AB RYTŲ SKIRSTOMIEJI TINKLAI

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

PUBLIC LIMITED LIABILITY COMPANY
RYTŲ SKIRSTOMIEJI TINKLAI

Company Performance Report for Financial Year 2005

The performance report of Rytų Skirstomieji Tinklai Public Limited Liability Company (hereinafter referred to as the Company) is drafted by the Board of the Company pursuant to Article 36 of the Law of the Republic of Lithuania on Companies. This report is public: every stakeholder may familiarise themselves with the report at the Company office, Lukšio 5b, Vilnius.

As of the period of drafting the Company performance report the Board members of the Company are the following:

Jonas Rimantas Kazlauskas, Chair of the Board, Deputy Director of Energetikos Agentūra VĮ;

Rimantas Milišauskas, Managing Director of the Company;

Rimvydas Rukšėnas, President of the Lithuanian Electricity Association;

Algimantas Zaremba, Director of the Energy Department of the Ministry of Economy;

Nijolė Sabonienė, Specialist of the Share Management Division of the Property Management Department of Valstybės Turto Fondas VĮ.

In this report the Company Board presents the overview of the financial year 2005, the most important events of the last financial year, activity plans and forecasts and all other information which must be disclosed in the Company performance report pursuant to the laws in force to its shareholders, creditors and all other stakeholders.

Essential Events in the Company in 2005

January 2005. From 1 January 2005 new prices and rates of electricity of Rytų Skirstomieji Tinklai AB and the procedure of application thereof came into force.

The Company Board made a decision to increase the authorised capital of its subsidiaries: ELEKTROS TINKLO PASLAUGOS UAB - up to LTL 4.11 million, RYTRA UAB - up to LTL 12.57 million.

Within 2004 the Company received income of LTL 741.6 million and incurred the loss before taxes of LTL 91.6 million which was to a great extent determined by property revaluation.

April 2005. During the first quarter the Company earned the profit before taxes of LTL 8.2 million.

The shareholders made a decision to increase the Company's authorised capital by LTL 81.8 million using the revaluation reserve.

June 2005. The shareholders made a decision to reduce the Company's authorised capital by LTL 81.8 million and elected a new Council of Observers now comprising the following members: Mario Nullmeier, Anicetas Ignotas, Saulius Spėčius, Nijolė Bujauskienė and Aušra Pažėraitė.

July 2005. The newly elected Council of Observers elected the Chairman of the Council of Observers (A. Ignotas) and withdrew and elected a new Board of the Company.

Within the six months the Company earned the profit before taxes of LTL 11.7 million.

August 2005. The newly elected Board of the Company elected the Chairman of the Board.

October 2005. Within the nine months the Company earned the profit before taxes of LTL 15.9 million.

November 2005. The Board of the Company decided to increase the authorised capital of the subsidiaries RYTRA UAB and ELEKTROS TINKLO PASLAUGOS UAB and to purchase newly issued shares in RYTRA UAB and ELEKTROS TINKLO PASLAUGOS UAB (ELEKTROS TINKLO PASLAUGOS UAB - up to LTL 11.65 million, RYTRA UAB - up to LTL 22.99 million).

The Company Board made a decision to incorporate one more subsidiary - TETAS UAB.

December 2005. The Company's subsidiary - TETAS UAB - was registered with the State Enterprise Centre of Registers.

The Company Board made a decision to increase the authorised capital of TETAS UAB with additional contributions up to LTL 1,988,000 and to purchase all newly issued shares in TETAS UAB.

Within 2005 the Company received the income of LTL 854.3 million.

Changes in the Company Structure in 2005. On 12 August 2005 a new Company management structure was approved taking account of the fact that pursuant to decisions made by the Board in 2004 two subsidiaries RYTRA UAB and ELEKTROS TINKLO PASLAUGOS UAB were incorporated, and pursuant to order of the Managing Director of the Company the Company service branches were deleted from the Register of Legal Persons on 1 July 2005.

On 22 November 2005 the Company Board made a decision to incorporate a subsidiary – TETAS Private Limited Liability Company. This company was registered with the State Enterprise Centre of Registers on 8 December 2005.

Performance of Other Company Management Functions. Within the last financial year the Company Board gathered for 10 meetings where it considered the financial plans of the Company, investment projects of the Company and implementation thereof, quarterly and annual economic performance results, income and expense estimates, borrowing of funds for the Company activities, loan-related risk management, issues of effective assets management, the management structure and positions of the Company and many other issues within the competence of the Board.

The Company Board made decisions regarding the writing-off of the unused assets, writing-off of hopeless debts and taking into account the structural changes in the Company, a new management structure of the Company was approved. The Company Board considered the incorporation of one more subsidiary.

Electricity Sale and Purchase. In 2005 the Company sold 3,680 million kWh of electricity, i.e. 4.2% more than in 2004. However in 2005 the growth tempos of sales decreased by 1.9%.

Income from sale of electricity due to new rates applied (which in 2005 increased by 10.3%) and due to general consumption growth was 14.4% higher than in 2004.

In 2005 the Company purchased 4,137.4 million kWh of electricity, i.e. 4.0% more than in 2004. The contractual electricity was directly purchased from producers, and additional and public interest energy from Lietuvos Energija AB. The increase in the purchase was determined by the consumption growth.

Income and Expenditure. In 2005 the Company's sale income reached LTL 854.3 while at the sale-related expenditure reached LTL 834.0 million, of which the expenditure on purchased electricity and transmission – LTL 486.6 million, or 58.3% of all expenses. With the growth of sales in 2005, as compared to 2004, income increased by LTL 112.7 million, or by 15.2%.

In 2005 relatively stable expenses of the Company were LTL 351.2 million and as compared to the previous year (without taking into consideration property revaluation) increased by LTL 96.4 million, or 37.8%. The growth of expenditure was determined by the depreciation costs which grew more than twice (LTL 86.5 million) because of property revaluation. The increase in the relatively stable expenditure of the Company without depreciation and value decrease in 2005 was only LTL 9.9 million, or 5.9%.

Profit. In 2005 the Company earned LTL 19.9 million of profit before taxes and the net profit was LTL 17.0 million. Profit per share was 3.4 ct. Because of the depreciation costs of the fixed assets revaluation reserve, the non-appropriated profit of the reporting year was increased. As of 31 December 2005 the non-appropriated profit was LTL 147.7 million.

Loans and Activity Financing. Since the beginning of the year financial debts decreased by LTL 47.1 million, i.e. from LTL 171.9 million up to LTL 124.8 million. In 2005 investment projects were financed from the assets depreciation funds accrued.

Fixed Assets. The Company's fixed assets in 2005 decreased by LTL 19.9 million. That was influenced by depreciation exceeding investments – LTL 9.6 million and writing-off of fixed tangible assets LTL 8 million.

