AB Lietuvos Dujos

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AB LETUVOS DUJOS

We have audited the accompanying balance sheet of AB Lietuvos Dujos (a joint stock company registered in the Republic of Lithuania, "the Company") as of 31 December 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and the results of its operations and the cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.

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

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

The audit was completed on 18 March 2005

Balance sheet

		Notes	As of 31 December 2004	As of 31 December 2003
	ASSETS			
A	**Non-current assets**		**628,074**	**592,132**
I.	Intangible assets	3	2,817	2,280
I.1.	Development costs		153	394
I.2.	Patents, licenses		1,097	1,250
I.3.	Software		1,567	636
II.	Non-current tangible assets	4	617,964	581,949
II.1.	Land		23	-
II.2.	Buildings and structures		470,135	467,667
II.2.1.	Transmission networks and related installations		164,088	175,539
II.2.2.	Distribution networks and related installations		256,102	244,753
II.2.3.	Buildings and other structures		49,945	47,375
II.3.	Machinery and equipment		65,068	69,446
II.4.	Vehicles		7,693	6,692
II.5.	Other equipment, tools and devices		25,255	24,700
II.6.	Construction in progress		48,960	12,606
II.7.	Other non-current tangible assets		830	838
III.	Non-current financial assets		7,293	7,903
III.1.	Investments into subsidiaries and associates	1	6,410	6,410
III.2.	Non-current accounts receivable		873	1,476
III.3.	Other financial assets		10	17
B	**Current assets**		**131,107**	**50,665**
I.	Inventories, prepayments and contracts in progress		5,633	7,195
I.1.	Inventories	5	5,098	6,933
I.1.1.	Raw materials and spare parts		3,149	3,201
I.1.2.	Finished goods		7	7
I.1.3.	Goods for resale		1,942	3,725
I.2.	Prepayments		535	262
II.	Accounts receivable	6	43,123	36,291
II.1.	Trade receivables		41,792	34,743
II.2.	Other receivables		1,331	1,548
III.	Other current assets	7	44,000	-
III.1.	Short-term investments		44,000	-
IV.	Cash and cash equivalents	8	38,351	7,179
	Total assets		**759,181**	**642,797**

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

Balance sheet (cont'd)

		Notes	As of 31 December 2004	As of 31 December 2003
	EQUITY AND LIABILITIES			
C.	**Equity**		**603,181**	**429,316**
I.	Share capital	9	469,068	340,878
II.	Revaluation reserve (result)		-	-
III.	Reserves	10	66,438	29,713
III.1.1.	Legal reserve		9,144	9,144
III.1.2.	Other reserves		57,294	20,569
IV.	Retained earnings (deficit)		67,675	58,725
D.	**Grants and subsidies**	11	**29,051**	**671**
E.	**Liabilities**		**126,949**	**212,810**
I.	Non-current liabilities		53,948	67,728
I.1.	Non-current borrowings	12	53,948	67,728
II.	Current liabilities		73,001	145,082
II.1.	Current portion of non-current borrowings	12	10,845	75,522
II.2.	Current borrowings	12	-	17,799
II.3.	Trade payables	13	43,864	32,980
II.4.	Prepayments received		8,450	6,139
II.5.	Income tax payable		-	490
II.6.	Labour related liabilities		3,628	3,087
II.7.	Other current liabilities		6,214	9,065
	Total equity and liabilities		**759,181**	**642,797**

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

General Manager	V. Valentukevičius		
Chief Accountant	A. Avižinis		

Income statement

		Notes	2004	2003
I.	Sales		495,909	468,097
II.	Cost of sales	14	(251,390)	(221,895)
III.	**Gross profit (loss)**		244,519	246,202
IV.	Operating expenses	15	(165,814)	(154,957)
V.	**Profit (loss) from operations**		78,705	91,245
VI.	**Other operating activities**	16	2,265	396
VI.1.	Income		2,670	954
VI.2.	Expenses		(405)	(558)
VII.	**Financial and investment activities**	17	(915)	(14,404)
VII.1.	Income		5,597	12,766
VII.2.	Expenses		(6,512)	(27,170)
VIII.	**Profit (loss) from ordinary activities**		**80,055**	**77,237**
IX.	Extraordinary gain		-	-
X.	Extraordinary loss		-	-
XI.	**Profit (loss) before tax**		**80,055**	**77,237**
XII.	Income tax	18	(12,380)	(15,422)
XIII.	**Net profit (loss)**		**67,675**	**61,815**

