RYTŲ SKIRSTOMIEJI
TINKLAI

Annual Report
2005

Content

Economic Overview of Lithuania

In 2005 Lithuanian macroeconomic indicators highlighted the tendency of fast economy development: financial state of companies is getting better, the number of the employed is growing and their salaries are increasing. Economic growth is stimulated by home market and export development, increasing investments, business and citizens' expectations coming through.

According to the preliminary data, the real GDP has increased by 7.3 per cent in comparison with 2004, and like in 2004, was among the highest indicators in the European Union.

In 2005, prices of customer goods and services increased by 3 per cent, and average annual inflation was 2.7 per cent.

Building plans to introduce euro in Lithuania, higher average annual inflation may be a cause for Lithuania to enter the euro zone at a later time. According to requirements of Maastricht Treaty, to introduce euro, inflation cannot exceed the inflation average of three EU member countries that have the lowest inflation level by more than 1.5 percentage point.

Even though total consumption in EU is not increasing, household consumption expenses in Lithuania have kept the tendency to grow since 2002.

According to prognosis by the Ministry of Finance of the Republic of Lithuania, use of EU support is a sufficient means compensating the GDP growth-slowing agents, such as higher oil costs, loss of income because of closing the first block of Ignalina Nuclear Power Station, cyclic fluctuation of economy after the greatest development of credits ever happened in the country. During 2007-2008 the effect of high oil prices for GDP would be additionally compensated by EU support-effected better economy infrastructure and increased industrial potential. The forecast is that a realistic GDP growth in 2006-2008 will approach 6 per cent.

General Director's Report

We value
the quality
of life
based on the
possibility
to choose

In 2005 Rytų skirstomieji tinklai AB fulfilled obligations for the shareholders, earned LTL 17m. of audited net profit and allocated the greatest amount for dividends in four years of company's business - LTL 34.5m.

Good results were as well achieved by the RST group of companies - revenue from sales amounted to LTL 855.6m. and the audited net profit was LTL 18.7m.

Rytų skirstomieji tinklai AB, Elektros tinklo paslaugos UAB, Rytra UAB and Tetas UAB compose a group of companies where common principles of reliability, orientation towards the customer, striving for effective and profitable business are valid.

The common endeavor of the group to eliminate the consequences of the storm that devastated the country at the end of the summer and damaged the work of electricity system proved that whole structure of the organization operates to the maximum and decisions to implement changes were made at the right time.

The situation in the market of electricity producers was changing during the year. In December 2004 the first block of Ignalina Nuclear Power Station was closed and at the beginning of September 2005 the second block of Ignalina Nuclear Power Station was closed for repair, which influenced the cost of customer electricity, however, the company managed to keep the prices stable.

Investments directly into the distribution network amounted to LTL 139.5m. and development of the electricity system was coordinated with assurance of electricity supply reliability. The fast growing market of real estate in larger cities and regions increases the number of electricity customers and raises demands for development of distribution system and for the speed of low voltage lines' building and reconstructions.

Significant changes were as well implemented in the structure of company's personnel. On establishment of new enterprises, some of the employees had to adapt to different working conditions. Employees' motivations and promotion systems implemented in daughter enterprises helped them to adapt to greater requirements and increase work efficiency. In addition, the company submitted a proposal for support from European Union structural funds, aiming to give the possibility for more employees take part in higher quality training and thus help them to adapt to changing market conditions. Valuating and aiming to keep qualified professionals, in 2005 Rytų skirstomieji tinklai AB provided one third of the staff with life insurance by means of which it stimulates their loyalty and minimize change of personnel in essential business fields. It has been planned to develop insurance types and to insure all employees that are working in safety risk conditions.

The principle of orientation to the customer hasn't been changing for four years and it still keeps the strategic idea. In 2005, the quality of customer service was evaluated, the standards of customer service were implemented. The customers were offered some innovations that made communication and payment settlements easier. We intend to do even more in the next year- to provide even more space and convenience for the customer to make his/her own choices as the possibility to choose and the service variety means higher quality of life.

With the incentive to acquire closer relationship with customers and to become a reliable partner, we were carrying out public projects with the help of which we are trying to encourage the consciousness of the community and intolerance for illegal actions in respect of others. Those projects were another step of the company, as the socially responsible community member, to create a cozier, safer and more beautiful environment.

In the next year we will continue our business seeking profit for our shareholders, closer communication with customers, partners and suppliers. We intend to implement business management based on balanced scorecard and start preparations for implementation of environment protection management standards. We hope to achieve higher work efficiency and to be able to offer wider service variety for our customers.

Rimantas Milišauskas

General Director

Major Events

January

On January 1, 2005 new Rytų skirstomieji tinklai AB electricity prices and tariffs and their application process came into force.

The company Board made a decision to increase the stated capital of their daughter companies: for Elektros tinklo paslaugos UAB - up to LTL 4.11m., Rytra UAB - up to LTL 12.57m.

In 2004 the revenue of the company amounted to LTL 741.6m.

April

In the first quarter the company made LTL 8.2m unaudited profit before tax.

The shareholders of the company decided to increase the stated capital of the company by LTL 81.8m.

June

The shareholders of the enterprise decided to reduce the stated capital of the enterprise by LTL 81.8m and elected new Supervisory Board.

July

The Supervisory Board elected Mr. Anicetas Ignotas as the Chairman of the Supervisory Board, cancelled and elected new Board of the company.

During 6 months the company made LTL 11.7m. unaudited profit before tax.

September

The Board of the company elected Mr. Jonas Rimantas Kazlauskas as the Chairman of the Board.

October

During 9 months the company made LTL 15.9m. unaudited profit before tax.

November

The Board of the company decided to increase the stated capital of their daughter enterprises: for Elektros tinklo paslaugos UAB - by LTL 11.65m., for Rytra UAB - by LTL 22.9m.

December

A daughter company Tetas UAB was registered in the State Enterprise Centre of Registers.

In 2005 the company received LTL 854.3m of revenue.

RST Group of Companies

Review of Financial Activities	2005*	2004**
Revenue, LTL million	855.6	741.6
EBITDA, LTL million	203.4	121.7
EBITDA margin, per cent	23.8	16.4
Net profit, LTL million	18.7	-77.0
Investments, LTL million	166.0	134.5
Operating cash flows, LTL million	208.7	113.2
Assets for the year ended, LTL million	2482.2	2492.5
Shareholders' equity for the year ended, LTL million	1907.8	1897.4
Profit rate for shareholders' equity, per cent	0.9	-6.4
Financial liabilities, LTL million	124.8	171.9
Ratio of shareholder equity and assets, per cent	76.9	76.1
Financial liabilities/shareholders' equity, per cent	6.5	9.1
Number of employees at the end of the year	3 047	2 962

* At the end of 2005 the RST group of companies composed of Rytų skirstomieji tinklai AB, Elektros tinklo paslaugos UAB, Rytra UAB and Tetas UAB.

** Due to a minor system error in property revaluation the results were corrected retrospectively by restatement of 2004 corresponding amounts.

Rytų skirstomieji tinklai AB was established on December 31, 2001. There are 4 regional units and 25 territorial divisions and three daughter companies operating in the territory of 34.8 thousand sq. km. serviced by the company.

Trying to adapt to the changes in Lithuanian electricity market, the company is being modernized - the management is optimized, the business is differentiated and business effectiveness is being increased.

Rytų skirstomieji tinklai AB distributes and supplies electricity to 717 thousand of customers in the Eastern part of Lithuania: Vilnius, Panevėžys, Alytus and Utena regions and some parts of Kaunas and Marijampolė regions.

The company is in charge for maintenance and development of low (0.4 kV) and medium (35-10 kV) voltage electricity networks and reliable electricity supply to customers in the territory serviced.