Investments. In 2005 the investments were LTL 158.1 million, i.e. LTL 23.7 million (17.6%) more than in 2004. LTL 57.1 million, or 36% of all investments, were spent on connecting new consumers. Expenses on those purposes in 2005 increased by 20.3%. 6.5% more of new consumer capacity was connected within the year as compared to the previous year. This allows hoping that electricity sales in 2006 will be increasing.

Transactions with Shares. As of 31 December 2005 the authorised capital consisted of 492,404,653 ordinary registered shares (ORS) of the par value of LTL 492,404,653. In the middle of 2005 the authorised capital was increased and later reduced to cover the loss of the Company by the same amount, which was why the authorised capital remained the same at the end of the year as it was at the beginning of the year. The par value of one share is LTL 1. All shares are fully paid. During the reporting year 2005 one more subsidiary – TETAS UAB – was incorporated. All shares in TETAS UAB are paid by the Company. In 2005 by contributions in kind the Company increased the authorised capitals of subsidiaries – the authorised capital of RYTRA UAB increased from LTL 12.57 million to LTL 22.99 million, and the authorised capital of ELEKTROS TINKLO PASLAUGOS UAB increased from LTL 4.11 million to LTL 11.65 million.

Shareholders who as of 31 December 2005 hold more than 5% of the authorised capital of Rytų Skirstomieji Tinklai AB:

Names of shareholders, company names, kind, office address, company code in the Register of Enterprises	**Number of ordinary registered shares held, units**	**Share of the authorised capital and votes held, %**
Government represented by the Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, 2600 Vilnius	351,335,678	71.35
E.ON Energie AG , Nymphenburger Str.39, 80 335 Munchen, Germany, HRB No 132000	99,845,392	20.28

Company Structure. As of 31 December 2005 the Company consisted of four regions - Vilnius, Panevėžys, Alytus and Utena. The central office of the Company is in Vilnius. The Company has three subsidiaries - ELEKTROS TINKLO PASLAUGOS UAB, RYTRA UAB and TETAS UAB.

Company Performance Plans and Forecasts for 2006. It is planned that the sales income in 2006 will be LTL 875.3 million, i.e. LTL 21.1 million, or 2.5% more than in 2005. In 2006 the Company plans to sell 3.779 million kWh of electricity, i.e. 2.7% more than in 2005.

We forecast that in 2006 we will earn LTL 17.7 million of profit before taxes.

In 2006 relatively stable costs will remain at the level of 2005 and reach LTL 351.5 million.

In 2006 it is planned to invest LTL 170 million. The main direction for investments are connection of new consumer installations, renovation of transformer substations and development of the 0.4010 kV electricity network.

Much attention will be devoted to increasing performance efficiency of the Company and the subsidiaries and improving customer service:

- A new electricity billing and management system will be implemented
- To start the activity of the Company's Customer Call Service Centre
- To help to implement ambitious business plans of the newly established subsidiary TETAS UAB
- To sign a new collective agreement with the staff
- To implement a new work remuneration and incentive system at the Company.

Chairman of the Board Jonas Rimantas Kazlauskas

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Rytų Skirstomieji Tinklai:

We have audited the accompanying financial statements (page 4 to 28) of AB Rytų Skirstomieji Tinklai (thereafter – the Company), which comprise the balance sheet as of 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

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

Without qualifying our opinion, we draw attention to the fact that as discussed in Note 26 to the financial statements, the corresponding financial information for the year ended 31 December 2004 has been restated.

Without qualifying our opinion, we draw attention to the fact that the Company and subsidiaries consolidated financial statements for the year ended 31 December 2005 are not included in these financial statements, and we understand that such consolidated financial statements will be presented separately.

UAB Deloitte Lietuva
General Director Juozas Kabašinskas

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
30 March 2006

AB RYTŲ SKIRSTOMIEJI TINKLAI

BALANCE SHEET
AS OF 31 DECEMBER 2005

ASSETS	Notes	2005 LTL	(As restated, Note 26) 2004 LTL
Non-current assets:			
Property, plant and equipment	4	2,339,683,764	2,393,171,645
Intangible assets	5	3,112,570	3,439,395
Investments in subsidiaries	6	34,685,000	60,000
Long-term receivables	7	6,825,646	7,509,145
Total non-current assets		**2,384,306,980**	**2,404,180,185**
Current assets:			
Inventories	8	3,234,878	11,614,033
Receivables and prepayments	9	85,804,427	75,429,126
Loans granted	10	2,000,000	-
Cash and cash equivalents	11	881,866	1,319,999
Non-current assets held for sale		341,160	-
Total current assets		**92,262,331**	**88,363,158**
TOTAL ASSETS		**2,476,569,311**	**2,492,543,343**
LIABILITIES AND EQUITY			
Equity:			
Share capital	12	492,404,653	492,404,653
Legal reserve	13	-	42,060,928
Revaluation reserve	13	1,265,932,393	1,479,857,078
Retained earnings (Accumulated deficit)		147,680,654	(116,897,617)
Total equity		**1,906,017,700**	**1,897,425,042**
Non-current liabilities:			
Borrowings	15	85,318,688	86,354,528
Deferred income from new customers	16	39,089,123	30,892,059
Deferred tax liabilities	23	248,881,991	259,710,815
Non-current trade payables		666,852	-
Grants, subsidies	14	4,033,540	4,163,259
Total non-current liabilities		**377,990,194**	**381,120,661**
Current liabilities:			
Trade and other payables	17	153,120,908	128,430,407
Borrowings	15	39,440,509	85,567,233
Total current liabilities		**192,561,417**	**213,997,640**
TOTAL LIABILITIES AND EQUITY		**2,476,569,311**	**2,492,543,343**

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

These financial statements were approved on 30 March 2006 and signed by:

Rimantas Milišauskas
General Director

Arvydas Zakalskis
Finance Director

AB RYTŲ SKIRSTOMIEJI TINKLAI

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LTL	(As restated, Note 26) 2004 LTL
Revenue	**19**	854,255,786	741,584,773
Electricity purchase		(345,182,200)	(327,536,440)
Electricity distribution expenses		(141,454,587)	(131,559,399)
Depreciation and amortization		(167,442,318)	(80,913,111)
Remuneration and related taxes		(72,832,082)	(75,164,949)
Repair and technical maintenance expense		(47,870,299)	(39,779,345)
Transport services		(11,850,180)	(216,709)
Meter measurements		(10,622,328)	(10,578,142)
Non current assets write-off		(7,129,043)	(1,811,794)
Taxes (excluding income tax)		(6,497,672)	(11,885,857)
Non-current assets impairment		-	(122,399,254)
Other operating expenses	**20**	(23,196,407)	(29,764,182)
Other income, net	**21**	3,084,993	2,910,478
Profit (loss) from operations		**2,326,3663**	**(87,113,931)**
Net finance costs	**22**	(3,255,860)	(4,624,693)
Net foreign currency exchange (loss) gain		(82,669)	95,250
Profit (loss) before income tax		**19,925,134**	**(91,643,374)**
Income tax (expense) benefit	**23**	(2,938,453)	14,608,816
Net profit (loss)		**16,986,681**	**(77,034,558)**
Basic diluted earnings (losses) per share		**0.034**	**(0.156)**

