fui 04-0238

AB MAŽEIKIŲ ELEKTRINĖ
2005 COMPANY'S FINANCIAL
STATEMENTS

INDEPENDENT AUDITOR'S REPORT
To the shareholders of AB MAŽEIKIŲ ELEKTRINĖ

1. We have audited the accompanying AB MAŽEIKIŲ ELEKTRINĖ (a joint stock company registered in the Republic of Lithuania) balance sheets as of 31 December 2005, and the related statements of income, changes in shareholder's equity and cash flow for the year then ended, prepared in accordance with International Financial Reporting Standards (IFRS), approved to adopt in European Union. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants and Lithuanian National Auditing Standards. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and the results of their operations, changes in equity and cash flow for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board.

4. Without qualifying our opinion, we want to set your attention to the fact that, company's non-current assets were measured at fair value as of December 31, 2005. The loss from non-current assets revaluation and impairment has decreased company's shareholders equity by 18,568 thousand litas.

Independent member of
BKR
INTERNATIONAL
UAB„REZULTATAS"

Audit company's license No.000519

Director
Birutė Traubergienė
Auditor's license No.000296

Danguolė Pranckėnienė
Auditors license No. 000345

Vilnius, Republic of Lithuania
The audit was completed on 3 April 2006.

AB MAŽEIKIŲ ELEKTRINĖ
110871088, Juodeikių gyv., LT-89467 Mažeikių rajonas

BALANCE SHEET
As of December 31, 2005 and 2004

LTL

	ASSETS	Note	December 31, 2005	December 31, 2004
A.	**NON-CURRENT ASSTES**		**18,763,979**	**35,972,218**
I.	**INTENGIBLE ASSTES**	**01**	**617**	**89,661**
I.1.	Development work			
I.2.	Goodwill			
I.3.	Licenses and patents		8	34,853
I.4.	Software		609	54,808
I.5.	Other intangible assets			
II.	**TANGIBLE ASSETS**	**02**	**18'763'362**	**35,882,557**
II.1.	Land		1,600	2,724
II.2.	Buildings and construction		10,415,621	24,240,963
II.3.	Machinery		5,525,643	5,991,249
II.4.	Other transport means		30,395	125,287
II.5.	Other equipment		475,545	1,673,921
II.6.	Construction in progress		2,314,558	3,848,413
II.7.	Other tangible assets			
III.	FINANCIAL ASSETS			
III.1.	Investments in subsidiaries and associates			
III.2.	Loans to subsidiaries and associates			
III.3.	Accounts receivable after one year			
III.4.	Other financial assets			
B.	**CURRENT ASSETS**		**19,537,956**	**19,198,499**
I.	**INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS**	**03**	**11,211,069**	**9,607,603**
I.1.	Inventories		10,703,521	9,553,277
I.1.1.	Raw materials and components		10,703,521	9,553,277
I.1.2.	Work in progress			
I.1.3.	Finished goods			
I.1.4.	Goods for resale			
I.2.	Prepayments		507,548	54,326
I.3.	Contracts in progress			
II.	**Accounts receivable within one year**	**04**	**7,797,774**	**9,226,059**
II.1.	Trade accounts receivable		6,694,098	7,879,132
II.2.	Accounts receivable from subsidiaries and associates			
II.3.	Other accounts receivable		1,103,676	1,346,927
III.	**OTHER CURRENT ASSETS**			
III.1.	Current investments			
III.2.	Terminal deposits			
III.3.	Other current assets			
IV.	**CASH AND CASH EQUIVALENTS**		**529,113**	**364,837**
	TOTAL ASSETS		**38,301,935**	**55,170,717**

	SHAREHOLDERS' EQUITY AND LIABILITIES	Note	December 31, 2005	December 31, 2004
C.	**SHAREHOLDERS' EQUITY**	**05**	**11,543,395**	**39,871,493**
I.	**SHAREHOLDERS' CAPITAL**		**28,713,418**	**28,713,418**
I.1.	Authorized (subscribed)		28,713,418	28,713,418
I.2.	Subscribed uncalled share capital(-)			
I.3.	Share premium			
I.4.	Own shares (-)			
II.	**REVALUATION RESERVE (RESULTS)**		**412,151**	**412,151**
III.	**RESERVES**		**8,569,940**	**2,871,342**
III.1.	Legal reserve		2,871,342	2,871,342
III.2.	Reserve for acquiring own shares			
III.3.	Other reserves		5,698,598	
IV	**RETAINED EARNINGS (LOSSES)**		**-26,152,114**	**7,874,582**
IV.1.	Current year's profit (loss)		-26,629,466	2,977,241
IV.2.	Past year's profit (loss)		477,352	4,897,341
D	**GRANTS AND SUBSIDIES**			
E	**ACCOUNTS PAYABLE AND LIABILITIES**		26,758,540	15,299,224
I.	**NON-CURRENT ACCOUNTS PAYABLE AND LIABILITIES**	**06**	**3,800,858**	**4,493,523**
I.1.	Financial debts		3,800,858	4,493,523
I.1.1.	Leases and similar obligations			
I.1.2.	Debts to credit institutions		3,800,858	4,493,523
I.1.3.	Other financial debts			
I.2.	Trade accounts payable			
I.3.	Advances received			
I.4.	Provisions			
1.5.	Differed taxes			
1.6.	Other accounts payable and non-current liabilities			
II.	**CURRENT ACCOUNTS PAYABLE AND LIABILITIES**	**07**	**22,957,682**	**10,805,701**
II.1.	Current portion of non-current liabilities		739,589	700,714
II.2.	Financial debts			
II.2.1.	Debts to credit institutions			
II.2.2.	Other debts			
II.3.	Trade accounts payable		19,687,707	8,291,677
II.4.	Advances received		1,268,500	
II.5.	Profit tax liabilities			345,962
II.6.	Liabilities related to employment relations		699,222	551,305
II.7.	Provisions			
II.8.	Other accounts payable and current liabilities		562,664	916,043
	TOTAL EQUITY AND LIABILITIES		**38,301,935**	**55,170,717**

General director Juozas Doniela ______________________ **31 March 2006**

INCOME STATMENT
as of December 31, 2005 and 2004.