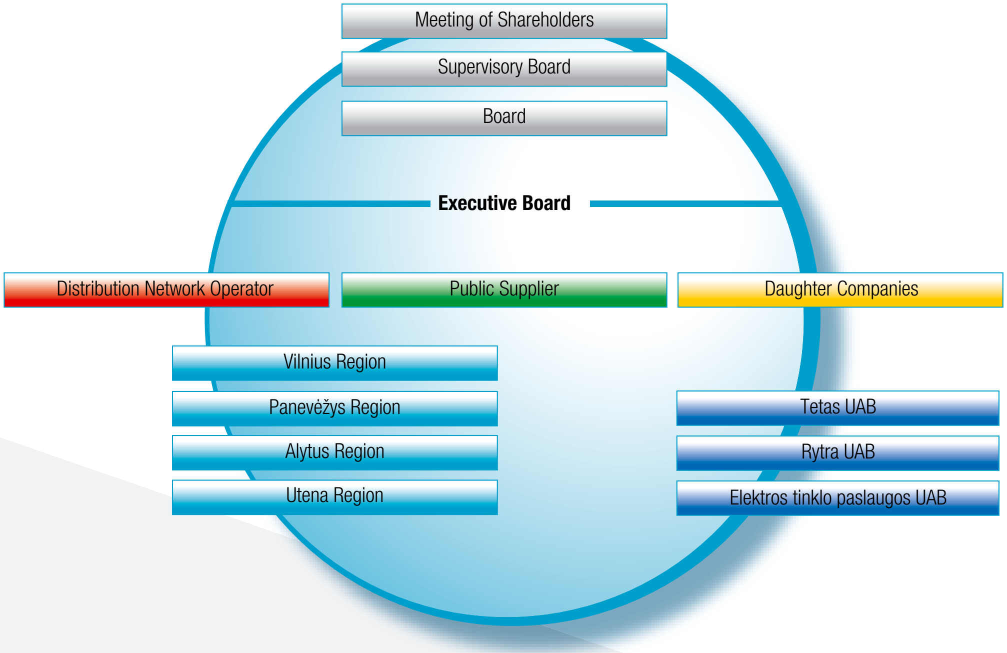
Electricity suppliers and eligible customers are free to choose electricity producers and conclude electricity purchase-sale agreements with them. Since 2004 all companies are entitled to the status of an eligible customer (i.e. have the possibility to choose the electricity supplier), and all citizens will be entitled to this right as of July 1, 2007.

Rytų skirstomieji tinklai AB purchase the largest part of electricity directly from producers. Electricity for public services meeting interest and additional electricity is purchased through the market operator Lietuvos energija AB.

Rytų skirstomieji tinklai AB is developing the range of their businesses and increasing the variety of services - alongside the main activity of electricity supply and distribution it offers additional services for the market. In 2005 two daughter companies - Rytra UAB and Elektros tinklo paslaugos UAB - started their independent businesses, and the third daughter company, Tetas UAB, was established at the end of the year (started independent business on January 1, 2006). There are over 1000 employees working in the daughter companies, most of them - former members of Rytų skirstomieji tinklai AB personnel.

The daughter companies were established for the purpose of separating the main business from the complementing ones and to increase the business effectiveness. Rytų skirstomieji tinklai AB manage 100 per cent of all daughter companies' shares. In the first year of independent business Rytra UAB and Elektros tinklo paslaugos UAB proved to be successful and profitable.

Rytų skirstomieji tinklai AB, Elektros tinklo paslaugos UAB, Rytra UAB and Tetas UAB compose a group of companies where common principles of reliability, orientation towards the customer, striving for effective and profitable business are valid.



Daughter companies

Elektros tinklo paslaugos UAB

Provides technical maintenance, exploitation and repair services of electricity system and equipments, also carries out work of inner electricity installation. The company has regional division in Vilnius, Panevėžys, Alytus and Utena.

Tetas UAB

Provides specialized electricity system services - exploits equipment of electricity distribution substations and transformers: primary chains, link protection and automation, insulation of electricity equipment, performs testing and experiments. The company also has division in Vilnius, Panevėžys, Alytus and Utena regions.

Rytra UAB

Provides services of transport rent. The company hires building mechanisms and mechanisms of special purpose, cargo and passenger cars. The company manages a big park of building and transport equipment situated in the eastern part of Lithuania.

Executive Board

Rimantas Milišauskas
General Director

Rimantas Aliukonis
Law and Personnel Director

Antosė Muliuolienė
Chief Financier

Valdas Bancevičius
Electricity Network Director

Rolandas Baškys
Procurement and Logistics Director

Saulius Kasparavičius
Electricity Supply Director

Arvydas Zakalskis
Finance Director

Board

Chairman of the Board
Jonas Rimantas Kazlauskas
Deputy Director of Public Enterprise Energy Agency

Rimantas Milišauskas
General Director of Rytų skirstomieji tinklai AB

Nijolė Sabonienė
Expert of Stock Management Department of Management Division of State Property Fund

Rimvydas Rukšėnas
President of the Lithuanian Energy Association

Algimantas Zaremba
Director of Energy Department of the Ministry of Economy of the Republic of Lithuania

Supervisory Board

Chairman of the Supervisory Board
Anicetas Ignotas
Secretary of the Ministry of Economy of the Republic of Lithuania

Saulius Spėčius
Advisor to the Prime Minister of the Republic of Lithuania

Nijolė Bujauskienė
Expert of State Property Privatization Division of Enterprise Management Department of Ministry of Economy

Aušra Pažėraitė
Scientific worker of Lithuanian Energy Institute

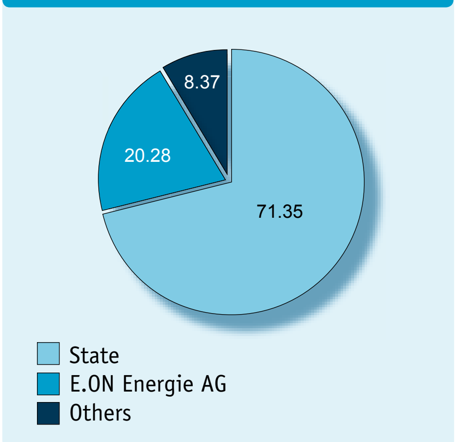
Mario Nullmeier
Head of *E.ON Ruhrgas International AG* representative office for the Baltic States

Share Capital and Shareholders

Structure of share capital

On December 31, 2005 the stated capital of Rytų skirstomieji tinklai AB was LTL 492.4m. The par value of one share is LTL 1. The key shareholders are the State, German company E.ON Energie AG and other private shareholders.

Share Capital, in per cent



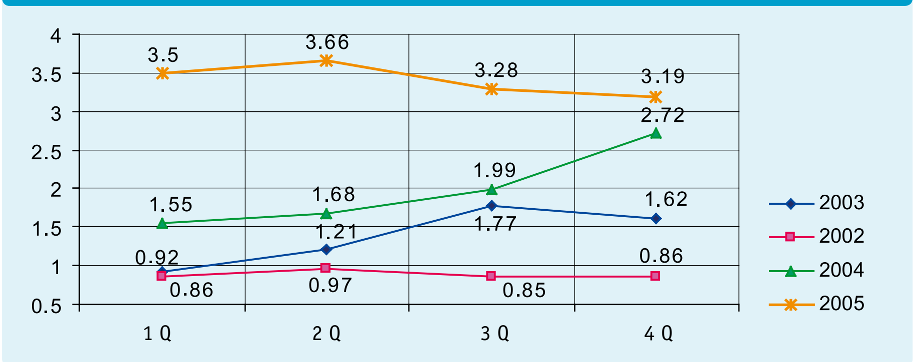
In December 2005 Rytų skirstomieji tinklai AB registered its third daughter company Tetas UAB with the stated capital of LTL 30000 (on 13 January 2006 - LTL 1.988m) in the State Enterprise Centre of Registers.

In 2005 Rytų skirstomieji tinklai AB increased the stated capital of other two daughter companies: the stated capital of Elektros tinklo paslaugos UAB is LTL 11.657m. and the one of Rytra UAB amounts LTL 22.998m.

All released shares were obtained and paid by the company by long-term material asset; under proprietary right, this company owns 100 per cent of daughter companies' shares.

In 2005 the increase of the price of Rytų skirstomieji tinklai shares was influenced by increased electricity prices as of January 1, 2005.

Fluctuation of max cost share at Vilnius Stock Exchange 2002-2005, in LTL



Electricity Supply

Electricity in the national electricity market is sold in accordance with Regulation on Electricity Trading. Electricity suppliers and eligible customers are free to choose electricity producers and conclude Electricity purchase-sale agreements.

In 2005 Rytų skirstomieji tinklai AB purchased most of its electricity directly from the producers, i.e. Ignalina Nuclear Power Plant, Vilnius Energy and Kaunas Power Plant. The situation in the electricity market changed when the first block of Ignalina Nuclear Power Plant was closed at the end of December 2004. In September - October 2005 the second block of the nuclear power plant was stopped for repair and this had an effect for customer electricity prices - company's energy purchase costs increased. Rytų skirstomieji tinklai AB electricity prices for the end users remained stable.

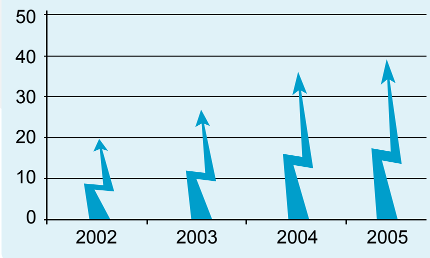
Each year Rytų skirstomieji tinklai AB purchases a greater amount of electricity generated from renewable energy sources. There is an increasing number of small hydro and thermo power plants which are connected to the distribution network in the territory covered by the company. The amount of electricity purchased from the renewable sources in 2005 increased to 39.1 GWh.