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

These financial statements were approved on 30 March 2006 and signed by:

Rimantas Milišauskas
General Director

Arvydas Zakalskis
Finance Director

AB RYTŲ SKIRSTOMIEJI TINKLAI

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

	Share Capital LTL	Revaluation reserve LTL	Legal reserve LTL	Accumulated profit (loss) LTL	Total LTL
As of 31 December 2003	**492,404,653**	**35,356**	**31,435,860**	**(21,654,613)**	**502,221,256**
Revaluation of non-current tangible assets (As restated, Note 26)	-	1,740,966,732	-	-	1,740,966,732
Deferred tax liability recognized due to revaluation of non-current tangible assets value (As restated, Note 26)	-	(261,145,010)	-	-	(261,145,010)
Net loss for the year (As restated, Note 26)	-	-	-	(77,034,558)	(77,034,558)
Dividends	-	-	-	(7,583,378)	(7,583,378)
Reserves formed	-	-	10,625,068	(10,625,068)	-
As of 31 December 2004 (as restated, Note 26)	**492,404,653**	**1,479,857,078**	**42,060,928**	**(116,897,617)**	**1,897,425,042**
Share capital increase (Note 12)	81,811,419	(81,811,419)	-	-	-
Share capital decrease (Note 12)	(81,811,419)	-	-	81,811,419	-
Reserves used	-	-	(42,060,928)	42,060,928	-
Increase in deferred tax liability, related to revaluation of non-current assets, due to change in income tax rates	-	(8,394,023)	-	-	(8,394,023)
Decrease in revaluation reserve related to depreciation and disposal of revalued non-current assets	-	(123,719,243)	-	123,719,243	-
Net profit for the year	-	-	-	16,986,681	16,986,681
As of 31 December 2005	**492,404,653**	**1,265,932,393**	**-**	**147,680,654**	**1,906,017,700**

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

These financial statements were approved on 30 March 2006 and signed by:

Rimantas Milišauskas
General Director

Arvydas Zakalskis
Finance Director

AB RYTŲ SKIRSTOMIEJI TINKLAI

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 LTL	(As restated, Note 26) 2004 LTL
OPERATING ACTIVITIES		
Profit (loss) for the year	**16,986,681**	**(77,034,558)**
Adjustments for :		
Depreciation and amortization	167,442,318	80,913,111
(Reversal of) impairment of property, plant and equipment	(695,254)	122,399,254
(Reversal of) provisions for doubtful accounts receivable	(2,498,337)	(2,017,000)
Adjustment of inventories net realizable value	(778,066)	(94,902)
Net loss on disposal and write-off of property, plant and equipment	9,095,508	1,559,642
Income tax expense (benefit)	2,938,453	(14,608,816)
Interest expense	3,726,069	4,721,424
Interest revenue	(470,209)	(96,731)
Net foreign currency exchange loss (gain)	82,669	(118,260)
Operating cash flows before movements in working capital	**195,829,832**	**115,623,164**
Inventories	9,169,299	3,947,528
Receivables and prepayments	(7,965,640)	1,432,435
Accounts payable and other liabilities	25,169,218	3,862,781
Cash generated by operations	**222,202,709**	**124,865,908**
Interest paid	(3,704,829)	(4,507,192)
Income tax paid	(15,183,302)	(7,112,114)
Net cash from operating activities	**203,314,578**	**113,246,602**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(156,802,843)	(134,460,237)
Proceeds from sale of property, plant and equipment	1,072,526	3,478,496
Establishment of subsidiaries	(30,000)	(60,000)
Loans granted	(2,000,000)	-
Repayment of loans granted	772,175	615,278
Interest received	470,209	96,731
Net cash used in investing activities	**(156,517,933)**	**(130,329,732)**
FINANCING ACTIVITIES		
Proceeds from borrowings	10,358,400	140,914,099
Repayments of borrowings	(57,593,178)	(120,895,259)
Dividends paid	-	(7,583,378)
Net cash (used in) from financing activities	**(47,234,778)**	**12,435,462**
Net increase (decrease) in cash	**(438,133)**	**(4,647,668)**
CASH, BEGINNING OF THE YEAR	**1,319,999**	**5,967,667**
CASH, END OF THE YEAR	**881,866**	**1,319,999**

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

These financial statements were approved on 30 March 2006 and signed by:

Rimantas Milišauskas
General Director

Arvydas Zakalskis
Finance Director

1. GENERAL INFORMATION

AB Rytų Skirstomieji Tinklai (the Company) is a joint stock Company registered in the Republic of Lithuania. The Company was registered on 31 December 2001 in the State Register of Enterprises. The Company's shares are listed on the Vilnius stock exchange. The Company's main office is situated in:

P. Lukšio g. 5b,
LT-08221 Vilnius,
Lithuania

The Company was registered as the result of the reorganization of the Special Purpose Company Lietuvos Energija. Following the Law on Reorganization of the SPAB Lietuvos Energija No. VIII-1693, dated on 18 May 2000, Lietuvos Energija was reorganized through disintegration. Upon reorganization certain assets, rights and liabilities were transferred from AB Lietuvos Energija that continued its activities, to newly established companies AB Vakarų Skirstomieji Tinklai, AB Rytų Skirstomieji Tinklai, AB Lietuvos Elektrinė and AB Mažeikių Elektrinė.

Upon reorganization AB Lietuvos Energija continues its activity as the transmission network operator and dispatcher and energy market operator. AB Vakarų Skirstomieji Tinklai and AB Rytų Skirstomieji Tinklai operate as distribution network operators and independent suppliers. AB Lietuvos Elektrinė and AB Mažeikių Elektrinė operate as electricity and heat generators.

AB Rytų Skirstomieji Tinklai activities are regulated by the Republic of Lithuania Law on Electricity of 20 July 2000, No VIII-1881.

National Control Commission for Prices and Energy regulates the Company's pricing policy by setting price-caps. In 2005 the effective public tariff caps for electricity were as follows:

- customers, receiving electrical energy from 110 kV and higher voltage electricity network, - 12.43 ct/kWh;
- customers, receiving electrical energy from lower than 110 kV and not lower than 6kV voltage electricity network, - 18.87 ct/kWh;
- customers, receiving electrical energy from 0.4 kV voltage electricity network, - 29.4 ct/kWh.

Until 30 June 2005 the Company consisted of the head office, 4 regional branches (Vilnius Elektros tinklai, Panevėžys Elektros tinklai, Alytus Elektros tinklai, Utena Elektros Tinklai) and two service branches – Transport and Electricity Network service branch.

Following the decision of transport and electricity network services separation were established separate subsidiaries: UAB Elektros tinklo paslaugos, UAB Rytra and UAB Tetas. UAB Elektros tinklo paslaugos and UAB Rytra were registered at the State Register of Enterprises on 8 December 2004. UAB Tetas was registered at the State Register of Enterprises on 8 December 2005.

