compared to 2004, were reduced by 45 per cent.

In implementing the provisions of the Law on Electricity of the Republic of Lithuania, Lietuvos Energija as the transmission system operator and market operator is banned from selling electricity to end users in the domestic market. In accordance with this law, the transmission system operator trades in the wholesale electricity market in electricity complying with public service obligations, as well as in balancing and regulating electricity. As the market operator, the company trades in additional electricity at auction in the wholesale electricity market. The company's wholesale trade in electric energy of the mentioned types accounted for nearly 40 per cent of the total quantity of electricity traded in the domestic market. In performing the market operator's functions, the company rendered market administration services to the market players.

Overview of Operations

Income

The electricity transmission price (including the capacity reserve service) was increased by 2.7 per cent on January 1, 2005 and remained at this level during the entire fiscal year. This price was 8 per cent below the electricity transmission price cap set for 2005.

The company's operating income was LTL930m (in 2004 – LTL934.2m). The structure of income changed – export revenues decreased, accounting for 20 per cent of total revenues; 35 per cent of revenues were earned from transmission and capacity reserve services and 45 per cent from sales of electricity complying with public service obligations, regulating and balancing electricity.

Revenues from non-core activities in 2005 totalled LTL21.8m (in 2004 – LTL21.8m), the bulk of them – LTL17.3m – were earned from the provision of information technologies and telecommunications services.

Revenues from financial and investment activity totalled only LTL1.2m (in 2004 – LTL0.5m).

Costs

In 2005, the company's operating costs totalled LTL908.4m (in 2004 - LTL911.9m). The bulk of costs – 71 per cent – were borne in purchasing electricity, capacity reserves and transit services, while depreciation and amortisation made up 16 per cent.

In 2005, costs in non-core activities totalled LTL21.7m (in 2004 – LTL22.1m); costs incurred in financial and investment activity – LTL6.2m (in 2004 – LTL6.4m).

Profitability

In 2005, the company's operating profit was LTL21.6m (in 2004 – LTL22.3m). Net profit totalled LTL10.1m (in 2004 – LTL31.9m). The profit was smaller because of the augmentation of amortisation and depreciation costs (a result of the revaluation of fixed assets) and reduced electricity exports after the closure of Unit 1 of Ignalina NPP.

Earnings before interest, taxes and depreciation (EBITDA) were LTL178m (in 2004 – LTL179m).

Assets

At the end of 2005, the company's asset value totalled LTL2,733m (at the end of 2004 – LTL2,777m); fixed assets totalled LTL2,608m (at the end of 2004 – LTL2,613m); current assets were LTL125m (in 2004 – LTL164m).

Financial liabilities

In 2005, the company used medium-term and long-term credits to refinance its loans and to implement its investment programme. To manage the risks of delayed receivables and short-term discrepancies in cash flows (between revenues and payments due) the company used credit lines and overdrafts.

In 2005, Lietuvos Energija repaid LTL252m to credit institutions and borrowed LTL261m. After the repayment of certain loans, financial liabilities increased by LTL5.7m during the year, totalling LTL150.7m at the end of the reporting period.

In September 2005, the company issued corporate bonds with a face value of EUR7.5m (LTL29.5m) and a maturity of 367 days.

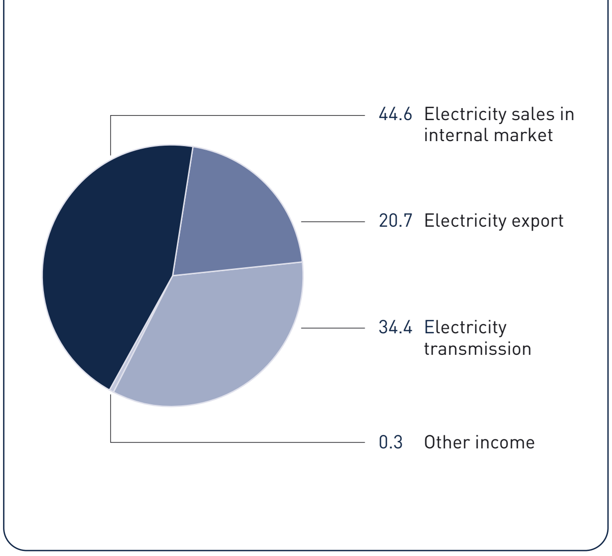
Management of financial risk

In accordance with the management principles of financial risks, the sum of liquid assets, unused credit lines in banks, and overdrafts has to be sufficient to cover the company's short-term liabilities and an undisbursed portion of long-term loans. At the end of 2005, short-term financial debt and the current year's undisbursed portion of long-term loans amounted LTL49m. This debt was offset by overdrafts and credit lines that remained unused at the end of 2005, totalling LTL85.7m, after deduction of overdrafts – LTL57.3m. Additionally, the company had liquid assets totalling LTL2.9m. This enabled the company to cover its financing needs during the first six months of 2006.

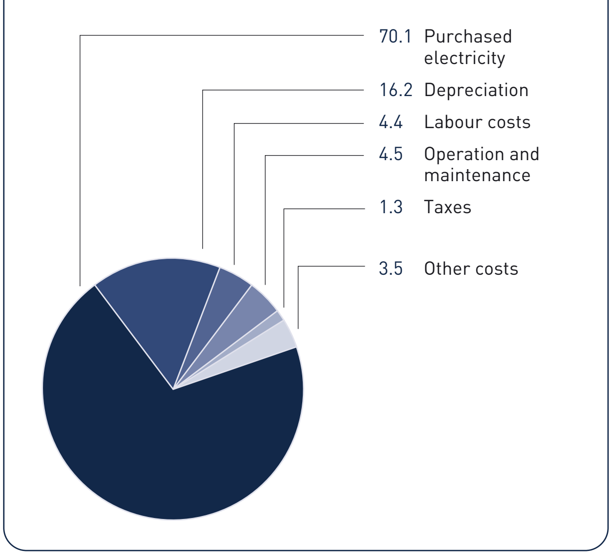
In order to minimise currency exchange risks, the company borrowed in either litas or euros. At the end of 2005, 99 per cent of all loans were denominated in EUR, 1 per cent in LTL. Concluded sale-purchase agreements were also quoted in either LTL or EUR.

In order to minimise interest rate fluctuation risk, the company set a goal of taking no less than 50 per cent of all loans at a fixed interest rate, with the remaining portion at a floating interest rate. In November 2005, to hedge the EUR5m loan the company entered into an interest rate swap agreement regarding conversion of a floating interest rate to a fixed interest rate with a maturity period of 6.25 years. Taking into consideration previously concluded interest rate swap agreements, at the end of 2005, 72 per cent of the company's loans were at a fixed interest rate, while 28 per cent were at a floating interest rate.

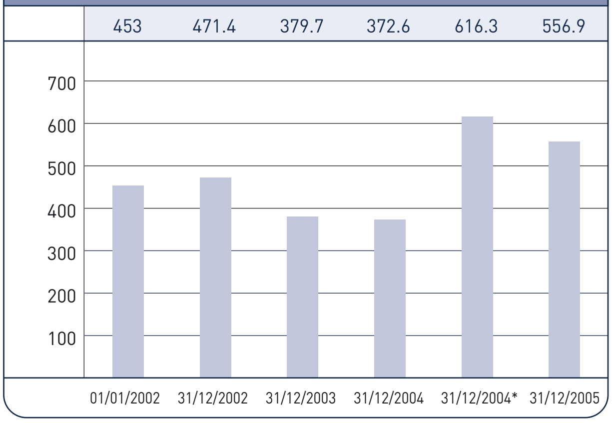
Structure of operating income in 2005, %



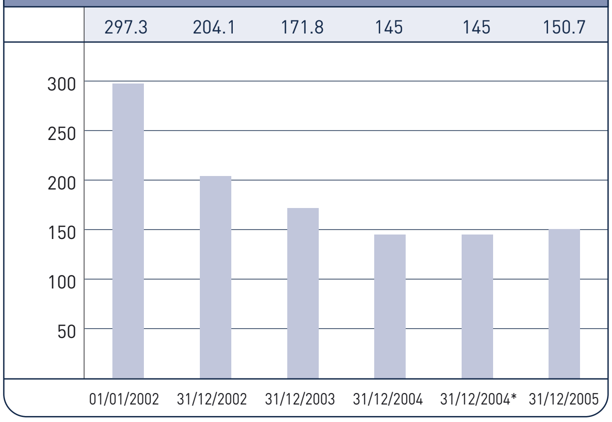
Structure of operating costs in 2005, %



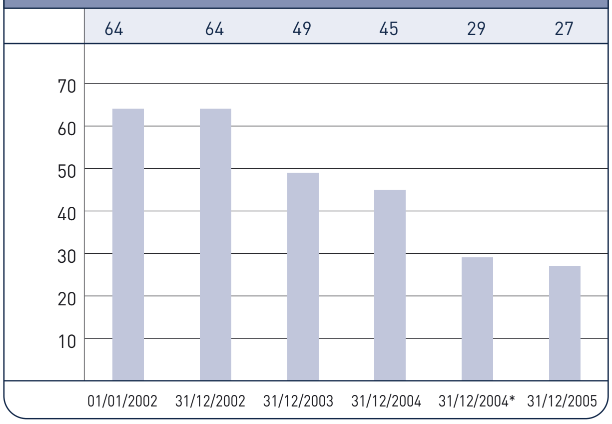
Liabilities, million LTL



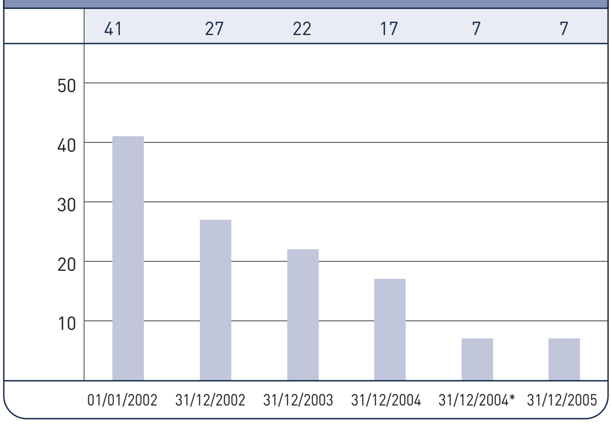
Financial debt, million LTL



Liability to equity ratio, %**



Debt to equity ratio, %**



* Performance indicators recalculated in accordance with IFRS.

** Since 2002 - performance indicators after Lietuvos Energija reorganisation.

Lietuvos Energija AB

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LIETUVOS ENERGIJA AB

We have audited the accompanying balance sheet of Lietuvos Energija AB (a public limited liability company registered in the Republic of Lithuania, "the Company") and the consolidated balance sheet of Lietuvos Energija AB and its subsidiaries UAB Energetikos Pajėgos and UAB Kauno Energetikos Remontas ("the Group") as of 31 December 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2005 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 29 March 2006.