Each year increasing electricity sales have a huge impact on the company's revenue from main activity. In 2005 electricity sales increased by 4.2 per cent and amounted to 3680 GWh, meanwhile in 2004, 3531.1 GWh of electricity were sold. The main factor is a constantly increasing number of customers and the need for installed capacity.

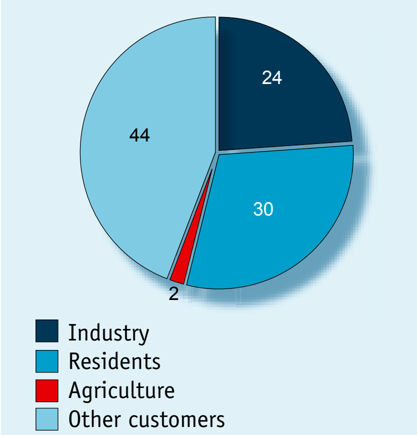
Since January 1, 2005 new Rytų skirstomieji tinklai electricity tariffs for business clients were adopted as well - companies and organizations were offered an innovation: the possibility to choose the best payment plan.

Those electricity customers who estimated their needs appropriately and chose the right payment plans, have managed to decrease the average electricity rate despite the increase of electricity tariffs for all electricity customers as of January 1, 2005.

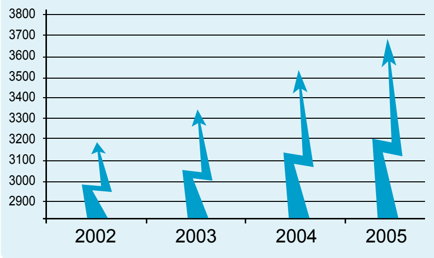
Electricity purchased from small hydro power plants, in GWh



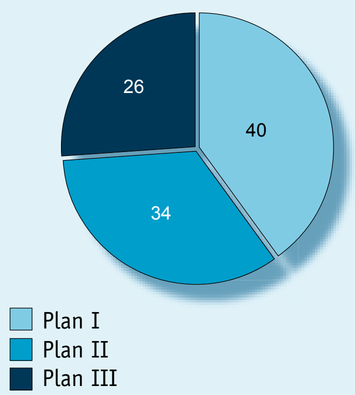
2005 sales by customer groups, in per cent



Electricity sales, in GWh



Electricity consumption by payment plans, in per cent



Services for customers - simple and cost-effective

In 2005 Rytų skirstomieji tinklai AB introduced several services for customers that provide the customer with more possibilities to choose.

Payments for electricity by direct debit

Customers pay Rytų skirstomieji tinklai AB for electricity by payment book in banks or post offices, or via Internet. Since July 2005 customers can also pay by direct debit, giving one's consent to calculate off the monthly payment for estimated quantity of consumed electricity.

Declaration of metering devices data via Internet

Rytų skirstomieji tinklai AB introduced a more convenient way for companies and organizations to declare the metering devices data via Internet. Customers, connecting to the company's Internet webpage, can at a set period every month declare the metering devices data and complete applications that are automatically forwarded to customer service departments for provision of bills.

Electricity Distribution

Distribution activity

The main task of distribution network operator is a safe and reliable electricity supply to customers in the serviced territory.

Distribution activity involves maintenance (technical repair and tests), reconstruction and development of electricity network, management of the network, equipment installation for new customers, installation and maintenance of metering devices, maintenance and development of communication and dispatch control systems.

In 2005 the company's investments into long-term assets amounted to LTL 158.1m., LTL 139.5m. of which was invested into electricity distribution network. The major part of the investments into electricity distribution network has been allocated for reconstruction and development of the distribution network: 48.4 per cent have been spent on reconstruction of transformer substations and development of the 0.4 – 10 kV electricity network and 41 per cent were assigned for connecting new customers.

Reliability of electricity distribution

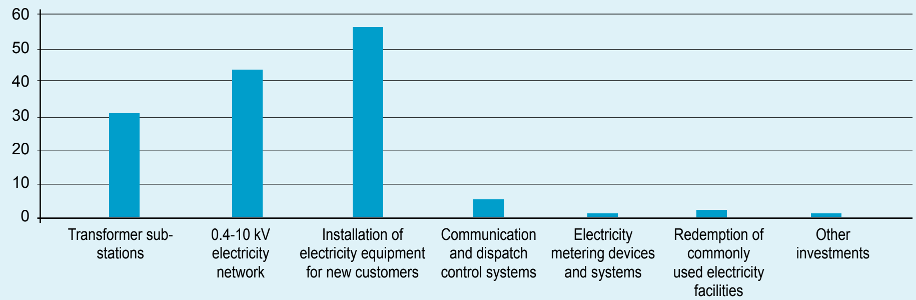
Reliability of electricity energy distribution is valued according to the period and number of times the customers' facilities were disconnected because of different reasons: distribution network equipment failure and repair, weather conditions, thefts of electricity equipment, etc. In 2005 customers' facilities of Rytų skirstomieji tinklai AB were on average disconnected for 2.41 hours, in 2004 - for 4.46 hours.

In 2005 electricity network failures in the low voltage networks for the customers of Rytų skirstomieji tinklai AB were eliminated and electricity distribution reactivated within 3.52 hours, in 2004 - within 3.47 hours on average. The storm and flood in summer of 2005 had a negative impact on network operation; therefore, it took a longer time to eliminate faults.

Technical characteristics of the distribution network

	0.4 kV	6-10 kV	35 kV	110 kV	Total:
Length of cable lines, km	4109	4132	15		8256
Length of overhead lines, km	30396	20835	1990		53221
Length of overhead lines, km	1038				1038
Transformer substations			96	101	197
Distribution points		265			265
Transformer substations		17060			17060
Capacity of transformer substations, MVA		3932	571	2923	7426

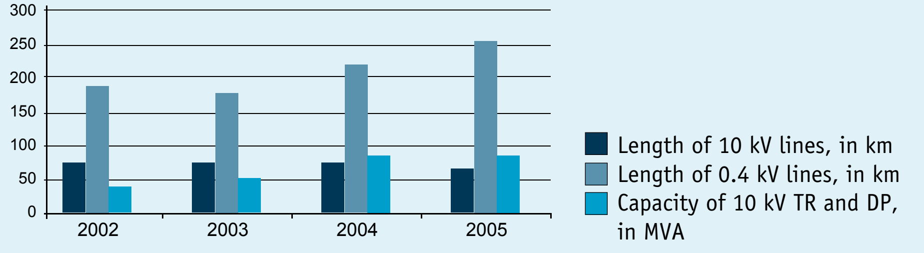
Investments into distribution network, LTL million



Connection of new customers

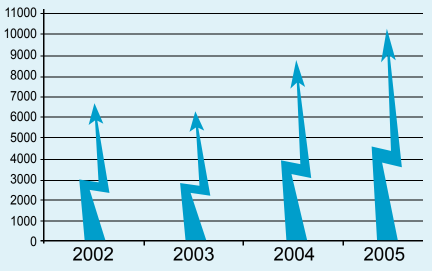
The customers or producers wishing to connect their electrical equipment of a respective capacity to the operator's networks are provided with a service of connecting their electrical equipment to the networks for which they pay according to the established capacity rates or by covering 40 per cent of the estimated value of the prepared project.

Length of newly constructed and renovated lines for connecting customer's facilities and capacity of new transformer substations and distribution points (MVA)

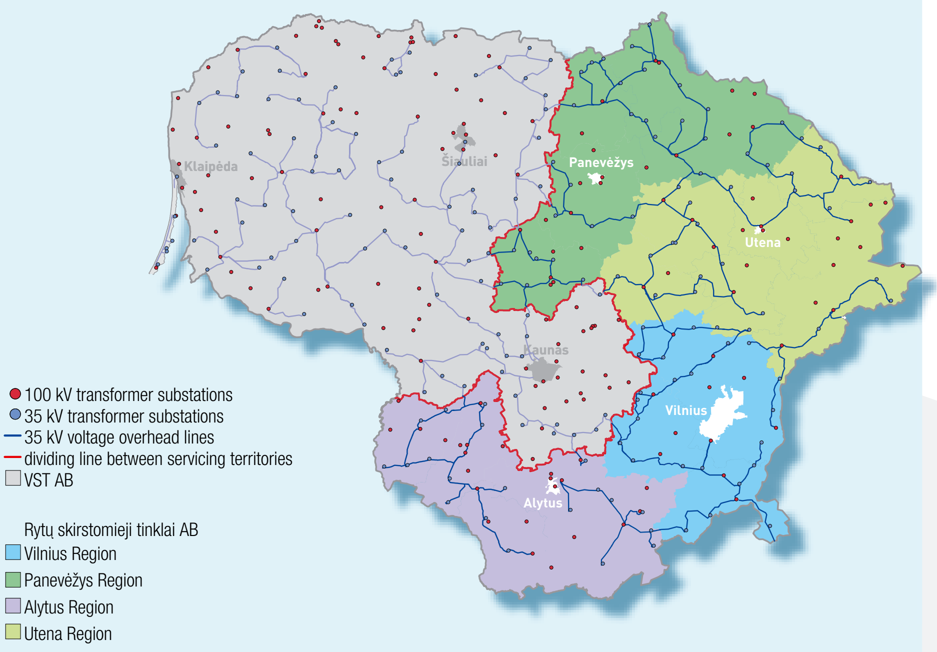


Abbreviations: TR - transformer substation; DP - distribution point

Number of new customers' electrical equipment connected, in units



35 kV voltage electricity network



In 2005, 10628 new customer facilities were connected to company's 0.4 – 10 kV voltage network. This was by 14.7 per cent more than in 2004. The total permitted capacity of connected equipment was 99.5 MW which was by 11.6 per cent more than in 2004. The increase in the number of new customers is determined by expanding real estate market in biggest Lithuanian cities.