Addresses of the Company's branches and subsidiaries:

Company/ Branch	Addresses
AB Rytų skirstomieji tinklai head office	Lukšio g. 5 b, Vilnius
Transport service branch/UAB Rytra	Geologų g. 16, Vilnius
Electricity Network service branch/ UAB Elektros Tinklo Paslaugos	Motorų g. 2, Vilnius
UAB Tetas	Senamiesčio g. 102 B, Panevėžys.

As of 31 December 2005 the Company employed 2,242 people (31 December 2004: 2,169).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation of financial statements
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on the historical cost basis, except for the revaluation of property, plant and equipment and certain financial assets and liabilities.

These financial statements are presented in the national currency of Lithuania, the Litas (LTL) since that is the currency in which the majority of the Company's transactions are denominated.

Critical judgments in applying the entity's accounting policies

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

In the year 2005 the Group has changed the estimated useful lives of property plant and equipment. The effect of a change in an accounting estimate was recognized prospectively by including it in the income statement in the period of change, as it is required by IAS 8 Accounting policies, Change in Accounting Estimates and Errors. The change in estimated useful lives for property plant and equipment as mentioned above resulted in depreciation expenses decrease by LTL 43,828,985 and deferred tax expenses increase by LTL 6,574,348 for the year ended 31 December 2005.

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

Fair value of non-current tangible assets
The non-current tangible asset are carried at fair value in the financial statements. The fair value is determined during the regular revaluations. of 31 December 2005 there were no indications that non-current tangible assets might be impaired.

Investments in subsidiaries
A subsidiary is a company over which the parent has control. Investments in subsidiaries are stated at cost less impairment losses recognized, where the investment's carrying amount in the parent's balance sheet exceeds its estimated recoverable amount. Dividends are recognized when the shareholder's right to receive payment is established.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided net of value-added tax, rebates and discounts.

Revenue
Revenues from industrial customers are recognized monthly based on meter measurements performed by the customer and checked by the Company (accrual basis).

Revenues from residential customers are recognized monthly based on cash receipts. A revenue accrual is made to record amounts already supplied but not yet paid at the end of each accounting period. Revenue accrual is estimated as 1/3 of payments received in December for the electricity.

Based on average useful live (30 years) of newly built or remodeled electricity equipment for the connecting new electricity users and the portion (40%) of financing which is reimbursed by the new customer, the following revenue recognition principles for income related to new customers are applied:

a) The income is recognized in the income statement when new customers pay the fee for the connection services based on the tariffs approved by National Control Commission for Prices and Energy Activities.

b) When income from new customer relates to the construction of the new electricity equipment, such income is recognized in the periods when the related costs are recognized, i.e. such income is deferred and recognized in the future periods in line with the depreciation expenses of the related assets that were built to connect the new customers. 1/12 portion of such income is recognized starting the next year after the contribution was received.

Revenue from the rendering of services
Revenue from rendering of services is recognized on performance of the services.

Revenue from the sale of goods
Revenues from sale of goods are recognized when goods are delivered and title has passed.

Interests
Interest income is recognized on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividends
Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received or receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign Currencies
Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

The applicable rates used for the principal currencies as of 31 December were as follows:

	31 December 2005	**31 December 2004**
EUR	3.4528	3.4528
USD	2.9102	2.5345

Borrowing costs
All borrowing costs are recognized in the statement of income in the period in which they are incurred.

Taxation
Income tax expense represents the sum of the tax currently payable and movements in deferred income tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

Non-current Intangible assets
Expenses are recognized as intangible assets if they meet these criteria: it is reasonably expected to gain economic benefit from the assets in the future periods; it is possible to measure the cost of the acquisition (production) of asset and to separate it from the value of other assets; the Company has the right to dispose, control or restrict the right for third parties to use it.

Intangible assets are stated at historical cost, less accumulated amortization and impairment losses.

Amortization is computed using the straight-line method. Liquidation value is not established. Amortization costs are recognized as depreciation, amortization and impairment expenses in the income statement.

Non-current intangible assets amortization periods:

Group of non-current intangible assets	Useful life (in years)
Development works	3
Software	3

The impairment and write off losses are charged to depreciation, amortization and impairment expense in the income statement.

Gains and losses on disposal of intangible non-current assets are recognized in the income statement during the year of disposal.

Property, plant and equipment
Property, plant and equipment are such assets, which are under the Company's ownership and control; which are reasonably expected to generate economic benefits in future periods; which are going to be used longer than one year; which acquisition (production) cost can be reliably measured; and which acquisition value is exceeding 2,000 LTL.

Property, plant and equipment are carried at a revalued amount less any subsequent accumulated depreciation and impairment loss. The revaluated amount is the fair value at the date of the revaluation, which was carried out on 31 December 2003 by an independent Lithuanian certified appraisal UAB Korporacija Matininkai. Revaluation results were recorded in the accounting books on 1 December 2004.

Depreciation is computed using the straight-line method over the estimated useful lives of the related asset. Revalued assets are depreciated over their remaining useful lives. Liquidation value equals to 1 LTL. Depreciation is recognized as depreciation, amortization and impairment expense in the income statement.

Non-current tangible assets depreciation periods:

Group of property, plant and equipment	Average useful life (in years)
Buildings and constructions	8-50
Machinery and equipment	5-25
Vehicles	4-10
Other equipment	2-10
Other tangible assets	4-15

Gains and losses on disposal of fixed assets are recognized in the income statement during the year of disposal.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

Property, plant and equipment revaluation methods
Property, plant and equipment initially are recorded at their acquisition cost and subsequently revalued recording at the revaluation amount and for the purposes of financial statements such assets are disclosed at the revaluation amount less accumulated depreciation and impairment.

If a revaluation of Property, plant and equipment is performed, such revaluation should be carried out on a regular basis, not less than once in five years. Non-current tangible assets (all assets or a particular group of assets) the fair value of which continuously and significantly changes should be revaluated more often.
In case of revaluation of one item of property, plant and equipment, the revaluation should also apply to all groups of Property, plant and equipment to which such asset item belongs. All assets attributed to one group should be revalued at the same time.

Revaluation is performed and recorded on item by item basis. If revaluation of property, plant and equipment results in value increase, such increase is recorded as an increase in the value of property, plant and equipment and is credited to the revaluation reserve. If revaluation of property, plant and equipment results in value reduction, such reduction is recorded as a decline in the property, plant and equipment value and is recognized as impairment loss in the reporting period income statement, unless previously the value of such assets has been increased as a result of revaluation.

If an item of property, plant and equipment has been previously revalued and the related revaluation reserve is outstanding, the reduction in its value is recorded as decrease in the revaluation reserve. If the amount of impairment in excess of revaluation reserve of the asset, is recognized as an impairment loss in the reporting period.