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

General Manager	V. Valentukevičius		
Chief Accountant	A. Avižinis		

Statement of changes in equity

	Notes	Share capital	Revaluation reserve (result)	Reserves	Retained earnings (deficit)	Total
Balance as of 31 December 2002		**340,878**	**-**	**4,743**	**36,537**	**382,158**
Transfer to legal reserve		-	-	1,827	(1,827)	-
Transfers to other reserves		-	-	17,552	(17,552)	-
Transfer to reserve for expenses under collective agreement, for charity and other purposes		-	-	2,500	(2,500)	-
Dividends declared		-	-	-	(14,657)	(14,657)
Net profit for the year		-	-	-	61,815	61,815
Transfer to legal reserve		-	-	3,091	(3,091)	-
Balance as of 31 December 2003		**340,878**	**-**	**29,713**	**58,725**	**429,316**
Increase in share capital		128,190	-	-	-	128,190
Transfer from other reserves	10	-	-	(17,552)	17,552	-
Transfer from reserve for expenses under collective agreement, for charity and other purposes		-	-	(2,500)	2,500	-
Transfers to other reserves	10	-	-	53,777	(53,777)	-
Dividends declared		-	-	-	(22,000)	(22,000)
Transfer to reserve for expenses under collective agreement, for charity and other purposes		-	-	3,000	(3,000)	-
Net profit for the year		-	-	-	67,675	67,675
Balance as of 31 December 2004		**469,068**	**-**	**66,438**	**67,675**	**603,181**

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

General Manager	V. Valentukevičius		
Chief Accountant	A. Avižinis		

Cash flow statement

		2004	2003
I.	**I. Cash flow from (to) operating activities**		
I.1.	Net profit (loss)	67,675	61,815
	Adjustments of non-cash items and other corrections:		
I.2.	Depreciation and amortisation	44,404	43,633
I.3.	Loss on non-current assets write-offs and disposals	553	539
I.4.	Loss on assets impairment	4,860	2,190
I.5.	Income tax expenses	12,380	15,422
I.6.	Eliminations of financial and investing activities result	915	14,404
I.6.1.	Interest (income)	(823)	(793)
I.6.2.	Interest expenses	6,497	11,022
I.6.3.	Dividends received	(2)	(2)
I.6.4.	Other financial and investing (income)	(1,275)	(2,553)
I.6.5.	(Gain) on foreign currency exchange	(3,497)	(9,418)
I.6.6.	Foreign currency risk management expenses	-	11,938
I.6.7.	Other financial and investing expenses	14	277
I.6.8.	Impairment of financial assets	1	3,933
I.7	Corrections on other non-cash items	(142)	(249)
		130,645	**137,754**
	Changes in working capital:		
I.8.	Decrease in inventories	2,071	1,725
I.9.	(Increase) decrease in trade accounts receivable	(7,913)	31,651
I.10.	(Increase) in other accounts receivable and prepayments	(13)	(3,810)
I.11.	Increase in trade accounts payable	9,465	3,035
I.12.	Increase (decrease) in other accounts payable	1,212	(9,877)
I.13.	Income tax (paid)	(12,913)	(13,787)
I.14.	Other operating activity related cash flows	1,339	1,815
	Net cash flows from operating activities	**123,893**	**148,506**

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

Cash flow statement (cont'd)

		2004 m.	2003 m.
II.	**Cash flow from (to) investing activities**		
II.1.	(Acquisitions) of non-current assets	(83,440)	(41,667)
II.2.	Non-current assets disposal	-	-
II.3.	(Acquisitions) of investments	-	-
II.4.	Investments disposal	-	-
II.5.	Decrease in non-current financial assets	609	5,330
II.5.1.	(Acquisition) of non-current financial assets	-	-
II.5.2.	Non-current financial assets disposal	6	-
II.5.3.	Decrease in non-current accounts receivable	603	5,330
II.6.	Decrease of other investing activities items	825	795
II.6.1.	Interest and dividends received	825	795
	Net cash flows (to) investing activities	**(82,006)**	**(35,542)**
III.	**Cash flow from (to) financing activities**		
III.1.	Cash flow related to the owners of the Company	-	-
III.2.	Issue of shares	128,190	-
III.3.	(Retirement) of own shares	-	-
III.4.	Dividends (paid)	(21,993)	(14,658)
III.5.	Loans received	-	18,134
III.6.	Cash flow related to other sources of financing	-	-
III.7.	Retirement of short term deposits	-	16,797
III.8.	Issue of bonds	29,573	-
III.9.	Loans (repaid)	(93,400)	(121,183)
III.10.	(Retirement) of bonds	(29,573)	-
III.11.	(Increase) in term deposits and other short term investments	(44,000)	-
III.12.	Grants (received)	28,522	-
III.13.	Interest (paid)	(7,715)	(8,997)
III.14.	Foreign currency exchange risk management (expenses)	-	(8,304)
	Net cash flows (to) financing activities	**(10,396)**	**(118,211)**
IV.	**Impact of currency exchange on cash and cash equivalents balance**	**(319)**	**(400)**
V.	**Net increase (decrease) in cash and cash equivalents**	**31,172**	**(5,647)**
VI.	**Cash and cash equivalents at the beginning of the year**	**7,179**	**12,826**
VII.	**Cash and cash equivalents at the end of the year**	**38,351**	**7,179**

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

General Manager	V. Valentukevičius		
Chief Accountant	A. Avižinis		

Notes to the financial statements

1 General information

AB Lietuvos Dujos (hereinafter – "the Company") is a joint stock company registered in the Republic of Lithuania. The address of its registered office is as follows:

Aguonų g. 24,
LT-03212 Vilnius,
Lithuania

The Company is engaged in transmission, distribution and supply of natural gas. The Company was registered on 1 August 1995, after reorganization of State enterprise Lietuvos Dujos. The Company 's shares are traded on the Current List of the National Stock Exchange.