Redemption of Energy Facilities

In accordance with the Law on Energy of the Republic of Lithuania and the legislation approved by the Ministry of Economy, energy companies are under the obligations to redeem the commonly used energy facilities which have been installed before the Law on Energy of the Republic of Lithuania came into force and which the energy companies do not own under proprietary right.

In 2005 Rytų skirstomieji tinklai AB redeemed 75 commonly used energy facilities.

Only a part of the facilities for sale were redeemed as the owner of facilities took too long with the documentation procedures.

Development and reconstruction of the Distribution Network 2005

The following transformer substations have been reconstructed:

- Žvėryno transformer substation;
- Ramygalos transformer substation.

The following distribution points have been reconstructed:

- Minties street, Vilnius;
- Kėdainiai;
- Marijampolė;
- Ukmergė.

The following new distribution points have been constructed:

- Ukmergės street, Vilnius;
- Kareivių street, Vilnius;
- Gynėjų street, Vilnius.

267 new 6 – 10/0.4 kV transformer substations have been implemented in order to connect new customers, improve the quality of the electricity supply and reduce electricity distribution costs.

Results of distribution network development technical policy

Length, km	2005	2004	(+/–) percent
Overhead lines 0.4-35 kV	53221	53716	-0.90
Overhead cable lines 0.4 kV	1038	895	+ 13.8
Cable lines 0.4-35 kV	8256	7785	+ 5.7

Communication and dispatch control systems

In 2005 a dispatch control system SCADA was completely implemented at the Dispatch Centre of Rytų skirstomieji tinklai AB, gathering from substations important information for the dispatch personnel and controlling 35 kV voltage network. The implementation of this project took two years and investment reach LTL 7m.

Aiming to enlarge company's Dispatch Centre and quantity and reliability of information transmitted by the Dispatch Centre personnel, new telecontrol devices were being installed and renovated in company's regional division and substations.

The renovation of control systems has several stages. In 2005, 7 projects of investments into telecontrol devices were started and are still in progress.

In 2005, building works of optical communication line, connecting divisions in Vilnius, were carried out. Once the new line was laid, the reliability of Vilnius distributing electricity network control improved. The company invested LTL 1.3m.

Electricity metering

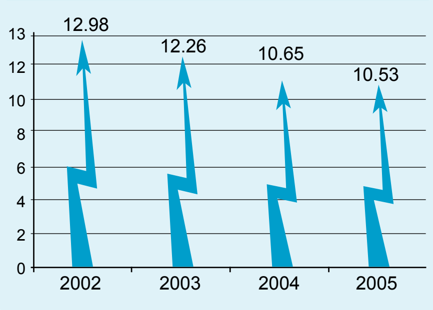
In 2005 the company operated 753 thousand of electricity meters. During the year the company renovated 9.4 per cent of all electricity meters; procurement costs of electricity metering devices amounted to LTL 8m.

The expansion of automated electricity metering system continued; the system enables long-distance reading of the electricity meters installed in between distribution network operators, eligible and other users and producers. In 2005, LTL 1.1m. have been invested into development of the system, it has been installed at 118 facilities, 568 electricity meters have been integrated into the system. In total, the system operates at 470 facilities, 2554 electricity metering devices have been integrated into the system.

In 2005 the company continued the development of electricity flow information system which helps exchange data among transmission companies, the companies which operate distribution networks and other participants of the electricity market.

During four years (from 2002 till 2005) the technological cost of electricity supply decreased from 12.98 per cent to 10.55 per cent. This was determined by company's theft prevention policy and moving metering devices to locations easily accessible to the operator.

Technological costs of electricity distribution, per cent



Information Technologies

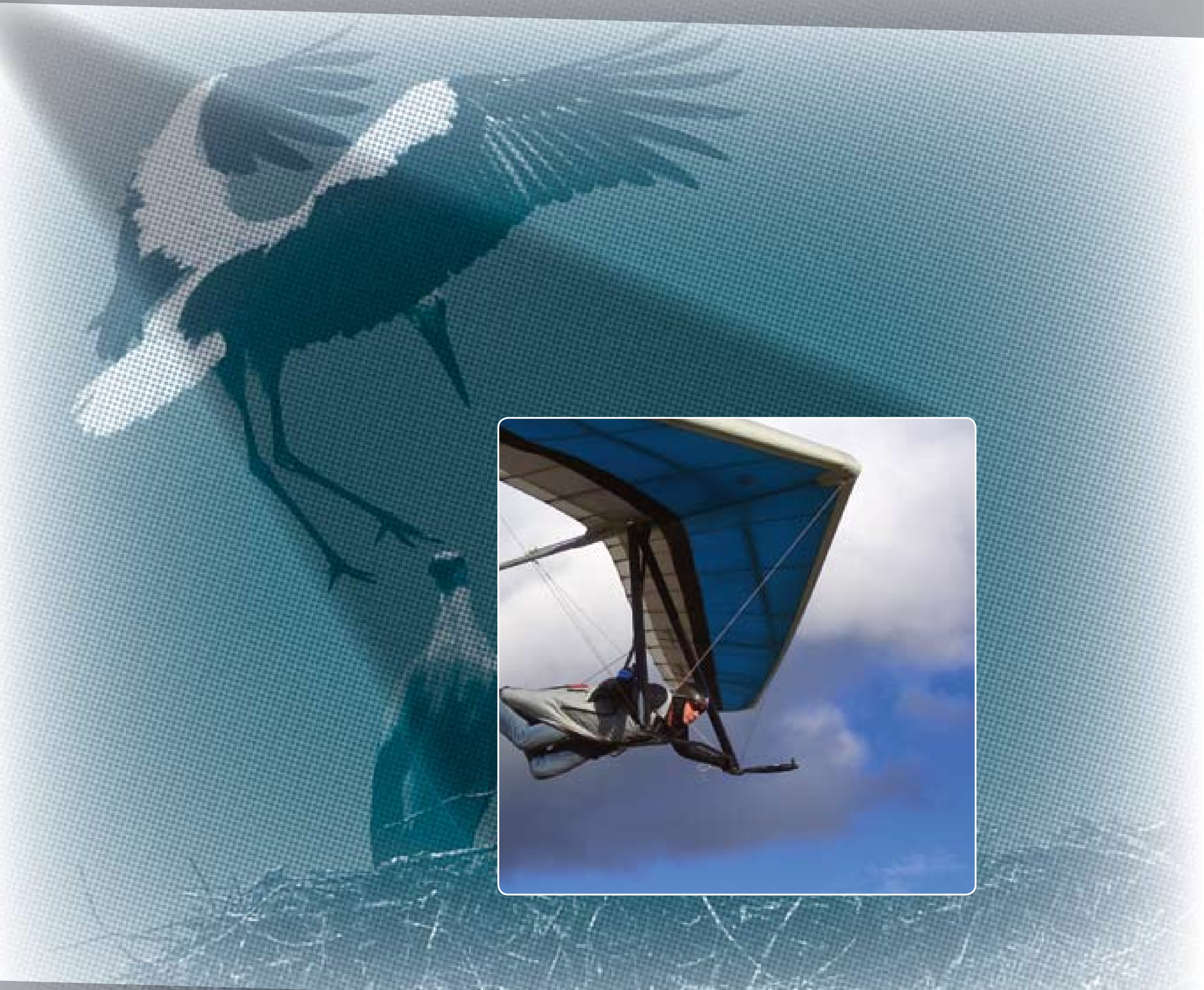
Rytų skirstomieji tinklai AB is a company constantly modernized, the information technologies of which are developed and adapted to changing business environment. The 'Strategy of Information Technologies Building and Development' that was approved by the Executive Board for years 2006-2008 is being updated every three years.

In 2005 the information system of distribution network maintenance management was further developed, integrating also a new system of energy sales and accounting, which, once implemented, should optimise accounting processes of electricity customer service and electricity sales in the company. In 2006 it is expected to introduce more electronic services via Internet for customers.

