

VST

KAD GYVENTI BŪTŲ ŠVIESIAU

**Joint stock company "VST"
Annual Prospectus-Report of the year 2005**

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The strategic goals for the year 2006 of the company have already been approved and started to implement. The strategic direction of the company for this year is the same as in the previous year – a special attention to the customers via continuous improvement of the service quality, promotion of the company name and its services in the society.

Almost a year ago we have introduced the new name of our company, our mission and vision and the ambitious goals to become the best regulated service provider in Lithuania until the year 2010. We have promised to ourselves and the

society to improve the customer service level, to invest into the worn off distribution network used by the company and provide quality service. In order to reach this, we have to act determinately and immediately.

We will improve the customer service level

During the last year we made the first steps improving the level of the customer service: the company introduced the new customer service standards defining the duties and responsibilities of the customer servicing staff. The personnel were trained for a quick, polite and professional service. When starting to introduce this standard the customer service level in the company obviously went up, therefore it has been decided to continue the work during this year. One of the strategic and priority goals of the “VST” company set for the year 2006 is the improvement of the services and the customer servicing level.

Attention to the customer, smooth communication and the level of service is of extreme importance in any kind of business. It can be said that it is the key to the business success. We look at the customers and the partners, who are the main valuers of our operation and the provided services, therefore the company will pay most of its attention to the professional service of the customer.

Plans in the area of the customer service have already been started to implement. In February the modern customer service centers opened the door in Siauliai and Klaipeda. The same centers will be opened in Kretinga, Kaisiadorys and Pakruojis during the year. We aim that the customers coming to the centers would get the centralized service – they will not have to run from office to office looking for somebody to answer their questions. All the necessary information has to be given in one place, quickly, professionally and at a time.

We will strengthen the promotion of the company

During the year 2006 we will keep the support of continuous satisfaction of the customers with the services provided by the company, the promotion of the company's operation and its plans. The investigation performed by the mass media investigation agency “TNS Gallup” showed that the soci-

ety does not have enough knowledge about the company and would like to have more knowledge about the services, tariffs, innovations provided by the company.

Even 23% of the questioned said having no information about our company. Our company is known only by about 66% of the Western region and 47% of the Eastern region population. During this year the index of the company knowledge should go up to 98-100%. We will aim that not only the companies, but individuals will learn about us.

We will improve the quality of the provided services and will continuously invest into the electric power network

Honestly, quite a lot of attention is paid to the improvement of the customer service level in the strategic goals of the company. During this year it is planned to speed up and simplify the issue of the terms of reference and connection to the network processes – terms of reference have to be issued to the customers longest within 10 days. Aiming to improve the quality of electric energy supply the company will reach in the year 2006 for the shortest average annual duration of the customer disconnection from the network and the average annual customer disconnection from the electric power frequency (apart from the cases of force majeure). It will be very important in 2008, when the requirements for Electric power supply reliability and quality will enter into force. Depending on how we will meet those requirements, from 2006 the National Commission of prices and energy control might have the influence while setting the top margins of prices. In case the top price margins are lowered, the investment into the development of electric power network and re-structuring would go down as well. Besides, it is important for the company that the customers are satisfied with the quality of provided services and experience as little inconvenience and loss due to the temporary disconnection from the network as possible.

We will cut on costs and expenses for our own needs

Five strategic goals are set for this year. The weight and value of all of them is the same. This proves that we have identified our goals, clearly defined the areas where we have to put the most efforts. During this year we will try, the same as before, to lower the costs of electric power and the expenses for our own needs. This is one of the weaknesses of our company. If compared our company with the Western companies, the costs of electric power and the expenses for own needs are still very high. This is caused by the not so modern as in foreign countries electric devices, which, in its turn, generates higher costs, and in part by the lack of skills to economically handle own business.

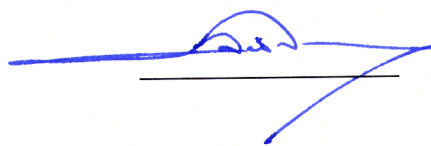
We will keep fighting with the thieves of electric lines and transformer oil

We will continue the same active fight with the thieves of electric lines and transformer oil. Last year we reached a lot in this area. Active cooperation between the scientists from Kaunas Technological University and the "VST" employees have resulted in the way, which allows to stop the thefts of transformer oil: a modified oil, which is not good for the use in the internal combustion engines, was invented. Having publicly announced about the invention the thefts from the transformers, owned by the company, went down almost twice. In some regions they have practically disappeared. The thefts of the electric cables and lines are still a headache for the company. The tremendous losses caused by the thefts is not the only reason to include the fight with it into the strategic goals of the company; when electric lines, cables or oil are stolen, the electric power supply to the customers is cut. When the oil is stolen electric devices get destroyed, they have to be repaired or replaced. The best result would be if we could manage to lower the thefts of lines, cables and oil by 20-25%.

The strategic goals are set in order to show everybody our development, the direction where we are going, the goals we are trying to reach. The strategic goals are our Pole star, towards which everyone can orientate his work.

In the end of the year, when we summarize the result of the company's operation, we will see how successful we were in the implementation of the goals. This is just priorities or the key goals, which are subdivided into smaller tasks, the implementation of which is the same important as of the priority ones.

Sincerely,



Darius Nedzinskas
Chief Executive Officer

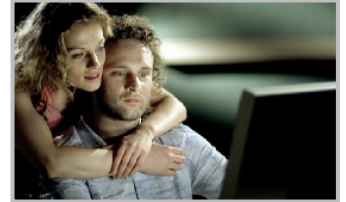
Light is an integral part of our life.

That is why we develop technological innovations,

that is why our employees are responsible experts,

that is why when thinking about light we think about people.

A joint stock VST is a modern company distributing and supplying electric energy and providing services to over 696 000 customers objects in the Western and Central Lithuania. The company is the owner of electric power distribution network, i.e. the overhead lines and cable lines of low and medium voltage, as well as the owner of more than 15 000 transformer substations. The company is responsible for power distribution networks in Kaunas, Klaipėda, Šiauliai and part of Marijampolė regions, and also for safety, reliability, operation, maintenance, management and development of the network.



VST is one of the largest, successfully working and most promising companies of Lithuanian private capital companies in Lithuania.

MISSION: we are working to ensure the supply of electric energy in Western Lithuania.

VISION 2010: we are seeking to become the best provider of regulated services in Lithuania.

VALUES:

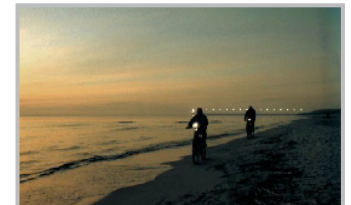
PROFESSIONALITY AND RESPONSIBILITY:

We keep improving and are open for new things. We leave no space for mediocrity and negligence. Our priority is the capability to see several steps ahead and the wish to become the best. Relationship with the customer, the society and the colleagues is based on responsibility, mutual trust and understanding.



QUALITY:

We guaranty safe and reliable exploitation of the electric power network, supply and distribution of electric power. We aim to turn our work into the best business practice and the services we provide to be of the top quality. We are open for criticism; we see our mistakes and take lessons from them. We aim for qualitative and effective service for our internal and external customers. Our clients and partners are the main valutors of our activity and provided services.



TEAM WORK:

We are a team. Working as a team we reach our goal faster. While sharing our knowledge and experience we can overcome problems, meet challenges and find the best solutions. Aiming for the good result of our work we are aware of our function and responsibility. While working together we aim to be reliable and support each other.

INITIATIVE:

We are ready for new challenges, active and look for problem solution ways. We encourage creativity and always implement the best ideas.



EFFICIENCY:

We seek for the efficiency of the operation individually and all together. Directed orientation toward the result lets us reach the set goals. Work of every one of us is important and it adds to the value to the company's operation. The stability and reliability of the company as well as open and clear operation of it and improving results guaranties the growth of added value to the shareholders of the company.



The strategic direction of the company will stay the same in 2006 as in the previous year. A special attention to the customers will be paid continuously improving the quality of the provided services, as well as the promotion of the company's name and the services will be enforced; we will keep fighting with the thefts of electric lines and oil from the transformer substations.

1. Accounting period covered by the Annual Report

The Report has been prepared for the year 2005 (the financial year of the company corresponds to the calendar year).

2. Key data on the Issuer

Name of the company:	Joint stock company "VST"
Address of its headquarters:	16 C Jasinskio str., LT-01112 Vilnius
Telephone:	(8~5) 278 12 59
Fax:	(8~5) 278 12 69
E-mail address:	vst@vst.lt
Website:	www.vst.lt
Share capital:	111 539 940 Lt
Legal-organizational form:	Legal body, joint stock company
Registration with the Register of Enterprises	
- Place of registration:	Ministry of Economy
- date of registration:	31 December, 2001
- Register code:	1108 70748
- Former code:	1087074
Registrant of the Register of legal bodies:	State Enterprise Centre of registers

3. Nature of the main activity

Branch of Economy:	Energy sector
Main production:	Distribution of electric energy via medium and low voltage network and the electricity supply services for public consumers

4. Information on where and when the Report and the documents, on which the Report is based, are publicly available and the name of the mass media means

The Report is available during work days from Monday to Thursday including, from 7:30 a.m. to 16:30, and on Fridays from 7:30 a.m. to 15:15 at the headquarters of the company at the address: 16 C Jasinskio str., Vilnius, Department of Marketing and Public relations.

The Company's "VST" mass media means for public information are daily newspapers "Lietuvos rytas" and "Respublika", Lithuanian news agency ELTA and the news agency BNS.

5. Persons in charge of the information contained in the Report

5.1. Members of the managing bodies of the company, employees and the head of administration

Position	Full name	Telephone No, Fax No.
Chief Executive Officer	Darius Nedzinskas	(8~5) 278 12 00, (8~5) 278 12 01
Chief Financial Officer	Antanas Poška	(8~5) 278 12 00, (8~5) 278 12 01
Economic and Finance Department Manager	Kęstutis Jaržemskas	(8~5) 278 12 59, (8~5) 278 12 69
Accounting Department Manager, Chief Accountant	Lina Minderienė	(8~5) 278 12 59, (8~5) 278 12 69
Marketing and Public relations Department Manager	Rasa Kruopaitė	(8~5) 278 12 59, (8~5) 278 12 69

5.2. Consultants

Name	Address	Contact person	Telephone No, Fax No
AB bank "Hansabankas"	19 Savanorių av. , LT-03502 Vilnius	Andrius Vabalas	(8~5) 2684485, (8~5) 2684170

6. The declarations of the members in charge of the preparation of the Report of the managing bodies of the issuer, employees, the Head of the administration and the consultants of the Issuer that the information contained in the Report is true and correct and that there are no concealed facts

The persons listed below hereby confirm that the information contained in the Report is true and correct and that there are no concealed facts, which might have essential influence on the decisions of investors:

Joint stock company "VST":

Chief Executive Officer

Darius Nedzinskas

Chief Financial Officer

Antanas Poška

Economic and Finance
Department Manager

Kęstutis Jaržemskas

Accounting Department Manager,
Chief Accountant

Lina Minderienė

Marketing and Public
Relations Department Manager

Rasa Kruopaitė

Consultant:
AB bank "Hansabankas"

Andrius Vabalas

12/05/2006

II. Information about the share capital of the issuer and the issued securities

7. Share capital

7.1. Share capital registered in the Register of companies

405 261 782 Lt (registration date: 31 December, 2001)

3 717 998 Lt (registration date: 2 December, 2004)

111 539 940 Lt (registration date: 26 April, 2005)

02/12/2004 – 26/04/2005

Type of shares	Number of shares	Par value (Lt)	Total par value	Part in the share capital, percent
Ordinary registered shares	3 717 998	1	3 717 998	100.00
Total:	3 717 998	-	3 717 998	100.00

After 26/04/2005

Type of shares	Number of shares	Par value (Lt)	Total par value	Part in the share capital, percent
Ordinary registered shares	3 717 998	30	111 539 940	100.00
Total:	3 717 998	-	111 539 940	100.00

All shares of the company are fully paid.