LTL

	Items	Note	December 31, 2005	December 31, 2004
I.	SALES REVENUE	08	130,721,215	125,667,771
II.	COST OF SALES		137,580,538	120,227,117
III.	**GROSS PROFIT (LOSS)**		**-6,859,323**	**5,440,654**
IV.	**OPERATING EXPANCES**		**19,672,133**	**1,418,413**
IV.1.	Sales			
IV.2.	General and administrative		19,672,133	1,418,413
V.	**OPERATING PROFIT (LOSS)**		**-7,963,299**	**4,022,241**
VI.	**OTHER ACTIVITIES**		**95,198**	**3,252**
VI.1.	Income		267,686	204,711
VI.2.	Expenses		172,488	201,459
VII.	**FINANCING AND INVESTING ACTIVITIES**	09	**-193,208**	**-265,150**
VII.1.	Income		59,315	54,385
VII.2.	Expenses		252,523	319,535
VIII.	**PROFIT (LOSS) FROM ORDINARY ACTIVITIES**		**-26,629,466**	**3,760,343**
IX.	EXTRORDINARY GAIN			
X.	EXTRAORDINARY LOSS			
XI.	**PROFIT (LOSS) BEFORE TAX**		**-26,629,466**	**3,760,343**
XII.	PROFITS TAX			783,102
XIII.	**NET PROFIT (LOSS)**		**-26,629,466**	**2,977,241**
XIV	**Profit (loss) per share**		**-0.927**	**0.104**

General director Juozas Doniela ______________________ 31 March 2006

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
as of December 31, 2005

		Revaluation reserves (results)		Reserves required by law		Other reserves			
	Called up share capital	Tangible non-current assets	Financial assets	Legal reserve	Reserve for acquiring own shares	Distributable	Undistributable	Retained earnings (loss)	Total
	1	4	5	6	7	8	9	10	11
Balance as of December 31, 2003	**28,713,418**	**412,151**	**0**	**1,084,233**	**0**	**5,468,110**	**1,831,669**	**69,808**	**37,579,389**
Results from changes in accounting policy									0
Net results for 2004								2,977,241	2,977,241
Dividends								-574,268	-574,268
Transfers to reserves				1,787,109		-5,468,110	-1,720,800	5,401,801	0
Transfers from reserves							-110,869		-110,869
Changes in share capital									0
Balance as of December 31, 2004	**28,713,418**	**412,151**	**0**	**2,871,342**	**0**	**0**	**0**	**7,874,582**	**39,871,493**
Results from changes in accounting policy								-1,136,266	-1,136,266
Results from correction of material errors								1,507,573	1,507,573
Recalculated balance as of December 31, 2004	**28,713,418**	**412,151**	**0**	**2,871,342**	**0**	**0**	**0**	**8,245,889**	**40,242,800**
Net results for 2005								-26,629,466	-26,629,466
Dividends								-2,009,939	-2,009,939
Bonuses								-60,000	-60,000
Transfers to reserves							5,698,598	-5,698,598	0
Transfers from reserves									0
Changes in share capital									0
Balance as of December 31, 2005	**28,713,418**	**412,151**	**0**	**2,871,342**	**0**	**0**	**5,698,598**	**-26,152,114**	**11,543,395**

General director Juozas Doniela ______________________ 31 March 2006

CASH FLOW STATMENT
as of December 31, 2005 and 2004

	Items	Note	December 31, 2005	December 31, 2004
I.	**Cash flows from operating activities**			
I.1.	Net profits (loss)		-26,629,466	2,977,241
I.2.	Depreciation and amortization expenses		4,727,221	3,707,438
I.3.	Impairment of non-current assets		18,568,157	
I.4.	Decrease (increase) in accounts receivable after one year			
I.5.	Decrease (increase) in inventories		-1,150,244	-1,703,240
I.6.	Decrease (increase) in prepayments		-442,717	-15,412
I.7.	Decrease (increase) in work in progress			
I.8.	Decrease (increase) in trade receivables		1,185,034	-1,174,624
I.9.	Decrease (increase) in accounts receivable from subsidiaries and associates			
I.10.	Decrease (increase) in other accounts receivable		232,746	-421,611
I.11.	Decrease (increase) in other current assets			
I.12.	Increase (decrease) in non- current trade payables and advances received			
I.13.	Increase (decrease) in current trade payables and advances received		12,664,530	-561,544
I.14.	Increase (decrease) in profit tax liabilities		-345,962	265,327
I.15.	Increase (decrease) in liabilities to employees		147,917	-332,105
I.16.	Increase (decrease) in provisions			
I.17.	Increase (decrease) in other accounts payable and liabilities		-367,482	-83,506
I.18.	Elimination of results from financing and investing activities		-179,428	-89,158
	Net cash flows from operating activities		**8,410,306**	**2,568,806**
II.	**Cash flows from investing activities**			
II.1.	Acquisition of non-current assets (excluding investment)		-6,086,094	-4,010,225
II.2.	Proceeds from sale of intangible and tangible non-current assets			
II.3.	Acquisition of investments			
II.4.	Proceeds from sale of investments			
II.5.	Proceeds from non-current loans			
II.6.	Dividends, interest from subsidiaries			

	Net cash flow from investing activities		**-6,086,094**	**-4,010,225**
III.	**Cash flow from (to) financing activities:**			
III.1.	Cash flows related to owners of enterprise		-2,055,836	-571,776
III.1.1.	Issue of shares			
III.1.2.	Owner's contributions to cover losses			
III.1.3.	Acquisition of own shares			
III.1.4.	Dividend paid		-2,055,836	-571,776
III.2.	Cash flows related to other financing sources		-522,052	-924,340
III.2.1.	Increase in financial debts		0	0
III.2.1.1.	Loans received			
III.2.1.2.	Issue of bonds			
III.2.2.	Decrease in financial debts		-893,603	-924,340
III.2.2.1.	Repayment of loans		-647,179	-647,179
III.2.2.2.	Buyback of loans			
III.2.2.3.	Interest paid		-246,424	-277,161
III.2.2.4.	Payments for leases			
III.2.3.	Increase in other liabilities			
III.2.4.	Decrease in other liabilities			
III.2.5.	Other increase in cash flow from financing activities		1,520,488	
III.2.6.	Other decrease in cash flows from financing activities		-1,148,937	
	Net cash flows from financing activities		**-2,206,337**	**-1,496,116**
IV.	**Cash flows from extraordinary items**		**0**	**0**
IV.1.	Increase in cash flows from extraordinary items			
IV.2.	Decrease in cash flows from extraordinary items			
V.	**The effects of changes in foreign currency rates on the balance of cash and cash equivalents**		**46,401**	**48,656**
VI.	**Net increase (decrease) in cash flows**		**164,276**	**-2,888,879**
VII.	**Cash and cash equivalents at the beginning of the year**		**364,837**	**3,253,716**
VIII.	**Cash and cash equivalents at the end of the year**		**529,113**	**364,837**