If the revaluation of a property, plant and equipment results in the value increase, for the assets where previously impairment was recognized, the increase in value not exceeding previously recognized impairment is recorded as reducing in impairment charge, the excess is charged to the revaluation reserve.

The revalued asset's depreciation charge in following periods is adjust so, that the revalued balance of the asset, after deduction of its liquidation value (if applicable), would be proportionally recognized as an expense throughout its remaining useful life.

When asset is disposed or written off the related of revaluation reserve is released to retained earnings (accumulated deficit).

When depreciating revalued assets, the revaluation reserve is reduced by the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the assets original cost. Reduction in the revaluation reserve is released to retained earnings (accumulated deficit).

Impairment of assets
At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have incurred an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

Financial instruments
Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in the statement of income when there is objective evidence that the asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans granted
Interest-bearing loans granted are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the settlement or redemption and the proceeds (net of transaction costs) of the loans granted is recognized over the term of the loans in the statement of income.

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

Bank borrowings
Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in the statement of income.

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

Financial risk management
The principal financial risk management policies of the Company are set out below:

Credit risk
The Company's credit risk is primarily attributable to its trade receivables and loans granted. The amounts presented in the balance sheet are net of allowances for doubtful receivables and loans, estimated by the Company's management based on objective evidence of events occurred after the initial recognition of the amounts.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

Foreign exchange risk
The Company's borrowings are in EUR, which is currently pegged to LTL. For this reason, the Company's foreign exchange risk exposure is considered low.

Interest rate risk
The Company's loans granted and loans borrowed are at the floating interest rates.

Provisions
Provisions are recognized when the Group has an obligation as a result of a past event, it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value were the effect is material.

Grants
Accounting for grants is carried out on accrual basis, i.e. received grants or their parts are recognized as utilized during periods in which grants-related expense is incurred.

Grants related to assets
Grants related to assets are obtained in non-current assets or for their acquisition. Such grants are carried at a fair value of received assets and are recorded as used portions by reducing the depreciation of the assets over its useful live.

Grants related to income

Grants related to income are obtained for compensating the incurred expense and unearned income, also the grants other than grants related to assets. A grant is recognized when it is actually received, or when reasonable evidence or decisions confirming that it will be received exist. A grant aimed at compensating unearned income is recognized as utilized to the extent of estimated amount of unearned income during a certain period, and increasing the item of compensatory income. A grant for compensating the incurred expense in installments is recognized as utilized to the extent of sustained expense for the compensation of which the grant is intended, and by reducing of compensatory income.

Earnings per share

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2005 and 2004 was 492,404,653. The Company had no dilutive options outstanding during 2005 and 2004 or at 31 December 2005 and 2004.

Related parties

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

Segment reporting

A business segment is a distinguishable component of an entity that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

There are two business segments within the Company's activities: electricity distribution and supply.

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

The geographical segments are not presented, since all services were provided in Lithuania.

Reclassification

Some amounts in the financial statements of year 2004 were reclassified to conform to the 2005 basis of presentation

4. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and constructions	Machinery and equipment	Vehicles	Other equipment	Construction in progress	Other tangible assets	Total
	LTL	LTL	LTL	LTL	LTL	LTL	LTL
Cost or valuation							
At 31 December 2004 (as restated, Note 26)	**2,775,037,968**	**315,818,067**	**61,349,968**	**71,170,566**	**18,528,534**	**3,733,576**	**3,245,638,679**
acquisitions	1,160,286	1,828,826	87,085	3,783,434	149,534,386	-	156,394,017
disposals	(39,416,974)	(8,111,197)	(61,156,795)	(4,393,820)	-	(1,174,988)	(114,253,774)
transfers	116,148,964	12,955,111	12,934	8,374,839	(137,395,851)	(95,997)	-
transfers to current assets	(1,192)	(718,751)	-	-	-	(55,156)	(775,099)
At 31 December 2005	**2,852,929,052**	**321,772,056**	**293,192**	**78,935,019**	**30,667,069**	**2,407,435**	**3,287,003,823**
Impairment							
At 31 December 2004	**210,843**	**72,081**	**-**	**337,974**	**1,670,392**	**11,939**	**2,303,229**
Impairment value / (reversals)	(54,949)	78,284	-	(266,075)	(650,097)	(4,086)	(896,923)
At 31 December 2005	**155,894**	**150,365**	**-**	**71,899**	**1,020,295**	**7,853**	**1,406,306**
Depreciation							
At 31 December 2004	**670,889,245**	**98,853,079**	**45,766,250**	**33,915,942**	**-**	**739,289**	**850,163,805**
depreciation	141,009,522	15,712,237	596,854	7,984,689	-	28,664	165,331,966
disposals	(14,232,736)	(4,785,029)	(46,253,931)	(3,578,064)	-	(471,887)	(69,321,647)
transfers	292,249	(190,667)	7,613	(5,135)	-	(104,060)	-
transfers to current assets	(608)	(251,341)	-	-		(8,422)	(260,371)
At 31 December 2005	**797,957,672**	**109,338,279**	**116,786**	**38,317,432**	**-**	**183,584**	**945,913,753**
Net book value At 31 December 2004 (as restated, Note 26)	**2,103,937,880**	**216,892,907**	**15,583,718**	**36,916,650**	**16,858,142**	**2,982,348**	**2,393,171,645**
Net book value At 31 December 2005	**2,054,815,486**	**212,283,412**	**176,406**	**40,545,688**	**29,646,774**	**2,215,998**	**2,339,683,764**

At 31 December 2005 the acquisition cost of the fully depreciated property, plant and equipment still in use by the Company was LTL 13,684,063.

Property, plant and equipment are carried at a revalued amount less any subsequent accumulated depreciation and impairment loss. The revaluated amount is the fair value at the date of the revaluation, which was carried out on 31 December 2003 by an independent Lithuanian certified appraisal UAB Korporacija Matininkai. Revaluation results were recorded in the accounting books on 1 December 2004.

At 31 December 2005, had the property, plant and equipment been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately million LTL 844.

5. INTANGIBLE ASSETS

At 31 December intangible assets consisted of the following:

	Development works LTL	Software LTL	Total LTL
Acquisition cost			
At 31 December 2004	**264,237**	**6,840,983**	**7,105,220**
Additions	184,500	1,599,832	1,784,332
Disposals	-	(406,385)	(406,385)
At 31 December 2005	**448,737**	**8,034,430**	**8,483,167**
Amortization			
At 31 December 2004	**127,722**	**3,538,103**	**3,665,825**
Amortization	85,706	2,024,645	2,110,351
Disposals	-	(405,579)	(405,579)
At 31 December 2005	**213,428**	**5,157,169**	**5,370,597**
Net book value			
At 31 December 2004	**136,515**	**3,302,880**	**3,439,395**
At 31 December 2005	**235,309**	**2,877,261**	**3,112,570**

As at 31 December 2005 the acquisition cost of the fully depreciated intangible assets still in use by the Company was LTL 1,700,007.