Assets	Notes	Group as of 31 December 2005	Company as of 31 December 2005	Group as of 31 December 2004	Company as of 31 December 2004
NON-CURRENT ASSETS					
INTANGIBLE ASSETS					
Patents and licenses		886,210	858,009	514,011	487,128
Software		5,132,396	5,109,988	3,276,743	3,246,117
Other intangible assets		39,163	1	70,928	70,928
	3	**6,057,769**	**5,967,998**	**3,861,682**	**3,804,173**
PROPERTY, PLANT AND EQUIPMENT					
Land		-	-	38,631	-
Buildings and structures		2,140,502,899	2,123,028,843	2,160,843,226	2,143,227,867
Machinery and equipment		241,419,413	234,498,139	226,855,759	219,704,225
Vehicles		11,602,028	10,075,278	11,278,501	10,081,345
Other equipment, tools and devices		75,014,927	74,846,271	70,402,621	70,244,356
Construction in progress		76,064,035	76,717,828	109,384,859	109,971,533
Other property, plant and equipment		18,135,550	17,479,728	17,291,509	16,569,087
	4	**2,562,738,852**	**2,536,646,087**	**2,596,095,106**	**2,569,798,413**
FINANCIAL ASSETS					
Investments in subsidiaries	5	-	31,754,561	-	31,754,561
Investments in associates	5	24,117,313	24,117,313	5,887,451	5,887,451
Non-current accounts receivable and other financial assets	5	9,504,671	9,470,142	1,659,276	1,624,747
		33,621,984	**65,342,016**	**7,546,727**	**39,266,759**
TOTAL NONCURRENT ASSETS		**2,602,418,605**	**2,607,956,101**	**2,607,503,515**	**2,612,869,345**
CURRENT ASSETS					
INVENTORIES AND PREPAYMENTS					
Inventories	6	14,049,861	5,879,748	12,356,977	6,681,564
Work in progress		584,998	-	189,357	-
Finished goods		1,368,813	-	905,118	-
Raw materials and spare parts		11,981,775	5,819,336	10,999,354	6,574,717
Goods for resale		114,275	60,412	263,148	106,847
Prepayments		1,194,618	1,112,084	1,047,458	1,005,085
		15,244,479	**6,991,832**	**13,404,435**	**7,686,649**
ACCOUNTS RECEIVABLE					
Trade receivables	7	109,434,157	103,879,430	142,113,299	138,323,043
Accounts receivable from related companies		19,011	30,453	46,092	80,071
Other accounts receivable		11,486,016	10,990,496	18,437,197	18,137,441
		120,939,184	**114,900,379**	**160,596,588**	**156,540,555**
OTHER CURRENT ASSETS					
Current investments		46,174	46,174	46,174	46,174
Other current assets		11,673	-	-	-
		57,847	**46,174**	**46,174**	**46,174**
CASH AND CASH EQUIVALENTS	8	5,737,436	2,948,778	3,227,363	91,003
TOTAL CURRENT ASSETS		**141,978,946**	**124,887,163**	**177,274,560**	**164,364,381**
TOTAL ASSETS		**2,744,397,551**	**2,732,843,264**	**2,784,778,075**	**2,777,233,726**

(Continued on the next page)

GROUP'S AND COMPANY'S BALANCE SHEETS

AS OF 31 DECEMBER 2005 and 2004 in LTL

Equity and liabilities	Notes	Group as of 31 December 2005	Company as of 31 December 2005	Group as of 31 December 2004	Company as of 31 December 2004
EQUITY					
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
CAPITAL					
Share capital	9	689,515,435	689,515,435	689,515,435	689,515,435
Share premium		2,744	2,744	2,744	2,744
		689,518,179	**689,518,179**	**689,518,179**	**689,518,179**
RESERVES					
Legal reserve	10	69,355,380	68,951,544	69,276,173	68,951,544
Other reserves	10	102,502,634	100,384,281	36,553,541	34,634,120
		171,858,014	**169,335,825**	**105,829,714**	**103,585,664**
RETAINED EARNINGS					
Net profit for the current year		9,979,712	10,132,413	31,562,788	31,873,753
Net profit for the previous years		1,290,175,132	1,290,036,422	1,336,729,440	1,336,001,626
		1,300,154,844	**1,300,168,835**	**1,368,292,228**	**1,367,875,379**
FOREIGN CURRENCY TRANSLATION RESERVE		(5,097)	-	(5,208)	-
		2,161,525,940	**2,159,022,839**	**2,163,634,913**	**2,160,979,222**
MINORITY INTEREST		**326**	**-**	**202**	**-**
TOTAL EQUITY		**2,161,526,266**	**2,159,022,839**	**2,163,635,115**	**2,160,979,222**
LIABILITIES					
NON-CURRENT LIABILITIES					
Borrowings	11	101,744,117	101,637,409	106,283,049	105,914,321
Provisions	12	2,209,194	2,209,194	3,606,040	3,606,040
Grants (deferred revenue)		23,554,434	23,456,592	16,054,048	15,932,725
Deferred taxes	13	235,622,671	235,157,680	245,391,379	244,855,365
		363,130,416	**362,460,875**	**371,334,516**	**370,308,451**
CURRENT LIABILITIES					
Current portion of non-current borrowings	11	47,374,158	46,908,522	16,798,998	16,432,119
Current borrowings	11	2,155,490	2,155,490	22,644,029	22,644,029
From credit institutions		2,066,025	2,066,025	22,250,893	22,250,893
Other borrowings		89,465	89,465	393,136	393,136
Trade payables		147,627,891	145,436,423	183,011,049	185,598,347
Advances received		5,352,793	3,197,504	2,511,349	2,191,388
Income tax liability		482,662	395,528	6,189,604	6,108,528
Labour related liabilities		1,974,727	1,084,122	1,745,928	923,232
Other current liabilities		14,773,148	12,181,961	16,907,487	12,048,410
		219,740,869	**211,359,550**	**249,808,444**	**245,946,053**
TOTAL LIABILITIES		**582,871,285**	**573,820,425**	**621,142,960**	**616,254,504**
TOTAL EQUITY AND LIABILITIES		**2,744,397,551**	**2,732,843,264**	**2,784,778,075**	**2,777,233,726**

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

GROUP'S AND COMPANY'S INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Notes	Group 2005	Company 2005	Group 2004	Company 2004
SALES	14	971,883,783	930,032,941	963,946,408	934,187,422
COST OF OPERATIONS	14	949,769,807	908,402,142	941,299,078	911,929,630
PROFIT FROM OPERATIONS		**22,113,976**	**21,630,799**	**22,647,330**	**22,257,792**
OTHER INCOME AND EXPENSES					
Income		23,108,829	21,842,967	22,492,609	21,824,763
Expenses		23,372,493	21,689,586	23,170,993	22,123,603
		(263,664)	**153,381**	**(678,384)**	**(298,840)**
FINANCIAL AND INVESTMENT ACTIVITIES					
Income	15	1,204,167	1,206,971	524,205	503,418
Expenses	15	5,475,087	6,190,366	5,911,423	6,356,245
		(4,270,920)	**(4,983,395)**	**(5,387,218)**	**(5,852,827)**
Share of profit (loss) of associates		(747,760)	-	(539,889)	-
PROFIT BEFORE TAX		**16,831,632**	**16,800,785**	**16,041,839**	**16,106,125**
PROFIT TAX	13	6,851,815	6,668,372	(15,520,970)	(15,767,628)
NET PROFIT		**9,979,817**	**10,132,413**	**31,562,809**	**31,873,753**
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE PARENT		9,979,712	10,132,413	31,562,788	31,873,753
MINORITY		105	-	21	-
		9,979,817	**10,132,413**	**31,562,809**	**31,873,753**
Basic and diluted earnings per share	17	0.01		0.05	

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

GROUP'S AND COMPANY'S STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

		Attributable to the equity holders of the parent							Minority interest	Total
Group	**Notes**	**Share capital**	**Share premium**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Foreign currency translation reserve**	**Total**		
Balance as of 1 January 2004		**689,515,435**	**2,744**	**69,182,830**	**(12,444,616)**	**1,419,771,520**	**(4,634)**	**2,166,023,279**	**86**	**2,166,023,365**
Dividends	18	-	-	-	-	(33,950,580)	-	(33,950,580)	-	(33,950,580)
Changes in equity due to foreign currency translation		-	-	-	-	-	(574)	(574)	95	(479)
Transfer to reserves	10	-	-	93,343	51,019,212	(51,112,555)	-	-	-	-
Transfer from reserves	10	-	-	-	(2,021,055)	2,021,055	-	-	-	-
Net profit for the year		-	-	-	-	31,562,788	-	31,562,788	21	31,562,809
Balance as of 31 December 2004		**689,515,435**	**2,744**	**69,276,173**	**36,553,541**	**1,368,292,228**	**(5,208)**	**2,163,634,913**	**202**	**2,163,635,115**
Dividends	18	-	-	-	-	(12,088,796)	-	(12,088,796)	-	(12,088,796)
Changes in equity due to foreign currency translation		-	-	-	-	-	111	111	19	130
Transfer to reserves	10	-	-	79,207	68,940,011	(69,019,218)	-	-	-	-
Transfer from reserves	10	-	-	-	(2,990,918)	2,990,918	-	-	-	-
Net profit for the year		-	-	-	-	9,979,712	-	9,979,712	105	9,979,817
Balance as of 31 December 2005		**689,515,435**	**2,744**	**69,355,380**	**102,502,634**	**1,300,154,844**	**(5,097)**	**2,161,525,940**	**326**	**2,161,526,266**

Company	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2004		**689,515,435**	**2,744**	**68,951,544**	**(14,270,693)**	**1,418,857,019**	**2,163,056,049**
Dividends	18	-	-	-	-	(33,950,580)	(33,950,580)
Transfer to reserves	10	-	-	-	50,925,868	(50,925,868)	-
Transfer from reserves	10	-	-	-	(2,021,055)	2,021,055	-
Net profit for the year		-	-	-	-	31,873,753	31,873,753
Balance as of 31 December 2004		**689,515,435**	**2,744**	**68,951,544**	**34,634,120**	**1,367,875,379**	**2,160,979,222**
Dividends	18	-	-	-	-	(12,088,796)	(12,088,796)
Transfer to reserves	10	-	-	-	68,503,179	(68,503,179)	-
Transfer from reserves	10	-	-	-	(2,753,018)	2,753,018	-
Net profit for the year		-	-	-	-	10,132,413	10,132,413
Balance as of 31 December 2005		**689,515,435**	**2,744**	**68,951,544**	**100,384,281**	**1,300,168,835**	**2,159,022,839**