General director Juozas Doniela ______________________ 31 March 2006

NOTES TO FINANCIAL STATMENTS

General information

Company name	Akcinė bendrovė Mažeikių elektrinė
Residence	Juodeikiai,LT-89467 Mažeikiai district.
Tel.	(8 443) 97 250, 97 258,
Fax.	(8 443) 97 234.
e-mail	mazeikiu.elektrine@mel.lt

Company was registered in the Ministry of Economics as of December 31, 2001.
Company's registry No. BĮ 01-250, legal person's code 110871088.

Company was established as the result of the shake-out of SP AB "Lietuvos energija", transferring all assets, rights and liabilities belonging to former branch „Mažeikių elektrinė" to the newly established AB Mažeikių elektrinė from 31 of December 2001. The main company's activity is to provide the power of electricity and heat with due security, quality, effectiveness, with safety to people and environment. Company has no branches or subsidiaries.
Company is a member of National association of electricity power suppliers. Company has a license to produce electricity power.
Mažeikių elektrinė started to operate in 1979. The aim of company is to provide a solid supply of electricity and heat power to the oil refinery. Electricity plant consists of four natural circulation steam-boilers of TGME-464 (E-500/140GM) type, with 500 t/h (nominal heat output 348.6 MW) nominal output each, two steam-turbines PT-80/100-130/13, and one steam-turbine R-50-130/16, transportable power-station PKBM-10/8, with nominal output of 10t/h (nominal heat output 9 MW). This autonomous power-station is intended to start the operation of electricity plant after full interruption of production cycle. The exhaust gas emerging in the process of oxidation is evacuated through 250 meters high smokestack, with 6,5 meters diameter. Designed capacity of electricity plant is 210 MW of electricity power and 650 MW of heat power. Electricity plant uses very sulphureous and ash-contineous fuel M-110-2.5 type stoke fuel oil, which is supplied through pipe lines from AB Mažeikių nafta. There are no plans in the nearest future to adopt any alternative fuel, whereas there is no natural gas pipelines in Mažeikiai, consequently the quality of exhaust gas remain unchanged. The quantity of exhaust gas disposable to the atmosphere can change as a subject of the quantity of power demand and quality of supplied fuel from AB "Mažeikių nafta".

Important circumstances of company's operations, which can affect company's development

12 October 2005 AB "Mažeikių nafta" acquired 85.72 % of AB „Mažeikių elektrinė" shares. General meeting, conducted on 21 November 2005 has approved the preparation of company's reorganization plan. General meeting, conducted on 17 January 2006 approved AB Mažeikių elektrinė reorganization with regard to the incorporation of the company in AB „Mažeikių nafta". The sequel of company's activities will depend on the activities and future of AB „Mažeikių nafta.

Since 1 May 2004 Company is not complying with by order of Minister of Environment, Minister of economics and Minister of Transport and Communications of the Republic of Lithuania No. 438/268/266 31 August 2001 approved „ Fuel quality environmental ratios" requirements for sulphurius dioxide marginal quantity contained in exhaust gas. Company needs material investments in exhaust gas purification equipment to comply with earlier mentioned requirements.

At the end of 2005 there were 307 employees employed in the company, the number of employees remained unchanged since 2004.

ACCOUNTING POLICY

The bases of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect as of 31 December 2005.

2005 is the first year that company applied IFRS, company's financial statements are prepare in accordance with 1IFRS „ The firs application of International financial reporting standards".

In 2005 Company's has changes it's accounting policy applied for non-current tangible assets, these assets are stated at fair value in 2005 financial statements. The application of new accounting policy was conducted in accordance with 8 IAS using perspective method.

In all other respects 2005 financial statements are prepared using the same accounting principles an estimates as in 2004, whereas implication of International Reporting Standards had no impact on company's financial statements.

In 2005 company has changed the order of writing of inventories transferred for operations. Till 31 December 2004 these assets, when transferred for operations, was written of only when it is fully absorbed, since 2005 these assets are written of at the moment of transfer to operations. This change in accounting policy is conducted using retrospective method, the effect of change of accounting policy is 1136266 Lt decrease in net profit.

In 2005 State tax administration has retuned 1507573 litas of excise tax for the fuel oil used in production during the period from May till December 2004, this amount was included in 2004 net profit. This error is corrected through retained earnings for 2004 in the statement of changes in shareholders' equity.

Measurement Currency

The amounts shown in these financial statements are presented in the local currency, Litas.

Lithuanian Litas is pegged to EUR at the rate of LTL 3.4528 for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

Intangible non-current assets

Intangible non-current assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the company and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives.

Tangible non-current assets

Tangible non-current assets transferred to AB „Mažeikių elektrinė" at the moment of reorganization are accounted for using the same initial value and depreciation methods used in former branch Mažeikių elektrinė balance sheet as of 31 December 2001.

Since 1 January 2002 non-current tangible assets are recognized when the company owns the item and it is expected to generate economical benefits in the future, which will be used for more then one year, the const of which can be reliably measured and it is not less then 2000 litas. Straight-line depreciation is provided over the estimated useful life of the assets. The liquidation value of the asset is estimated no more then 10 percent from the purchase cost and not less then 1 litas. Depreciation costs are accounted for as a part of cost of sales. Non-current tangible assets initially are recognized at the purchase (or construction) cost later in financial statements these assets are stated at fair value less accumulated depreciation.

Whenever there are indications that an item of non-current assets may be impaired, the Company estimates the recoverable amount of the asset, recording it at the higher of value in use and market value, which is in conformity with IFRS requirements.