Since 2005 the company has been providing information technologies services for its daughter companies as well. System of transport equipment maintenance management, which optimised management of transport economy and cost accounting, was implemented at Rytra UAB.

Aiming to qualitatively manage information technologies services, the Service Desk system of standardised information system incidents and customer problems' administration has been implemented.

Detailed analysis of resources and technical audit have been carried out in the field of data transmission and management, and a plan of criteria for development of this field, the implementation of which was started in 2005, has been approved. The safety of data in the company is assured by using new specially equipped system of data archiving and restoration process management.



Environment Protection

Carrying out its activity, Rytų skirstomieji tinklai AB acts in accordance with laws of the Republic of Lithuania, legislative acts adopted by the Government, EU directives, regulations and programmes, requisitions and other legislative acts ratified by ministries, which regulate environment protection. The company is participating in implementing one of the most important and oldest directives, Birds Directive, the aim of which is to protect wild birds of all kinds, naturally spread in the territories of EU member states. Rytų skirstomieji tinklai AB has concluded an agreement with the Ministry of Environment Protection of the Republic of Lithuania and Ecology Institute at Vilnius University in solving the issue of white storks and their nest built on pillars of electricity lines. After the research is done and programme completed, the company is going to submit a proposal for support from EU structural funds.

The storks' nests built on electricity pillars interfere with reliable electricity supply. Concentrated humidity makes the pillars corrodate and break, which disturbs usual electricity network operation and causes danger for residents.

In 2006 the company plans to continue the works which have been started, upon possibility participate in projects and programs organized by the Ministry of Environment Protection of the Republic of Lithuania.

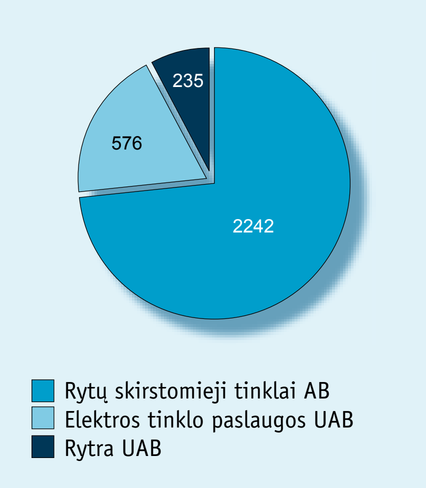
Caring for the environment protection, the company plans to implement an environment protection control system in accordance with EN ISO 14000 standard requirements. In 2006 it is expected to start preparations for implementing this control system.

Personnel

The main value and guarantee of effective business at Rytų skirstomieji tinklai AB is personnel. The company seeks to create safe work environment, motivation system and to offer interesting leisure activities to make every employee consider oneself an insepara-ble part of Rytų skirstomieji tinklai AB.

As of the end of 2005 Rytų skirstomieji tin-klai AB had 2242 employees, other 811 were employed in daughter companies. Since Jan-uary 1, 2006 a number of company's person-nel (126 employees) have moved to the third daughter company Tetas UAB.

Number of employees, 2005



Motivation and promotion system

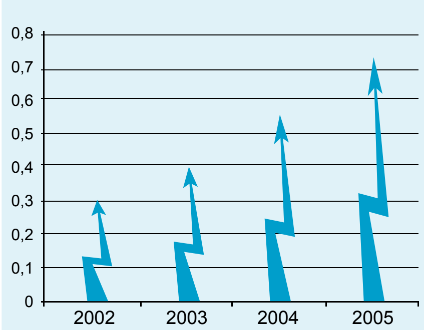
The company seeks to create safe working environment and assure all main social guar-antees that are set and each year amended in the collective agreement.

Valuating and trying to keep its qualified professionals, the company has provided ac-cumulative (investment-type) life insurance for 700 of its employees, assigning LTL 1m. for it.

In the future it is expected to provide life in-surance for 200 other employees who work in dangerous conditions.

Qualified and educated personnel deter-mines business effectiveness and success of the company. Education and constant train-ing of the staff can assure that there will be qualified employees working in the company. Understanding the importance of this issue, the company continuously increases invest-ments into personnel training. In 2005, for training, courses and seminars for employ-ees the company's expenses were by 40 per cent higher than in 2004. The company also supports studying employees- assigns schol-arships, pays tuition fees, gives paid educa-tion holiday.

Funds allocated for training and education, in million LTL



After carrying out a survey and having iden-tified the needs for training, in July 2005 Rytų skirstomieji tinklai AB submitted a pro-posal for support from European Union struc-tural funds for implementation of the proj-ect 'Improving professional competency and computer literacy of the staff'. Gross value of the project amounts to LTL 2.6m. The support from structural funds would make 53 percent of the total value of the project. The train-ing is expected to be carried out in three pro-grams: courses of English, computer literacy and general knowledge of management. More than 1500 employees of Rytų skirstomieji tinklai AB and its daughter companies would participate in the training. EU assistance is a solid contribution in helping employees adapt to changes in electricity market and increasing qualification requirements.

Public Projects

Rytų skirstomieji tinklai AB seeks to create closer relationship with customers and become a reliable partner. The main principle of company's relation with the customer is cooperation. RST not only offers a variety of services but also organizes various campaigns, public events, in this way encouraging the consciousness of the whole community. In 2005 several campaigns were organized, the aim of which was to draw the society's attention to debts and problems of electricity thefts, and a unique project of illumination of Congress Palace of Vilnius was implemented.

"Meet summer without debts!"

During May and June a campaign 'Meet summer without debts' was in progress which reminded citizens that they must pay for electricity on time - each month, and not to have debts when summer comes. Customers, who paid at the time of the campaign, during the whole of July, received onetime privileges from Rytų skirstomieji tinklai AB: agenda of debt repayment considering favourable terms was scheduled for customers who had paid their debts, the fee of supply restoration was not applied for them and the electricity supply for them was restored within 24 hours. A considerable number of customers in debt took advantage of the campaign coming to the customer service office and concluding debt repayment agreements.

"Confess, you will be caught anyway!"

In October Rytų skirstomieji tinklai AB organized a campaign 'Confess, you will be caught anyway!' which was dedicated for actualising the problem of electricity thefts. October was a month when electricity customers could call the company on free telephone number and inform about illegal ways and facts of electricity consumption. The customers who confessed were not provided with an act of illegal electricity consumption and the company did not claim for compensation of losses. A symbol of the campaign was a mousetrap that carried the idea of confession against being caught at the time of inspection. During the whole time of the campaign in progress, a considerable number of telephone calls of customers who had faced problems, was registered and the company tried to help them.

Project "Illuminated Congress Palace"

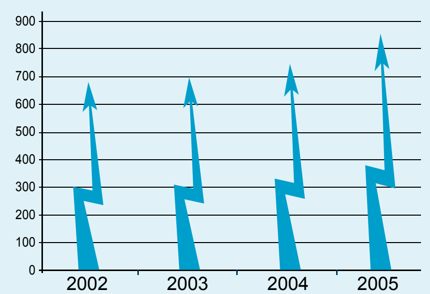
The concern for the customers of Rytų skirstomieji tinklai AB can also be proved by the wish to contribute to establishment of goodness and beautiful environment, giving people a possibility to enjoy the light and beauty provided by electricity. The company supported a project 'Illuminated Congress Palace'. Modern technical decisions have been chosen for illumination of the Congress Palace of Vilnius, for the first time ever implemented in Lithuania. This project not only was a gift for citizens; implementation of new and modern technologies made it possible for the Palace to consume electricity more effectively.

Financial Highligts

In 2005 electricity sales (in kWh) increased by 4.2 per cent and amounted to 3680 GWh. The increase in sales in 2005 was determined by country's general economic growth, this caused increase in connection of customers and sales in industry, residents and commercial/service sections. Electricity purchased in 2005 increased by 4 per cent and amounted to 4137 GWh, i.e. its growth has been slower than that of electricity sales. This was an outcome of the decrease in technological costs of electricity distribution and commercial losses to 10.5 per cent.

The revenue of the Group amounted to LTL 855.6m. and exceeded the revenue of 2004 by LTL 114m. The boost in the revenue was determined by the increase in electricity sales and higher electricity rates.

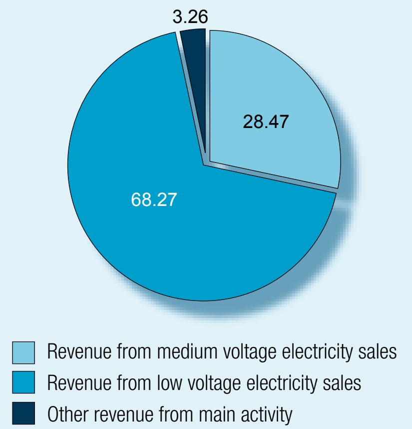
Revenue, LTL million



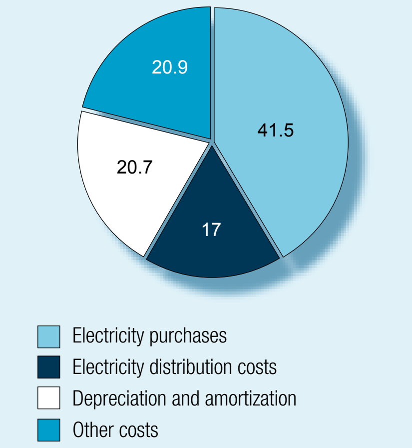
In 2005 company's public rates for electricity and electricity distribution tariffs were lower than top limits of prices distribution services set by the National Control Commission for Prices and Energy.