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

GROUP'S AND COMPANY'S CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Group 2005	Company 2005	Group 2004	Company 2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit	9,979,817	10,132,413	31,562,809	31,873,753
ADJUSTMENTS FOR NON-CASH ITEMS AND OTHER ADJUSTMENTS:				
Depreciation and amortisation	157,635,324	155,716,903	159,236,061	157,495,242
Change in deferred tax liabilities	(9,768,708)	(9,697,685)	(30,327,781)	(30,272,017)
(Decrease) in provisions	(1,96,846)	(1,396,846)	(2,537,043)	(2,537,043)
Increase (decrease) in impairment of assets	6,038,468	6,038,468	(1,172,486)	(1,172,486)
Income tax expenses	16,620,523	16,366,057	14,806,811	14,504,389
Income from grants and subsidies	(2,284,649)	(2,284,649)	(207,235)	(207,235)
(Profit) loss from disposal of non-current assets (except financial assets)	(604,254)	(604,254)	396,409	396,409
Elimination of financial and investment activity results:				
-Dividend (income)	-	(320,619)	-	(124,458)
-(Positive) negative effect of foreign currency exchange, net	(441,910)	(433,914)	124,825	66,968
-Interest expenses	5,335,620	5,313,775	4,895,316	4,861,249
-Interest (income)	(260,078)	(260,078)	(233,136)	(233,136)
-Other (income) expenses from financial activity	(821,405)	(303,670)	217,002	(139,503)
CHANGES IN WORKING CAPITAL				
(Increase) decrease in inventories	(1,727,823)	766,878	2,362,581	2,863,353
(Increase) in prepayments	(147,160)	(106,999)	(273,434)	(278,934)
Decrease in trade receivables	30,279,288	29,459,706	2,572,644	1,552,801
Decrease (increase) in other receivables	7,294,027	7,489,790	(3,278,749)	(3,958,675)
(Increase) decrease in other current assets	(11,673)	-	1,373,343	1,373,343
Income tax paid	(22,564,492)	(22,215,986)	(19,322,399)	(19,101,497)
(Decrease) increase in trade payables and advances received	(28,323,584)	(32,437,841)	48,683,367	47,721,364
Increase (decrease) in labour related liabilities	228,799	160,890	(115,192)	84,398
(Decrease) in other accounts payable	(2,248,114)	110,106	(5,435,938)	(4,515,188)
Net cash flows from operating activities	**162,811,170**	**161,492,445**	**203,327,775**	**200,253,097**
CASH FLOWS (TO) INVESTING ACTIVITIES				
(Acquisition) of non-current assets (except financial investments)	(136,346,251)	(135,523,132)	(137,834,568)	(137,198,234)
Proceeds from sale of non-current assets (except financial investments)	14,319,571	14,312,182	1,532,434	1,492,425
Repaid loans	1,047,429	1,047,429	20,399	20,399
Loans (granted)	(8,841,965)	(8,841,965)	(604,598)	(604,598)
Proceeds from sales of investments	46,174	46,174	46,174	46,174
(Acquisition) of investments	(19,028,480)	(19,028,480)	(274,822)	(274,822)
Dividends received	-	320,619	-	124,458
Interest received	260,078	260,078	233,136	233,136
Other cash Ŗows from investment activities	(23,481)	-	(25,920)	-
Net cash flows (to) investing activities	**(148,566,925)**	**(147,407,095)**	**(136,907,765)**	**(136,161,063)**
CASH FLOWS (TO) FINANCING ACTIVITIES				
Proceeds from loans	260,954,562	260,952,113	96,100,511	96,100,511
(Repayment) of loans	(255,424,692)	(254,937,491)	(123,152,335)	(122,753,762)
Dividends (paid)	(12,021,314)	(12,021,314)	(33,810,834)	(33,810,834)
Interest (paid)	(5,242,728)	(5,220,883)	(4,909,493)	(4,875,426)
Net cash flows (to) financing activities	**(11,734,172)**	**(11,227,575)**	**(65,772,151)**	**(65,339,511)**
Net increase (decrease) in cash and cash equivalents	**2,510,073**	**2,857,775**	**647,859**	**(1,247,477)**
Cash and cash equivalents at the beginning of the year	**3,227,363**	**91,003**	**2,579,504**	**1,338,480**
Cash and cash equivalents at the end of the year	**5,737,436**	**2,948,778**	**3,227,363**	**91,003**

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

1. GENERAL INFORMATION

Lietuvos Energija AB is a public limited liability company registered in the Republic of Lithuania. The address of its registration is: Žvejų Str. 14, LT-09310, Vilnius, Lithuania. Lietuvos Energija AB (here in after "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 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 the 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 2005 and as of 31 December 2005 it amounted to LTL 689,515,435 and was divided into 689,515,435 ordinary registered shares with the nominal value of one litas each. All the shares are fully paid. The shares of the Company are traded on Vilnius Stock Exchange in the current trading list. In 2005 and 2004, the Company did not hold its own shares. The main shareholder of Lietuvos Energija AB is the state of Lithuania holding 96.62% of the Company's shares as of 31 December 2005. 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 other shareholders.

Main activities of the Company in 2005 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 2005 the Company had 2 branches: Kaunas Hydro Power Plant (HPP) and Kruonis Hydro-Pumping Power Plant (HPPP).

At the date of financial statements preparation the Company directly participated (controlled or had significant influence) in the management of these companies: SIA Baltijas Energosistemu Dispečeru Centrs (hereiafter - DC Baltija), AS Nordic Energy Link, UAB Energetikos Pajėgos, UAB Geoterma, UAB Kauno Energetikos Remontas. Indirectly, through UAB Kauno Energetikos Remontas, the Company had majority of votes in UAB Gotlitas, SIA Rygas Energetikas Remonts, ZAO Kaliningradskij Energoremont.

Consolidated Lietuvos Energija AB and its subsidiaries' financial statements and separate financial statements of Lietuvos Energija AB are presented in these reports. The Group consists of Lietuvos Energija AB and the following subsidiaries, which the Company directly and indirectly controls:

Company	Registration address	Share of the stock held by the Group	Share capital of subsidiary	Profit (loss) for the reporting year	Total equity as of 31 December 2005	Main activities
UAB Energetikos Pajėgos	T.Masiulio Str. 16d, Kaunas, Lithuania	100 %	430,400	113,825	666,196	Design of energy projects
UAB Kauno Energetikos Remontas	Chemijos Str.17, Kaunas, Lithuania	100 %	31,340,763	858,050	35,147,037	Repair of energy equipment, manufacture of metal constructions
UAB Gotlitas	R. Kalantos Str. 119, Kaunas, Lithuania	100 %	1,450,000	(12,277)	1,432,829	Commercial-economic activity
SIA Rygas Energetikas Remonts	Rygas Distr. P.n. Acone Salaspils, Latvia	100 %	14,546 (2,000 LAT)	463,041	44,767	Repair of energy equipment
ZAO Kaliningradskij energoremont	Jaltinskaja Str. 66, Kaliningrad, Russia	99 %	1,349 (9,900 RUB)	10,367	32,232	Repair of energy equipment

The number of employees of the Group was 1,871 as of 31 December 2005 (1,975 as of 31 December 2004). 838 employees were employed at the central office and transmission network (844 as of 31 December 2004), 290 employees were employed at the branches (297 as of 31 December 2004), 19 in UAB Energetikos Pajėgos (15 as of 31 December 2004), 686 in UAB Kauno Energetikos Remontas (782 as of 31 December 2004), 20 in UAB Gotlitas (21 as of 31 December 2004), 1 in SIA Rigas Energetikos Remontas (2 of 31 December 2004), 17 in ZAO Kaliningradskij Energoremont (14 as of 31 December 2004).

On 31 December 2004 the operation of VĮ Ignalinos Nuclear Power Plant (NPP) Unit 1 Reactor was permanently stoped. The scheduled decommission 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. Ignalina NPP Unit 2 Reactor 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, which 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 approximately 1.5 times in 2005 compared to 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. Starting from April 2005 the Company is participating in an international investment project ESTLINK (laying of underwater 350 MW power cable, connecting the Baltic and Scandinavian countries) by acquiring 25% of the shares of the newly established company Nordic Energy Link AS and investing EUR 5.5 million. The cost of the cable from Estonia to Finland will approximate to EUR 110 million: 20% of the budget will be financed from the equity of Nordic Energy Link AS, the remaining part – from the borrowed funds.

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). In February 2005 the Company became a true member of ETSO (European Transmission System Operators).

In 2005, an international rating agency Standard & Poor's granted to the Company BBB+ rating of non-current borrowing and A-2 rating for current borrowing and confirmed the positive rating perspective. In 2005 international rating agency Moody's confirmed A3 rating of non-current borrowing in foreign currency and determined the positive rating perspective.

According to the Law of Stock Companies of the Republic of Lithuania, the annual report, including financial statements, prepared by the Management, are approved by the Shareholders' General meeting. The shareholders hold the power not to approve the annual report and the right to request new annual report to be prepared.

2. ACCOUNTING PRINCIPLES

The principal accounting policies adopted in preparing the Group's financial statements for 2005 are as follows:

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), effective as of 31 December 2005, as adopted by the EU.

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective from 1 March 2006);
- Amendments to IFRS 1 First-time Adoption of IFRS (effective from 27 January 2006);
- Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 27 January 2006);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts (effective from 27 January 2006);
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 27 January 2006);
- IFRIC Interpretation 8 Scope of IFRS 2 (effective from 1 May 2006);
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006);
- IFRS 7 Financial instruments: Disclosures (effective from 1 January 2007).

The Company expects that adoption of the pronouncements listed above in the future will have no significant impact on the Group's and the Company's financial statements.

Financial year of the Company and other companies of the Group coincides with the calendar year.

These financial statements, prepared in accordance with IFRS, are the first annual financial statements in which the Group and the Company adopt all IFRSs, including amendments of IAS 27, approved in 2005. IFRS 1 "First - time Adoption of International Financial Reporting Standards" requires the Group to prepare its IFRS financial statements as if it is a first-time adopter as the Group's and the Company's financial statements in prior years did not have an explicit and unreserved statement of compliance with IFRS, owing to the inclusion of indexations of property, plant and equipment, which did not meet the requirements of IAS 16 Property, Plant and Equipment. The Group chose 1 January 2004 as the date of transition to IFRS.

While adopting all IFRS requirements the Group accounted for the cost of property, plant and equipment at deemed cost. The effect of this accounting principle adoption to these financial statements is presented in Note 4. Reconciliation of the financial statements prepared according to IFRS to the financial statements prepared according to Business accounting standards is presented in Note 20.

2.2 PRESENTATION CURRENCY

The amounts shown in both, consolidated and separate, financial statements are presented in the national currency of the Republic of Lithuania, Litas (LTL). The functional currency of the Group is also 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 CONSOLIDATION PRINCIPLES

The consolidated financial statements of the Group include Lietuvos Energija AB and the companies under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

A part of equity and net profit, attributable to minority shareholders, are separated from the equity and net profit, attributable to the shareholders of the Company in the consolidated balance sheets under equity caption and consolidated income statements respectively.

The purchase method of accounting is used for acquired businesses.

Companies acquired or sold during a year are included into the financial statements from the date of acquisition or until the date of sale.

Investments in associated companies where significant influence is exercised by Lietuvos Energija AB are accounted for in the consolidated financial statements using the equity method. In the separate financial statements of the Company these investments are accounted at acquisition cost, less impairment losses. An assessment of valuation of impairment losses is performed when there is an indication that the asset may be impaired or the impairment losses recognised in prior years no longer exist.

Investments in subsidiaries in the financial statements are accounted for at cost value, less impairment loss, if any.

All other investments are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement as further disclosed in section 2.5.

Intercompany balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

2.4 NON-CURRENT ASSETS (EXCEPT INVESTMENTS)

According to IFRS 1 "First - time Adoption of International Financial Reporting Standards", the deemed cost of property, plant and equipment, acquired before 1 January 2004, is its acquisition cost. The fair value of assets, set on 1 January 2004 by independent, professionally qualified valuers, was taken as deemed cost.

The initial cost of property, plant and equipment, acquired after 1 January 2004, includes their acquisition price and other related costs: transportation, installation, testing, preparation of the place of exploitation, designing, repairing before the asset is put into operations, registration and other directly attributable costs, including non-refundable acquisition taxes.

Property, plant and equipment after the initial recognition is stated at cost (deemed cost) less accumulated depreciation and evaluated impairment losses.

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 Group / Company and the cost of asset can be measured reliably. The Group and the Company does not have any intangible assets with indefinite life, therefore 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.

Non-current assets (property, plant and equipment and intangible assets hereinafter are called 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 Group / Company amortises intangible assets and depreciates the acquisition value of property, plant and equipment in the financial statements by using these depreciation (amortisation) rates:

Non-current assets	Ranges of useful lives (years)
Buildings and structures	7-75
Machinery and equipment	4-40
Vehicles	4-10
Other equipment, tools and devices	3-15
Other property, plant and equipments	4-80
Intangible assets	3-4

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

	Average useful lives (years)
Constructions of transformer substations	30
330, 110, 35 kV electricity transmission lines h h	40-55
330, 110, 35, 6-10 kV electricity distribution equipment	30-35
330, 110, 35, 6-10 kV power transformers	35
Relay security and automation equipment	15-35
Technological and dispatcher control equipment	8

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

After the sale 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.

After the write-off of not fully depreciated non-current assets, not depreciated value is recognised as (loss) due to non-current assets write-off in the income statement. If any recursive materials are gained while liquidating non-current assets, they are accounted at net realisable value by decreasing losses from non-current assets write-offs, respectively.