Major additions, modifications and improvements to the tangible assets are capitalized and depreciated over the remaining useful life of that equipment. Maintenance and repairs of tangible non-current assets are charged to the statement of income when incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of non-current assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of non-current assets.

Inventories
Inventories are valued at the lower of cost or net realizable value, after allowance for obsolete and slow moving items. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Cost is determined by the first-in, first-out (FIFO) method.

Company's non-current assets held for resale is stated as inventories in company's financial statements.

Accounts receivable
Accounts receivable are valued at their fair value and are recorded at discounted value, net of losses on value impairment.

The Company provides an allowance for potential losses based on evaluation of specific doubtful accounts, which is in conformity with IFRS requirements.

Cash and cash equivalents
Cash includes cash on hand and cash with banks. Cash equivalents are short - term, 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.

For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short - term highly liquid investments.

Borrowings
Borrowing costs are expensed as incurred.

Borrowings are initially recognized at fair value (proceeds received), net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value being recognized in the net profit or loss for the period over the life of the borrowings.

Income tax

Income tax liabilities are calculated according to annual profit and offsetting with differed tax assets or liabilities. Accordingly with IAS 12 company is not calculating differed tax whereas company has suffered loss this year.

Starting from 1 January 2002 the standard Lithuanian corporate income tax rate is 15. According to the Lithuanian tax legislation tax losses can be carried forward for 5 years and offset against future taxable income, with exception to tax loss from the sale of financial assets, this loss can be carried forward for 3 year and offset against future taxable income.

Revenue recognition

Revenues are recognized upon delivery of services or products to the customer, net of amounts due to other sales taxes and discounts. The revenue gained from the production and supply of electricity and heat power is recognized as earned revenue due to the agreement with client, which is in conformity with IFRS requirements.

An indication of cost of products provided is always related to products sold in the accounting period. This indicator includes only those charges, which were made for manufacturing of power and providing supply services in the accounting period. In case when it is impossible to relate charges to the reporting period to particular income and those charges will not earn income in the future, they are recognized as expenses of the period when they are incurred.

Income from other activities includes income from profit of sold non-current assets, rental income and expenses and other non typical activities.

Income and expenses from financing and investing activities includes: interest, forfeit, delay fines, the effect of changes in foreign exchange rate.

Forfeit and delay fines are recognized as income when money is received or paid.

Transactions in foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income. Such balances are translated at balance sheet date exchange rate.

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable, as required by IFRS. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statement of income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of recourses embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

Subsequent events

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

Business segments

The mane business segments of the company are production, distribution and supply of electricity, production and supply of steam and hot water.

The accounting dimension for both business segments is kwh. The actual quantity of supplied kwh is measured using counting devices.

Incurred expanses are allocated between business segments according to:

1. Fuel expenses are allocated directly to every business segment according to actually consumed quantity.
2. The following expenses are allocated directly to the production of electricity:

2.1. expenses for purchased electricity power, aimed for resale;
2.2. cost of sale of electricity power;
2.3. capacity reserve expenses;
2.4. road fund tax from the sale of electricity power(till June 30, 2005).

Other expenses including interest paid are allocated pro rata between both business segments according to actual fuel consumption.

Company's anti-polluting, energy economy, ecological material and waste material usage, water pollution and exhaust gas diminishing policy

Company sets it attention to decrease the electricity consumption for own purposes, lot of project were implemented.

Company implemented a straight waste accounting policy especially for dangerous waste. Waste is controlled in every step of the production from the moment when it forms till the moment when the waste is disposed.

Company has implemented several projects for increasing water economy of the plant: the system of water reuse allowed decreasing significantly the consumption of technical water, the renewal of drinking water pipelines and pump winding frequency regulation has allowed decreasing the consumption of underwater significantly. Plant and daily waste is collected and over pumped to the purification plant of AB „Mažeikių nafta".

2005 balance sheet

Note No. 01 – Non-current intangible assets

In litas

Items	Other intangible assets	Software	Licenses	Total
Balance as of December 31, 2004	**0**	**54808**	**34853**	**89661**
a) Carrying value				
Balance as of December 31, 2004	318089	455402	154083	927574
Additions		1045		1045
Retirements	261448			261448
Balance as of December 31, 2005	56641	456447	154083	667171
b) Accumulated amortization				
Balance as of December 31, 2004.	318089	400594	119230	837913
Change for the year 2005		27244	17449	44693
Retirements	261448			261448
Balance as of December 31, 2005	56641	427838	136680	621159
c) Revaluation				
Balance as of December 31, 2004.				
Change for the year 2005		**-27999**	**-17396**	**-45395**
Balance as of December 31, 2005		**-27999**	**-17396**	**-45395**
Net book value as of December 31, 2005	**0**	**609**	**8**	**617**

Due to Company's IT modernization, company has purchased new computer software and licenses. Company has no intangible assets with amortization period more then 20 years. Company still uses fully amortized intangible assets that amount for 556878 Lt of initial costs, including computer software for 397285 Lt; other intangible assets for 159593 Lt.

The mane shareholder AB „Mažeikių nafta"holding 85,72 % of company's share has performed the valuation of company's non-current assets using the market value appraised by independent property valuers. Company's non-current intangible assets market value as of December 31, 2005 was 45395 litas less then carrying value.

In 2005 intangible assets retirements amounted to 261448 litas, written of amortization of retired assets was 261448 Lt.