In 2001 the Government of the Republic of Lithuania decided to privatize the Company by offering a total of 68% of the State holding in the Company in two stages and to two different investors, one of which would be a strategic western investor and the other would be a natural gas supplier. The sale of 34% of the State holding to a strategic western investor, Ruhrgas AG and E.ON Energie AG consortium, was agreed by the parties on 17 May 2002. Following the approval of the Government received on 12 December 2003, E.ON Energie AG transferred its holding in the Company to Ruhrgas Energie Beteiligungs AG on 18 December 2003. Ruhrgas Energie Beteiligungs AG was renamed to E.ON Ruhrgas International AG on 1 July 2004. The remaining 34% of the shares on 23 January 2004 were sold to OAO Gazprom, the supplier of natural gas.

On 25 October 2004 the Company registered the increase of share capital in the amount of LTL 128,190,419. A new emission ordinary registered shares was issued and distributed among the existing shareholders of the Company.

As of 31 December 2004 and 2003 the shareholders of the Company were as follows:

	2004		2003	
	Number of shares held	**Percentage**	**Number of shares held**	**Percentage**
E.ON Ruhrgas International AG	182,534,384	38.9	121,689,589	35.7
OAO Gazprom	173,847,696	37.1	-	-
State Property Fund	83,030,367	17.7	198,928,831	58.4
Other minor shareholders	29,655,807	6.3	20,259,415	5.9
	469,068,254	100	340,877,835	100

All the shares of the Company are ordinary registered shares with a par value of LTL 1 each and were fully paid as of 31 December 2004 and 2003. The Company did not hold its own shares.

The Company consists of administrative and gas transmission centre and 5 natural gas distribution and supply branches. The Company controls 100% of the shares of UAB Palangos Perlas established during the restructuring in 1997. The subsidiary is running a restaurant and accommodation facilities. In these financial statements the investment into the subsidiary is carried at acquisition cost less impairment (except for the temporary impairment). The subsidiary was not consolidated or accounted under the equity method due to its immateriality.

The average number of employees of the Company was 1,968 in 2004 (2,222 in 2003).

Operations of AB Lietuvos Dujos are regulated by the Natural Gas Law No. VIII-1973 as of 10 October 2000 of the Republic of Lithuania. The law came into effect on 1 July 2001 except for Article 10 which came into effect on 1 January 2002. Article 10 requires unbundling the accounting among the above mentioned activities of the Company. The Company has unbundled the accounting by its segments as prescribed by the Law from 1 January 2002.

1 General information (cont'd)

Based on the provisions of the Natural Gas Law, the Company's activities are subject to licensing and regulating by the National Control Commission for Prices and Energy (hereinafter – "the Commission"). On 18 December 2001 the Commission granted the Company Natural Gas Transmission and Distribution licenses and on 16 May 2002 the Commission granted a Natural Gas Supply license. The licenses have no expiration date, but are subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also regulates transmission and distribution tariffs as well as tariffs charged by the Company to its regulated customers.

2 Accounting principles

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

2.1. Basis of preparation

These financial statements have been prepared in accordance with the Law on Accounting of the Republic of Lithuania, Law on Companies' Financial Statements of the Republic of Lithuania and Business Accounting Standards (BAS), which include the standards and interpretations prepared and approved by the Institute of Accounting of the Republic of Lithuania, effective as of 31 December 2004.

These financial statements have been also prepared in accordance with BAS approved by 31 December 2004 that came into effect on 1 January 2005 but their provisions allow early adoption of the standards, i.e. BAS 18 "Financial assets and financial liabilities", BAS 23 "Impairment of assets" and BAS 24 "Income tax".

2.2. Presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL).

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. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives (3 – 4 years).

2.4. Non-current tangible assets

The Company's non-current tangible assets, acquired before 1 January 1996, are stated at indexed cost less indexed accumulated depreciation and impairment losses (Note 4). Non-current tangible assets other than acquired before 1 January 1996, are stated at cost less accumulated depreciation and impairment losses.

The accounting policy applied for non-current tangible assets, acquired before 1 January 1996, represents a departure from Business Accounting Standards (BAS 12), which require the use of either historical cost or a valuation supported by independent, professionally qualified valuers. The Company valued its non-current tangible assets as of 1 January 2005 and is planning to use revalued values in the accounting and in the financial statements starting from as of this date (Note 4 and Note 23).