In 2005 the operating costs of the Group amounted to LTL 832.3m., 58.5 per cent of which was costs of purchased and distributed electricity. In comparison to 2004, the operating costs have increased by LTL 0.7m. Increased bulk of purchased electricity and increased price of electricity purchase and distribution influenced the increase of LTL 27.5m. of the variable costs. Other costs have decreased by LTL 26.8m. This decrease was determined by the negative result revaluation of the use of long-term assets in 2004 that amounted to LTL 122.4m. After the re-valuation of long-term assets, depreciation costs in 2005 increased twice, i.e. by LTL 91.1m.

Operating revenue, per cent

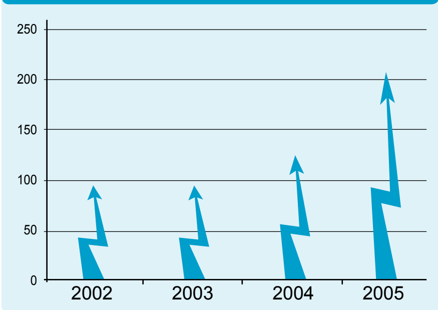


Operating costs, per cent



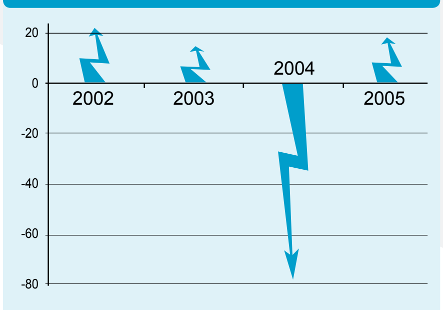
Net profit of 2005 amounts to LTL 18.7m. compared to the result of the year 2004 business which was a loss of LTL 77m.

EBITDA, LTL million



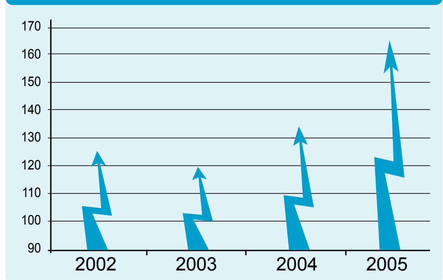
In 2005 investments into long-term assets amounted to LTL 166m. and were by LTL 31.5m. larger compared to the year 2004.

Net profit, LTL million



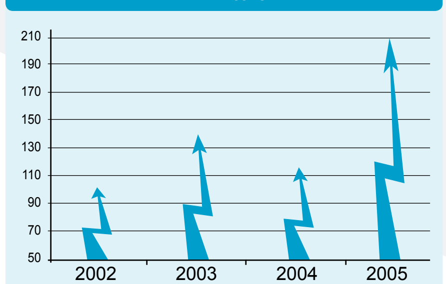
This increase was the outcome of constantly growing number of customers and this growth-related investments into development of electricity network and modernization of transformer substations.

Investments, LTL million



In 2005 net operating cash flows amounted to LTL 208.7m. and were by LTL 95.5m. larger compared to the year 2004. This increase was the outcome of growth of profit and depreciation costs. The increase of operating cash flows assured budgeting of investment activity and allowed to reduce liabilities for financial institutions by LTL 47.2m.

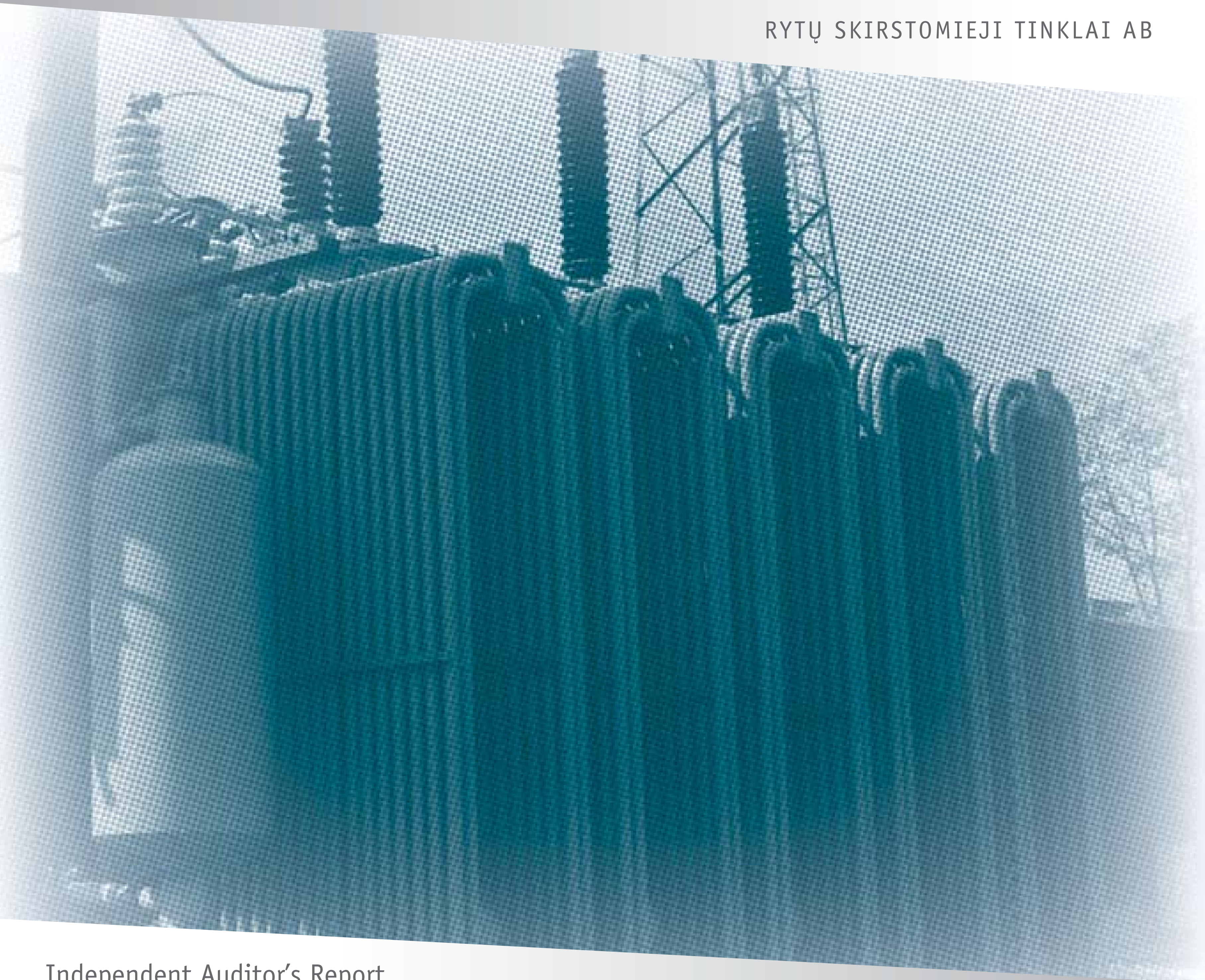
Operating cash flows, LTL million



In 2005 long-term assets of the group decreased by LTL 17.2 and amounted to LTL 2387m. This outcome was influenced by investments lower than depreciation by LTL 6m., the writing off the long-term assets amounted to LTL 7.1m.

In 2005 the equity of shareholders increased by LTL 10.3m.

RYTŲ SKIRSTOMIEJI TINKLAI AB



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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Rytų Skirstomieji Tinklai:

We have audited, in accordance with the International Standards on Auditing issued by the International Federation of Accountants, the financial statements of AB Rytų Skirstomieji Tinklai (thereafter - the Company) for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards and the consolidated financial statements of the Company and subsidiaries (thereafter - the Group) for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards as adopted by the European Union (thereafter - basic financial statements). Our reports dated 30 March 2006, on such basic financial statements (these financial statements are not presented herein), expressed an unqualified opinion including the emphasis of matter paragraph highlighting retroactive restatement of 2004 comparative financial information. The accompanying condensed financial statements of the Company and the Group, which comprise the balance sheet and the consolidated 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 selective explanatory note are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed financial statements in relation to the basic financial statements, from which they have been derived.