Note No. 02 – Non-current tangible assets

litas

Items	Land	Buildings and constructi on	Machinery and equipment	Transport means	Other equipment	Constructi on in progress	Total
Balance as of December 31, 2004	**2724**	**24240963**	**5991249**	**125287**	**1673921**	**3848413**	**35882557**
a) Carrying value							
Balance as of December 31, 2004	**2724**	**66956085**	**56327363**	**2326782**	**6213638**	**3848413**	**135675005**
Additions		1427575	5237981		954393	6168821	13788770
Retirements			-3878		-33964		-37842
Reclassification +/(-)			871489		-871489	-7619949	-7619949
Changes in advance payments						-82727	-82727
Balance as of December 31, 2005	**2724**	**68383660**	**62432954**	**2326782**	**6262578**	**2314558**	**141723256**
b) Accumulated depreciation							
Balance as of December		**42715122**	**50336114**	**2201495**	**4539717**		**99792448**

31, 2004.							
Change for the year 2005		1627759	2381494	66561	606697		4682511
Retirements			-3877		-33947		-37824
Balance as of December 31, 2005		44342881	52713731	2268056	5112468		104437136
c) Revaluation							
Balance as of December 31, 2004.							
Change for the year 2005	**-1124**	**-13625160**	**-4193581**	**-28331**	**-674566**		**-18522762**
Balance as of December 31, 2005	**-1124**	**-13625160**	**-4193581**	**-28331**	**-674566**		**-18522762**
Net book value as of December 31, 2005	**1600**	**10415621**	**5525643**	**30395**	**475545**	**2314558**	**18763362**

Depreciations changes for the year 2005 are 4682511 Lt.

Company has acquired assets and construction works for 6168.8 thousand Lt. including:

- 6kV electricity transferring equipment reconstruction works for 200.6 thousand Lt;
- Implemented accounting for fuel oil in boiler No. 2 system for 154.7 thousand Lt;
- Steam –turbines No. 1 and No. 2 computerized management system for 1550.6 thousand Lt;
- Generator starting equipment reconstruction works for 1364.6 thousand Lt;
- Acquired computer equipment for 153.3 thousand Lt;
- Finished maintenance of steam-boiler No. 1 for 2745.0 thousand litas was treated as major addition and capitalized and depreciated through the useful life of the asset.

In 2005 company has finished turbo generator No.1 starting system implementation works and the finished system was ready for use. The overall value of addition is 1 427,6 thousand litas.

In 2005 the implementation of computerized management system for turbo generators No.1 and No2 was finished and ready for use. The overall value of addition is 3139.4 thousand litas.

Company plans that in the first quarter of 2006 implementation of turbo generator No.2 starting system will be finished and addition will be ready for use. 6KV electricity transferring equipment reconstruction works projected value is 3008.4 thousand litas. Reconstruction was begun in 2003 and till 31 o December 2005 works for 1110 thousand litas were accomplished. Company plans to start using 6kV own use section Š13-6 in the first quarter of 2006.

The mane shareholder AB „Mažeikių nafta"holding 85,72 % of company's share has performed the valuation of company's non-current assets for the purpose of financial statements using the market value appraised by independent property valuers. Valuation report of the non-current assets was prepared in accordance with Lithuanian legislation and European and national property and business valuation standards.

Depreciation periods for non-current tangible assets

Non-current tangible assets group	Average useful life (years)
Plant buildings	25-50
Construction (smokestack, fuel reservoirs, roads and yards, railway and other)	15-50
Transferring equipment (pipelines, cable lines and other)	15-20
Heating plant and equipment (steam-boilers, steam-turbines, other machinery)	10-25
Electricity plant and equipment (power transformers, electricity transferring equipment and other)	8-25
Measurement equipment and machinery	5-10
Computer equipment, controlling and communication equipment	3-8
Transport means	8-10
Other tools and equipment	4-15

Used fully depreciated assets

Group of the assets	Initial cost (Lt)
1. Hidromechanical plant and equipment (pumping equipment, mud removal equipment and other)	1746526
2. Transport operations buildings, machinery and equipment (railroad, overhead cranes and other)	4368690
3. Internal cable lines, pipe lines (of technical an circulation water, drain water and other)	5089258
4. Coolers and other equipment	8828947
5. Heat machinery and equipment (steam-boiler No. 1, boiler-van)	8541228
6. Turbines No. 3 and No. 2	3459855
7. Other machinery and equipment, electricity equipment	2160020
8. Computers and other related equipment	1856198
9. Means and instruments of production	921638
Total	**36972360**

Mane buildings, construction and technological machinery is used starting from 1979-1983, that influences the material depreciation proportion comparing to the opening value to the assets.

Company does not have any rented or granted for loans property.

Note No. 03 – Inventory and prepayments

Inventory is recorded at initial purchase cost. Company acquires inventories only for own purposes. Materials are written of using FIFO method.

In litas

Items	Fuel oil	Raw materials and components	Other inventories	Work in progress and other	Total
a) Balance as of December 31, 2004	2 983 858	5 218 602	1 350 817	54 326	9 607 603
b) additions during the year	5 941 629	4 689 385	72 507		10 703 521
Including:					
Fuel oil reserve as of December 31, 2004(required by law)	*3 191 000*				*3 191 000*
c)Prepayments for materials and services as of December 31, 2005		9 525		6 778	13 303
d) Advance payments of income tax				418 988	418 988

Company's fuel oil reserve has increased almost twice since 2004. In 2004 company kept 8797 tones of fuel oil, with purchase value of 2984 thousand litas, in 2005 company's fuel oil stock has reached 8797 tones with purchase value of 5942 thousand litas. Balance of other inventories has decreased due to the changes in accounting policy – straight writing of inventories transferred for use.

Company has no inventories granted for loans or other liabilities.

Note No. 04 – Accounts receivable within one year

Changes in account receivable within one year

Item	Balance as of December 31, 2005	Balance as of December 31, 2004	Increase/ decrease (-)	Balance as of December 31, 2003
Accounts receivable within one year	7 797 774	9 226 059	-1 428 285	7 569 824
Including:				
Trade accounts receivable	**6 694 098**	**7 879 132**	**-1 185 034**	**664 4 508**
Including:				
AB"Mažeikių nafta"	6 654 280	7 860 809	-1 206 529	6 361 654
AB"Lietuvos energija"	32 974	14 204	18 770	279 676
Other buyers	6 844	4 119	2 725	3 178
Other accounts receivable	**1 103 676**	**1346 927**	**-243 251**	**925 316**
Including:				
Differed receivable VAT	1 001 736	1 304 140	-302 404	865 370
Overpaid taxes	75 901	16 220	59 681	32 508
Other accounts receivable	26 039	26 567	-528	27 438

There are no overdue accounts receivable.

Differed receivable VAT means VAT accounted from electricity purchase expenses and other purchases that were invoiced only in January 2006.