7.2. Information on the prospective increase of the share capital by converting issued debt securities or derivative securities into shares

7.2.1. description, number, main characteristics, amendment term, and terms and conditions of debt securities or derivative securities being converted or exchanged for shares that grant the right to sign the issuer's shares;

7.2.2. the scope of the envisaged increase of the share capital due to conversion, exchange or exercise of the right of debt securities or derivative securities being converted, exchanged for shares or granting the right to sign the issuer's shares respectively, and the envisaged date (dates) of the increase of the share capital;

7.2.3. intended changes in the structure of the share capital (in terms of share types and classes) following conversion, exchange or exercise of right of debt securities or derivative securities being converted, exchanged for shares or granting the right to sign the issuer's shares;

7.2.4. the procedure and terms of the subscription to or exchange of new shares, when the share capital is increased by exchanging debt securities or derivative securities, or by exercising the right; the categories of the owners of debt securities or derivative securities, in respect of whom conditions were created to subscribe to the shares by the priority right (if granting the priority right to certain categories of the owners of debt securities or derivative securities was provided for in the terms and conditions of the issue of the mentioned securities).

8. Shareholders

The General meeting of the shareholders took place on 14 April, 2006. The number of the shareholders on the accounting day (7 April, 2006) was 4 182.

The biggest shareholders, which hold under the right of ownership or control more than 5 percent of the share capital of the Issuer

Full names of the shareholders, names of companies, types, headquarter addresses, companies' register code	Number of ordinary registered shares, pcs .		Part of the share capital and votes , percent		
	Total	Including shares owned by the shareholders under the ownership right	Total	Including ordinary registered shares hold by a shareholder under the ownership right	Together with persons acting in corpore , percent
UAB "NDX energija" 25 Ozo str., LT – 07150 Vilnius, 126211233	3 610 159	3 610 159	97.10	97.10	-

9. Key characteristics of the publicly traded securities

From the start of company's operation till 04/06/2004 the share capital of 405 261 782 Lt, which has been divided into 405 261 782 ordinary registered shares, was registered at the Register of enterprises. The par value of one share was 1 Lt. After 04/06/2004 the share capital was divided into 3 717 998 ordinary registered shares with the par value of each - 109 Lt. After 02/12/2004 the share capital was divided into 3 717 998 ordinary shares with the par value of each 1 Lt. After 26/04/2005 it was divided into 3 717 998 ordinary registered shares with the par value of each 30 Lt.

All shares of the company are fully paid. The share capital of the company during 2005 has increased from 3 717 998 Lt to 111 539 940 Lt (30 times). All shares issued by the company are registered for public trade.

10. Data on non-publicly traded shares

The company has not issued any shares for non-public circulation.

11. Data on depository notes issued on the basis of shares

The company does not have any depository notes issued on the basis of shares.

12. The main characteristics of debt securities issued for public circulation of securities

The company has not issued debt securities for public circulation.

13. Data on non-publicly traded debt securities

The company has not issued debt securities for non-public circulation.

14. Securities that do not mark participation in the share capital, but the circulation of which is governed by the Law on the Securities Market, with the exception of debt securities

The company has not issued any securities that do not mark participation in the share capital.

III. Data on the secondary circulation of the securities issued by the issuer

15. Securities included into the trade lists of stock exchanges

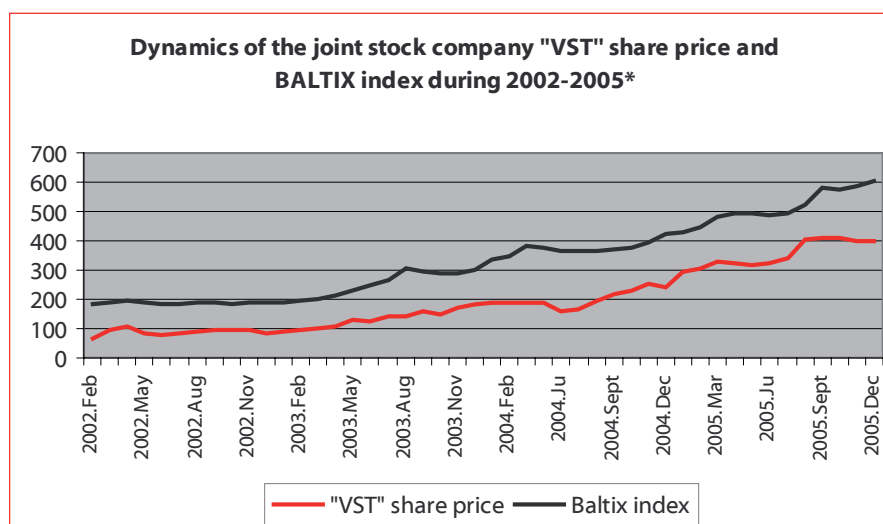
Ordinary registered shares of the joint stock company "VST" (from 02/12/2004 – 3 717 998 pcs., total par value 3 717 998 Lt, from 26/04/2005 – 3 717 998 pcs., total par value 111 539 940 Lt) are included into the Current trade list of Vilnius Stock Exchange. Security code is 12637.

ISIN code	Sales list	Number of shares, pcs.	Par value of a share, Lt	Total par value, Lt
LT0000126377	BALTIC I-LIST	3 717 998	30	111 539 940

16. The sales of the Issuer's securities on exchanges and other organised markets

16.1. Trade by Vilnius Stock Exchange

The average price of a share of the joint stock company "VST" was 349.3 Lt in 2005. The lowest price during the period was 240.1 Lt, when the highest amounted up to 450.0 Lt. See below the comparison of dynamics of the company's share price and the BALTIX¹ index during 2002 – 2005.



* The share price of the joint stock company "VST" is adjusted considering the changes of the share capital.

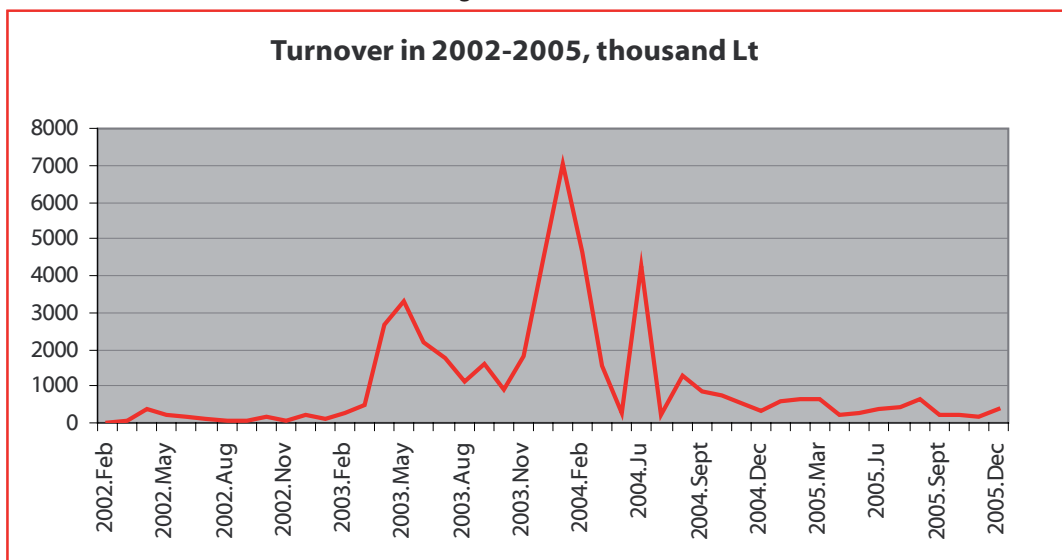
This diagram shows the dynamics of the company's share price in litas and the BALTIX index in points (the close price of the share and the value of the BALTIX index are presented for the last trade day of every month).

Sales in the Vilnius Stock Exchange during 2004-2005

Report period	Price (Lt)			Turnover (Lt)			Last session date	Quarterly turnover	
	max	min	Last session	max	min	Last session		Pcs.	Lt.
1 st quarter, 2004	1.73	1.65	1.72	730 374.00	4 221.00	9 916.00	31/03/2004	737 764	13 392 237
2 nd quarter, 2004	188.57	1.70	159.99	114 825.00	0.00	0.00	30/06/2004	187 584	4 560 177
3 rd quarter, 2004	240.00	157.50	220.00	311 134.00	0.00	219 384.00	30/09/2004	12 737	2 495 432
4 th quarter, 2004	269.90	149.00	240.35	169 483.00	0.00	18 080.00	31/12/2004	8 103	1 779 168
1 st quarter, 2005	330.00	240.10	330.00	256 169.00	0.00	0.00	31/03/2005	6 526	1 911 853
2 nd quarter, 2005	350.00	317.00	325.00	106 107.00	0.00	12 670.00	30/06/2005	2 804	898 592,5
3 rd quarter, 2005	420.00	320.00	409.00	210 011.15	0.00	0.00	30/09/2005	3 531	1 261 849
4 th quarter, 2005	425.00	371.00	399.00	259 355.00	0.00	7 980.00	30/12/2005	1 929	773 153.1

¹BALTIX index is a capitalisation-weighted return index, which includes the companies' shares listed on the Main (official) Lists of the Riga, Tallinn and Vilnius stock exchanges. The history of the BALTIX index goes back to the beginning of the year 2000. Base value of the index is 100 points.