Construction-in-progress represents property, plant and equipment under construction. Such assets are stated at cost. This includes design, construction works, plant and equipment being mounted and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

2.5 INVESTMENTS

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The category 'financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

HELD-TO-MATURITY INVESTMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.6 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, 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 Group / Company and/or sold, the Group / Company applies the first-in, first-out (FIFO) method, i. e. an assumption is made that the inventories purchased earlier are consumed first. The Group / Company registers every operation related with the use or sale of inventories in the accounts of financial statements. Unrealisable inventories are written-off.

2.7 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. Impairment is then recorded to profit and loss statement as doubtful accounts receivable provision. Non-current receivables and loans granted are subsequently carried at discounted value, less impairment.

2.8 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. Investments into equity securities are not accounted as cash equivalents.

2.9 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.

2.10 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 were as follows:

As of 31 December 2005			As of 31 December 2004		
1 EUR	=	3.4528 LTL	1 EUR	=	3.4528 LTL
1 LVL	=	4.9565 LTL	1 LVL	=	4.9527 LTL
100 RUB	=	10.1312 LTL	10 RUB	=	0.9106 LTL
10 SEK	=	3.6644 LTL	10 SEK	=	3.8246 LTL
1 USD	=	2.9102 LTL	1 USD	=	2.5345 LTL

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

Positive and negative effect of the change in currency exchange rates are reflected in the income statement of the Group / 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.

2.11 GRANTS (DEFERRED REVENUE)

Grants represent property, plant and equipment received free of charge and the support of international funds for specific activities. Grants related to acquisition of assets are initially recorded at fair value as assets and grants (deferred revenue) and are subsequently recognised as income during the same period as depreciation of the related asset by reducing the related depreciation expenses. Grants intended for compensating the incurred expenses are recognised by offsetting the incurred expenses, to compensate which the grant was received.

2.12 PROVISIONS

Provisions are recognised when the Group's companies 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.

2.13 BUSINESS AND GEOGRAPHICAL SEGMENTS

In these financial statements a business segment means a constituent part of the business 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 business 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.

2.14 IMPAIRMENT OF ASSETS

FINANCIAL ASSETS

Financial assets as well as goodwill are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group's companies will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down, except for impairment loss recorded for available-for-sale investments. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

OTHER ASSETS

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

2.15 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the consolidated balance sheet of the Group 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.

2.16 REVENUES AND EXPENSES RECOGNITION

The Group recognises 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. Dividends of subsidiaries, attributable to the parent company, are eliminated in the consolidated financial statements.

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 Group, 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 Group presents its income statement on the basis of the function of expenses.

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

2.17 BORROWING COSTS

Borrowing costs are expensed as incurred.

2.18 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.

In 2005 and 2004 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law will come into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies will have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After 2007 the social tax will not be calculated and paid.

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 only be 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 income 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 reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset has 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 asset is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

2.19 USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.20 CONTINGENCIES

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities in business combinations. 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.

2.21 SUBSEQUENT EVENTS

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

2.22 OFFSETTING

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain standard specifically require such set-off.

3. INTANGIBLE ASSETS

Information on the movement of the Group's and the Company's intangible assets is presented below:

GROUP	Patents and licences	Software	Other intangible assets	Total
NET BOOK VALUE AS OF 31 DECEMBER 2004	**514,011**	**3,276,743**	**70,928**	**3,861,682**
ACQUISITION COST				
As of 31 December 2004	849,479	10,855,335	77,647	11,782,461
Changes during the year:				
- acquisition	549,066	2,986,466	153,763	3,689,295
- reclassifications between the groups and from property, plant and equipment +/(-)	6,136	462,479	(185,528)	283,087
As of 31 December 2005	**1,404,681**	**14,304,280**	**45,882**	**15,754,843**
AMORTISATION				
As of 31 December 2004	335,468	7,578,592	6,719	7,920,779
Changes during the year:				
- charge for the year	183,003	1,593,292	-	1,776,295
As of 31 December 2005	**518,471**	**9,171,884**	**6,719**	**9,697,074**
NET BOOK VALUE AS OF 31 DECEMBER 2005	**886,210**	**5,132,396**	**39,163**	**6,057,769**

GROUP	Patents and licences	Software	Other intangible assets	Total
NET BOOK VALUE AS OF 1 JANUARY 2004	**16,021**	**347,102**	**1**	**363,124**
ACQUISITION COST				
As of 1 January 2004	325,752	7,256,760	6,720	7,589,232
Changes during the year:				
- acquisition	530,787	2,642,377	1,314,361	4,487,525
- disposals and retirements (-)	(7,060)	(287,236)	-	(294,296)
- reclassifications +/(-)	-	1,243,434	(1,243,434)	-
As of 31 December 2004	**849,479**	**10,855,335**	**77,647**	**11,782,461**
AMORTISATION				
As of 1 January 2004	309,731	6,909,658	6,719	7,226,108
Changes during the year:				
- charge for the year	26,521	924,191	-	950,712
- disposals and retirements (-)	(784)	(255,257)	-	(256,041)
As of 31 December 2004	**335,468**	**7,578,592**	**6,719**	**7,920,779**
NET BOOK VALUE AS OF 31 DECEMBER 2004	**514,011**	**3,276,743**	**70,928**	**3,861,682**

(Continued on the next page)

COMPANY	Patents and licences	Software	Other intangible assets	Total
NET BOOK VALUE AS OF 31 DECEMBER 2004	**487,128**	**3,246,117**	**70,928**	**3,804,173**
ACQUISITION COST				
As of 31 December 2004	809,301	10,812,635	77,647	11,699,583
Changes during the year:				
- acquisition	532,759	2,974,479	114,601	3,621,839
- reclassifications between the groups and from property, plant and equipment +/(-)	6,136	462,479	(185,528)	283,087
As of 31 December 2005	**1,348,196**	**14,249,593**	**6,720**	**15,604,509**
AMORTISATION				
As of 31 December 2004	322,173	7,566,518	6,719	7,895,410
Changes during the year:				
- charge for the year	168,014	1,573,087	-	1,741,101
As of 31 December 2005	**490,187**	**9,139,605**	**6,719**	**9,636,511**
NET BOOK VALUE AS OF 31 DECEMBER 2005	**858,009**	**5,109,988**	**1**	**5,967,998**

COMPANY	Patents and licences	Software	Other intangible assets	Total
NET BOOK VALUE AS OF 1 JANUARY 2004	**4**	**347,102**	**1**	**347,107**
ACQUISITION COST				
As of 1 January 2004	309,735	7,256,760	6,720	7,573,215
Changes during the year:				
- acquisition	506,626	2,599,677	1,314,361	4,420,664
- 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**	**77,647**	**11,699,583**
AMORTISATION				
As of 1 January 2004	309,731	6,909,658	6,719	7,226,108
Changes during the year:				
- charge for the year	13,226	912,117	-	925,343
- disposals and retirements (-)	(784)	(255,257)	-	(256,041)
As of 31 December 2004	**322,173**	**7,566,518**	**6,719**	**7,895,410**
NET BOOK VALUE AS OF 31 DECEMBER 2004	**487,128**	**3,246,117**	**70,928**	**3,804,173**

Intangible assets of the Company increased from LTL 3.8 million as of 31 December 2004 to LTL 5.9 million as of 31 December 2005 in the Company's balance sheet. Such significant increase is caused by the acquisitions of new intangible assets, mostly software.

The Company and the Group have no internally generated intangible assets. Acquired licences are amortised during their validity period. As of 31 December 2005 the Group had no significant purchase commitments for intangible assets acquisition.

4. PROPERTY, PLANT AND EQUIPMENT

Information on the movement of the Group´s property, plant and equipment is presented below:

GROUP	Land	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 2004	**38,631**	**2,160,843,226**	**226,855,759**	**11,278,501**	**70,402,621**	**109,384,859**	**17,291,509**	**2,596,095,106**
ACQUISITION (DEEMED) COST								
As of 31 December 2004	40,271	2,274,804,553	245,028,140	16,158,035	90,575,804	109,384,859	17,372,665	2,753,364,327
Changes during the year:								
- acquisition	-	1,042,565	2,213,022	4,339,676	10,267,069	94,958,798	21,980,236	134,801,366
- disposals and retirements (-)	(40,271)	(14,675,567)	(3,101,747)	(259,819)	(272,425)	(176,312)	(320,722)	(18,846,863)
- reclassifications between groups and to intangible assets +/(-)	-	100,984,145	36,223,670	-	11,294,515	(128,103,310)	(20,682,107)	(283,087)
As of 31 December 2005	**-**	**2,362,155,696**	**280,363,085**	**20,237,892**	**111,864,963**	**76,064,035**	**18,350,072**	**2,869,035,743**
DEPRECIATION								
As of 31 December 2004	-	113,949,914	18,172,261	4,879,534	20,173,183	-	81,076	157,255,968
Changes during the year:								
- charge for the year	-	114,085,477	20,944,424	3,949,091	16,780,427	-	99,610	155,859,029
- disposals and retirements (-)	-	(6,384,560)	(167,608)	(251,074)	(118,546)	-	268	(6,921,520)
- reclassifications +/(-)	-	(9,447)	(5,525)	-	14,972	-	-	-
As of 31 December 2005	**-**	**221,641,384**	**38,943,552**	**8,577,551**	**36,850,036**	**-**	**180,954**	**306,193,477**
IMPAIRMENT								
As of 31 December 2004 (due to foreign currency translation)	1,640	11,413	120	-	-	-	80	13,253
Changes during the year:								
- impact of change in foreign exchange (-)	-	-	-	-	-	-	(218)	(218)
- charge for the year	-	-	-	58,313	-	-	33,706	92,019
- disposals and retirements (-)	(1,640)	-	-	-	-	-	-	(1,640)
As of 31 December 2005	**-**	**11,413**	**120**	**58,313**	**-**	**-**	**33,568**	**103,414**
NET BOOK VALUE								
as of 31 December 2005	**-**	**2,140,502,899**	**241,419,413**	**11,602,028**	**75,014,927**	**76,064,035**	**18,135,550**	**2,562,738,852**
NET BOOK VALUE								
at the end of previous financial year (2003)	**40,271**	**664,941,009**	**88,483,515**	**11,969,893**	**54,475,266**	**161,769,493**	**24,586,042**	**1,006,265,489**
DEEMED COST								
As of 1 January 2004	40,271	2,128,947,249	212,255,639	13,197,719	74,118,967	163,063,321	27,696,663	2,619,319,829
Changes during the year:								
- acquisitions	-	2,287,187	2,335,597	2,998,253	4,049,672	106,035,312	20,869,860	138,575,881
- disposals and retirements (-)	-	(834,274)	(715,234)	(224,083)	(271,315)	(747,375)	(1,739,102)	(4,531,383)
- reclassifications +/(-)	-	144,404,391	31,152,138	186,146	12,678,480	(158,966,399)	(29,454,756)	-
As of 31 December 2004	**40,271**	**2,274,804,553**	**245,028,140**	**16,158,035**	**90,575,804**	**109,384,859**	**17,372,665**	**2,753,364,327**

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DEPRECIATION								
As of 1 January 2004	-	-	-	-	-	-	-	-
Changes during the year:								
- charge for the year	-	114,522,686	18,453,856	4,970,966	20,243,677	-	94,164	158,285,349
- disposals and retirements (-)	-	(572,772)	(281,595)	(91,432)	(70,494)	-	(13,088)	(1,029,381)
- reclassifications +/(-)	-	-	-	-	-	-	-	-
As of 31 December 2004	-	113,949,914	18,172,261	4,879,534	20,173,183	-	81,076	157,255,968
IMPAIRMENT								
As of 1 January 2004	-	-	-	-	-	-	-	-
Changes during the year:								
- charge for the year								
(impact of foreign currency								
translation)	1,640	11,413	120	-	-	-	80	13,253
As of 31 December 2004	**1,640**	**11,413**	**120**	**-**	**-**	**-**	**80**	**13,253**
NET BOOK VALUE								
as of 31 December 2004	**38,631**	**2,160,843,226**	**226,855,759**	**11,278,501**	**70,402,621**	**109,384,859**	**17,291,509**	**2,596,095,106**