When assets are sold or retired, their cost, accumulated depreciation, impairment and reversals must be eliminated from the accounting, any revenue and expenses are recognized and any gain or loss resulting from their disposal is included in the income statement.

2 Accounting principles (cont'd)

2.4. Non-current tangible assets (cont'd)

The initial cost of non-current tangible assets comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the non-current tangible assets have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of non-current tangible assets beyond its originally assessed standard of performance and / or that they have resulted in an increase of the useful life of the asset, the expenditures are capitalized as an additional cost of non-current tangible assets. The minimum value of non-current tangible assets applied by the Company is LTL 2,000, except for the furniture for which this minimum is set at LTL 300.

Depreciation is computed on a straight-line basis over the following average estimated useful lives:

	Years	Average
Buildings	30 – 80	60
Gas pipelines	26 – 42	30
Machinery and equipment	6 – 18	13
Vehicles and other non-current tangible assets	4 – 19	10

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of non-current tangible assets.

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

The Company estimates the reconstructive value of the non-current tangible assets (including construction in progress), when there are indications that the value of the asset in question might be impaired. The impairment loss is accounted for in the income statement upon estimation.

2.5. Investments

Pursuant to BAS 18, "Financial assets and financial liabilities", non-current investments (except investments into subsidiaries and associates) are classified as either available-for-sale or held-to-maturity. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Company, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price and other investments, other than investments held-to-maturity, loans and receivables originated by the Company, are classified as available-for-sale.

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

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

Available-for-sale investments are subsequently carried at fair value by reference to their estimated market price at the balance sheet date, without any deduction for transaction costs that the Company may incur on their sale or other disposal. Gains or losses on measurement to fair value of available-for-sale investments are included into result of financial and investment activities in the Company's income statement.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method. The portion of amortization allocated to the reporting period is recognized in the income statement as interest expenses in financial and investment activities caption.

Long-term investment into subsidiary UAB Palangos Perlas is accounted at acquisition cost less impairment (except for the temporary impairment) recognized when the carrying value exceeds its fair value.

2 Accounting principles (cont'd)

2.6. Inventories

Inventories, mainly consisting of natural gas for sale that remained in the Company's pipelines at the year-end and spare parts, are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. Cost of natural gas is determined on the basis of weighted average cost, and the cost of the remaining inventories is determined on the basis of the first-in, first-out (FIFO) method. Inventories that cannot be realized are written off.

2.7. Receivables and loans granted

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortized cost, less impairment. Allowance for doubtful receivables is based on the aging of accounts receivable and individual evaluation of the accounts.

2.8. 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 statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

2.9. Borrowings

Borrowing costs are expensed as incurred.

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

2.10. Financial and operating leases

<u>Financial lease</u>

The Company recognizes financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it, in other cases, the Company's composite interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Company's income statement for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets can not be depreciated over the period longer than lease term, unless the Company, according by the lease contract, gets transferred their ownership after the lease term is over.

If the result of sales and lease back transactions is financial lease, any profit from sales exceeding the book value is not recognized as income immediately. It is postponed and amortized over the lease term.

<u>Operating lease</u>

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2 Accounting principles (cont'd)

2.10. Financial and operating leases (cont'd)

The gains from discounts provided by the lessor are recognized as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognized immediately. If the sales price is lower than the fair value, any profit or loss is recognized immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortized in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortized over a period, during which the assets are expected to be operated.

2.11. Grants

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognized in the financial statements as used in parts according to the depreciation of the assets associated with this grant. In the income statement, a relevant income account is increased by the amount of grant amortization.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in caption "Grants and subsidies" on the balance sheet.

2.12. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company re-evaluates provisions at each balance sheet date and adjusts them in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability. Were discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

2.13. Income tax

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

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

Deferred taxes are calculated using the balance sheet liability method. Deferred 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 assets have been recognized in the balance sheet to the extent the management believes it will be realized 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 realized, this part of the deferred tax asset is not recognized in the financial statements.

2 Accounting principles (cont'd)

2.14. Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Revenues from industrial and commercial customers are recognized monthly based on meter readings declared by the customer and checked by the Company (accrual basis). Revenues from residential customers are recognized monthly based on meter readings declared by the customers or based on the volume of gas supplied to customers but not yet declared, which approximates an accrual basis.

2.15. Expense recognition

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

2.16. 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 on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

2.17. 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 amortized cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the income statement. The reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognized to the extent it does not exceed the amortized cost that would have been had the impairment not been recognized.

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 recognized in the income statement. 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 accounted in the same caption of the income statement as the impairment loss.