Note No. 05 – Shareholders' equity

Authorized (subscribed) share capital

Company's authorized capital as of December 31 2005 was 28713418 litas. It is divided into 28713418 units 1 litas par value ordinary shares. All shares are fully paid.

The structure of Company's authorized capital:

Item	Number of shares	Amount (Lt)
1.Class of shares: 1.1. Ordinary shares	28713418	28 713 418
Including:		
AB "Mažeikių nafta"	24612296	24 612 296
German EO.N ENERGY	3131034	3 131 034
Other shareholders	970088	970 088

On 12 of October 2005. AB "Mažeikių nafta" acquired and fully paid 24612296 units of state owned shares that form 85,72% of company's authorized capital.

The general meeting held on 28 April, 2005 approved the distribution of 2004 profit:

Items	Amount, Lt
1)Retained earning at the beginning of current year	4 897 341
2) Net profit(loss) of the current year	2 977 241
3)Transfers from reserves	
4) Shareholders contributions to cover the losses	
5) Retained earnings available for distribution	7 874 582
6) Retained earning transferred to legal reserves	
7) Retained earnings transferred to reserve for acquiring own shares	

8) Portion of retained earning transferred to other reserves (for investments and fuel oil reserves required by law)	5 698 598
9) Dividends	2 009 939
10) Other annual payments: Board bonuses– 40 000 Lt; Bonuses– 20 000 Lt.	60 000
11) Retained earning transferred to the next year	106 045

Company has paid out all dividends ant bonuses. The amounts belonging to shareholder's which have not informed company about their bank accounts are stated as debts to shareholders in the balance sheet.

Other reserves. As of December 31, 2005 Company had formed a fuel oil reserve of 5000 tones for 3191 thousand litas. As of 14 December 2005 Company has drawn an agreement with AB "Mažeikių nafta" for the securing of part of the fuel oil reserves in AB „Mažeikių nafta "reservoirs. Due to the lack of funds fuel oil reserve was not fully acquired.

In 2005 company performed maintenance for steam-boiler No.1 for 2745 thousand litas. Value of addition was capitalized and will be depreciated over the useful life of the asset.

In 2005 State tax administration has retuned 1507573 litas of excise tax for the fuel oil used in production during the period from May till December 2004, this amount was included in 2004 net profit. This error is corrected through retained earnings for 2004 in the statement of changes in shareholders' equity.

Company's loss for the 2005 was 24737226 litas.

Note No. 07 – Accounts payable after one year and non-current liabilities

According to the Loan transferring agreement No,496 as of April 9, 2002 between the Ministry of the Finance of the Republic of Lithuania, AB "Lietuvos energija" and AB Mažeikių elektrinė company has state granted non-current loan portion of 2 018 923.04 USD. As of September 3, 2003 company signed an agreement with the Ministry of Finance to change loan currency to euros and set fixed annual interest rate. Loan after changing the currency amounts to 1 746 155.68 euros and annual interest rate was 4.95%. Loan has to be returned till 15 of April 2011. On 15 of April 2004 and 15 of October 2005 company has returned a portion of 187436,13euro (647179.47 Lt) and paid interest for the period from 16 October 2004 till 15 October 2005 of 71369,2 euro (246423.57 Lt). In 2006 company is obliged to return 200609,85 euro (692665.69 Lt). The remainder of non-current loan for the period 2007-2011 is 1100804.49 euro (3800857.74 Lt).

Note No. 07 –Accounts payable within one year and current liabilities

Current liabilities

In litas

Items	Liabilities		
Accounts payable	Within one year	After one year but not later then after 5 years	After 5 years
Financial debts: 1. to credit institutions including accumulated interest 2005-12-31	**739 589** *46923*	**3 314 929**	**485 929**
Other liabilities total:	**22 218 093**		
including:			
Trade accounts payable including: -AB"Mažeikių nafta"(fuel oil) -AB"Lietuvos energija" -VĮ Ignalinos atominė elektrinė - accounts payable for investments - other accounts payable (for maintenance and provisions)	**19 687 707** 14 029 619 3 738 539 1 351 584 50 311 517 654		
Advance received from AB "Mažeikių nafta"	**1 268 500**		
Tax liabilities including:	**514 391**		

- real estate tax - environmental tax	*46817* *494576*		
Liabilities to employees including: - salaries - personal income tax - social security contributions - vacation reserve - other liabilities	**699 222** *533 734* *165350* *138*		
Other liabilities	**21 271**		

The greatest part of trade accounts payable consists of accounts payable to AB "Mažeikių nafta" for supplied fuel oil, this trade debt has formed as consequence of lack of available funds and all payments have 90 day deferment.

Company does not have any liabilities, which are secured by government guaranty or assets. All liabilities are covered in time, there are no liabilities not disclosed in the balance sheet.

Note No.08 Income statement

In litas

Items	2005-12-31	Readjusted 2004	2004
Sales revenue	**130 821 215**	**125 667 771**	**125 667 771**
Cost of sales	**137 580 538**	**119 589 768**	**120 227 117**
Including:			
Purchased electricity for resale	*63 646 278*	*57 435 014*	*57 435 014*
Used fuel oil	*50 796 175*	*35 216 561*	*36 990 177*
Depreciation	*4 709 673*	*3 703 836*	*3 703 836*
Tax expenses	*2 463 341*	*2 627 731*	*2 627 731*
Cost associated with employees (without social security contributions))	*7 916 959*	*6 790 736*	*6 790 736*
Other expenses (maintenance, exploitation etc.)	*8 048 112*	*13 815 890*	*12 679 623*
Operating expenses (general and administrative)	**19 672 133**	**1 418 413**	**1 418 413**
Including impairment of non- current assets	**18 568 157**		
Profit (loss) from typical activities (-)	**-26 531 456**	**4 659 590**	**4 022 241**