Information on the movement of the Company's property, plant and equipment presented below:

COMPANY	**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 2004	**2,143,227,867**	**219,704,225**	**10,081,345**	**70,244,356**	**109,971,533**	**16,569,087**	**2,569,798,413**
ACQUISITION (DEEMED) COST							
As of 31 December 2004	2,256,763,312	237,169,667	14,738,626	90,379,780	109,971,533	16,607,883	2,725,630,801
Changes during the year:							
- acquisitions	150,000	1,413,676	3,687,208	10,194,639	95,407,396	21,980,236	132,833,155
- disposals and retirements (-)	(14,435,728)	(3,065,309)	(154,242)	(272,425)	(176,312)	(315,104)	(18,419,120)
- reclassifications between groups							
and to intangible assets +/(-)	101,367,649	36,221,645	-	11,294,515	(128,484,789)	(20,682,107)	(283,087)
As of 31 December 2005	**2,343,845,233**	**271,739,679**	**18,271,592**	**111,596,509**	**76,717,828**	**17,590,908**	**2,839,761,749**
DEPRECIATION							
As of 31 December 2004	113,535,445	17,465,442	4,657,281	20,135,424	-	38,796	155,832,388
Changes during the year:				-			
- charge for the year	113,674,952	19,915,558	3,628,494	16,718,388	-	38,410	153,975,802
- disposals and retirements (-)	(6,384,560)	(133,935)	(147,774)	(118,546)	-	268	(6,784,547)
- reclassifications +/(-)	(9,447)	(5,525)	-	14,972	-	-	-
As of 31 December 2004	**220,816,390**	**37,241,540**	**8,138,001**	**36,750,238**	**-**	**77,474**	**303,023,643**
IMPAIRMENT							
As of 31 December 2004	-	-	-	-	-	-	-
Changes during the year:							
- charge for the year	-	-	58,313	-	-	33,706	92,019
As of 31 December 2005	**-**	**-**	**58,313**	**-**	**-**	**33,706**	**92,019**
NET BOOK VALUE							
as of 31 December 2005	**2,123,028,843**	**234,498,139**	**10,075,278**	**74,846,271**	**76,717,828**	**17,479,728**	**2,536,646,087**

(Continued on the next page)

NET BOOK VALUE							
at the end of previous financial year (2003)	**654,335,650**	**76,126,953**	**10,314,118**	**54,475,266**	**161,769,493**	**23,967,734**	**980,989,214**
DEEMED COST							
As of 1 January 2004	2,112,019,344	204,830,467	12,173,576	74,118,967	163,063,321	25,909,495	2,592,115,170
Changes during the year:							
- acquisitions	1,154,807	1,338,600	2,575,642	3,853,648	106,621,986	20,766,520	136,311,203
- disposals and retirements (-)	(815,230)	(154,087)	(196,738)	(271,315)	(747,375)	(610,827)	(2,795,572)
- reclassifications +/(-)	144,404,391	31,154,687	186,146	12,678,480	(158,966,399)	(29,457,305)	-
As of 31 December 2004	**2,256,763,312**	**237,169,667**	**14,738,626**	**90,379,780**	**109,971,533**	**16,607,883**	**2,725,630,801**
DEPRECIATION							
As of 1 January 2004	-	-	-	-	-	-	-
Changes during the year:							
- charge for the year	114,106,535	17,497,275	4,721,375	20,205,918	-	38,796	156,569,899
- disposals and retirements (-)	(571,090)	(31,833)	(64,094)	(70,494)	-	-	(737,511)
- reclassifications +/(-)	-	-	-	-	-	-	-
As of 31 December 2004	**113,535,445**	**17,465,442**	**4,657,281**	**20,135,424**	**-**	**38,796**	**155,832,388**
IMPAIRMENT							
As of 1 January 2004	-	-	-	-	-	-	-
Changes during the year:							
- charge for the year	-	-	-	-	-	-	-
As of 31 December 2004	**-**	**-**	**-**	**-**	**-**	**-**	**-**
NET BOOK VALUE							
as of 31 December 2004	**2,143,227,867**	**219,704,225**	**10,081,345**	**70,244,356**	**109,971,533**	**16,569,087**	**2,569,798,413**

In 2005 the Company finished the following investment projects: reconstruction of Plungė transformer station (TS) – LTL 10,862 thousand, reconstruction of administrative building's facade (Juozapavičiaus Str. 13, Vilnius) – LTL 7,529 thousand, construction of Auštrakiai substation – LTL 6,565 thousand, reconstruction of Žvėrynas TS – LTL 6,455 thousand, reconstruction of Vievis TS – LTL 6,165 thousand.

As described in Note 2, while preparing these financial statements in accordance to IFRS for the first time, according to IFRS 1 "First - time Adoption of International Financial Reporting Standards" requirements, the Company equated the acquisition cost of non-current assets to deemed acquisition cost. The fair values stated by independent property valuers were equated to deemed cost. The valuation of property, plant and equipment performed in the Group was based mostly on the depreciated replacement cost as of 1 January 2004.

The exception in the Group is UAB Energetikos Pajėgos, its property, plant and equipment during the establishment was estimated at fair value, and this value is equated to acquisition cost in the mentioned company. Due to this, there was no necessity to perform additional assets valuation in this company.

The Group has property, plant and equipment, acquired under financial lease agreements. Net book value of such assets as of 31 December 2005 amounted to LTL 1,216,279, of which LTL 1,057,234 was accounted for in machinery and equipment, LTL 159,045 – in vehicles. Net book value of such assets as of 31 December 2004 amounted to LTL 1,082,910 and was accounted for under machinery and equipment caption in the Group's balance sheet.

The Group has significant contractual obligations for property, plant and equipment acquisition according to the agreements signed in 2005. The Company started to perform the modernization investment project of Kaunas HPP amounting to LTL 45,262,485 and EUR 23,109,294 (LTL 125,054,255 in total). LTL 30 million from this amount will be financed from the National Budget of the European Union Structural Funds and from other monetary funds of the State. The main contractor of the project is Alstom Power. The project is expected to be finished in January 2008.

Except for this project the Company intends to perform and other planned investment projects, for which agreements were signed in 2005, and which will finish in 2006. The major ones are as follows: ETL Klaipėda-Taika I-II change to cable lines (contractor - UAB Elmonta, the value of the project – LTL 7,054 thousand); ETL Alytus-Gardinas reconstruction (contractor UAB Elektros Tinklų Statyba, the value of the project – LTL 3,950 thousand); Vilkaviškis TS reconstruction (contractor – UAB Kauno Energetikos Remontas, the value of the project – LTL 2,942 thousand); Amaliai TS reconstruction (contractor UAB Elektros Tinklų Statyba, the value of the project – LTL 1,940 thousand).

5. INVESTMENTS

As of 31 December 2005, the Company had direct control over two subsidiaries: UAB Energetikos Pajėgos – acquisition value of LTL 413,798, and UAB Kauno Energetikos Remontas – acquisition value of LTL 31,340,763. The Company owns 100% of shares of these companies. The Company owns the remaining three subsidiaries (Note 1) indirectly, i.e. through UAB Kauno Energetikos Remontas.

In the separate Company's financial statements the investments into subsidiaries are recognized at acquisition cost, because there were no indications that the value of investments was impaired.

Apart the above mentioned subsidiaries, the Company had the following associates: AS Nordic Energy Link – acquisition value of LTL 18,977,620 (25% of shares); BO SIA Baltijas Energosistemu Dispečeru Centrs (DC Baltija) – acquisition value of LTL 2,739,754 (33.33% of shares); UAB Geoterma acquisition value of LTL 4,372,792 (23.44% of shares).

As it was mentioned in the accounting policies section above, in the consolidated financial statements the investments into associated companies are accounted at equity method. In the separate financial statements of the Company the investments into associated companies are accounted at cost less impairment loss. Because all associated companies are not listed and their market value can not be evaluated reliably, the impairment losses are equated to the net losses of the associated companies attributable to the Company. Following the above described policies, the value of investment into AS Nordic Energy Link decreased by LTL 107,559 to LTL 18,870,061 thousand in the financial statements for the year ended 31 December 2005 (Note 1). Impairment of investment in UAB Geoterma was also accounted for due to accumulated operating losses and this investment in the financial statements for the year ended 31 December 2005 was accounted for in the amount of LTL 3,592,136 thousand. Due to the same reason the value of investment in DC Baltija decreased to LTL 1,655,116.

Associated companies' financial position as of 31 December 2005 and operating results for 2005 is as follows:

Company	Assets	Liabilities	Sales income	Net profit (loss)
BO SIA Baltijas Energosistemu Dispečeru Centrs (DC Baltija)	5,498,568	414,433	5,111,975	(183,326)
UAB Geoterma	62,957,534	17,788,485	10,798,469	(2,475,906)
AS Nordic Energy Link	79,017,328	3,535,667	-	(431,600)

Associated companies' financial position as of 31 December 2004 and operating results for 2004 is as follows:

Company	Assets	Liabilities	Sales income	Net profit (loss)
BO SIA Baltijas Energosistemu Dispečeru Centrs (DC Baltija)	5,888,282	628,851	4,923,822	(860,483)
UAB Geoterma	65,435,299	16,072,196	10,379,937	(803,401)

In 2005 Lietuvos Energija AB decided to dispose 10 kV transmission equipment to AB VST (330 kV transformer substation, 10 kV transmission equipment in various transmission nets). Property, plant and equipment was disposed of in accordance with the set responsibilities. An amount of LTL 7,778,700 receivable in 2007 and later was accounted for in non-current receivables. The amount will be repaid in 9 years by equal parts, starting from 2007. From 2007 to 2010 the repaid amount according to this agreement will be LTL 3,457,200. The annual interest rate of this receivable is 6 months VILIBOR plus 0.7% (i.e. 3.3% in 2005).

6. INVENTORIES

Information about the Group's and the Company's inventories as of 31 December 2005 and 2004 is presented bellow:

	Group as of 31 December 2005	Company as of 31 December 2005	Group as of 31 December 2004	Company as of 31 December 2004
Materials and spare parts, production in progress and finished goods at acquisition (production) cost	13,997,222	5,877,759	12,495,241	6,719,526
Goods for resale at acquisition cost	244,845	190,982	403,423	247,122
Less: write-down to net realizable value	(192,206)	(188,993)	(541,687)	(285,084)
Net book value	**14,049,861**	**5,879,748**	**12,356,977**	**6,681,564**

While preparing the financial statements, the Group estimated net realisable value allowance for inventories.

The acquisition cost of the Group's and the Company's inventories, accounted for at net realisable value as of 31 December 2005, amounted to LTL 192,206 and LTL 188,993 (LTL 541,687 and LTL 285,084 as of 31 December 2004).