2.18. Financial derivatives

Financial derivatives including foreign exchange contracts, forward rate agreements and other financial derivatives are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are re-measured to their fair value with changes in fair value included in net profit or loss. Fair values are obtained from quoted market prices. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2 Accounting principles (cont'd)

2.19. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with Business Accounting Standards 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 recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized 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 Company'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 and comparative figures

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

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

3 Intangible assets

	Development costs	Patents, licenses	Software	Total
Cost:				
Balance as of 31 December 2003	863	3,837	2,860	7,560
Additions	-	292	1,239	1,531
Disposals	(8)	(854)	(355)	(1,217)
Reclassifications	(46)	41	5	-
Balance as of 31 December 2004	809	3,316	3,749	7,874
Amortization:				
Balance as of 31 December 2003	469	2,587	2,224	5,280
Charge for the year	195	490	309	994
Disposals	(8)	(854)	(355)	(1,217)
Reclassifications	-	(4)	4	-
Balance as of 31 December 2004	656	2,219	2,182	5,057
Net book value as of 31 December 2004	**153**	**1,097**	**1,567**	**2,817**
Net book value as of 31 December 2003	**394**	**1,250**	**636**	**2,280**

Amortization expenses of intangible assets are included in operating expenses in the income statement.

Part of the non-current intangible assets of the Company with the acquisition value of LTL 3,307 thousand as of 31 December 2004, was fully amortized (LTL 2,262 thousand as of 31 December 2003) but still in use.

4 Non-current tangible assets

	Land	Trans-mission networks and related installa-tions	Distribution networks and related installations	Buildings and other struc-tures	Machi-nery and equip-ment	Vehicles	Other equip-ment, tools and devices	Con-struc-tion in progress	Other non-current tangible assets	Total
Cost, original or indexed:										
Balance as of 31 December 2003	-	325,949	369,843	84,885	119,541	23,021	50,782	19,510	2,604	996,135
Additions	23	-	1,584	2,863	270	2,462	3,031	73,994	103	84,330
Disposals and retirements	-	-	(84)	(368)	(3,092)	(1,443)	(2,126)	-	(269)	(7,382)
Reclassifications	-	1,524	21,462	2,194	9,209	303	2,875	(37,638)	71	-
Balance as of 31 December 2004	23	327,473	392,805	89,574	125,928	24,343	54,562	55,866	2,509	1,073,083
Accumulated depreciation:										
Balance as of 31 December 2003	-	150,410	125,090	31,446	49,897	16,295	25,899	-	1,765	400,802
Charge for the year	-	12,975	11,670	1,717	9,850	1,752	5,265	-	181	43,410
Disposals and retirements	-	-	(57)	(219)	(2,047)	(1,397)	(1,859)	-	(267)	(5,846)
Reclassifications	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2004	-	163,385	136,703	32,944	57,700	16,650	29,305	-	1,679	438,366
Impairment losses:										
Balance as of 31 December 2003	-	-	-	6,064	198	34	183	6,904	1	13,384
Charge for the year	-	-	-	808	3,888	-	2	2	-	4,700
Reversals	-	-	-	(127)	-	-	-	-	-	(127)
Disposals and retirements	-	-	-	(60)	(926)	(34)	(183)	-	(1)	(1,204)
Balance as of 31 December 2004	-	-	-	6,685	3,160	-	2	6,906	-	16,753
Net book value as of 31 December 2004	23	164,088	256,102	49,945	65,068	7,693	25,255	48,960	830	617,964
Net book value as of 31 December 2003	-	175,539	244,753	47,375	69,446	6,692	24,700	12,606	838	581,949

4 Non-current tangible assets (cont'd)

The depreciation of the Company's non-current tangible assets for 2004 amounts to LTL 43,410 thousand (LTL 42,600 thousand for 2003). This amount is included into operating expenses in the Company's income statement.

Non-current tangible assets of the Company with acquisition cost of LTL 44,587 thousand were fully depreciated as of 31 December 2004 (LTL 39,078 thousand as of 31 December 2003) but were still in active use.

In accordance with resolutions of the Government of the Republic of Lithuania, four revaluations of non-current tangible assets were performed during a period of hyperinflation prior to 1 January 1996. Revaluations of non-current tangible assets were performed by indexing the cost and accumulated depreciation of non-current tangible assets, applying indexation rates set by the Lithuanian Government for different asset categories.

Indexation rates used for the four revaluations were as follows (depending upon the date of acquisition and category of non-current tangible assets):

Revaluation	The range of indexes for non-current tangible assets revaluation
Revaluation effective 1 July 1991	2.2 times
Revaluation effective 1 January 1992	2 – 5 times
Revaluation effective 1 April 1994	1.4 – 14 times
Revaluation effective 31 December 1995	1.6 – 1.7 times

The effect of these revaluations on the net book value of non-current tangible assets at the time of indexation is specified below:

Revaluation	Increase in carrying value	Increase in accumulated depreciation	Increase in net book value
Revaluation effective 1 July 1991	1,141	226	915
Revaluation effective 1 January 1992	19,737	3,206	16,531
Revaluation effective 1 April 1994	210,388	92,434	117,954
Revaluation effective 31 December 1995	121,839	33,543	88,296
	353,105	129,409	223,696

Because of major movements and lack of separate registrations of the effect of indexations per asset, the Company cannot quantify the remaining effect of indexation on the balance of non-current tangible assets as of 31 December 2004.