See below the turnover of shares in thousand of litas during 2002-2005 at the VSE:



16.2. Trade by other exchanges

16.3. Trade by other organized markets

17. Capitalization of securities

Report period*	Capitalisation, Lt
1 st quarter, 2005	1 226 939 340
2 nd quarter, 2005	1 208 349 350
3 rd quarter, 2005	1 520 661 182
4 th quarter, 2005	1 483 481 202
2005 m.	1 483 481 202

* Capitalization is given as condition in the end of every period

18. Sales of Issuer's securities outside the Stock Exchange

19. Data on purchasing of own shares by the Issuer

The company has not purchased own shares.

20. Announcement of official offers

During 2005 no official offers from the third parties to purchase ordinary registered shares of the joint stock company "VST" were announced. Neither has the joint stock company "VST" announced official offers to purchase securities of other Issuers.

21. Issuer's paying agents

None.

22. Contracts with the mediators of securities public circulation

The joint stock company "VST" and the joint stock company bank "Hansabankas" have signed a contract on accounting securities issued by "VST", and handling personal accounts of securities:

AB bank "Hansabankas"
 19 Savanorių av., LT-03502 Vilnius
 Phone (8~5) 268 44 44
 Fax (8~5) 213 24 31

23. Legal grounds for the Issuer's activities

Joint stock company "VST" in its operation follows the listed legal instruments:

- Law on joint stock companies of the Republic of Lithuania;
- Law on Enterprise Register of the Republic of Lithuania;
- Law on the Electricity of the Republic of Lithuania;
- Energy Law of the Republic of Lithuania;
- Law on the securities market of the Republic of Lithuania;
- Other laws of the Republic of Lithuania as well as Governmental regulations;
- The Bylaws of the Company and its amendments.

24. Participation in the associated structures

The joint stock company "VST" is a member of "Lithuanian Confederation of Industrialists" and "Industrialists and Employers association of Kaunas region" from its incorporation. The history of the mentioned associations goes back to 1930. They both were restored almost after 60 years.

■ On 22 December, 1989 by the resolution of the Executive Committee of Kaunas People Deputies Council, the Association of Kaunas Industrialists was founded. In the course of time, having the activities growing, new activity priorities occurring and entering new members, on 15 August, 1996 the Association was re-registered and renamed as "Association of Industrialists and employers of Kaunas region". (More about it www.pramone.lt).

■ On 17 June, 1989 the Constituent Congress of Lithuanian Industrialists association took place. The Congress restored the union, which operated before the war. In 1993 the Extraordinary Congress of Lithuanian Industrialists association reorganized the association into the Lithuanian Confederation of Industrialists (LCI). Now the LCI unites 38 branch and 8 regional associations, which together have more than 2700 companies of various profiles as members. Apart to this, there are member companies, which do not belong to associations and joined LCI individually. The Confederation unites not only most of the manufacturing companies, but also banks, trading companies, representations of foreign companies, science& research institutes, educational institutions. The activities of LCI member companies cover all key branches of industry - almost all goods produced in Lithuania are produced by the member companies. The Lithuanian Confederation of Industrialists is non-political, public organization; it does not depend on the state. The LCI has its own independent policy (See more www.lpk.lt).

Both organizations represent and protect their members' interest in the governmental, social and international organizations, protect social and legal interests of the Lithuanian

employers and keeps up social dialogue. They also aim to improve investment climate in Lithuania and assist companies in finding new markets.

Petras Jasinskas, Strategic Planning Department Manager of the joint stock company "VST" is a member in the Energy Committee of the Lithuanian Confederation of Industrialists.

The joint stock company "VST" does not participate in the capital of the members of those associations.

25. Short history of the Issuer

The company was established while the reorganization of the SPAB "Lietuvos energija" took place, when the Parliament of the Republic of Lithuania on 8 June, 2001 adopted the Law on Reorganization of the special joint stock company "Lietuvos Energija". According to the law 4 new companies (for electricity production, transmission and distribution activities) were established by splitting them from the special joint stock company "Lietuvos Energija". One of the companies is the joint stock company "Vakarų skirstomieji tinklai".

The joint stock company "Vakarų skirstomieji tinklai" was registered at the Register of Enterprises on 31 December, 2001. The company was established on the basis of branches of Kaunas EN, Klaipėda EN and Siauliai EN of the special joint stock company "Lietuvos Energija". The Share capital of the joint stock company "Vakarų skirstomieji tinklai" made about 22 percent of the number of shares of the former special joint stock company "Lietuvos Energija".

Geographically, the company covers central and western territories of Lithuania. The company owns the network of electric power distribution (i.e. medium and low voltage lines and transformer substations). It is in charge of electric power distribution and electric power supply service to the end-users.

From 23 of December, 2003 the biggest shareholder in the company is UAB "NDX energija", which was founded by the owners of the retail trade supermarkets network "VP Market". Until 1 of April, 2004 a mandatory non-competitive official offer to purchase the remaining shares of the company for the price of 1.73 Lt each was valid. After the expiry of the official offer UAB "NDX energija" owned 96.51 percent of the company's shares.

During 2004 a new administration team has been built, internal procedures have been changed and a new order has been established.

On 15 April, 2005 at an ordinary general meeting of the shareholders of AB "Vakarų skirstomieji tinklai" important resolutions regarding the increase of the share capital of the company, change of the company name, increase of the number of the Board members (from 5 to 6), election of new members and amendments in the company's Bylaws, were adopted.

From the day of the Bylaws' amendments registration at the Register of legal bodies (26 April, 2005) the name of the AB "Vakarų skirstomieji tinklai" was changed. The new name is the joint stock company "VST". The share capital of the joint stock company "VST" was increased to 111 539 940 litas, which is divided into 3 717 998 ordinary registered shares with the par value 30 litas each.

The joint stock company "VST" related the renovation of the company with setting of clear directions for the company's activities. The company introduced the mission, vision and values of the operation, which became the foundation for the key principles of the company operation.

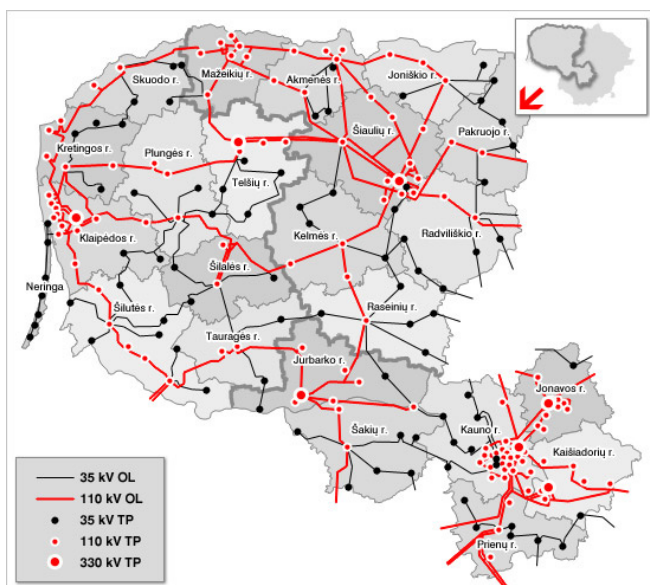
The work, which was started in 2004 after the company's privatization, were continued in 2005. The Company started to introduce customer service standards; training for the customer service personnel – managers, dispatchers, engineers, administrators and others - was organized. Modernization of the customer service centers was started.

In 2005 the company declared the goal until 2010 to become the best company supplying regulated services, and defined the ways to do that. During 2005 the company put efforts to lower the losses of electric power, to improve the condition for issuing terms of references; to encourage the payment for the supplied services in due time. Also investigations on customers' satisfaction were performed; the average annual duration of disconnection from the electric power network was decreased.

26. Description of production (services)

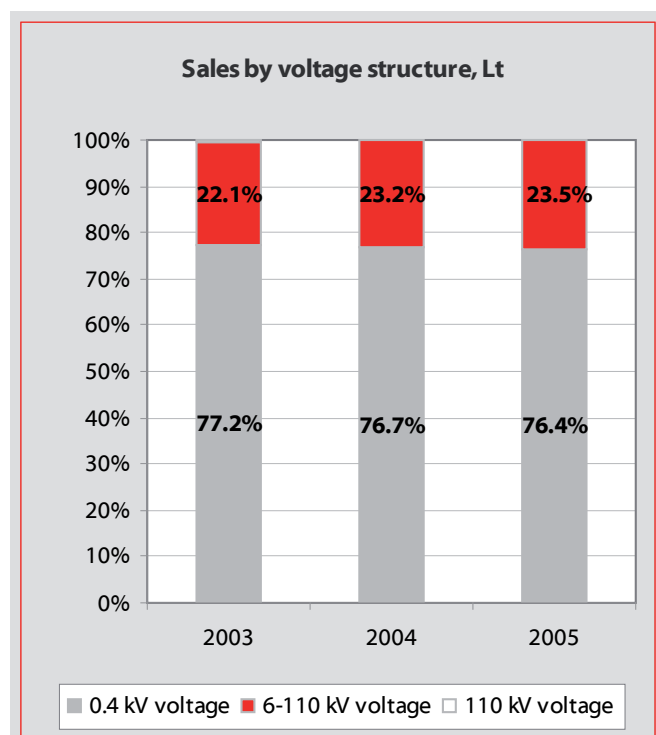
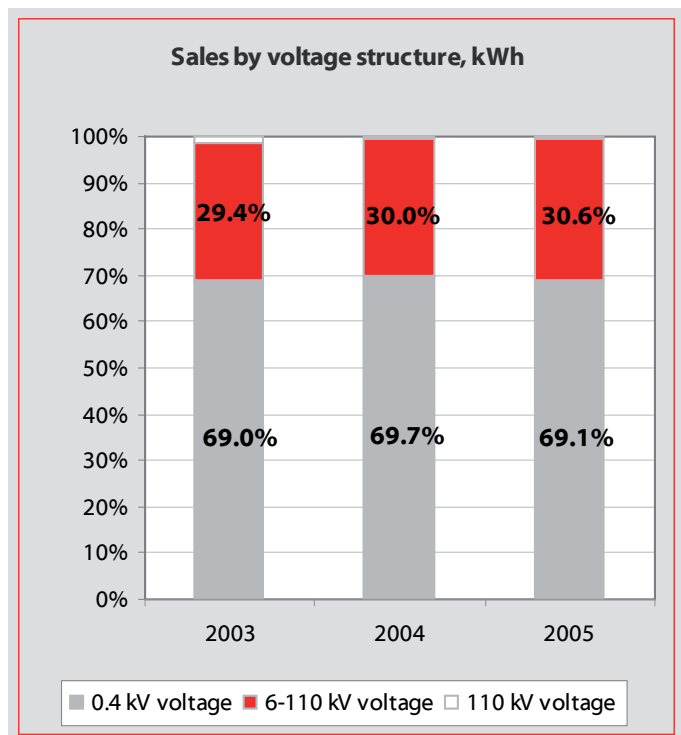
The company is the owner of electric power distribution network, i.e. overhead lines and cable lines of low and medium voltage, transformer substations and other distribution devices. The key activity of the joint stock company "VST" is the distribution of the electric power via low and medium voltage lines and the supply (sales) of the electric power to its consumers. The Company is responsible for the power distribution networks in Kaunas, Klaipėda, Šiauliai and part of Marijampolė regions; for safety, reliability, operation, maintenance, management and development of the network.