7. TRADE RECEIVABLES

	Group as of 31 December 2005	Company as of 31 December 2005	Group as of 31 December 2004	Company as of 31 December 2004
Trade receivables, gross:				
Receivables from domestic companies	17,514,444	11,949,088	10,763,704	6,901,519
Receivables for exported electricity	25,163,692	25,163,692	63,074,893	63,074,893
Receivables from parties of electricity market	71,878,631	71,878,631	68,279,699	68,279,699
Receivables for electricity transit	2,445,121	2,445,121	2,026,846	2,026,846
Less: allowance for doubtful trade receivables	(7,567,731)	(7,557,102)	(2,031,843)	(1,959,914)
Net book value	109,434,157	103,879,430	142,113,299	138,323,043

8. CASH AND CASH EQUIVALENTS

	Group as of 31 December 2005	Company as of 31 December 2005	Group as of 31 December 2004	Company as of 31 December 2004
Cash at bank and on hand	4,237,436	2,948,778	3,227,363	91,003
Term deposits	1,500,000	-	-	-
Net book value	**5,737,436**	**2,948,778**	**3,227,363**	**91,003**

The Group´s term deposits as of 31 December 2005 comprise UAB Kauno Energetikos Remontas term deposits in LTL at AB Bankas Snoras, with 3.2% annual interest rate. The maturity terms of the term deposits are 2-4 February 2006.

9. SHARE CAPITAL

As of 31 December 2005, the share capital of the Company was LTL 689,515,435 and it was divided into 689,515,435 ordinary registered shares with the par value of one litas each. All the shares were fully paid. During 2005 the highest share price at the Stock Exchange session in 2005 was LTL 3.31 per share, the lowest – LTL 1.94 per share. The number of shareholders as of 31 December 2005 was 4,979.

10. RESERVES

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. In the end of 2005 two Group's companies, Lietuvos Energija AB and UAB Energetikos Pajėgos had fully formed legal reserve, which accounted for 10% of the share capital and amounted to LTL 68,951,544 and LTL 43,040 respectively.

Other reserves of the Group and the Company are comprise of the following:

Group	Reserve for reducing the share capital due to the transfer of heavy fuel storage reservoirs	Reserve for investments	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	Total other reserves
BALANCE AS OF 1 JANUARY 2004	**(63,776,585)**	**49,284,142**	**29,827**	**2,018,000**	**(12,444,616)**
Transfers to reserve	-	48,269,212	-	2,750,000	51,019,212
Transfers from reserves	-	-	(3,055)	(2,018,000)	(2,021,055)
BALANCE AS OF 31 DECEMBER 2004	**(63,776,585)**	**97,553,354**	**26,772**	**2,750,000**	**36,553,541**
Transfers to reserve	-	65,190,011	-	3,750,000	68,940,011
Transfers from reserves	-	-	(3,018)	(2,987,900)	(2,990,918)
BALANCE AS OF 31 DECEMBER 2005	**(63,776,585)**	**162,743,365**	**23,754**	**3,512,100**	**102,502,634**

COMPANY	Reserve for reducing the share capital due to the transfer of heavy fuel storage reservoirs	Reserve for investments	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	Total other reserves
BALANCE AS OF 1 JANUARY 2004	**(63,776,585)**	**47,458,065**	**29,827**	**2,018,000**	**(14,270,693)**
Transfers to reserve	-	48,175,868	-	2,750,000	50,925,868
Transfers from reserves	-	-	(3,055)	(2,018,000)	(2,021,055)
BALANCE AS OF 31 DECEMBER 2004	**(63,776,585)**	**95,633,933**	**26,772**	**2,750,000**	**34,634,120**
Transfers to reserve	-	65,003,179	-	3,500,000	68,503,179
Transfers from reserves	-	-	(3,018)	(2,750,000)	(2,753,018)
BALANCE AS OF 31 DECEMBER 2005	**(63,776,585)**	**160,637,112**	**23,754**	**3,500,000**	**100,384,281**

The reserve for reducing the share capital due to the transfer of heavy fuel storage reservoirs is the 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).

11. BORROWINGS

GROUP	Outstanding loans or their parts		
Break-down of amounts payable by types	Within one year	From two to five years	After five years
Financial borrowings:			
From credit institutions	48,974,546	80,329,167	21,308,242
Other financial borrowings, financial lease	555,102	106,708	-
TOTAL	**49,529,648**	**80,435,875**	**21,308,242**

The Group's and the Company's non-current loans to credit institutions, financial lease and other financial liabilities as of 31 December 2005 (original currency of all borrowings is EUR):

Credit institution	Contractual amount of loan in EUR	Amount of used but not repaid loan in EUR as of 31 December 2005	Fixed interest rate	Variable interest rate	Maturity term	Current portion in LTL	Amount of used but not repaid loan in LTL as of 31 December 2005, including current portion	Amount of used but not repaid loan in LTL as of 31 December 2004, including current portion
Zurcher Kantonalbank (Company's)	8,012,768	4,685,175		3-month EUR LIBOR + 0.45%	2013	2,022,122	16,176,973	21,753,576
AB SEB Vilniaus bankas (Company's)	15,000,000	3,698,700		6-month EUR LIBOR + 0.5%	2009	-	12,770,872	23,336,464
Bayerishe Hypo- und Wereinsbank AG Vilnius branch (Company's)	15,000,000	4,000,000 4,000,000 2,000,000 5,000,000	3.980% 4.770% 3.900%		2012	6,905,600	13,811,200 13,811,200 6,905,600 17,264,000	13,811,200 13,811,200 6,905,600
Nordea Bank Finland Plc Lithuanian Branch (Company's)	15,000,000	8,875,000		3-month EUR LIBOR + 0.5%	2007	12,084,800	30,643,600	42,728,400
AB Bankas Hansabankas (Company's)	11,584,800	3,263,000		3-month EUR LIBOR + 0.55%	2009	-	11,266,486	-
1 year bonds (Company's)	7,500,000	7,500,000	2.600%		2006	25,896,000	25,896,000	-
SEB VB Lizingas	407,002	106,873		12-month EUR LIBOR +1.203 %	2006	369,010	369,010	735,607
SEB VB Lizingas	88,399	58,890		12-month EUR LIBOR +1.2 %	2008	96,626	203,334	-
Total non-current loans						**47,374,158**	**149,118,275**	**123,082,047**

The Group's and Company's current borrowings to financial institutions, financial derivatives and other financial liabilities as of 31 December 2005 were as follows:

Credit institution	Contractual amount of loan in foreign currency	Currency	Amount of used but not repaid loan in original currency as of 31 December 2005	Amount of used but not repaid loan in LTL as of 31 December 2005	Amount of used but not repaid loan in LTL as of 31 December 2004
Bayerishe Hypo-und Wereinsbank AG Vilnius branch	5,000,000	EUR	-	-	17,264,000
AB Bankas Hansabankas (overdraft)	3,185,000	EUR	206,975	714,642	246,879
AB Bankas Hansabankas (overdraft)	9,000,000	LTL	1,351,383	1,351,383	1,294,572
AB SEB Vilniaus bankas (overdraft)	10,358,400	LTL	-	-	3,445,442
Nordea Bank Finland Plc Lithuania branch (financial derrivatives at fair value) (Note 19)	-	EUR	25,911	89,465	393,136
Total non-current financial liabilities:				2,155,490	22,644,029

The Group's companies do not have any loans secured by the State guarantee or their own assets. The Company has certain covenants and obligations to financial institutions which granted financing. According to the agreement with Zurcher Kantonal bank as of 24 January 2003 (contractual amount of EUR 8,012,768), the Company obligated not to pledge any assets or income to other parties, except for the pledge of assets in respect to liabilities, named in the agreement (negative pledge).

According to the agreement with AB Bankas Hansabankas as of 17 May 2002 (contractual amounts of LTL 9,000,000, EUR 3,185,000, EUR 11,584,800) the Company obligated to carry monthly turnover of over LTL 15 million through the Company's accounts at this bank, not to close accounts without prior notice, not to establish joint ventures, not to take liabilities exceeding LTL 10 million. Without written approval not to: dispose non-current assets (exceeding LTL 10 million), rent part of business, pledge current and future funds in bank, take decisions related to reorganization.

According to the agreement with AB SEB Vilniaus bankas as of 28 August 2002 (contractual amounts of EUR 15,000,000 and LTL 10,358,400) the Company obligated to carry monthly turnover of over LTL 15 million through the Company's accounts at this bank, to comply with credit repayment ratio of above 1.1 and liabilities to assets ratio of less than 40%. Without prior bank approval: not to take decisions on reorganization and closing the accounts, not to transfer rights and obligations under this agreement to third parties, the subsidiaries not to borrow from other credit institutions (over LTL 1 million), not to secure present and future liabilities under credit agreements by pledging assets or guarantees of third parties.

According to the agreement with Nordea Bank Finland Plc Lithuania branch as of 3 December 2002 (contractual amounts of EUR 15,000,000) the Company obligated to carry monthly turnover of over LTL 10 million through Company's accounts at this bank, to comply with loan service ratio of above 1.05, financial liabilities and EBITDA ratio of less than 5. Without written agreement: not to pledge assets for liabilities under other loan agreements, not to rent and dispose assets (exceeding LTL 60 million), not to grant loans and guarantees (over LTL 20 million), not to reorganize the Company.

According to the agreement with Bayerishe Hypo-und Wereinsbank AG Vilnius branch as of 22 May 2002 (contractual amounts of EUR 15,000,000) the Company obligated to carry monthly turnover of over LTL 10 million through the Company's accounts at this bank. Without written advanced agreement not to guarantee the obligations to its future creditors or not to expand guarantee implements to present creditors. When there are substantial contravention of the agreement, the Company is obliged without written agreement not to announce and pay dividends, not to perform the distribution of share capital, not to purchase shares.

In 2005 and 2004 the Group and the Company complied with all the covenants of the loans agreements.

Weighted average interest rate for the used and outstanding loans was 3.12% in 2005 (3.2% in 2004).

In 2005 according to guarantee agreements the Company guaranteed 25% of AS Nordic Energy Link liabilities to Nordic Investment Bank (LTL 50,325 thousand) and to AB SEB Esti Uhispank (LTL 29,435 thousand). The guarantees ends after the full repayment of the debts by associate to respective banks, i.e. 15 December 2014 and 15 June 2014 respectively.

12. PROVISIONS

Provisions balance includes provision related to Kruonis HPPP obligations related to the liquidation of the construction base of Kruonis HPPP and recultivation work amounting to LTL 2,209,194. The decrease in the provision from LTL 3,606,040 as of 31 December 2004 to LTL 2,209,194 as of 31 December 2005 includes LTL 1,153 thousand decrease in provision for demolition of temporary buildings and LTL 244 thousand compensations paid to residents due to demolition of buildings. The remaining amount of provisions is expected to be used from 2006 to 2007.

13. INCOME TAX

	Group Financial year ended 31 December 2005	Company Financial year ended 31 December 2005	Group Financial year ended 31 December 2004	Company Financial year ended 31 December 2004
Components of the income tax expense (income)				
Current income tax for the reporting year	16,620,523	16,366,057	14,806,811	14,504,389
Deferred income tax (income)	(9,768,708)	(9,697,685)	(30,327,781)	(30,272,017)
Income tax expenses (income) recorded in income statement	**6,851,815**	**6,668,372**	**(15,520,970)**	**(15,767,628)**

	Group as of 31 December 2005	Company as of 31 December 2005	Group as of 31 December 2004	Company as of 31 December 2004
DEFERRED INCOME TAX ASSET				
Accruals (vacation pay accrual)	337,229	337,229	272,084	272,084
Provision for Kruonis HPPP recultivation project	408,705	408,705	540,906	540,906
Allowance for bad debts	13,495,504	13,495,504	14,277,376	14,277,376
Non-current assets at deemed cost (value decrease)	207,687,908	207,687,908	211,915,874	211,915,874
Other (derivative financial instruments)	13,420	13,420	58,970	58,970
Deferred income tax asset, net	221,942,766	221,942,766	227,065,210	227,065,210
DEFERRED INCOME TAX LIABILITY				
Applying the investment exemption for tax purpose	(30,852,085)	(30,551,588)	(32,585,325)	(32,256,661)
Non-current assets at deemed cost (value increase)	(426,684,498)	(426,520,004)	(439,871,264)	(439,663,914)
Other (derivative financial instruments)	(28,854)	(28,854)	-	-
Deferred income tax liability	(457,565,437)	(457,100,446)	(472,456,589)	(471,920,575)
Deferred income tax, net	**(235,622,671)**	**(235,157,680)**	**(245,391,379)**	**(244,855,365)**

Deferred tax asset and liability was accounted using 15% rate, except for deferred tax assets and liabilities, which will be realized in 2006 and 2007. According to the Provisional Social Tax Law, the Company will have to pay an additional 4% social tax in 2006 and 3% in 2007, calculated from taxable profit, therefore, while calculating deferred tax asset and liabilities for 2006 and 2007, the increase in deferred tax liability was evaluated.