Business segments

Items	Measurement unit	Business segments				Total	
		Electricity power		Heat power			
		2005 m.	2004 m.	2005 m.	2004 m.	2005 m.	2004 m.
Income	Lt	88 148 649	88 388 380	42 572 566	37 279 391	130 721 215	125 667 771
Expenses (EBIDA)	Lt	106 247 419	93 037 179	51 005 252	28 608 351	157 252 671	121 645 530
Expenses (EBIDA) reconciled in accordance with received excise tax	*Lt*		*91 263 563*				119 871 914
Profit (loss) from typical activities reconciled	Lt	-18 098 770	-4 648 799 -2 875 183	-8432686	8 671 040	- 26 531 456	4 022 241 5 795 857
Production of electricity power	MWh	159 550	178 640				
Used for own purposes	MWh	37 136	35 844				
Delivered to customers including: -own production -outsource	MWh	**715 026** 122 415 592 611	**681 366** 142 796 538 570				

electricity							
Including to AB "Mažeikių nafta"	MWh	*714 643*	*677 435*				
Heating power delivered to customers	Gcal			344 117	300 832		
Including to AB "Mažeikių nafta"	Gcal			***343635***	***300361***		
Used fuel oil (natural)	t	40 348	48854	47 756	41 450	88 104	90 304
Used fuel oil	Lt	22 850 301	22 062 347	27 945 874	16 567 912	50 796 175	36 990 177
Used fuel oil (reconciled)	*Lt*		*20 288 731*				*35 216 561*
Average price of used fuel oil Reconciled price	Lt/t	566.30	398.39	585.18	399.71	576.55	409.62 389.98

In 2005 prices for fuel oil has grown two times comparing to the prices in 2004, however AB "Mažeikių nafta" did not agree to reconcile prices for the electricity and heating power supplied. This difference in purchasing and selling prices generated 7963299 litas loss from electricity and heat supply. Loss increased by 18568157 litas due to the non-current assets' impairment. Loss from operating activities was 26531456 litas.

Income from other activities includes revenue from non typical activities (disposal of current assets, sale of raw materials as a result of maintenance works, 110 kV electricity transferring equipment handling revenue) Total revenue from other activities in 2005 is 267686 Lt, which made up to 0.2% of sales revenue. Expenses from other activities include costs aimed to earn earlier mentioned income 172488 Lt.

Note No.09 Results from financing and investing activities

Items	2005-12-31	2004-12-31
	Lt	Lt
a) Income from financing and investing activities	**59 315**	**54 385**
Including		
- interest received	12 914	34 341
- VAT exemption for limited working capability persons		18 049
- other income		1 995
- changes in foreign currency exchange rate	46 401	
b) Expenses from financing and investing activities	**252 523**	**319 535**
Including:		
- Interest expenses	239 853	270 714
- changes in foreign currency exchange rate		48 656
- other expenses	12 670	165

Important conditions that influence company's activities

State government of the Republic of Lithuania estimated the maximum quantity of carbon dioxide disposed to the atmosphere no more then 2651020 tones per year for the period 2005-2007. Polluting rights are granted without any payment. Company states these rights at its balance sheet as valueless. Company expects that actual emission of carbon dioxide will not exceed the received polluting rights, whereas in the financial statements as of December 31, 2005 there are no provisions for additional expenses.

General director Juozas Doniela 31 March 2006

Finance director Vargina Ginkuvienė 31 March 2006

/fui 04-0238

AB MAŽEIKIŲ ELEKTRINĖ
2005 MANAGEMENT STATEMENT
PRESENTED TOGETHER
WITH INDEPENDENT AUDITOR'S
REPORT ABOUT COMPANY'S
MANAGEMENT STATEMENT

INDEPENDENT AUDITOR'S REPORT ABOUT AB MAŽEIKIŲ ELEKTRINĖ MANAGEMENT STATEMENT

1. We have reviewed the accompanying AB MAŽEIKIŲ ELEKTRINĖ management statement as of December 31, 2005. According to the 36th paragraph of The Company act of the Republic of Lithuania Company's management board is responsible for the preparation of annual management statement. Our responsibly is to express an opinion on this management statement based on our review.

2. We have audited AB MAŽEIKIŲ ELEKTRINĖ financial statements as of December 31, 2005, prepared in accordance with International Financial Reporting Standards. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants and Lithuanian National Auditing Standards. Based on our audit as of April 3, 2006 we expressed an unqualified audit opinion on full set of financials statements of AB MAŽEIKIŲ ELEKTRINĖ that is available on request at company's premises, with this paragraph of attention, significant for the Management statement 2005:

> Without qualifying our opinion, we want to set your attention to the fact that, company's non-current assets were measured at fair value as of December 31, 2005. The loss from non-current assets revaluations and impairment has decreased company's shareholders equity by 18,568 thousand litas.

3. Our review comprised performing analytical procedures and interviews with Company's staff. Company's management statement comprises information about the impact of historic and forecasted events the future, operating trends and uncertainties. For this reason, we are not bale to express an audit opinion but we are rendering this review report.

4. The preparation of company's management statement requires Company's management to interpret the criteria of significance, decide whether the information has to be comprised and making presumptions and setting the estimates that influence the information presented. Company's management statement comprises information about the impact of historic and forecasted events the future, operating trends and uncertainties. Whereas earlier mentioned forecast specifics determine that factual results often may differ from the forecasts prepared by management and these differences can be material.

5. Based on our review, nothing has come to our attention that causes us to believe that 2005 Company's managements statements do not comply with 36 paragraph of Company Law of the Republic of Lithuania, we also have not noticed any material differences between information comprised in Company's management statement and information presented in 2005 company's annual financial statements prepared according to International Financial Reporting Standards.

Independent member of
BKR
INTERNATIONAL
UAB„REZULTATAS"
Audit company's license No.000519

Managing partner
Birutė Traubergienė

Danguolė Pranckėnienė
Auditor
Auditors licence No. 000345

Vilnius, Republic of Lithuania
April 3, 2006

AB MAŽEIKIŲ ELEKTRINĖ PERFORMANCE REPORT
FOR THE FINANCIAL YEAR 2005

This Performance Report of Public Company Mažeikių Elektrinė (hereinafter – the Company) has been prepared by the Board of the Company following Article 36 of the Law of the Republic of Lithuania on Companies. The Performance Report of the Company is a public record and may be made available to every interested person at the headquarters of the Company, Juodeikiai, 89467 Mažeikiai r.

The Company was established during reorganization of SP AB Lietuvos Energija by transfer to AB Mažeikių Elektrinė the assets, rights and obligations (liabilities) of SP AB Lietuvos Energija former branch Mažeikių Elektrinė, which assets, rights and obligations existed as of December 31, 2001, midnight. The main business activities of the Company are reliable, quality, efficient and environmentally and human friendly generation, supply, transmission and distribution of electricity and thermal energy.