The scheme of the distribution network controlled by the joint stock company "VST"



■ Sales and revenues

During the last 3 financial years the company sold 9 871 million kWh of electric power and obtained 2 189.9 million Lt income from the sales of electric power. In 2005 the consumers were sold 3 446 million kWh electric power, i.e. by 4.9 percent more than during the previous years (2004 – 3 285 million kWh, 2003 – 3 140 million kWh). Most income (in 2005 – 77 percent) the joint stock company “VST” gets from the sales of electric power by 0.4 kV voltage network.



Income from the main activity in 2005 made 99 percent of total income of the company, i.e., the same as in the previous year.

Income structure of the joint stock company “VST” 2003 – 2005

Income, million Lt	2003	2004	2005
Income from the sales of electric power	661.1	702.8	826
Income from the reactive energy (power)	13.1	13.7	14.3
Incomes from connection of new consumers	0.9	1.8	2.4
Other income from the main activity	0.2	0.9	0.4
Income from other activities	2.0	6.2	3.6
Total	677.3	725.4	846.7

Key parameters of the company from the start of its operation

Parameter	2002	2003	2004	2005
Turnover, thousand Lt	653 578	675 086	718 360	842 781
Net profit, thousand Lt	28 300	- 57 860	5 918	48 472
Share price, Lt	0.75	1.66	240.35	399.00
Nominal value per share, Lt	1	1	1	30

■ Service prices

The prices for services are regulated, the top margins are set forth by the National Prices and Energy Control Commission of Lithuania, based on the methods of public electric power prices, public supply service price and the top margin establishment and the electric power transmission and distribution service price and their top margins. Following those methods the National Prices and Energy Control Commission by the resolution No. 03-110, dated 28 October, 2004 approved new top margin prices of distribution and public supply service for the period of three years for the AB “Vakarų skirstomieji tinklai”.

From 1 January, 2005 new electric power prices and tariffs, as well as order of their application, came into force, which were approved by the National Prices and Energy control Commission by its resolution No.03-125, dated 25 November, 2004. Valid electric power prices and tariffs can be found on the joint stock company "VST" website (www.vst.lt). All legal acts, which changed the prices and the tariffs, can be found on the website of the National Prices and Energy Control Commission (www.regula.lt).

The later 2005 pricing solutions more concerned customers of the company – legal bodies, which receive electric power from low voltage electric lines. Joint stock company "VST" from 1 August, 2005 started to apply three freely selected plans for payment for the electricity to its customers – legal bodies, which receive electric power from low voltage electric lines. While introducing the new plans apart of the quantities of electricity consumed, the allowed power, which defines the use of the electric lines was taken into consideration. Before the introduction of this pricing solution the sum of allowed power of the customers of the company – legal bodies exceeded 1700 MW, while the use of it was only 8 percent, i.e., the allowed power was minimally used. After the introduction of the new payment plans only in 4 months the customers renounced about 400 MW of the allowed power. This proves that the allowed power was inefficiently used or was not used at all. In case of high surplus of allowed power for the consumers the company had to have powerful transformers, while those, due to low capacity use, were running idle, generated huge losses of electric power. The funds allocated to recover of those transformers exceeded the allocation needed to meet real customer needs.

Another important aspect is the efficiency of the investment funds. The contracts made by the Company with the customers define the allowed power, which is ensured by the company at any time. If consumers decrease the allowed power the company is able to replace the powerful transformers with lower capacity devices and saves in such a way. Saved funds can be allocated for the renovation of the electric power network in the region, used for faster connection of electric devices of new customers or satisfaction of the increased allowed power needs of the existing customers.

Parameters of the company's operation

Parameter	2003	2004	2005
EBITDA margin (percent by turnover)	13.51 %	23.79%	32.82%
Operating profit margin (per cent by turnover)	-9.30%	1.71%	7.11%
Profit/ loss before taxes (per cent by turnover)	-9.80%	1.45%	5.66%
Net profit margin (per cent)	-8.40%	0.82%	5.75%
Return on assets (ROA)	-2.30%	0.24%	1.97%
Return on shareholders equity (ROE)	-2.97%	0.38%	3.28%
Debt ratio	0.2	0.37	0.4
Debt –equity ratio	0.26	0.59	0.66
General liquidity ratio	0.87	1.18	1.14
Asset turnover	0.27	0.29	0.35
Earnings per share, Lt	-0.14	1.59	13.04
Price - earnings ratio (P/E)	-11.77	151.16	30.60
Share book value, Lt	0.005	0.418	0.397
Dividend payout ratio, Lt	-	19.95	2.65



■ Investment into the renovation and the development of the network

Part of the electric power distribution network was installed in 1960 and before the privatization, had been repaired only when disorders of electric power supply occurred. The work on reconstruction and modernization of the electric power distribution network were started after the company privatization. Considerable part of investment every year is allocated to projects on quality improvement of the company services: installation of control systems for dispatch stations control, replacement of electric power air lines by underground cable lines and etc. The company has Purchase and Investment Committee, which thoroughly evaluates every investment project. Created system for investment projects evaluation and rating allows objectively establish priorities in investment areas and particular projects.

During 2005 the investment into development of electric power distribution network and its maintenance was the highest from the start of the company's operation. It amounted up to 130 million Lt.

27.2 million Lt was allocated for the repairs of transformer substations (hereinafter referred to as TS). During 2005 the work took place in 30 transformer substations. 9 reconstruction projects (with the value of about 12.4 million Lt) were run under the project "Modernization of infrastructure of "VST"" (No. BPD04-ERPF-1.2.1-02-05/0174). This project is financed from the structural funds of European Union and funds of Lithuania Republic. In the course of this investment project (2005 – 2008) 10 transformer substations will be reconstructed, new computerized information control systems (SCADA) will be installed in four departments of the company. Having implemented the infrastructure modernization investment Project financed by the EU and the Republic of Lithuania, the electric power distribution devices of transformer substations, today outdated and physically worn off, will be renovated; the number of disorders in undated transformer substations will go down by 30-40 per cent; the time needed to establish the disorders in the electric devices in transformer substations and repair will be shortened by 20- 30 per cent. Installation of SCADA systems will ensure momentary collection of tele-information and its transfer to the dispatcher point of a department; will allow monitoring the work of the electric power network. Data collected during monitoring will be used for investigations of the disorders and will become a constituent part of investment programs.



Company efficiently employs allocations from EU structural funds

Under this Project in 2005 the transformer substation "Radviliškis" was completely reconstructed and 8 more reconstruction projects were started:

Kaunas region:

- 110/10 kV TS "Noreikiškės" reconstruction.
- 110/10 kV TP "Amaliai" reconstruction.

Šiauliai region:

- 110/35/10 kV TS "Šeduva" reconstruction.
- 35/10 kV TS "Akmenė" reconstruction.
- 35/10 kV TS "Tytuvėnai" reconstruction.

Klaipėda region:

- 110/10/6 kV TS "Taika" reconstruction.
- 110/10 kV TS "Plungė" reconstruction.
- 35/10 kV TS "Salantai" reconstruction.

For the year 2006 it is planned to complete the reconstruction of transformer substations "Noreikiškės", "Taika", "Šeduva", "Akmenė" and "Tytuvėnai" and to start 4 new projects :

1. Reconstruction and development of Kaunas city control system.
2. Development of control system in Plungė division.
3. Development of control system in Radviliškis division.
4. Implementation of control system in Šilalė division.

In 2005 7 383 new consumer (149 604 kW power) were connected. Almost 63 million Lt were allocated for the connection of new consumers. The major part of the investment in the con-

Before reconstruction

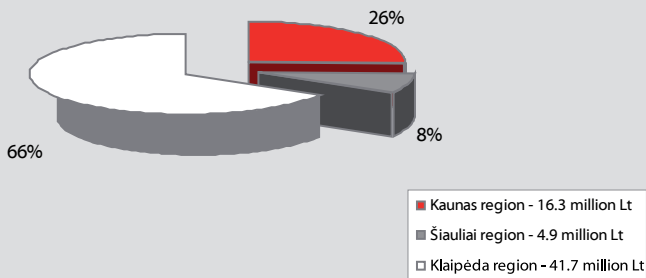


After reconstruction





Investments in the new customers' connection by regions



nection of new customers was made in Klaipėda region, (see the picture) because of the rapid establishment and development of companies in the Free Economic Zone of Klaipėda during 2005. 12.5 million Lt was invested into the development and reconstruction of 10-0.4kV electricity network during the Report year. In the year 2006 it is planned to continue the network renovation and development works by allocating funds for investment.

■ Innovations

For a long time the company suffered from oil thefts in transformers substations; therefore the company experienced big losses every year. During the period of annual Report new measures were exercised in order to lower those risks. Under the order of the company the scientists of Kaunas Technological University have developed additives, which, if mixed with transformers oil, make it not good for use in internal combustion engines. In such case materials, which damage the construction of the engine, are formed during the combustion process. In the process of engine operation a salt acid is formed, which damages the construction of the engine and destroys it. Besides, if using the oil which is not suitable as fuel a strong and unpleasant smell appears. Modified oil is not hazardous for human health and electric devices and has no negative impact on the environment. Having announced the invention, oil thefts in transformers went down by 30 percent (79 055.7 kg of oil was stolen in 2004, when in 2005 – 55 580 kg.).

In 2005, the company started solving the problem of stork nests built on electricity poles. Rather huge stork nests are a threat not only for birds, but for people as well. They also damage electricity cables; the nests thicken every year and the electricity supplies devices are being damaged: the cables split more often, and, due to the mentioned reasons, the supply of electric power is disordered. When tree branches connect the cables, losses occur due to the leak of power to the ground. This problem has been solved by replacing air lines with cables and leaving the old poles for the birds. Also stork nests have been removed on special metal constructions.

27. Sales markets

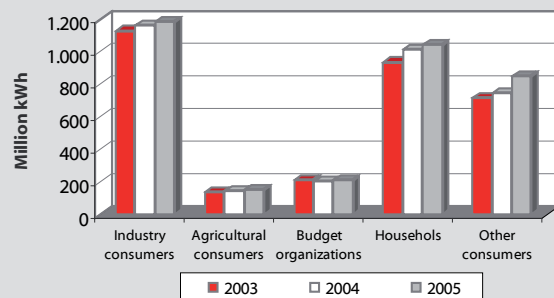
The company distributes and supplies electric power in the

western and central territory of Lithuania. It is the area of 30 378 square kilometers, which has about 1.89 million residents. The company supplies electric power to over 696 thousand consumers' objects. This number is constantly increasing. See the chart of customer objects number increase.