In our opinion, the condensed financial statements for the year ended 31 December 2005 are fairly stated, in all material respects, in relation to the basic financial statements from which they have been derived.

Deloitte Lietuva UAB
General director Juozas Kabašinskas

Certified Auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
10 May 2006

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

		THE GROUP		THE COMPANY	
			(As restated, Note 10)		(As restated, Note 10)
	Notes	2005	2004	2005	2004
ASSETS		LTL	LTL	LTL	LTL
Non-current assets:					
Property, plant and equipment	3	2,377,013,371	2,393,171,645	2,339,683,764	2,393,171,645
Intangible assets		3,112,570	3,439,395	3,112,570	3,439,395
Investments in subsidiaries		-	-	34,685,000	60,000
Long-term receivables		6,825,646	7,509,871	6,825,646	7,509,145
Total non-current assets		**2,386,951,587**	**2,404,120,911**	**2,384,306,980**	**2,404,180,185**
Current assets:					
Inventories		6,552,451	11,614,033	3,234,878	11,614,033
Receivables and prepayments		86,576,277	75,429,126	85,804,427	75,429,126
Loans granted		-	-	2,000,000	-
Cash and cash equivalents		1,801,189	1,379,999	881,866	1,319,999
Non-current assets held for sale		341,160	-	341,160	-
Total current assets		**95,271,077**	**88,423,158**	**92,262,331**	**88,363,158**
TOTAL ASSETS		**2,482,222,664**	**2,492,544,069**	**2,476,569,311**	**2,492,543,343**
LIABILITIES AND EQUITY					
Equity:					
Share capital	4	492,404,653	492,404,653	492,404,653	492,404,653
Legal reserve	5	-	42,060,928	-	42,060,928
Revaluation reserve	5	1,265,932,393	1,479,857,078	1,265,932,393	1,479,857,078
Retained earnings (accumulated deficit)		149,430,601	(116,897,617)	147,680,654	(116,897,617)
Total equity		**1,907,767,647**	**1,897,425,042**	**1,906,017,700**	**1,897,425,042**
Non-current liabilities:					
Borrowings		85,318,688	86,354,528	85,318,688	86,354,528
Deferred income from new customers		39,089,123	30,892,059	39,089,123	30,892,059
Deferred tax liabilities	7	248,449,588	259,710,815	248,881,991	259,710,815
Non-current trade payables		666,852	-	666,852	-
Grants, subsidies		4,033,540	4,163,259	4,033,540	4,163,259
Total non-current liabilities		**377,557,791**	**381,120,661**	**377,990,194**	**381,120,661**
Current liabilities:					
Trade and other payables		157,456,717	128,431,133	153,120,908	128,430,407
Borrowings		39,440,509	85,567,233	39,440,509	85,567,233
Total current liabilities		**196,897,226**	**213,998,366**	**192,561,417**	**213,997,640**
TOTAL LIABILITIES AND EQUITY		**2,482,222,664**	**2,492,544,069**	**2,476,569,311**	**2,492,543,343**

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	THE GROUP 2005 LTL	THE GROUP (As restated, Note 10) 2004 LTL	THE COMPANY 2005 LTL	THE COMPANY (As restated, Note 10) 2004 LTL
Revenue		**855,603,299**	**741,584,773**	**854,255,786**	**741,584,773**
Electricity purchase		(345,182,200)	(327,536,440)	(345,182,200)	(327,536,440)
Electricity distribution expenses		(141,454,587)	(131,559,399)	(141,454,587)	(131,559,399)
Depreciation and amortization		(171,997,624)	(80,913,111)	(167,442,318)	(80,913,111)
Remuneration and related taxes		(91,806,423)	(75,164,949)	(72,832,082)	(75,164,949)
Repair and technical maintenance expense		(27,127,842)	(39,779,345)	(47,870,299)	(39,779,345)
Meter measurements		(10,622,328)	(10,578,142)	(10,622,328)	(10,578,142)
Transport services		(7,144,332)	(216,709)	(11,850,180)	(216,709)
Non current assets write-off		(7,129,043)	(1,811,794)	(7,129,043)	(1,811,794)
Taxes (excluding income tax)		(7,134,207)	(11,885,857)	(6,497,672)	(11,885,857)
Non-current assets impairment		-	(122,399,254)	-	(122,399,254)
Other operating expenses		(22,665,379)	(29,764,182)	(23,196,407)	(29,764,182)
Other income, net		2,270,527	2,910,478	3,084,993	2,910,478
Profit (loss) from operations		**25,609,861**	**(87,113,931)**	**23,263,663**	**(87,113,931)**
Net finance costs		(3,445,302)	(4,624,693)	(3,255,860)	(4,624,693)
Net foreign currency exchange (loss) gain		(83,395)	95,250	(82,669)	95,250
Profit (loss) before income tax		**22,081,164**	**(91,643,374)**	**19,925,134**	**(91,643,374)**
Income tax (expense) benefit	7	(3,344,536)	14,608,816	(2,938,453)	14,608,816
Net profit (loss)		**18,736,628**	**(77,034,558)**	**16,986,681**	**(77,034,558)**
Basic and diluted earnings (losses) per share		**0.038**	**(0.156)**	**0.034**	**(0.156)**

CONSOLIDATED 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 10)	-	1,740,966,732	-	-	1,740,966,732
Deferred tax liability recognized due to revaluation of non-current tangible assets value (As restated, Note 10)	-	(261,145,010)	-	-	(261,145,010)
Net loss for the year (As restated, Note 10)	-	-	-	(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 10)	**492,404,653**	**1,479,857,078**	**42,060,928**	**(116,897,617)**	**1,897,425,042**
Share capital increase	81,811,419	(81,811,419)	-	-	-
Share capital decrease	(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 of revalued non current assets	-	(123,719,243)	-	123,719,243	-
Net profit for the year	-	-	-	18,736,628	18,736,628
As of 31 December 2005	**492,404,653**	**1,265,932,393**	**-**	**149,430,601**	**1,907,767,647**

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 10)	-	1,740,966,732	-	-	1,740,966,732
Deferred tax liability recognized due to revaluation of non-current tangible assets value (As restated, Note 10)	-	(261,145,010)	-	-	(261,145,010)
Net loss for the year (As restated, Note 10)	-	-	-	(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 10)	**492,404,653**	**1,479,857,078**	**42,060,928**	**(116,897,617)**	**1,897,425,042**
Share capital increase	81,811,419	(81,811,419)	-	-	-
Share capital decrease	(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**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

	THE GROUP		THE COMPANY	
		(As restated, Note 10)		(As restated, Note 10)
	2005	2004	2005	2004
	LTL	LTL	LTL	LTL
OPERATING ACTIVITIES				
Profit (loss) for the year	**18,736,628**	**(77,034,558)**	**16,986,681**	**(77,034,558)**
Adjustments for :				
Depreciation and amortization	171,997,624	80,913,111	167,442,318	80,913,111
(Reversal of) impairment of property, plant and equipment	(695,254)	122,399,254	(695,254)	122,399,254
(Reversal of) provisions for doubtful accounts receivable	(2,366,261)	(2,017,000)	(2,498,337)	(2,017,000)
Adjustment of inventories net realizable value	(593,242)	(94,902)	(778,066)	(94,902)
Net loss on disposal and write-off of property, plant and equipment	9,018,015	1,559,642	9,095,508	1,559,642
Income tax expense (benefit)	3,344,536	(14,608,816)	2,938,453	(14,608,816)
Interest expense	3,725,956	4,721,424	3,726,069	4,721,424
Interest revenue	(280,656)	(96,731)	(470,209)	(96,731)
Net foreign currency exchange loss (gain)	83,395	(118,260)	82,669	(118,260)
Operating cash flows before movements in working capital	**202,970,741**	**115,623,164**	**195,829,832**	**115,623,164**
Inventories	5,578,493	3,947,528	9,169,299	3,947,528
Receivables and prepayments	(8,736,825)	1,432,435	(7,965,640)	1,432,435
Accounts payable and other liabilities	27,817,610	3,862,781	25,169,218	3,862,781
Cash generated by operations	**227,630,019**	**124,865,908**	**222,202,709**	**124,865,908**
Interest paid	(3,725,956)	(4,507,192)	(3,704,829)	(4,507,192)
Income tax paid	(15,183,302)	(7,112,114)	(15,183,302)	(7,112,114)
Net cash from operating activities	**208,720,761**	**113,246,602**	**203,314,578**	**113,246,602**
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment and intangible assets	(163,256,038)	(134,460,237)	(156,802,843)	(134,460,237)
Proceeds from sale of property, plant and equipment	1,138,414	3,478,496	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	772,175	615,278
Interest received	280,656	96,731	470,209	96,731
Net cash used in investing activities	**(161,064,793)**	**(130,269,732)**	**(156,517,933)**	**(130,329,732)**
FINANCING ACTIVITIES				
Proceeds from borrowings	10,358,400	140,914,099	10,358,400	140,914,099
Repayments of borrowings	(57,593,178)	(120,895,259)	(57,593,178)	(120,895,259)
Dividends paid	-	(7,583,378)	-	(7,583,378)
Net cash (used in) from financing activities	**(47,234,778)**	**12,435,462**	**(47,234,778)**	**12,435,462**
Net increase (decrease) in cash	**421,190**	**(4,587,668)**	**(438,133)**	**(4,647,668)**
CASH, BEGINNING OF THE YEAR	**1,379,999**	**5,967,667**	**1,319,999**	**5,967,667**
CASH, END OF THE YEAR	**1,801,189**	**1,379,999**	**881,866**	**1,319,999**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. GENERAL INFORMATION

Rytų skirstomieji tinklai AB (the Company) is a joint stock Company. 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 has wholly owned subsidiaries: Elektros tinklo paslaugos UAB, Rytra UAB and Tetas UAB (The Group).