Authorized capital of the Company amounts to LTL 28,713,418. The authorized capital is divided into 28,713,418 ordinary registered shares. The shares are fully paid up.

This Performance Report is presented by the Board of the Company to the shareholders and creditors of the Company and other interested persons and includes overview of the Company's business activities for the financial year 2005, major events of the last financial year, business plans and forecasts of the Company as well as other information to be disclosed in the Performance Report pursuant to the applicable laws.

The main business activities of the Company in 2005 were generation and sales of electricity and thermal energy to its main customer AB Mazeikiu Nafta. The Company established after reorganization of SPAB Lietuvos Energija was selling electricity to AB Mazeikiu Nafta as an independent licensed supplier.

Major events of the Company in 2005:

On April 28, 2005 the General Meeting of Shareholders removed Audrius Bulovas, member of the Supervisory Council, from office and elected Janina Butkevičienė, Chief Specialist of Electricity and Heat Division of Energy Department of the Ministry of Economy.

The General Meeting of Shareholders decided to pay LTL 2009.9 thousand of dividends to the shareholders of the Company.

On October 12, 2005 AB Mazeikiu Nafta purchased 85.72 per cent of the state-owned Company shares.

On October 12, 2005 the Supervisory Council removed from the office the Board of the Company *in corpore* and elected the new Board:

1) Paul Nelson English – General Director of AB Mazeikiu Nafta;
2) Vita Petrošienė – Chief Financial Officer of AB Mazeikiu Nafta;
3) Juozas Doniela – General Director of AB Mažeikių Elektrinė;

4) Remigijus Kalkauskas – Technical Director of AB Mažeikių Elektrinė;
5) Evaldas Lungys – Chief Power Engineer of AB Mazeikiu Nafta.

On October 20, 2005 the Supervisory Council resigned (Raimondas Sedlevičius, Janina Butkevičienė, Rūta Motiejūnaitė).

On November 21, 2005 the General Meeting of Shareholders approved new Articles of Association of the Company and preparation of the Terms of Reorganization of AB Mazeikiu Elektrinė.

Production and Sales

The quantity of electricity generated by the Company in 2005 amounted to 159.6 MM kWh which is by 10% less than in 2004. The quantity of thermal energy generated by the Company in 2005 amounted to 344.1 thousand Gcal which is by 14% more than in 2004. Decrease of the quantities of electricity generated was due to the fact, that purchase of electricity from Ignalina Nuclear Power Plant in some business periods was more practicable than generation. The total quantity of electricity sold amounted to 715 MM kWh which is by 5% more than in 2004. The missing quantities of electricity have been purchase from Ignalina Nuclear Power Plant and AB Lietuvos Energija.

Revenues and Expenditures

Revenues. Revenues of the Company for the goods sold in 2005 amounted to LTL 130.8 million which is by 4% more than in 2004. From the total revenues the amount of LTL 88.2 million were received for the electricity supplied to AB Mazeikiu Nafta and other customers. The revenues for the thermal energy sold amounted to LTL 42.6 million.

Expenditures. Cost of goods sold comprised 137.6 MM litas which is by 15% more than in 2004.

Purchase of Fuel. The quantity of fuel oil purchase in 2005 amounted to 88.9 thousand tons.

Business Results. Fuel oil prices in 2005 increased almost twice, however the Company did not manage to agree with AB Mazeikiu Nafta for amendment of existing agreements and adjustment of electricity and thermal energy prices. The Company losses in association with sales of electricity and thermal energy amounted to LTL 7.96 million. AB Mazeikiu Nafta, which owns 85.72% of the Company shares, completed the assessment of the market value of the Company's long-term assets. Losses of the Company increased by LTL 18.6 million due to reduction of such assets' value. The operations losses amount to LTL 26.5 million.

Liabilities

In 2005 the Company repaid LTL 893.6 thousand of long-term loans, including interest, taken on behalf of the state under Loan Transfer Agreement No. 496 by and between the Ministry of Finance of the Republic of Lithuania, AB Lietuvos Energija and AB Mažeikių Elektrinė and additional agreement No. 1 between the Ministry of Finance of the Republic of Lithuania and AB Mažeikių Elektrinė. The amount to be repaid in 2006 is LTL 692.7 thousand. No additional borrowings were made within the reporting period. The balance of the long-term loan to be repaid in 2007-2011 amounts to euro 1100804.49 (LTL 3800857.74).

Investment Policy

The amount of investments in 2005 comprised LTL 6.17 million, including the funds spent for maintenance of equipment, which funds increased the acquisition value of the long-term assets.

The following amounts were spent during 2005: for upgrade of 6kV switchgear - LTL 200.6 thousand, installation of fuel oil metering to boiler No. 2 burners – LTL 154.7 thousand, computer-control of turbines No. 1 and No. 2 – LTL 1550.6 thousand, upgrade of operating excitation of generators – LTL 1364.6 thousand, purchase of computers and other items – LTL 153.3 thousand.

In addition, the performed maintenance of boiler No. 1 increased the acquisition value of the boiler by LTL 2745.0 thousand.

The financing of the above investments was made from the Company's own funds.

Information on Subsidiaries. The Company has no subsidiaries.

Shares purchased or transferred by the Company. The Company did not purchase or transfer any of its own shares in 2005.

Information on purchase of shares of other companies. The Company did not purchase any shares of other companies in 2005.

Information on branches and representative offices of the Company. The Company has no branches or representative offices.

Major events of the Company after the end of the financial year. There were no major events in the Company after the date of the 2005 balance sheet.

Plans and forecasts of the Company for the year 2006. Upon accession of Lithuania into the European Union the Company faced difficulties associated with implementation of environmental requirements. Having no other fuel than HSFO the Company continuously exceeds the permitted environmental pollution limits. In order to meet the environmental requirements large investments are necessary.

Upon acquisition by Public Company Mazeikiu Nafta of the state-owned Company's shares the reorganization of the Company by its merger into Mazeikiu Nafta and implementation of investment projects to meet the environmental requirements are planned in 2006.

Chairman of the Board Paul Nelson English