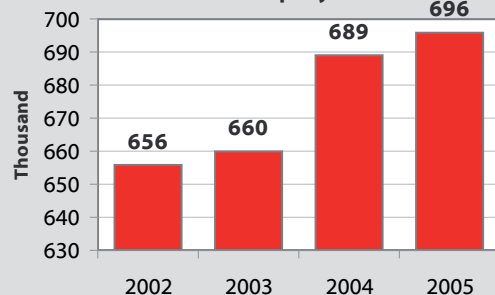
The biggest part of the electric power distributed and supplied by the Company (about 34.3 percent) is bought by other companies. The remaining part of electric power is consumed by households, budget organisations and other consumers' groups (see the chart below).

During the period of the annual Report the demand for electric power has grown in all consumer groups. The biggest increase of electric power consumption from 2003 (18.5 percent) was in Other consumers group (where the biggest part is non industrial companies). The quantity of electric power consumed by households increased by 11.3 percent, agricultural consumers - by 9 percent. Sales to budget organisations went down by 0.2 percent in the period of 2003 – 2005. It is predicted that in 2006 the number of consumer objects will go up by approximately 1 percent, and sales will increase by approximately 4 percent. As in the previous periods most increase is predicted in the consumption of the Other consumers group (~ 7.8 percent). Sales of electric power to the households will grow by 3.4 percent, to the agricultural consumers and budget organizations - about 2.3 percent in the year 2006. The

Sales by consumers' groups in 2003 - 2005



Number of costumers' ojects of the joint stock company "VST"



quantity of electric power bought by Industry consumers will increase by 2.4 percent. After the privatisation of the company a big attention has been paid to the improvement of the customer service quality. Funds were allocated not only for the reconstruction of the distribution network, but to the improvement of customer service quality as well. Customer service standards were introduced in the company and training for the customer servicing staff – for managers, dispatchers, engineers, administrators and other employees - was organised. 1.2 million litas was allocated for the modernisation of customer service centres during 2005. It is anticipated that in 2006 there will be 6 modern customer service centres. The customers will be serviced in a centralised way; visitors will be registered by a modern electronic system. Households and companies representatives will be able to conclude contracts on electric power sales-purchasing, declare the data of accounting meters, and register disorders. New electric power consumers at the centers will be given Terms of reference and will be able to consult with specialists. Both companies' representatives and residents will be able to pay for the service invoices at the centers. If paying the invoices at the cash desk at the center, no administration fee will be charged. 2 million Lt is anticipated to be allocated for the customer service centers modernisation in 2006 m.

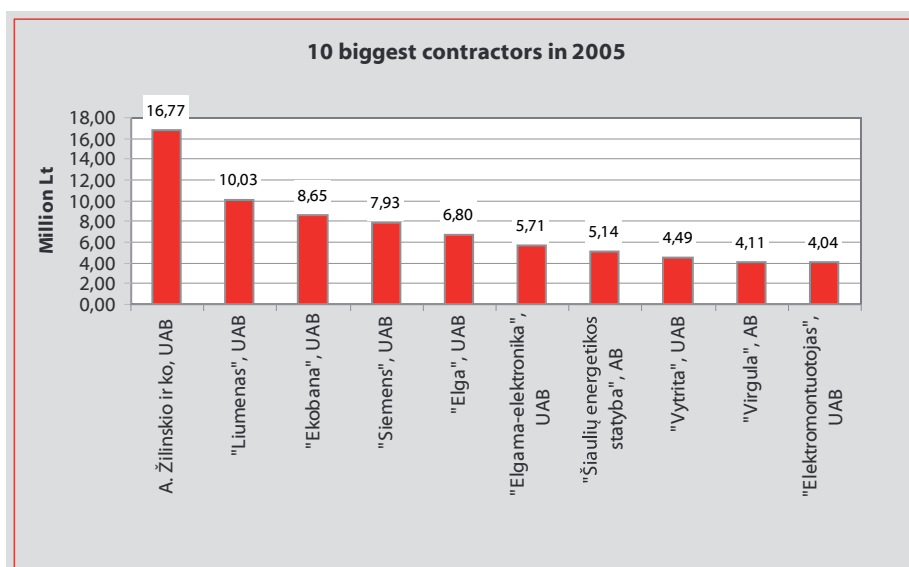


2 million Lt is anticipated to be allocated for the customer service centers modernisation in 2006 m.

28. Supply

No.	Name of the power station (owner)	Type of deal	2003		2004		2005		2006 plan	
			Million kWh	Million Lt (VAT excl.)	Million kWh	Million Lt (VAT excl.)	Million kWh	Million Lt (VAT excl.)	Million kWh	Million Lt (VAT excl.)
1	SE "Ignalinos atominė elektrinė"	Contractual	2 506.7	164.1	2 423.90	158.2	1 833.7	120.7	2 080.8	136.9
2	AB "Lietuvos energija"	Additional	411.8	29.7	470.3	33.7	860.2	63.8	1033.8	80.2
3	AB "Lietuvos energija"	PSO	643.1	100.4	596.4	94.3	616.3	95.7	615.6	89.9
4	UAB Kauno termofikacinė elektrinė	Contractual	0	0	152.4	9.9	227.4	14.8	191.2	12.5
5	Small power stations	PSO	23.3	4.7	29.5	6	31.7	6.5	51.9	10.5
6	AB "Klaipėdos energija"	PSO	0.7	0.1	20	2	20	2.1	20	2.3
7	AB "Šiaulių energija"	PSO	0	0	0	0	6.5	0.8	6.5	0.8
8	Small power stations	Contractual	0.2	0	0.2	0	2.6	0.1	0.1	0
9	AB "Klaipėdos energija"	Contractual	10.5	0.7	5.8	0.4	0.6	0	0	0
10	UAB Vilniaus energija	Contractual	0	0	22	1.4	238.1	15.5	0	0
	Total "VST"	El. power	3 596.3	299.8	3 720.4	305.9	3 837.3	320	3 999.9	333.1
	AB "Lietuvos energija"	Transmission service	3 522.7	119.8	3 680.7	122.7	3 795.1	131.1	3 937.6	137.2

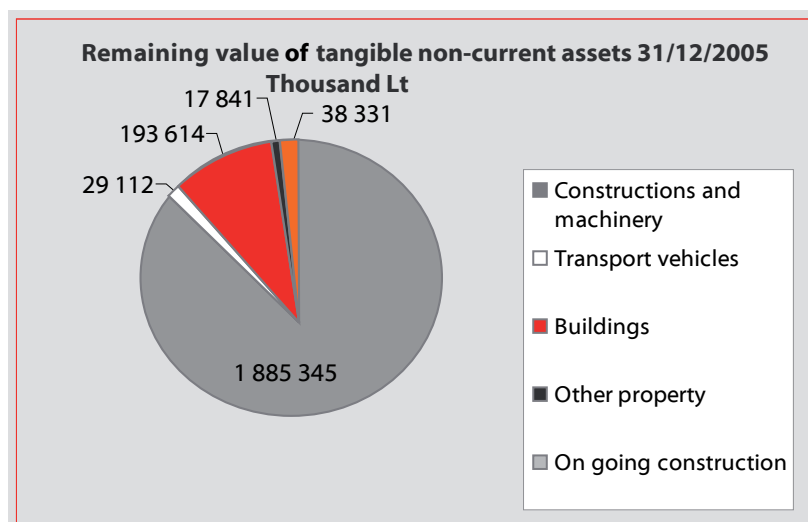
The main producer and supplier of electric power for the company is the State enterprise (SE) "Ignalinos atominė elektrinė" (Ignalina nuclear power station). During the period 2003 – 2005 it supplied 61 percent of electric power in average. Long term contracts are signed with the suppliers of electric power. The remaining demand for electric power the company satisfied purchasing electric power at the auctions or by the obligation to supply services corresponding to the public service obligation (or PSO – electric power produced using renewable or excess sources of energy, close-down costs of Ignalina NPS and etc.) and from small power stations. The transmission service for the company is provided by the joint stock company "Lietuvos energija", which ensures the transmission of electricity from Lithuanian power stations to the distribution networks companies. It is important for the company to ensure smooth development and renovation of the network, therefore part of the work is done by contractors. Ten contractors, which performed most of the repair works and the investment in 2005, are given in the Chart. There are quite a number of contractors capable to perform the needed work; therefore the company is in the position to get quality services for a good price.



29. Real estate and other main property

Due to the specific activity of the company's real estate is located in different parts of Western Lithuania. The headquarters of the company is in Vilnius, while main regional divisions are in Kaunas, Siauliai and Klaipėda.

The biggest part of the real estate owned by the joint stock company "VST" is built on the state owned land. The base to use the land is the Land rent contracts concluded with the Heads of the County administrations, which manage the state owned land under the right of trust. The land owned by private persons on which the property of the joint stock company "VST" is located, is being used by the company on other legal grounds set forth in the Civil Code of the Republic of Lithuania and other laws (rent, sub-rent, beneficial use, servitude and other rights). Besides, for the land on which energy objects or devices owned by the company are built, special conditions of use are set forth according to the order established by the laws and registered at the Register Centre; the special conditions of use consolidates the right of the joint stock company "VST" to use the land owned by other persons as much as it is necessary to use, service, repair and ensure the exploitation of energy objects and devices. In 2005 the area of land rented from the state and used by the company was 120.77 ha²: 32.44 ha - in Siauliai region, 45.19 ha - in Klaipėda region and 43.14 ha in Kaunas region.



The joint stock company "VST" owns under the ownership right the electro technical property, warehouses and transport fleet. The company owns non-current tangible assets with the remaining value of 2 164 243 thousand Lt for 31 December, 2005. Company operated 102 transformer stations of 110 kV, 89 transformer stations of 35kV and 15 897 transformers of 6-10 kV. The biggest on-going construction objects (which make 96 percent (36.8 million Lt) of all on-going construction value) are given in the table bellow.

On-going construction

Name	Start of project	End of project	Project value, Lt	Project implementation, Lt
Purchase of Smeltė (Rimkai) 110/10kV TS Territory of FEZ, Klaipėda	2005	2005	16 390 000	16 390 000
Reconstruction of Jakai 110/10 kV TS FEZ territory, Klaipėda	2005	2006	5 453 200	5 201 083
Reconstruction 110/10/6 kV TS, 10 kV cable line building from Taikos and Sendvaris TS, reconstructed SP-21, Taikos av., Klaipėda	2005	2006	5 175 497	4 864 037
Reconstruction of Plungė 110/10 kV TS, Plungė	2003	2006	6 857 758	4 457 242
10 kV cable line building from Drobė 110/10 kV TS, 10 kV construction of distribution point Karaliaus Mindaugo av., Kaunas	2005	2006	3 050 779	2 523 404
Construction of distribution point, 10 kV cable lines building from Taikos TS, between Lelijų, Kuosų, Agluonos streets, Klaipėda	2005	2006	1 897 777	1 758 452
Reconstruction of Amaliai 110/10 kV TS, Chemijos av., Kaunas	2002	2007	11 921 800	1 599 959

The company experienced losses because of the hurricane Ervin, which raged in Lithuania on 8-12 January, 2005. By the order of the company's administration the evaluation of the tangible non-current assets (both real and mobile) was performed. According to the Evaluation Report, the remaining useful life time of tangible non-current assets present in the hurricane zone, was shortened. More about it see the Audit Report.