The Company did not adjust the value of indexed non-current tangible assets after BAS came into effect. However, to measure the fair value of non-current tangible assets (including construction in progress), the revaluation of these assets was performed by the Company on 1 January 2005 (Note 23).

4 Non-current tangible assets (cont'd)

As of 31 December 2004, objects of construction in progress were as follows:

Object	Net book value	The amount of funds needed for completion of the object
Transmission pipeline to Visaginas and the Ignalina Nuclear Power Plant (Note 11)	21,309	48,690
Transmission pipeline from Šiauliai to Kuršėnai	-	43,000
Medium pressure gas pipeline to Nemenčinė	3,125	23
Gas measurement station on the Lithuanian – Latvian border	8,253	1,300
Other	12,149	120,987
	44,836	214,000

The Company accounted prepayments and materials amounting to LTL 4,124 thousand related to the construction of the transmission pipeline to Visaginas and the Ignalina Nuclear Power Plant in the construction in progress caption as of 31 December 2004.

5 Inventories

	2004	2003
Raw materials, spare parts and other inventories	3,714	4,002
Natural gas	1,942	3,725
	5,656	7,727
Less: allowance for inventories	(558)	(794)
	5,098	6,933

Changes in the allowance for inventories in 2004 and 2003 were included into operating expenses.

6 Accounts receivable

	2004	2003
Receivables for natural gas from industrial and commercial entities	34,096	25,563
Receivables for natural gas from residents	7,947	8,757
Other trade receivables	7,602	7,746
	49,645	42,066
Other accounts receivable	1,491	1,721
	51,136	43,787
Less: allowance for doubtful receivables	(8,013)	(7,496)
	43,123	36,291

Changes in allowance for doubtful trade receivables in 2004 and 2003 were included into operating expenses

7 Other current assets

	2004	2003
Bonds of AB Vilniaus Bankas	24,000	-
Investment units of AB Bankas Nord/LB Lietuva	20,000	-
	44,000	-

Redemption terms of the bonds of AB Vilniaus Bankas are 17 January 2005 and 6 May 2005, redemption term of the investment units of AB Bankas Nord/LB Lietuva is not determined. Weighted average annual interest rate of these investments was 2.16% as of 31 December 2004.

8 Cash and cash equivalents

	2004	2003
Cash at bank, in transit and on hand	5,295	7,179
Frozen funds	6,807	6,807
Deposits with the term of less than three months	33,056	-
	45,158	13,986
Less: net realizable value allowance	(6,807)	(6,807)
	38,351	7,179

Frozen funds mostly consist of the Company's cash deposited at the bank AB Litimpeks Bankas. The bank went bankrupt in 1999 and it is now administrated by UAB Valeksa. During 2003, the Company recovered part of the receivables amounting to LTL 1,930 thousand. 100% impairment adjustment is still formed for the remaining amount.

All deposits with the term of less than three months were overnight deposits as of 31 December 2004. The annual interest rate for these deposits vary between 1.40% and 1.99%.

9 Share capital

On 28 April 2004, the shareholders of the Company made a decision to increase the share capital by issuing additional shares for the nominal amount of LTL 170,439 thousand. The emission was distributed within 30 days among the existing shareholders of the Company. At the end of the 30-day term, the shares subscribed amounted to LTL 128,190 thousand. On 25 October 2004, the Company registered the increase in share capital amounting to LTL 128,190 thousand.

10 Reserves

Legal reserve

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. At least an amount of LTL 3,384 thousand of the net profit must be assigned for a transfer to the legal reserve for 2004. This amount may change depending on the final decision of the shareholders of the Company to be made after the issue of these financial statements.

10 Reserves (cont'd)

Other reserves

Non-restricted (distributable) reserves are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting.

Profit distribution

On 28 April 2004, the Company's shareholders announced the dividends for 2003 amounting to LTL 22,000 thousand that were paid out in 2004.

The Company did not have a draft proposal of profit distribution for 2004 on the date of issue of these financial statements.

11 Grants and subsidies

	2004	2003
Balance as of 1 January 2004	671	920
Received during the year	28,522	6
Amortisation	(142)	(255)
	29,051	671

In 2004, the Company received a subsidy amounting to LTL 28,522 thousand, LTL 28,094 thousand of which is designated for building a transmission pipeline to Visaginas and the Ignalina Nuclear Power Plant.

The 1st reactor of the Ignalina Nuclear Power Plant was stopped on 31 December 2004. The stoppage of the 2nd reactor of the Ignalina Nuclear Power Plant is scheduled in 2009. It is expected that as a part of the discontinuing of Ignalina Nuclear Power Plant the construction of a new natural gas transmission pipeline from Pabradė to Visaginas and a gas distribution pipeline from Visaginas to the new heat boiler station will be constructed. Since the construction of the new pipeline connection is not economically feasible due to low forecasted natural gas consumption volumes, the project is financed through a combination of commercial and grant funding. Consequently, two grants were provided to the Company. The first grant amounting to EUR 12,950 thousand (LTL 44,714 thousand) was provided by the Ignalina International Decommissioning Support Fund, which is administered by the European Bank for Reconstruction and Development. In 2004, the second grant amounting to LTL 20,000 was provided by the Ignalina Nuclear Power Plant Decommissioning Fund administrated by the Ministry of Economy of the Republic of Lithuania.