6. INVESTMENTS IN SUBSIDIARIES

At 31 December investments in subsidiaries consisted of the following:

	31 December 2005		31 December 2004	
Subsidiary	**LTL**	**% of owner-ship**	**LTL**	**% of owner-ship**
UAB Elektros tinklo paslaugos	11,657,000	100%	30,000	100%
UAB Rytra	22,998,000	100%	30,000	100%
UAB Tetas	30,000	100%	-	-
Total	**34,685,000**		**60,000**	

During 2005, the Company increased the share capital of the subsidiaries UAB Elektros tinklo paslaugos and UAB Rytra by LTL 11,627,000 and LTL 22,968,000 respectively. The increase in share capital was paid by non monetary contributions (non-current tangible assets).

The subsidiary UAB Tetas was established as on 8th December 2005.

The movement in investment balance during the year ended 31 December 2005 was as follows:

	2005.01.01-2005.12.31 LTL
Balance at 31 December 2004	**60,000**
Establishment of subsidiary	
UAB Tetas	30,000
Increase in share capital of subsidiaries	
UAB Elektros tinklo paslaugos	11,627,000
UAB Rytra	22,968,000
Balance at 31 December 2004	**34,685,000**

7. LONG TERM RECEIVABLES

At 31 December 2005 amounts receivable after one year consisted of the loans granted to employees in the amount of LTL 6,825,646 (2004: LTL 7,509,145).

The mortgage loans with variable maturities are repayable before the year 2026. The Company earns an average 1.00 % fixed interest per annum on these loans. The loans are secured over residential property.

The carrying amount of the long-term receivables approximate their fair value.

8. INVENTORIES

At 31 December inventories consisted of the following:

	2005 LTL	2004 LTL
Raw material and spare parts	3,513,794	11,574,399
Goods for resale	1,107,234	-
Meter measurements	909,831	1,192,269
Fuel	5,616	227,085
Other	649,602	2,349,545
Total	**6,186,077**	**15,343,298**
Less: write-down to net realizable value	(2,951,199)	(3,729,265)
Total	**3,234,878**	**11,614,033**

Movement in provision is as follows:

	2005 LTL	2004 LTL
Write-down to net realizable value at year beginning	3,729,265	3,815,948
Increase		
Decrease	(778,066)	(86,683)
Write-down to net realizable value at year end	**2,951,199**	**3,729,265**

9. RECEIVABLES AND PREPAYMENTS

At 31 December receivables and prepayments consisted of the following:

	2005 LTL	2004 LTL
Trade amounts receivable	97,620,589	91,980,570
Receivables from Subsidiaries	215,198	-
Other receivables	4,875,243	3,556,649
Total	**102,711,030**	**95,537,219**
Less allowance for doubtful receivables	(18,474,956)	(20,887,705)
Receivable, net	**84,236,074**	**74,649,514**
Prepayments	1,573,148	781,586
Less allowance for doubtful prepayments	(4,795)	(1,974)
Prepayment, net	**1,568,353**	**779,612**
Total	**85,804,427**	**75,429,126**

The movement for the years in the allowance for doubtful accounts receivable and prepayments consisted of the following:

	2005 LTL	2004 LTL
Allowance at year beginning	**20,889,679**	**22,906,718**
Increase	-	-
Decrease	(2,409,928)	(2,017,039)
Allowance at year end	**18,479,751**	**20,889,679**

The carrying amount of receivables and prepayments approximates their fair value.

10. LOANS GRANTED

As of 31 December 2005 the Company had a loan granted to subsidiary UAB Rytra. The credit limit is LTL 5,000,000, annual interest rate – 3 month VILIBOR + 0.9 %. The loan maturity is the 29th December 2006. As of 31 December 2005 the loan granted amounted to LTL 2,000,000.

The carrying amount of loans granted approximates their fair value.

11. CASH AND CASH EQUIVALENTS

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

	2005 LTL	2004 LTL
Cash at bank	553,596	1,138,194
Cash on hand	53,070	52,465
Cash in transit	275,200	129,340
Total	**881,866**	**1,319,999**

12. SHARE CAPITAL

At 31 December 2005 and 31 December 2004 issued share capital consisted of 492,404,653 authorized ordinary shares at par value of LTL 1 each. All shares were fully paid.

On 28 April 2005 the shareholders of the Company decided to increase share capital from revaluation reserve by LTL 81,811,419 by issuing new ordinary shares with nominal value of 1 LTL each. The new shares emission was distributed to shareholders in proportion to their owned number of shares as of 28 April 2005.

On 28 June 2005 in order to offset the accumulated losses of the Company the shareholders decided to decrease the share capital by LTL 81,811,419 by canceling 81,811,419 ordinary shares with nominal value of 1 LTL each.

At 31 December 2005 the shareholders of the Company were as follows:

Shareholders	Proportion of ownership	
	LTL	%
The State of Lithuania, represented by the Ministry of Economy	351,335,678	71.35
E.On Energie	99,845,392	20.28
Other	41,223,583	8.37
Total	**492,404,653**	**100.00**

13. RESERVES

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of 5% of net profit calculated in accordance with the Law of the Republic of Lithuania on Companies are compulsory until the total of the reserve reaches 10% of the share capital. The distribution of legal reserve is restricted to cover accumulated deficit.

At 31 December 2004 the legal reserve amounted to LTL 42,060,928. In 2005 the legal reserve was used to offset the losses accumulated as of 31 December 2004.

Revaluation reserve is the value increase of the non-current tangible assets after revaluation. The Company revalued its' non-current tangible assets in 2004.

The revaluation reserve movement for the years ended 31 December 2005 and 2004 was the following:

	2005 LTL	(As restated, Note 26) 2004 LTL
Revaluation reserve at the beginning of the year	**1,479,857,078**	**35,356**
Revaluation of non-current tangible assets	-	1,740,966,732
Deferred tax liability recognized due to revaluation non-current tangible assets value	-	(261,145,010)
Share capital increase from revaluation reserve	(81,811,419)	-
Increase in deferred tax liability, related to revaluation of non-current assets, due to change in income tax rates	(8,394,023)	-
Decrease in revaluation reserve related to depreciation and disposal of revalued non-current assets	(123,719,243)	-
Revaluation reserve at the end of the year	**1,265,932,393**	**1,479,857,078**

14. GRANTS AND SUBSIDIES

Assets received from the state at no consideration are accounted as Grants and subsidies. Such non-current tangible assets are depreciated on a straight-line basis over the useful life of the assets. Grants are recorded as income by reducing the depreciation charge over the useful lives of the assets concerned.

At 31 December 2005 grants amounted to LTL 4,033,540 (at 31 December 2004: LTL 4,163,259).

15. BORROWINGS

At 31 December borrowings consisted of the following:

	2005 LTL	2004 LTL
Current		
Bank overdraft	28,046,269	29,630,356
Bank borrowings	11,394,240	55,936,877
Non-current		
Bank borrowings	85,318,688	86,354,528
Total	**124,759,197**	**171,921,761**

Borrowings and overdrafts were arranged at floating interest rates raging between 2.45% and 3.47%.