Until 30 June 2005 the Group 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: Elektros tinklo paslaugos UAB, Rytra UAB and Tetas UAB. Elektros tinklo paslaugos UAB and Rytra UAB were registered at the State Register of Enterprises on 8 December 2004. Tetas UAB was registered at the State Register of Enterprises on 8 December 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation of financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Company has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been approved by the EU at the balance sheet date.

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 Group'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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

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 Group (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 Group'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 Group 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 Group 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 Group 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 Group'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 Group. 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 Group 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 Group 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 Group's balance sheet when the Group 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 Group are set out below:

Credit risk

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

Foreign exchange risk

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

Interest rate risk

The Group'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 Group 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 Group'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.

3. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and constructions LTL	Machinery and equipment LTL	Vehicles LTL	Other equipment LTL	Construction in progress LTL	Other tangible assets LTL	Total LTL
Cost or valuation							
At 31 December 2004 (as restated, Note 10)	**2,775,037,968**	**315,818,067**	**61,349,968**	**71,170,566**	**18,528,534**	**3,733,576**	**3,245,638,679**
acquisitions	21,258,504	3,394,006	19,003,611	4,935,664	149,508,496	243,380	198,343,661
disposals	(39,417,875)	(8,112,158)	(61,284,398)	(4,393,841)	-	(1,174,988)	(114,383,260)
transfers	116,148,964	12,955,111	12,934	8,374,839	(137,395,851)	(95,997)	-
transfer to current assets	(1,192)	(718,751)	-	(7,001)	-	(53,018)	(779,962)
At 31 December 2005	**2,873,026,369**	**323,336,275**	**19,082,115**	**80,080,227**	**30,641,179**	**2,652,953**	**3,328,819,118**
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)	(4,088)	(896,925)
At 31 December 2005	**155,894**	**150,365**	**-**	**71,899**	**1,020,295**	**7,851**	**1,406,304**
Depreciation							
At 31 December 2004	**670,889,245**	**98,853,079**	**45,766,250**	**33,915,942**	**-**	**739,289**	**850,163,805**
depreciation	141,104,732	15,967,098	4,537,320	8,245,067	-	33,056	169,887,273
disposals	(14,232,818)	(4,785,586)	(46,318,031)	(3,578,080)	-	(471,887)	(69,386,402)
transfers	292,249	(190,667)	7,613	(5,135)	-	(104,060)	-
transfers to current assets	(608)	(251,341)	-	(4,863)	-	(8,421)	(265,233)
At 31 December 2005	**798,052,800**	**109,592,583**	**3,993,152**	**38,572,931**	**-**	**187,977**	**950,399,443**
Net book value At 31 December 2004 (as restated, Note 10)	**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	**2,074,817,675**	**213,593,327**	**15,088,963**	**41,435,397**	**29,620,884**	**2,457,125**	**2,377,013,371**

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

	Buildings and constructions LTL	Machinery and equipment LTL	Vehicles LTL	Other equipment LTL	Construction in progress LTL	Other tangible assets LTL	Total LTL
Cost or valuation							
At 31 December 2004 (as restated, Note 10)	**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 10)	**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 Group 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 881.

4. 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 Group 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 Group 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 Group were as follows:

	Proportion of ownership	
Shareholders	**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

5. 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 Group 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	**(As restated, Note 10) 2004**
	LTL	**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**

6. OFF-BALANCE SHEET RIGHTS AND OBLIGATIONS

Pursuant to the order of the Lithuanian Minister of Economy, dated 15 February 2005, the Group is obliged to buy out from enterprises and individual residents electric energy objects that are under their common use. The group 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 Group 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 Group 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 Group had no other off-balance sheet obligations.

7. INCOME TAX

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

	2005 LTL	%	(As restated, Note 10) 2004 LTL	%
Profit (loss) before income tax	22,081,164		(91,643,374)	
Tax at the statutory income taxes rate (15 %)	3,312,175	15	(13,746,506)	(15)
Tax effect of items that are not deductible or taxable in determining taxable profit	(167,459)	(1)	(862,310)	(1)
Increase in deferred tax liabilities due to change in income tax rate (2006 – 19%, 2007 – 18%)	199,820	1	-	-
Income tax expense/(benefit)	**3,344,536**	**15**	**(14,608,816)**	**(16)**
The components of income tax expense are as follows:				
Current income tax expense	22,999,786		9,871,682	
Deferred income tax benefit	(19,655,250)		(24,480,498)	
Income tax expense (benefit)	**3,344,536**		**(14,608,816)**	

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 10) 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 Group 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 Group 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:

	THE GROUP		THE COMPANY	
	2005 LTL	(As restated, Note 10) 2004 LTL	2005 LTL	(As restated, Note 10) 2004 LTL
Deferred tax assets:				
Provisions	2,696,319	1,564,809	2,667,940	1,564,809
Accruals	554,927	279,032	407,596	279,032
Impairment of non–current tangible assets	15,152,354	18,359,888	15,152,354	18,359,888
Deferred income from new customers	6,635,933	5,054,880	6,635,933	5,054,880
Total deferred tax asset	**25,039,533**	**25,258,609**	**24,863,823**	**25,258,609**
Deferred tax liability:				
Accelerated depreciation (tax relief on acquisition of non - current tangible assets)	19,278,974	23,824,414	19,535,667	23,824,414
Tax and financial depreciation difference	6,574,348	-	6,574,348	-
Revaluation of non-current tangible assets	247,635,799	261,145,010	247,635,799	261,145,010
Total deferred tax liability	**273,489,121**	**284,969,424**	**273,745,814**	**284,969,424**
Deferred tax liability, net	**248,449,588**	**259,710,815**	**248,881,991**	**259,710,815**

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

	THE GROUP		THE COMPANY	
	2005 LTL	(As restated, Note 10) 2004 LTL	2005 LTL	(As restated, Note 10) 2004 LTL
Net deferred tax liability to be settled after more than 12 month	224,104,778	242,307,643	224,537,181	242,307,643
Net deferred tax liability to be settled within 12 month	24,344,810	17,403,172	24,344,810	17,403,172
Total Net deferred tax liability	**248,449,588**	**259,710,815**	**248,881,991**	**259,710,815**

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

	THE GROUP		THE COMPANY	
	2005 LTL	(As restated, Note 10) 2004 LTL	2005 LTL	(As restated, Note 10) 2004 LTL
At the beginning of the year	**259,710,815**	**23,046,303**	**259,710,815**	**23,046,303**
Credited to income for year	(19,655,250)	(24,480,498)	(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	-	8,394,023	-
Revaluation reserve of non-current tangible assets	-	261,145,010	-	261,145,010
At the end of the year	**248,449,588**	**259,710,815**	**248,881,991**	**259,710,815**

8. 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
Rytra UAB	1,278,809	2,159,232	2,436,202	11,980,795	-
Elektros tinklo paslaugos UAB	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. Rytų skirstomieji tinklai AB is the sole shareholder of Elektros tinklo paslaugos UAB and Rytra UAB.

The average number of management in 2005 and 2004 was 15. The management remuneration for 2005 amounted to LTL 1,892,940 (2004: LTL 1,231,684).

9. Post Balance Sheet Events

On 28 December 2005 The Group decided to increase the share capital of the subsidiary Tetas UAB by issuing 1,958,000 authorized ordinary shares, at the nominal value LTL 1 each. The new emission of the shares of the subsidiary Tetas UAB 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.

13. Restatement of the financial statements for the year ended 31 December 2004

As of 1 December 2004 the Group 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 consolidated financial statements was as follows:

	As restated	**As previously reported**
	LTL	**LTL**
31 December 2004:		
Property, plant and equipment	2,393,171,645	2,409,774,678
Total assets	**2,492,544,069**	**2,509,147,102**
Deferred tax liability	259,710,815	262,201,270
Total Liabilities	**595,119,027**	**597,609,482**
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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