30. Risk factors related to the activity of the Issuer

Economic :

The joint stock company "VST" is the only owner of electric power distribution network in Western Lithuania. Financial parameters of the company depend on the relations with the energy producers and electric power consumers. After the close-

² The given area of land rented and used is the area for which the land tax was paid in 2005.

down of the Ignalina NPS planned for 2009, competitors may appear on the local market due to the possibility of free consumers to choose the supplier of electric power. There is a threat that the company, which had been state owned for a long time, will not be able to become competitive. The key economic risk factor is insufficient capacity of the company and its contractors quickly eliminate the damages, which occur in result of natural calamities. Due to the disorders of electric power supply the incomes may be lost and losses may occur.

The company is facing the risk known to many Lithuanian companies – the lack of qualified employees and labour force due to the emigration to other countries. There is a shortage of qualified personnel in the divisions of the company. The qualifications of the lowest employees' level are still not satisfactory. Emigration of staff to other EU countries is becoming more and more important. This risk is being reduced by personnel policy and the average salary level increase.

Political:

Production and sales of electric power in Lithuania is regulated by the state more than in other industry branches. The electric power production and sales are subject to the Law on Electricity of the Republic of Lithuania. A new edition of the Law on Electricity was adopted by the Parliament of the Republic of Lithuania on 1 July, 2004. The state policy towards the prices of electric power is of high importance. The service prices are regulated; top margins are set by the Commission of Prices and energy control of the Republic of Lithuania. Therefore the pricing policy of the company is not flexible enough. Unplanned changes in the political situation of the country and legal regulations would have a negative influence on the company's operation.

Social:

The average salary in the joint stock company "VST" is higher than the average in Lithuania and is paid in due time, therefore the company is still attractive for young specialists. Also, based on the collective contract, the cooperation with trade unions is close; their activities are supported aiming to ensure the dialog between the employer and the employees.

Ecological:

The joint stock company "VST" is an electric power distribution company. Different from the electric power producing companies it hardly pollutes the environment. The chances of the issuer's operation limitations or its closedown due to the damages on the environment are really poor. The following preventive and pollution reduction measures are applied in the company:

- The technical condition of devices in which ecologically dangerous materials are used is regularly checked. Ecologi-

cally dangerous materials and devices are being avoided, safer ones are selected instead.

- The waste accumulated in the company is registered in the waste registers, which are safely kept in the divisions where the waste is accumulated. Hazardous waste is sorted and collected to special containers and passed on waste handling companies for proper handling.

- Transformers oil is stored in double-walled underground reservoirs, which correspond to all safety requirements. Surface leakages are directed to the cleaning equipment which is located close to the transformers sites.

- At the transformer substations oil separating valves are used in draining the leakages; the valves directs clean sewage to the sewerage, if it contains oil it is directed to the cleaning equipment.

Building electric lines across the places where a lot of trees grow (parks, forests) - the efforts are made to use air cables. This allows reducing the width of the cutting zone. If the line goes across a landscape reservation, underground cables, which do not change the landscape, are used.

Payback of bank loans

The company had 489 018 thousand Lt bank loans at the end of 2005 (by 7 833 thousand Lt less than the previous year).

The most part of the loans – 388 646 thousand Lt - consist of long-term loans, the remaining part (100 372 thousand Lt) – short-term loans. There is no risk regarding the payback of loans because the company has sufficient resources, interest and loans are paid back in due time. More about financial risk and its management see in the Explanatory letter to the Audit Report (Ch. 2.24, page 14 and Note 16, page 20).

31. Production halt or reduction, which makes or has made essential influence on the results of the Issuer's activity during the last 2 financial (business) years

The electricity supply was disordered in various places because of extremely bad and not typical for Lithuania weather conditions (the hurricane "Ervin"), on 8-12 January, 2005. Due to the damage made by the hurricane on many pieces of long term assets in Kaunas, Klaipėda and Siauliai regions the company addressed to independent property valutors for the evaluation of the remaining life time of the mentioned assets.

As a result from February 2005 the depreciation of particular long term tangible assets was recalculated based on the new remaining useful life times. The result of those changes of the accounted evaluation is the increased depreciation costs in the Income statement, which makes approximately 23 million Lt per year.

Lender	Payback date	Currency	Balance value (31/12/2004) thousand Lt	Taking, thousand Lt	Payback, thousand Lt	Balance value (31/12/2005) thousand Lt
AB bank „Hansabankas“ (overdraft)	05/07/2006	LTL	19 854	-	-	-
AB SEB Vilnius bankas credit line	01/06/2007	EUR	35 377	-	35 377	-
AB bank „Hansabankas“	05/07/2006	EUR	17 264	-	-	17 264
Nordea Bank Finland Plc Lithuanian branch	31/12/2006	EUR	34 528	-	-	34 528
SYNDICATED LOAN	15/12/2011	EUR	389 828	95 979	48 581	437 226
TOTALLY			496 851	95 979	103 812	489 018

32. Patents, licenses, contracts

In 2005 the joint stock company "VST" carried two licensed activities in the electric power sector, i.e., public supplier of electric power and the operator of the electric power distribution network.

Certificates held by the joint stock company "VST" - for the activities in the electric energy sector:

Name	Issue date	Number	Issued to	Valid till	Issuing institution
Licence of public electric power supplier	25/03/2002	No. VET-1	AB "Vakarų skirstomieji tinklai"	Not limited	National Prices and Energy Control Commission , Resolution No 28, dated 20/03/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission , Resolution No 128, dated 17/12/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission , Resolution No 28, dated 10/03/2003
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission , Resolution No 03-120, dated 11/11/2004
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission , Resolution No 03-29, dated 25/05/2005
Licence for electric power distribution	25/03/2002	No. ES-1	AB "Vakarų skirstomieji tinklai"	Not limited	National Prices and Energy Control Commission , Resolution No 28, dated 2002-20/03/2002
Amendment in the Licence for electric power distribution					National Prices and Energy Control Commission , Resolution No 51, dated 2002-20/05/2002
Amendment in the Licence for electric power distribution					National Prices and Energy Control Commission , Resolution No 85, dated 2002-10/09/2002
Amendment in the Licence for electric power distribution					National Prices and Energy Control Commission , Resolution No 03-120, dated 11/11/2004
Amendment in the Licence for electric power distribution					National Prices and Energy Control Commission , Resolution No 03-29 dated 25/05/2005

Name	Issue date	Number	Issued to	Valid till	Issuing institution
Certificate to operate electric devices	13/05/2005	No. E-0827	Joint stock company "VST"	26/03/2007	State Energy inspection at the Ministry of Economy, Resolution No 1730, dated 13/05/2005
Certificate to perform design and construction works of a part of a building	06/05/2005	No. 3151	Joint stock company "VST"	06/052010	Ministry of Environment of the Republic of Lithuania
Certificate to operate heat devices and turbines	13/05/2005	No. T-0444	Joint stock company "VST"	26/03/2007	State Energy inspection at the Ministry of Economy, Resolution No 1731, dated 13/05/2004
Permit to export electric power	09/07/2002	No. LE-0003 Annex 3	AB "Vakarų skirstomieji tinklai"	Not limited	State Energy inspection at the Ministry of Economy, Resolution No 1731, dated 13/05/2004

33. Hearings in courts and arbitration

There were no court or arbitration hearings during the period of annual Report, which might essentially influence the financial situation of the issuer.

In 2005 there were 605 civil claims presented to court on consumers regarding unpaid electric power bills and damages caused by illegal consumption of electric power coverage. The total sum of claims amounts up to 1.55 million Lt and from 2003 went down by 1.4 million Lt. See the table.

Civil claims of the joint stock company "VST"

Year	Number of claims	Total sum of claims (million Lt)
2003	1219	3.0
2004	866	1.5
2005	605	1.6

In the recent period the company evaluates the economic benefits (i.e., the chances to recover the debt after the court procedures) prior to submitting the claims to courts. As a result the number of claims regarding the debts for electric power decreased, as well as the costs of debts recovering, which would be acknowledged as hopeless.

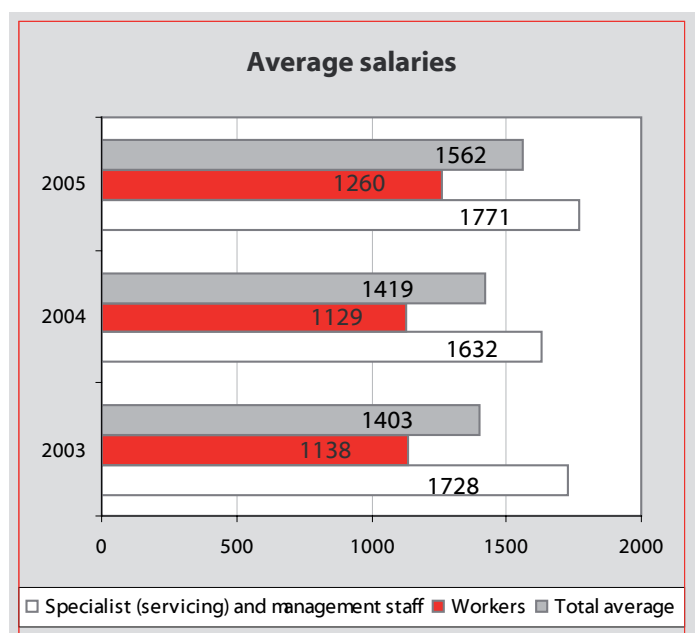
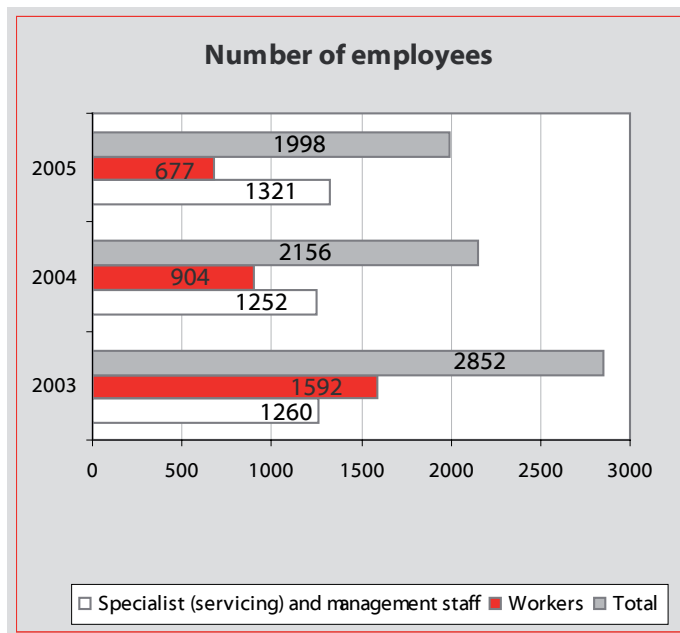
During the recent years the number of disclosed cases of illegal electric power consumptions is increasing, therefore the number of claims for the damage recovery is growing.