Borrowings by currencies at 31 December consisted of:

	2005 LTL	2004 LTL
LTL	28,046,269	29,630,356
EUR	96,712,928	140,887,742
USD	-	1,403,663
Total	**124,759,197**	**171,921,761**

At 31 December 2005 the maturity of the borrowings and effective interest rates were as follows:

	Due within one financial year LTL	Due from second to fifth year LTL	Due after five years LTL	Total LTL	Effective interest rate %
Nordea Bank Finland Plc OV	13,253,065	-	-	13,253,065	2.45
AB bankas Hansabankas OV	7,587,430	-	-	7,587,430	2.66
AB SEB Vilniaus bankas OV	5,058,630	-	-	5,058,630	2.95
Vereins und Westbank AG OV	2,147,144	-	-	2,147,144	3.21
Nordea Bank Finland Plc	-	27,650,022	6,912,506	34,562,528	2.91
Nordea Bank Finland Plc	6,215,040	24,860,160	-	31,075,200	3.44
AB bankas NORD/LB	3,452,800	13,811,200	3,452,800	20,716,800	2.74
Vereins und Westbank AG	1,726,400	6,905,600	1,726,400	10,358,400	3.47
Total	**39,440,509**	**73,226,982**	**12,091,706**	**124,759,197**	

At 31 December 2004 the maturity of the borrowings and effective interest rates were as follows:

	Due within one financial year LTL	**Due second to fifth year LTL**	**Due after five years LTL**	**Total LTL**	**Effective interest rate %**
Nordea Bank Finland Plc OV	19,016,409	-	-	19,016,409	2.93
AB Vilniaus bankas OV	8,426,996	-	-	8,426,996	2.65
Vereins und Westbank AG OV	2,186,950	-	-	2,186,950	3.15
Nordea Bank Finland Plc	-	20,737,517	13,825,011	34,562,528	2.63
Kredyt Bank S.A. (Nordea Bank	34,528,000	-	-	34,528,000	
Nordea Bank Finland Plc	-	24,860,160	6,215,040	31,075,200	3.17
AB bankas „Hansabankas"	20,005,215	-	-	20,005,215	2.94
AB bankas „NORD/LB"		6,905,600	3,452,800	10,358,400	2.51
Vereins und Westbank AG	-	6,905,600	3,452,800	10,358,400	3.54
Unibank A/S	1,403,663	-	-	1,403,663	-
Total	**85,567,233**	**59,408,877**	**26,945,651**	**171,921,761**	

The fair value of the Company's borrowings, by discounting their future cash flows at the market rate, approximates their book value.

16. DEFFERED INCOME FROM NEW CUCTOMERS

At 31 December 2005 the amount of deferred income from new customers to be recognized after one year was LTL 39,089,123 (at 31 December 2004: LTL 30,892,059), to be recognized within one year was LTL 3,552,005 (as of 31 December 2004: LTL 2,807,143).

17. TRADE AND OTHER PAYABLES

At 31 December trade and other payables consisted of the following:

	2005 LTL	**2004 LTL**
Trade payables	108,816,082	102,202,162
Advances received	18,666,488	6,609,456
Profit tax liabilities	15,404,718	8,445,721
Deferred income from new customers	3,552,005	2,807,143
Liabilities related to remunerations	2,167,219	2,547,976
Other amounts payable and liabilities	4,514,396	5,817,949
Total	**153,120,908**	**128,430,407**

18. OFF-BALANCE SHEET RIGHTS AND OBLIGATIONS

Pursuant to the order of the Lithuanian Minister of Economy, dated 15 February 2005, the Company is obliged to buy out from enterprises and individual residents electric energy objects that are under their common use. The Company will be able to buy out those objects by one of the following ways: either by transferring its newly issued shares to the owners of those objects, or by signing the agreements sale-purchase of electric energy objects under common use. The value of electric energy objects under common use will be determined in accordance with the methodology for valuation of the electric energy objects under common use prepared by the Company and coordinated with the National Control Commission for Prices and Energy. As of 31 December 2005 the total requests amount to purchase common used objects was LTL 6,946,000. The Company will have to settle accounts with the owners of those electric energy objects no later than by 31 December 2010.

At 31 December 2005 the Company had no other off-balance sheet obligations.

19. BUSINESS SEGMENTS

There are two main business segments within the Company's activities: electricity distribution and supply. The segment information for the year ended 31 December was as follows:

	2005 LTL Distribution	2005 LTL Supply	2005 LTL Other	2005 LTL Total
Revenues	539,502,691	314,753,095		854,255,786
Electricity (including distribution services)	(179,611,793)	(307,024,995)		(486,636,788)
Depreciation and amortization	(167,363,600)	(78,718)		(167,442,318)
Other expenses	(172,320,700)	(7,677,310)		(179,998,010)
Segment result	20,206,598	(27,928)		20,178,670
Other income, net			3,084,993	3,084,993
Net finance cost			(3,338,529)	(3,338,529)
Income tax expense				(2,938,453)
Net profit				**16,986,681**

	2004 LTL Distribution	2004 LTL Supply	2004 LTL Other	2004 LTL Total
Revenues	321,372,584	420,212,189		741,584,773
Electricity (including distribution services)	(51,613,165)	(407,482,674)		(459,095,839)
Depreciation and amortization	(80,633,295)	(279,816)		(80,913,111)
Other expenses	(281,634,412)	(9,965,820)		(291,600,232)
Segment result	(92,508,288)	2,483,879		(90,024,409)
Other income, net			2,910,478	2,910,478
Net finance cost			(4,529,443)	(4,529,443)
Income tax expense				14,608,816
Net loss				**(77,034,558)**

The majority of the Company's assets and liabilities are employed in all business segments and therefore it is not possible to distribute Company's assets, capital expenses and liabilities to each segment reliably.

20. OTHER OPERATING EXPENSES

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

	2005 LTL	2004 LTL
Cash collection expenses	4,175,506	3,599,452
Other inventory	3,603,935	5,886,355
Non-current assets appraisal, registration and other expenses	2,443,403	1,699,106
Communication services	2,365,071	4,915,890
IT services	2,255,621	467,798
Write-off of receivables	1,496,609	2,759,956
Cleaning expenses	1,231,902	1,225,814
Insurance expenses	804,713	155,227
Inventory written-off	772,297	8,219
Asset security expenses	770,520	849,139
Advertising, public relations	763,981	425,594
Consulting expenses	691,407	1,259,293
Premise rent	521,382	482,090
Heating	517,044	947,077
Office expenses	511,396	652,022
Mail service	438,029	422,731
Utilities	364,129	413,572
Publishing	359,150	128,101
Business trips	357,009	328,426
Utilization	347,867	450,351
Measurements verification	244,147	207,779
Allowance for trade receivables (reversal)	(2,409,928)	(2,017,039)
Inventory allowance (reversal)	(778,066)	(86,683)
Construction in progress impairment (reversal)	(650,096)	1,399,608
Fixed assets impairment (reversal)	(45,158)	1,617,701
Other expenses	2,044,537	1,566,603
Total	**23,196,407**	**29,764,182**