Grants and subsidies also include non-current tangible assets received free of charge and accounted in the income statement in portions on a straight-line basis over the assets' estimated useful life.

12 Borrowings

	As of 31 December 2004	As of 31 December 2003
Non-current borrowings		
Bank loans	26,043	32,936
Borrowings from Kuwait Fund for Economic Development of Arab countries	25,013	29,915
Borrowings from Phare program	2,892	4,877
	53,948	67,728
Current borrowings		
Current portion of non-current borrowings	10,845	75,521
Overdraft used	-	17,799
	10,845	93,320
	64.793	161.048

12 Borrowings (cont'd)

Terms of repayment of non-current borrowings are as follows:

	As of 31 December 2004		
	Non interest bearing loans	**Fixed interest bearing loans**	**Variable interest bearing loans**
2005	2,614	5,049	3,182
2006	2,614	5,049	1,520
2007	1,535	5,049	1,520
2008	-	5,049	1,195
2009	-	5,049	-
2010	-	5,049	-
2011	-	5,049	-
2012	-	5,049	-
2013	-	5,049	-
2014	-	2,483	-
2015	-	2,689	-
	6,763	50,613	7,417

As of 31 December 2004 weighted average effective annual interest rate of non-current borrowings outstanding was 5.19% (4.63% as of 31 December 2003).

Borrowings at the end of the year in national and foreign currencies were as follows:

Borrowings denominated in:	**2004**	**2003**
KWD	27,494	32,614
EUR	25,834	75,800
USD	5,710	7,371
LTL	5,755	45,074
DKK	-	189
	64,793	161,048

13 Trade payables

	2004	**2003**
Suppliers of natural gas	38,746	24,868
Other	5,118	8,112
	43,864	32,980

14 Cost of sales

The major part of the cost of sales includes the cost of natural gas.

15 Operating expenses

	2004	2003
Salaries and social security	56,545	60,722
Depreciation and amortization	44,404	43,272
Repairs	13,174	13,456
Taxes other than income tax	13,307	13,100
Impairment of assets	4,860	2,190
Other	33,524	22,217
	165,814	154,957

16 Other operating activities

The major part of the income from other activities consist of the VAT relief related to the employment of disabled persons.

17 Financial and investment activities

	2004	2003
Foreign currency exchange gain, net	3,497	9,418
Penalty interest and penalties received	1,222	1,812
Interest income	823	793
Other income from financial and investment activities	55	743
Total income from financial and investment activities	5,597	12,766
Interest expenses	(6,497)	(11,022)
Currency forwards trading expenses	-	(11,938)
Paid overdue interests and penalties	(14)	(11)
Other expenses from financial and investment activities	(1)	(4,199)
Total expenses from financial and investment activities	(6,512)	(27,170)
(Loss) from financing and investment activities, net	(915)	(14,404)

Impairment of investment into UAB Palangos Perlas amounting to LTL 3,933 thousand was included into other expenses from financial and investment activities in 2003.

18 Income tax

	2004	2003
Income tax:		
Income for the year before income tax according to BAS	80,055	77,237
Changes in temporary differences	5,444	19,370
Items that are not tax deductible	3,026	4,920
Taxable income for the year	88,525	101,527
Current income tax	13,279	15,229
Prior periods' income tax adjustment	(899)	193
Change in deferred income tax	-	-
Income tax expense charged to the income statement	12,380	15,422
Deferred tax assets:		
Impairment losses	5,788	5,059
Financial activities loss carry forward	1,791	1,791
Other	390	302
Deferred tax asset before valuation allowance	7,969	7,152
Less: valuation allowance	(7,969)	(7,152)
Deferred tax asset, net	**-**	**-**
Deferred tax liability	**-**	**-**
Total deferred tax asset	**-**	**-**
Income tax expense and income tax reconciliation:		
Profit before tax	80,055	77,237
Tax (expense) at the applicable standard tax rate	(12,008)	(11,586)
Tax effect of items that are not taxable in determining taxable income	(454)	(738)
Change in deferred tax asset realization allowance	(817)	(2,905)
Effect of prior periods income tax adjustments	899	(193)
Income tax (expense)	**(12,380)**	**(15,422)**

The Company made a valuation allowance for the deferred tax asset. According to the Company, the allowance is needed to reduce the deferred tax asset to the amount that is likely to be realized.