34. Employees

In 2005 the average number of employees in the joint stock company "VST" was 1998, if compared with previous financial year (2 156) it went down by 7.3 %. See the picture.

The number of specialists in 2005 went up by 5.5 %, while the number of workers from 2003 decreased 2.35 times (1.8 time in 2004). This decrease was determined by the optimization of the organizational structure of the company after its privatization; much attention was paid to the efficiency of activity and the improvement of work efficiency. The reason of the increase of the specialists' number is the customer orientated policy of the company.

The dynamics of the employees' number and the average salaries in 2003 -2005



Aiming for quick and qualitative customer service the team of servicing staff was enlarged during the Report year. The average salary of an employee in the company increased by 10 % during 2005 (up to 1 562 Lt) and is by 37.3 % higher than the average brutto salary of the Lithuanian employees (1 289.5)³. In order to prevent migration of employees to the countries of the EU and other companies the salaries were increased: the average salary for the workers went up by 11.6 % in 2005, for the specialists and the management staff - by 8.5%. Also the preventive personnel policy with the goal to increase the professionalism and the loyalty to the company is being implemented. For this purpose the company organises internal interviews, where the staff of the company is being encouraged to fulfill their professional goals and ambitions in new work places: during 2005 93 employees participated in the internal interviews and 18 employees went up to the management positions. Such possibility helps to attract young specialists, which are given good conditions to grow and make their carrier within the company.

³ Anticipated date from the Department of Statistics , <http://www.std.lt/lt/pages/view/?id=1116>



In 2005 the company started Study finance program under which electro-technical academic studies are partly financed (by 50%).

Company closely cooperates with educational institutions and students are accepted in the company for their professional practice. In 2005 there were 70 practicing students from different educational institutions: Kaunas Technological University, Siauliai University, Klaipėda Business and Technology College and other. The company is implementing the system of personnel activity evaluations, the purpose of which is to evaluate the contribution of employees reaching for the goals of the division and the company. The mentioned measures increase the interest of young specialists in the company; the number of employees with higher than secondary education is growing. During the Report year the number of the employees with higher non-university and higher education has considerably increased (in 2004 – 35.6 %, in 2005 – 42.9 %). The number of employees with secondary and incomplete secondary education went down by 8.1%.

Special attention was paid to the staff training and qualification improvement during the Report year - company invested about 300 000 Lt into training. 860 Employees participated in the training. 60% of organised training took place in the licensed educational institutions outside the company, about 40% of training was organised within the company.

The staff training was organised in three directions: management, professional and qualification improvement training. In the course of management training all managers participated (about 60). They improved their communication, meetings management, setting of goals and other management skills.

Professional training was meant to gain or improve particular qualification, skills necessary to perform dangerous and potentially dangerous works in a safe and professional manner. Managers of technical supervision of constructions, managers of high-scalars and steeplejacks, load attaching personnel, automobile lifters drivers, lifting crane work managers, wood cutters and welders underwent this type of training.

In addition to the mentioned training various qualification

improvement courses were organised to satisfy specific needs for training, such as project management course, customer service conference.

The personnel policy of the company justifies itself because the change of staff⁴ during the recent years went down to: 2005 – 15 %, 2004 – 34 %, 2003 – 16 %.

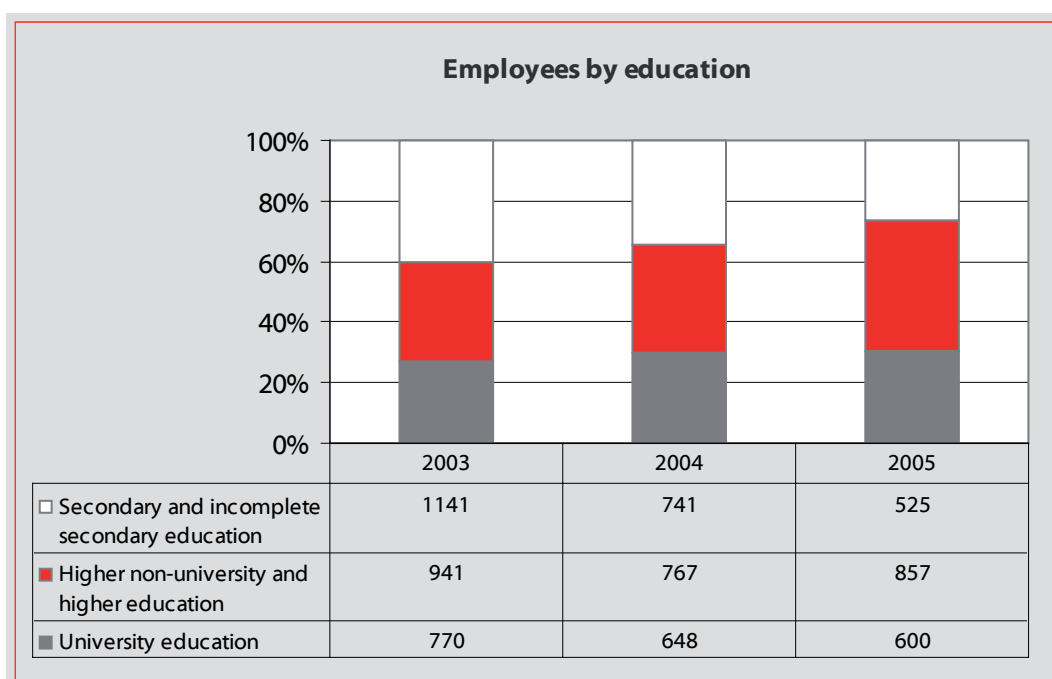
On 20 August, 2004 the AB “Vakarų skirstomieji tinklai” and the United Representation of Trade Unions, consisting of the regional trade unions of the company, signed the Collective Agreement. The goal of this Collective Agreement is to ensure efficient work of the company and represent all employees of the company. It sets forth the work conditions, payment for the work, social, economic and professional conditions and guaranties. The joint stock company “VST” supports the education, sports and cultural events organised for the employees by the trade unions. Allocations for the trade unions in 2005 amounted to 17 000 Lt.

35. Investment policy (companies into which the Issuer has invested over 30% of its share capital, also companies in the share capital of which the Issuer has over 30%):

35.1. Names, headquarter addresses, activity type, amount of the share capital, unpaid Issuer’s share in the share capital, net profit (loss), rate between current liabilities and current assets, rate between all liabilities and all assets.

35.2. Type and class of the shares owned by the issuer, number of shares, par value, and percentage of votes, owned or controlled, in the general meetings of shareholders of those companies, specify separately the percentage of votes granted by owned shares and the percentage of votes owned with other persons acting in corpore.

⁴ A change of the staff is calculated by dividing the number of employees leaving the company from the average annual number of employees, in per cent.



35.3. dividends paid to the Issuer, amount of loans given to the company and taken from it, description of the company debt securities obtained by the Issuer and their nominal value.

35.4. Large investment projects, exceeding 10% of the Issuer's share capital, implemented during the last 3 financial (business) years: investment type, investment volume, investment financing sources (internal, external); geographical distribution of investment (In Lithuania, abroad) .

35.5. Information about anticipated investments.

36. Competitors

The joint stock company "VST" provides the electric power supply and distribution services. Since the company is the operator of the distribution network in Western Lithuania and the installation of similar electricity network is practically impossible, the threat of competition in the distribution activity is not relevant.

Anyhow, the competition on the local market does exist, because free consumers have the possibility to choose the supplier of electric power. Free consumers may be supplied by the public supplier (electric power distribution company in the territory where it provides the service) or by an independent supplier (body, which has the Licence for this activity). In 2004 after the new edition of the Law on electric energy came into force, all consumers, except the households, became free consumers; not later than 1 July, 2007 all consumers will be free. However, the competition threats in the energy supply activity are inconsiderable for the company, until the main supplier is the Ignalina Nuclear Power Station.

37. Paid dividends

For the year 2002 11 320 154 Lt were allocated for dividends (i.e. 0.0279 Lt per one ordinary registered share). For 2003 dividends were not paid. For 2004 dividends were paid and were equal to 31.76 Lt per one ordinary registered share. The general meeting of the shareholders of the joint stock company "VST", which took place on 14 April, 2006, adopted a resolution according to which the shareholders of the company have to be paid 34.51 litas(9.99 EUR) dividends per one ordinary registered share.

According to the data unpaid dividends amounted up to 718.4 thousand Lt, (of those: 69.6 thousand Lt for 2002 and 648.8 thousand Lt for 2004) on 31 December, 2005.

Dividends were paid to those shareholders who by themselves or through their security account managers applied for the payment of the dividends or company by itself knew their accounts. Dividends were not paid to those shareholders who did not apply for the payment of the dividends or the company did not have their accounts. The joint stock company "VST" and the bank AB "Hansabankas" have concluded a contract on securities, issued by the Company, accounting and handling and control of personal securities accounts. The unpaid dividends will be paid to the shareholders upon request from the shareholders to the bank AB "Hansabankas" regarding payment of due unpaid dividends.

During the last five years the amount of dividends has not been reduced in cases set forth by legal regulations or the Bylaws of the issuer. There have not been any shareholders refusing dividends.

The joint stock company "VST" has no approved dividends policy.