21. OTHER INCOME, NET

For the year ended 31 December other income, net consisted of the following:

	2005 LTL	2004 LTL
Income		
Services to subsidiaries	1,896,433	-
Contract works and other services income	1,357,229	913,482
Fines	643,599	721,094
Rent income	344,941	219,647
Income from sale of inventory	166,973	161,174
Repair and testing services income	5,759	1,058,397
Transportation services income	-	859,174
Gain from fixed assets disposals	-	252,152
Other income	1,985,201	2,094,733
	6,400,135	**6,279,853**
Expenses		
Loss on fixed assets disposals	(1,966,465)	-
Expenses of the service branches	-	(3,241,118)
Other expenses	(1,348,677)	(128,257)
	(3,315,142)	**(3,369,375)**
Total, Net	**3,084,993**	**2,910,478**

22. NET FINANCE COSTS

For the year ended 31 December net financing consisted of the following:

	2005 LTL	2004 LTL
Interest income	470,209	96,731
Interest expenses	(3,726,069)	(4,721,424)
Total	**(3,255,860)**	**(4,624,693)**

23. INCOME TAX

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

	2005 LTL	%	(As restated, Note 26) 2004 LTL	%
Profit (loss) before income tax	19,925,134		(91,643,374)	
Tax at the statutory income taxes rate (15 %)	2,988,770	15	(13,746,506)	(15)
Tax effect of items that are not deductible or taxable in determining taxable profit	(294,127)	(1)	(862,310)	(1)
Increase in deferred tax liabilities due to change in income tax rate (2006 - 19%, 2007 - 18%)	243,810	1	-	-
Income tax expense/(benefit)	**2,938,453**	**15**	**(14,608,816)**	**(16)**
The components of income tax expense are as follows:				
Current income tax expense	22,161,300		9,871,682	
Deferred income tax benefit	(19,222,847)		(24,480,498)	
Income tax expense (benefit)	**2,938,453**		**(14,608,816)**	

The Company recognizes a deferred tax liability or asset for temporary differences where amounts of income taxes are probable for payment or recovery in future periods. At each balance sheet date the Company re-assesses all unrecognized deferred tax assets and recognizes the previously unrecognized portion to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

The management has recorded a valuation allowance in the amount it believes is necessary to reduce the deferred tax asset to the amount that will most likely be realized. The components of deferred income tax assets and liability are summarized as follows:

	2005 LTL	(As restated, Note 26) 2004 LTL
Deferred tax assets:		
Provisions	2,667,940	1,564,809
Accruals	407,596	279,032
Impairment of non–current tangible assets	15,152,354	18,359,888
Deferred income from new customers	6,635,933	5,054,880
Total deferred tax asset	**24,863,823**	**25,258,609**
Deferred tax liability:		
Accelerated depreciation (tax relief on acquisition of non - current tangible assets)	19,535,667	23,824,414
Tax and financial depreciation difference	6,574,348	-
Revaluation of non-current tangible assets	247,635,799	261,145,010
Total deferred tax liability	**273,745,814**	**284,969,424**
Deferred tax liability, net	**248,881,991**	**259,710,815**

At 31 December the Company's net deferred tax liability position was as follows:

	2005 LTL	(As restated, Note 26) 2004 LTL
Net deferred tax liability to be settled after more than 12 month	224,537,181	242,307,643
Net deferred tax liability to be settled within 12 month	24,344,810	17,403,172
Total Net deferred tax liability	**248,881,991**	**259,710,815**

The movement for the year ended 31 December in the Company's net deferred tax liability position was as follows:

	2005 LTL	(As restated, Note 26) 2004 LTL
At the beginning of the year	**259,710,815**	**23,046,303**
Credited to income for year	(19,222,847)	(24,480,498)
Decrease (increase) in non-current assets revaluation reserve due to change in deferred income tax rates	8,394,023	-
Revaluation reserve of non-current tangible assets	-	261,145,010
At the end of the year	**248,881,991**	**259,710,815**

24. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005 the related party transactions were as follows:

Related Party	Accounts payable LTL	Receivables and loans granted LTL	Revenues LTL	Purchases (expenses) LTL	Acquisition of fixed assets LTL
UAB Rytra	1,278,809	2,159,232	2,436,202	11,980,795	-
UAB Elektros tinklo paslaugos	4,389,080	55,966	20,542,938	36,458,765	19,897,748
State controlled entities	41,661,038	8,292,264	88,157,952	450,602,398	-

The transactions with related parties were concluded on an arm's length basis. AB Rytų skirstomieji tinklai is the sole shareholder of UAB Elektros tinklo paslaugos and UAB Rytra.

The average number of management in 2005 and 2004 was 7. The management remuneration for 2005 amounted to LTL 1,209,209 (2004: LTL 1,231,684).

25. POST BALANCE SHEET EVENTS

On 28 December 2005 The Company decided to increase the share capital of the subsidiary UAB Tetas by issuing 1,958,000 authorized ordinary shares, at the nominal value LTL 1 each. The new emission of the shares of the subsidiary UAB Tetas was registered and paid in January 2006 by contribution in kind (non-current tangible assets). Non-current tangible assets were valuated by the independent appraisals.

26. RESTATEMENT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

As of 1 December 2004 the Company accounted property, plant and equipment at revalued amount. In 2005, during the verification, a system error related to revaluation value allocation to internal assets transfer was noticed. Due to this error, the revaluation (impairment) amount, associated with the internal asset transfers, was not allocated proportionally to the internally transferred asset items but was allocated to each transferred asset item. As a result the revaluation or impairment amount allocated to internally transferred assets was double counted.

The misstatement identified was corrected retrospectively by restatement of 2004 corresponding amounts.

As a result of the above mentioned restatement as of 31 December 2004 property, plant and equipment decreased by LTL 16,603,033, deferred tax liability decreased by LTL 2,490,455, revaluation reserve decreased by LTL 21,087,308 and accumulated deficit decreased by LTL 6,974,730.

The total impact of the above discussed restatement to the financial statements was as follows:

	As restated LTL	As previously reported LTL
31 December 2004:		
Property, plant and equipment	2,393,171,645	2,409,774,678
Total assets	**2,492,543,343**	**2,509,146,376**
Deferred tax liability	259,710,815	262,201,270
Total Liabilities	**595,118,301**	**597,608,756**
Revaluation reserve	1,479,857,078	1,500,944,386
Accumulated deficit	(116,897,617)	(123,872,347)
Total equity	**1,897,425,042**	**1,911,537,620**
For the year ended 31 December 2004:		
Non-current assets impairment (related to the revaluation)	122,399,254	130,604,819
Income tax benefit	14,608,816	15,839,651
Net profit (loss)	**(77,034,558)**	**(84,009,288)**

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