The changes of temporary differences in the Group were as follows:

	Balance as of 31 December 2004	Recognised in the income statement	Balance as of 31 December 2005
Accruals (vacation pay accrual)	1,813,893	296,115	2,110,008
Provisions for Kruonis HPPP recultivation project	3,606,040	(1,396,846)	2,209,194
Allowance for bad debts	95,182,500	(17,323,823)	77,858,677
Non-current assets at deemed cost (value decrease)	1,412,772,493	(52,849,573)	1,359,922,920
Other (derivative financial instruments)	393,136	(303,671)	89,465
Applying the investment exemption for tax purposes	(217,235,499)	20,791,771	(196,443,728)
Non-current assets at deemed cost (value increase)	(2,932,475,093)	153,288,591	(2,779,186,502)
Other (derivative financial instruments)	-	(192,360)	(192,360)
Total temporary differences	(1,635,942,530)	102,310,204	(1,533,632,326)
Deferred income tax at 15% rate, net	**(245,391,379)**	**15,346,530**	**(230,044,849)**
Deferred tax due to social tax effect	-	(5,577,822)	(5,577,822)
Total deferred income tax, net	**(245,391,379)**	**9,768,708**	**(235,622,671)**

The changes of temporary differences in the Company were as follows:

	Balance as of 31 December 2004	Recognised in the income statement	Balance as of 31 December 2005
Accruals (vacation pay accrual)	1,813,893	296,115	2,110,008
Provisions for Kruonis HPPP recultivation project	3,606,040	(1,396,846)	2,209,194
Allowance for bad debts	95,182,500	(17,323,823)	77,858,677
Non-current assets at deemed cost (value decrease)	1,412,772,493	(52,849,573)	1,359,922,920
Other (derivative financial instruments)	393,136	(303,671)	89,465
Applying the investment exemption for tax purposes	(215,044,406)	20,603,991	(194,440,415)
Non-current assets at deemed cost (value increase)	(2,931,092,760)	153,002,885	(2,778,089,875)
Other (derivative financial instruments)	-	(192,360)	(192,360)
Total temporary differences	(1,632,369,104)	101,836,718	(1,530,532,386)
Deferred income tax at 15% rate, net	**(244,855,365)**	**15,275,507**	**(229,579,858)**
Deferred tax due to social tax effect	-	(5,577,822)	(5,577,822)
Total deferred income tax, net	**(244,855,365)**	**9,697,685**	**(235,157,680)**

The reconciliation of the profit before tax and income tax expenses is as follows:

	Group Financial year ended as of 31 December 2005	Company Financial year ended as of 31 December 2005	Group Financial year ended as of 31 December 2004	Company Financial year ended as of 31 December 2004
Profit before income tax	**16,831,632**	**16,800,785**	**16,041,839**	**16,106,125**
Theoretical tax calculated at the tax rate of 15%	2,524,745	2,520,118	2,406,276	2,415,918
Effect of change in income tax rate	5,577,822	5,577,822	-	-
Differences due to tax rules	(1,250,752)	(1,429,568)	(17,927,246)	(18,183,546)
	6,851,815	**6,668,372**	**(15,520,970)**	**(15,767,628)**

Due to changes in legislation, in 2004 the Company recognised written-off debt from Byelorussia as temporary difference as it was allowed to account for those expenses as tax deductible in equal parts through five years period, therefore, income tax expenses in 2004 decreased by LTL 14,277,375.

14. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group has separated business segments (activities) in order to determine the risks and profitability of individual segments.

2005	Business segments					
	Transmission system operation	Energy trade	Generation	Export activity	Design and maintenance services	Total
Income	**327,138,338**	**428,906,136**	**53,798,994**	**259,298,600**	**49,251,609**	**1,118,393,677**
Incl. internal turnover between operators	3,806,234	14,346,585	53,798,994	67,157,313	-	139,109,126
Income after eliminatinginternal turnover between Company's segments	323,332,104	414,559,551	-	192,141,287	49,251,609	979,284,551
Incl. internal turnover between Group companies	-	-	-	-	7,400,768	7,400,768
Income after eliminating internal turnover between Group companies	**323,332,104**	**414,559,551**	**-**	**192,141,287**	**41,850,841**	**971,883,783**
Expenses	**337,958,033**	**437,178,398**	**56,584,298**	**215,809,144**	**48,140,192**	**1,095,670,065**
Incl. internal turnover between Company's segments	31,446,187	72,341,624	20,168,764	15,171,156	-	139,127,731
Expenses after eliminating internal turnover between Company's segments	306,511,846	364,836,774	36,415,534	200,637,988	956,542,334	48,140,192
Incl. internal turnover between Group companies	3,434,685	-	-	-	3,337,842	6,772,527
Expenses after eliminating internal turnover between Group companies	**303,077,161**	**364,836,774**	**36,415,534**	**200,637,988**	**44,802,350**	**949,769,807**
BREAK-DOWN OF SIGNIFICANT ITEMS OF EXPENSES:						
Electricity purchase, purchase of capacity reserve, transmission, regulation, balancing expenses	115,711,677	431,046,879	20,168,764	214,827,116	-	781,754,436
Repair and maintenance expenses	35,488,461	52,977	5,284,804	45,621	1,759,783	42,631,646
Depreciation and amortisation	132,443,248	506,901	15,564,012	16,760	1,912,470	150,443,391
Wages, salaries, social insurance and accrued vacation pay	32,523,252	394,036	7,833,616	350,952	16,097,947	57,199,803
Taxes other than income tax	4,235,856	802,901	6,240,227	494,909	282,511	12,056,404
Communications and IT expenses	4,335,565	742,774	96,245	8,598	278,686	5,461,868
Utilities	1,126,996	2,185	88,383	2,185	38,232	1,257,981
Subcontractors	-	-	-	-	12,975,948	12,975,948
Production materials expenses	-	-	-	-	10,821,402	10,821,402
Research and development	1,255,170	289,642	159,289	250	-	1,704,351
Other	10,837,808	3,340,103	1,148,958	62,753	3,973,213	19,362,835
PROFIT (LOSS) FROM ORDINARY ACTIVITIES						
(before eliminating internal turnover)	**(10,819,695)**	**(8,272,262)**	**(2,785,304)**	**43,489,456**	**1,111,417**	**22,723,612**
Elimination of internal turnover						(609,636)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES						
(after eliminating internal turnover)						**22,113,976**
Segment's assets	**2,143,345,229**	**38,721,243**	**444,316,302**	**25,163,692**	**32,131,570**	**2,683,678,036**
Segment's liabilities	**-**	**44,678,680**	**-**	**29,259,821**	**9,050,860**	**82,989,361**
Segment's assets acquisition costs	**126,349,885**	**-**	**6,483,270**	**-**	**2,035,667**	**134,868,822**

2004	Business segments					
	Transmission system operation	Energy trade	Generation	Export activity	Design and maintenance services	Total
Income	**308,070,018**	**359,076,413**	**64,758,892**	**322,495,239**	**53,839,860**	**1,108,240,422**
Incl. internal turnover between Company's segments	6,486,323	25,269,507	64,758,892	23,698,418	-	120,213,140
Income after eliminating internal turnover between Company's segments	301,583,695	333,806,906	-	298,796,821	53,839,860	988,027,282
Incl. internal turnover between Group companies	-	-	-	-	24,080,874	24,080,874
Income after eliminating internal turnover between Group companies	**301,583,695**	**333,806,906**	**-**	**298,796,821**	**29,758,986**	**963,946,408**
Expenses	345,013,624	359,173,669	66,481,529	261,483,873	52,903,035	1,085,055,730
Incl. internal turnover between operators	39,728,203	25,963,824	29,309,378	25,221,660	-	120,223,065
Expenses after eliminating internal turnover between Company's segments	305,285,421	333,209,845	37,172,151	236,262,213	964,832,665	52,903,035
Incl. internal turnover between Group companies	1,770,450	-	-	-	21,763,137	23,533,587
Expenses after eliminating internal turnover between Group companies	**303,514,971**	333,209,845	37,172,151	236,262,213	31,139,898	941,299,078
BREAK-DOWN OF SIGNIFICANT ITEMS OF EXPENSES:						
Electricity purchase, purchase of capacity reserve, transmission, regulation, balancing expenses	133,940,708	356,393,848	29,309,378	259,649,169	-	779,293,103
Repair and maintenance expenses	29,539,739	33,679	5,076,199	32,948	1,723,838	36,406,403
Depreciation and amortisation	134,212,815	384,623	15,412,440	19,353	1,732,638	151,761,869
Wages, salaries, social insurance and accrued vacation pay	29,122,162	368,962	6,643,191	286,901	16,185,878	52,607,094
Taxes other than income tax	4,837,903	1,617,236	6,650,524	1,449,416	460,427	15,015,506
Communications and IT expenses	4,671,511	48,902	95,765	16,903	234,623	5,067,704
Utilities	1,051,421	1,452	76,154	1,452	34,716	1,165,195
Subcontractors	-	-	-	-	18,897,420	18,897,420
Production materials expenses	-	-	-	-	9,771,944	9,771,944
Research	1,118,528	178,518	185,811	-	20,415	1,503,272
Other	6,518,837	146,449	3,032,067	27,731	3,841,136	13,566,220
PROFIT (LOSS) FROM ORDINARY ACTIVITIES (before eliminating internal turnover)	**(36,943,606)**	**(97,256)**	**(1,722,637)**	**61,011,366**	**936,825**	**23,184,692**
Elimination of internal turnover						(537,362)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES (after eliminating internal turnover)						**22,647,330**
Segment's assets	**2,167,576,785**	**41,997,407**	**453,689,883**	**63,074,893**	**30,352,726**	**2,756,691,694**
Segment's liabilities	**-**	**43,648,343**	**-**	**82,625,196**	**4,888,456**	**131,161,995**
Segment's assets acquisition costs	**129,053,296**	**-**	**7,257,907**	**-**	**2,331,539**	**138,642,742**

The total amount of assets, liabilities and assets acquisition costs in the tables above differ from the total Group's assets, liabilities and assets acquisition costs as of 31 December 2005 and 2004 and for the years then ended due to the fact that part of assets and liabilities cannot be allocated to one of the business segments.

The amount of amortisation and depreciation expenses presented in the table above is lower comparing with the amounts presented in the movements of intangible assets and property, plant and equipment due to the allocation of proportional part of those expenses to other activities.

Other activities of the Group for the year ended 31 December 2005 also include LTL 2,555,976 of remuneration expenses (LTL 2,361,157 for the year ended 31 December 2004).

Secondary reporting format is geographical segments. The Company exports electricity to Russia and the countries of the European Union. In 2005, it exported 4.1 billion kWH electricity and earned LTL 163 million on the exports (in 2004 – LTL 268 million) revenues. In addition to that, Group exported metal constructions and maintenance services.