19 Earnings per share

Basic earnings per share reflect the Company's net income, divided by the weighted average number of shares. There are no diluting instruments. Calculations of the basic earnings per share are presented below:

	2004	2003
Net income attributable to the shareholders (in LTL thousand)	67,675	61,815
Weighted average number of shares (thousand) *	362,243	340,878
Basic earnings per share (in LTL)	0.19	0.18

* weighted average number of shares in 2004: 340,878*10/12+469,068*2/12=362,243. As there were no changes in the share capital of the Company during 2003, the weighted average number of shares equals to the total number of shares.

20 Financial assets and liabilities and risk management

Credit risk

As the Company has many partners and clients, it does not face a significant credit risk.

The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognized at the balance sheet date.

Interest rate risk

Part of the Company's borrowings is with variable rates, related to LIBOR, which creates an interest rate risk. On 11 June 2002, the Company and bank Westdeutsche Landesbank Girozentrale concluded currency swap transaction, where the Company undertook to pay fixed interest to the Bank for certain liabilities in 2002, 2003 and 2004. The aforesaid transactions expired on 6 August 2004, i.e. as soon as the final settlement was made. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2004.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date. The Company's liquidity and quick ratios as of 31 December 2004 were 1.8 and 1.7 (0.36 and 0.3 as of 31 December 2003).

20 Financial assets and liabilities and risk management (cont'd)

Foreign exchange risk

Major currency risks of the Company occur due to the fact that the Company borrows foreign currency denominated funds as well as is being involved in imports and transit of natural gas. The Company's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Company, considering the situation in foreign currencies' market, did not use any financial instruments to manage its exposure to foreign exchange risk. Monetary assets and liabilities stated in various currencies as of 31 December 2004 were as follows:

	Assets	Liabilities
LTL	123,021	20,716
EUR	34	25,834
USD	3,292	44,456
KWD	-	27,493
Total	126,347	118,499

Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, investments into subsidiary, 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, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

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

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

21 Commitments and contingencies

Litigation with AB Kauno Energija

The Company, as a plaintiff, is engaged in legal proceedings with AB Kauno Energija (defendant) in respect of penalty interest charged by the Company to the defendant for late settlement of debts for delivered natural gas and gas transportation services during the period from 5 October 1999 to 7 March 2001. The total amount of late payment fines claimed is LTL 20,165 thousand. On 25 January 2005, a decision of Lithuanian Court of Appeal was adopted, granting partial satisfaction, i.e. confirming a penalty for late payment in the amount of LTL 6,314 thousand and court expenses in the amount of LTL 40 thousand to be paid to AB Lietuvos Dujos, the plaintiff, by AB Kauno Energija, the defendant. This court ruling may be appealed against by way of cassation by 25 April 2005. At the date of issuance of these financial statements, the Company did not make adjustments in its accounts related to above mentioned case.

Acquisition commitments

In accordance with the Natural Gas Law of the Republic of Lithuania and pursuant to the procedure approved by the order No. 201 of the Ministry of Economy of the Republic of Lithuania dated 20 June 2001, in 2002 the Company started the process of buying-out natural gas supply systems of common use owned by other legal entities and natural persons. Before this process has been launched, there were 973 km of such pipelines in Lithuania and the estimated buy-out price was in the range of approximately LTL 15,000 thousand to LTL 20,000 thousand. During 2002 - 2004 the Company has bought out 191.7 km for the total value of LTL 2,776 thousand. In 2005 the Company is planning to buy out pipelines for an amount of LTL 1,400 thousand.

22 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company and related party transactions in 2004 and 2003 were as follows:

- E.ON Ruhrgas International AG (one of the major shareholders of the Company);
- OAO Gazprom (one of the major shareholders of the Company since 2004);
- State Property Fund (one of the major shareholders of the Company);
- UAB Palangos Perlas (subsidiary of the Company).

2004	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	214,828	-	-	38,745
	214,828	-	-	38,745

In 2003 related party transactions included only dividends paid to the shareholders for the year 2002. Dividends were also paid in 2004.

Remuneration of the management and other payments

The Company's management and related individuals' remuneration amounted to LTL 1,000 thousand in 2004 (LTL 494 thousand in 2003). In 2004 and 2003, the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

23 Subsequent events

Valuation of non-current tangible assets

Part 5 of Article 15 of the Law on Companies' Financial Statements as of 6 November 2001 of the Republic of Lithuania indicates that the companies, the securities of which are traded in the regulated markets, must conduct their accounting and financial reporting according to International Accounting Standards (since 2002 – International Financial Reporting Standards). This requirement is applicable from 1 January 2005.

Pursuant to the aforesaid requirement, the Company performed a valuation of non-current tangible assets (including construction in progress) as of 1 January 2005 in order to determine its fair value. Assets acquired after 1995 with short period of depreciation and insignificant value were not presented for valuation as their acquisition value approximates their fair value.

The value of the non-current tangible assets of the Company after valuation amounts preliminary to LTL 2.07 billion.

The valuation of the non-current tangible assets of the Company was conducted by UAB Korporacija Matininkai (company code 121913439, qualification certificate No. 000001).