Export country	Group Financial year ended as of 31 December 2005	Company Financial year ended as of 31 December 2005	Group Financial year ended as of 31 December 2004	Company Financial year ended as of 31 December 2004
Russia	111,437,834	110,421,963	228,965,823	228,276,437
Latvia	41,257,114	41,257,114	36,849,954	36,849,954
Estonia	11,959,105	11,430,887	3,540,477	2,778,869
Norway	1,095,233	-	476,341	-
Germany	792,682	-	1,328,420	-
Total:	**166,541,968**	**163,109,964**	**271,161,015**	**267,905,260**

Apart from direct exports, Lietuvos Energija AB sells peak energy intended for exports. In 2005, LTL 14.1 million was earned from the sales of peak energy. The Company has also been selling for export the electricity produced during holidays and weekends. In 2005, the income from such sales amounted to LTL 14.9 million.

Other Group's income is generated on the local market.

All Group's assets are located in Lithuania, therefore, all additions are also attributable to the Lithuanian geographical segment.

15. 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, currency fluctuations was reduced significantly in 2005. The loss from financing activities basically resulted from interest expenses.

The positive and negative effects of currency exchange are netted in the Group's income statement.

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

	Group Financial year ended 31 December 2005	Company Financial year ended 31 December 2005	Group Financial year ended 31 December 2004	Company Financial year ended 31 December 2004
INCOME FROM FINANCING AND INVESTING ACTIVITIES				
Received penalty interest	220,441	219,606	190,409	179,101
Received dividends	-	320,619	-	124,458
Foreign currency exchange gain	441,910	433,914	-	-
Derivative financial instruments income	192,360	192,360	-	-
Other	349,456	40,472	333,796	199,859
	1,204,167	**1,206,971**	**524,205**	**503,418**
EXPENSES OF FINANCING AND INVESTING ACTIVITIES				
Interest expenses	5,335,620	5,313,775	4,895,316	4,861,249
Derivative financial instruments expenses	139,467	139,467	705,988	705,988
Foreign currency exchange loss	-	-	124,825	66,968
Other	-	737,124	185,294	722,040
	5,475,087	**6,190,366**	**5,911,423**	**6,356,245**
RESULT OF FINANCING AND INVESTING ACTIVITIES	**(4,270,920)**	**(4,983,395)**	**(5,387,218)**	**(5,852,827)**

16. FINANCIAL RELATIONS WITH GROUP'S COMPANIES MANAGEMENT

ITEMS	Financial year ended 31 December 2005	Financial year ended 31 December 2004
Labour-related payments calculated for the management during the reporting period	1,836,829	1,578,243
Other significant amounts calculated for the management during the reporting period (bonuses to the Board members)	48,500	37,000
Average number of managers during the reporting period	25	25

In this table, the management of the Group's companies includes Board members, heads of administration and their deputies, and chief accountants.

17. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. Diluted earnings per share equal basic earnings per share, as there are no potential shares to be issued. The calculation of the Group's earnings per share is presented bellow:

	Financial year ended 31 December 2005	Financial year ended 31 December 2004
Net profit attributable to the Company's shareholders	9,979,712	31,562,788
Weighted average number of shares	689,515,435	689,515,435
Basic earnings per share	0.01	0.05

18. DIVIDENDS PER SHARE

Approved dividends per share:

	Financial year ended 31 December 2005	Financial year ended 31 December 2004
Approved dividends	12,088,796	33,950,580
Weighted average number of shares	689,515,435	689,515,435
Approved dividends per share	0.02	0.05

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit risk

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

The Group 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 Group'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 Group's companies follow 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 Group's companies, including the current portion of non-current loans.

As of 31 December 2005 the Company's net working capital was negative and amounted to LTL 87.8 millions. Current ratio of the Company was 0.59 and quick ratio 0.56, however, the management of the Company believes that this will not cause defaults on the Company's payments to its creditors as at the year-end the Company had unused credit funds amounting to approximately LTL 86 million.

Interest rate risk

According to the principles of financial risk management approved by the Group's companies, 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 Group 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 Group's companies have 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 an interest rate swap transaction at the end of 2003 with Nordea Bank Finland Plc. Lithuanian branch, which will be fully realised on 30 June 2007 (initial notional amount was EUR 15,000 thousand, decreased by EUR 875 thousand each quarter starting from 30 June 2004) (Note 11). In addition, at the end of 2005 the Company concluded an interest rate swap transaction with AB SEB Vilniaus Bankas, which will be fully realised on 15 March 2012 (notional amount is EUR 5,000 thousand). The fair value of this financial instrument as of 31 December 2005 amounted to LTL 192,360 and it was accounted under non-current accounts receivable and other financial assets caption in the balance sheet.

Foreign exchange risk

In order to manage the foreign exchange risk, the Group's companies conclude credit contracts only in euros and litas. The sales/purchase contracts are also denominated mostly in euros and litas.

The Group's companies have no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments to help controlling the foreign exchange risk in 2005.

Monetary assets and liabilities stated in various currencies as of 31 December 2005 were as follows (all amounts in the table are in LTL):

	Group		Company	
	Assets	Liabilities	Assets	Liabilities
LTL	108,280,757	426,256,909	100,359,830	418,840,146
EUR	27,547,221	156,239,762	26,759,646	154,851,118
USD	251,650	11,258	194,840	-
LVL	76,062	334,583	-	129,161
RUB	20,617	28,772	-	-
EEK	3	-	-	-
Total	**136,176,310**	**582,871,284**	**127,314,316**	**573,820,425**

Fair value of financial instruments

The Group'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 and other 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 and fixed interest rates approximates their carrying amounts.

20. RECONCILIATION OF THE FINANCIAL STATEMENTS PREPARED ACCORDING TO IFRS TO THE FINANCIAL STATEMENTS PREPARED ACCORDING TO BUSINESS ACCOUNTING STANDARDS (BAS)

Reconciliation of net profit and equity, presented in previous financial statements, prepared under BAS, with net profit and equity, presented in these financial statement is as follows:

Reconciliation of the Company's equity after first time adoption of IFRS principles (1 January 2004):

Equity	
1 JANUARY 2004 ACCORDING TO BAS	793,598,988
Accounting of property, plant and equipment at deemed cost (Note 4)	1,611,125,956
Accounting of deferred tax liability, due to assets accounting at deemed cost (Note 4)	(241,668,895)
1 JANUARY 2004 ACCORDING TO IFRS PRINCIPLES	2,163,056,049

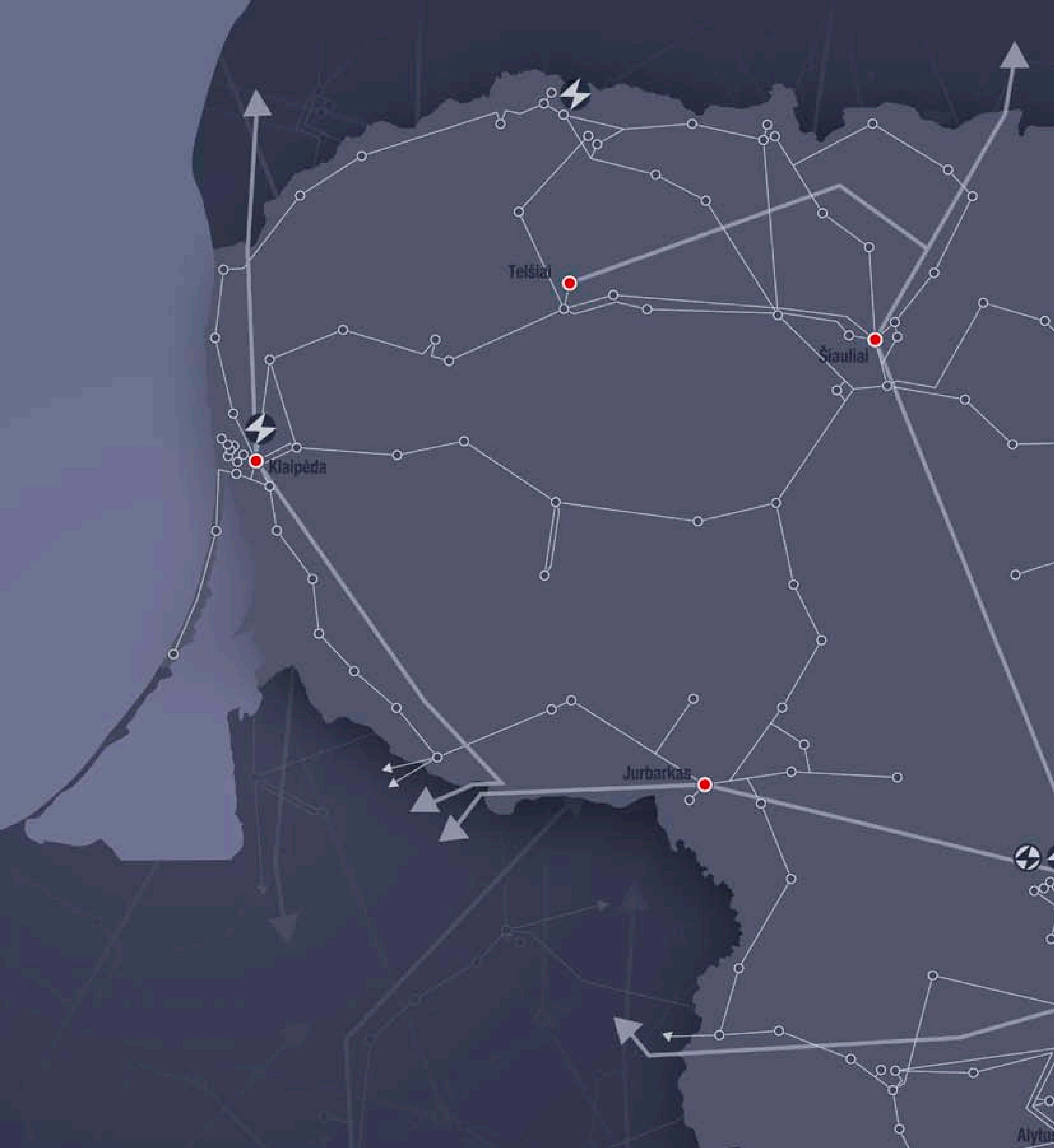
Reconciliation of the Company's net profit and equity while preparing financial statements under BAS for the last time (31 December 2004):

	Net profit	Equity
31 DECEMBER 2004 ACCORDING TO BAS	111,297,411	870,945,818
Accounting of property, plant and equipment at deemed cost (Note 4)	-	1,611,125,956
Accounting of deferred tax liability, due to assets accounting at deemed cost (Note 4)	-	(241,668,894)
Increase in depreciation of property, plant and equipment due to assets accounting at deemed cost (Note 4)	(93,344,511)	(93,344,511)
Change in deferred tax liability, due to assets accounting at deemed cost (Note 4)	13,920,853	13,920,853
31 DECEMBER 2004 ACCORDING TO IFRS PRINCIPLES	31,873,753	2,160,979,222

In 2004 earnings per share, calculated according to IFRS, decreased from LTL 0.16 to LTL 0.05 comparing with earnings per share, calculated according to Business Accounting Standards.

The change in accounting principles did not have any effect on the Company's cash flows.

Reconciliation of the Group's financial statements, prepared according to IFRS, with the ones, prepared according to BAS, is not presented, as Lietuvos Energija AB did not prepare consolidated financial statements until 2005.



330/110 kV TRANSMISSION GRID OF LITHUANIA

Key data of the transmission grid

	330 kV	110 kV
Length of overhead lines, km	1670.4	4970.1
Length of cable lines, km		21
Transformers	21	6
Switchgears	12	208
Transformer substations	11	
Capacity of transformer substations, MVA	3325	143

LIETUVOS ENERGIJA
Panevėžys
Utena
Jonava
Kaunas
Vilnius
Combined heat and power plant
Hydro power plant
Nuclear power plant
Pumped storage power plant
330 kV substation
330 kV switchgear
110 kV switchgear
330 kV line
110 kV line
400 kV perspective line

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