Financial year	Dividends per share, Lt	Accumulated (unpaid)dividends 31 December, 2005
2002	0.0279	69 565.89
2003	Dividends were not announced	
2004	31.76	648 793.28
2005	34.51	-

38. Financial Statements

38.1. The Balance sheet of the last three years.

Balance sheet (in Lt '000)			
	31 December		
	2005	2004	2003
ASSETS			
Non-current assets			
Property, plant and equipment	2 164 243	2 255 645	2 387 997
Intangible assets	666	1 395	3 954
	2 164 909	2 257 040	2 391 951
Current assets			
Inventories	13 701	7 158	20 770
Trade and other receivables	67 474	54 380	64 368
Prepayments, deferred charges and accrued income	9 252	7 803	6 344
Cash and cash equivalents	199 300	146 971	7 295
	289 727	216 312	98 777
Total assets	2 454 636	2 473 352	2 490 728
EQUITY			
Share capital	111 540	3 718	405 262
Revaluation reserve (result)	1 193 837	1 422 189	1 504 105
Legal reserve	11 154	29 866	49 252
Retained earnings (deficit)	161 317	99 467	(7 753)
Total equity	1 477 848	1 555 240	1 950 866
LIABILITIES			
Non-current liabilities			
Borrowings	388 801	423 537	107 094
Deferred income	98 787	55 997	33 801
Deferred income tax liability, net	234 239	265 169	284 871
	721 827	744 703	425 766
Current liabilities			
Borrowings	100 414	73 551	-
Trade and other payables	112 673	70 613	96 456
Advances, accrued charges and deferred income	18 998	9 586	6 978
Income tax payable	22 876	19 659	10 662
	254 961	173 409	114 096
Total liabilities	976 788	918 112	539 862
Total equity and liabilities	2 454 636	2 473 352	2 490 728

38.2. Income statement for the last 3 years.

Income statement (in Lt '000)			
	31 December		
	2005	2004	2003
Sales	842 781	718 360	675 086
Other operating income	3 964	7 070	2 210
	846 745	725 430	677 296
Purchases of electricity	(451 164)	428 639	(419 539)
Depreciation and amortization	(212 095)	(157 600)	(153 324)
Wages, salaries and social security	(57 330)	(54 646)	(64 875)
Repair and maintenance expenses	(14 144)	(7 921)	(28 028)
Spare parts and other inventories	(13 740)	(12 195)	(23 765)
Utilities and communications expenses	(6 147)	(6 265)	(7 386)
Other operating expenses	(32 206)	(45 900)	(43 181)
	(786 826)	(713 166)	(740 098)
Operating profit (loss)	59 919	12 264	(62 802)
Financial income (expenses), net	(12 199)	(1 840)	(3 359)
Profit (loss) before tax	47 720	10 424	(66 161)
Current year income tax expenses	(37 958)	(24 208)	(11 240)
Deferred income tax benefit	38 710	19 702	19 541
Net profit (loss)	48 472	5 918	(57 860)
Basic and diluted earnings (loss) per share, in Lt	13.04	1.59	(15.56)

38.3. Cash flow statement of the last three financial years.

Cash flow statement (in Lt '000)			
	31 December		
	2005	2004	2003
Cash flow from operating activities			
Net profit (loss)	48 472	5 918	(57 860)
<i>Adjustments for non-cash items:</i>			
- Income tax	(752)	4 506	(8 301)
- Depreciation and amortization	212 461	157 960	153 324
- Depreciation of property, plant and equipment received at no consideration	(366)	(360)	-
- Recognition of income from the connection of new customers	(2 412)	(1 789)	(939)
- Accounting of property, plant and equipment identified during the inventory count	-	(3 884)	-
- Accrued income from electricity sales	-	(521)	156
- Proceeds from sales of property, plant and equipment	(154)	(190)	(9)
- Write-offs and impairment of property, plant and equipment and intangible assets	8 683	7 325	5 843
- Impairment of receivables and prepayments	1 041	6 388	2 684
- Write-down of inventories	(9)	3 743	3 668
- Accrued wages, salaries and social security expenses	14 273	1 212	220
- Net (profit) loss from transactions in foreign currencies	14	(80)	288
- Interest income	(4 262)	(703)	(156)
- Interest expenses	16 760	2 853	4 059
- Other income	(39)	-	-
	293 710	182 378	102 977

<i>Changes in working capital:</i>			
- Inventories	(6 012)	9 869	1 849
- Receivables, prepayments, deferred charges and accrued income	(15 400)	2 569	553
- Deferred income	34 403	14 763	15 081
- Payables, advances received, accrued charges and deferred income	45 336	(26 637)	5 472
<i>Cash flow from operations</i>	352 037	182 942	125 932
Interest received	4 034	703	156
Interest paid	(16 538)	(2 795)	(4 071)
Income tax paid	(34 702)	(15 211)	(2 780)
Net cash flows from operating activities	304 831	165 639	119 237
Cash flows from investing activities			
Purchase of property, plant, and equipment	(121 616)	(26 717)	(102 530)
Purchase of intangible assets	(186)	(218)	(3678)
Proceeds from sale of property, plant and equipment	653	846	177
Loan repayments received	44	93	126
Net cash flows from investing activities	(121 105)	(25 996)	(105 905)
Cash flow from financing activities			
Loans received	-	-	21 411
Loans repaid	(103 812)	-	(32 794)
Payments of financial lease	(40)	(45)	-
Dividends and payments related to share capital decrease paid	(27 531)	(2)	(11248)
Net cash flows from financing activities	(131 383)	(47)	(22 631)
Effects of exchange rate changes on cash balance	(14)	80	288
Net increase (decrease) in cash and cash equivalents	52 329	139 676	(9 011)
Cash and cash equivalents at beginning of year	146 971	7 295	16 306
Cash and cash equivalents at end of year	199 300	146 971	7 295

38.4. Statement of changes in equity for the last three years.

Statement of changes in equity (in LT'000 unless otherwise stated)	Paid share capital	Revaluation reserve for property, plant and equipment	Legal reserve	Other reserves	Retained earnings (deficit)	Total
Balance as at 31 December, 2002	405 262	-	13 436	19 386	(1 477)	436 607
Decrease of the share capital	-	1 583 439	-	-	-	1 583 439
Transfer from other reserves to retained earnings	-	-	16 430	-	(16 430)	-
Transfer from revaluation reserve to retained earnings	-	(79 334)	-	-	79 334	-
Dividends for the year 2002	-	-	-	-	(11 320)	(11 320)
Net profit for the reporting period	-	-	-	-	(57 860)	(57 860)
Balance as at 31 December, 2003	405 262	1 504 105	29 866	19 386	(7 753)	1 950 866
Decrease of the share capital	(401 544)	-	-	-	-	(401 544)
Transfer from other reserves to retained earnings	-	-	-	(19 386)	19 386	-
Transfer from revaluation reserve to retained earnings	-	(81 916)	-	-	81 916	-

Net profit for the reporting period	-	-	-	-	5 918	5 918
Balance as at 31 December, 2004	3 718	1 422 189	29 866	-	99 467	1 555 240
Increase of the share capital	107 822	(107 822)	-	-	-	-
Transfer from legal reserve to retained earnings)	-	-	(18 712)	-	18 712	-
Transfer from revaluation reserve to retained earnings	-	(112 750)	-	-	112 750	-
Impact of deferred income tax to the revaluation reserve due to charge in income tax rates	-	(7 780)	-	-	-	(7 780)
Dividends for the year 2004	-	-	-	-	(118 084)	(118 084)
Net profit for the reporting period	-	-	-	-	48 472	48 472
Balance as at 31 December, 2005	111 540	1 193 837	11 154	-	161 317	1 477 848

39. Comments of the financial Statements

39.1 Explanatory letter

Full financial Statements alongside with the comments on financial accounts, with Explanatory letter and the forms of financial accountancy (Certificates of the explanatory letter) have been prepared according to the International Reporting standards and is submitted together with the Annual Report.

39.2 Principles of consolidation and the names and addresses of the companies with which the consolidated accounts are concluded

39.3 Main changes and their causes from the last financial (business) year, other important information

Revenues

In 2005 the consumers were sold 3 446 million kWh of electric power, i.e. by 4.9 % more than the previous year (in 2004 – 3 285 million kWh).

In the period of the annual Report the income from the company sales and services without financial activities amounted up to 846.7 million Lt (in 2004 – 725.4 million Lt). Income from the sales of electric power made the biggest share of income:

Income :	2004 million Lt	2005 million Lt	Change %
Income from the sales of electricity	702.8	826	17.5
Sales of reactive energy	13.7	14.3	4.4
Income from connection of new consumers	1.8	2.4	33.3
Other income from operating activity	0.9	0.4	-55.6
Other income from operation	6.2	3.6	-41.9
Total:	725.4	846.7	16.7



In 2005 the income from financial activities made 4.8 million Lt (in 2004 – 1.5 million Lt). The growth of this income was determined by the efficient cash flow management and active use of the short term investment instruments.

Costs

In 2005 the costs of the company operation was 786.2 million Lt, while in 2004 the expenses equaled to 713.6 million Lt.

In 2005 57.3% of all operating expenses were the costs of electric power purchase and transfer; the remaining part of the operating expenses consisted of relatively fixed expenses.

Operating expenses	2004, million Lt	2005, million Lt	Change, %
Purchase of electric power	428.6	451.2	5.3
Depreciation and amortization	157.6	212.1	34.6
Wages, salaries and social security	54.6	57.2	4.8
Repair and maintenance expenses	20.2	27.8	37.6
Taxes except for the profit tax	14.5	3.1	-78.6
Utilities and communications expenses	6.3	6.2	-1.6
Other	31.4	29.2	-7
TOTALLY:	713.2	786.8	10.3

Financial expenses in the period of the annual Report– 16.96 million Lt (in 2004 – 3.3 million Lt), biggest part of it is interest – 16.76 million Lt (in 2004 – 2.9 million Lt).

Investment

In 2005 130 million Lt were invested into development and maintenance of electric power distribution network. For the repair of transformer substation (hereinafter referred to as TS) 27.2 million Lt were allocated. For the connection of new consumers – 63 million Lt. 12.5 million Lt were invested into the development and reconstruction of the 10-0.4kV electric power network during the period of the annual Report. More on investment see Ch. 26 of the annual Report.

Results of the activity

In 2005 the profit of the company before interest, taxes, depreciation and amortization (EBITDA) was equal to 276.6 million Lt (in 2004 – 170.9 million Lt), operating profit – 59.9 million Lt (in 2004 – 12.3 million Lt).

In 2005 the profit of the company before taxes was 47.7 million Lt. The income tax costs in the Report year was 37.9 million Lt, the benefit from deferred income tax – 38.7 million Lt. The net profit of 2005 of the joint stock company “VST” was 48.5 million Lt.

The Board of the company at the general meeting of the shareholders, which took place on 14 April, 2006, suggested not to adopt a resolution regarding payment of dividends. But the suggestion was not approved. The general meeting of the joint stock company “VST” adopted a resolution to pay all the shareholders of the company 34.51 litas (9.99 EUR) dividends per one ordinary registered share of the company.

Non-current assets

The accounted value of the non-current assets decreased during 2005 from 2 257.0 million Lt in 2004 to 2 164.9 million Lt in 2005. Mostly the decrease was caused by the depreciation and amortization of the non-current assets, which was equal to 212.5 million Lt in 2005.

In the year 2005 the management of the company changed the accounted valuations of a part of long-term tangible assets lifetime. This change of the accounted valuations was influenced by two reasons:

1. Extremely bad and non-typical for Lithuania weather conditions in January 2005. Because of the damages caused by strong storms in the mentioned period for a particular non-current assets in the regions of Kaunas, Klaipeda and Siauliai the Company addressed to the independent property valuers to evaluate the remaining lifetime of the assets. The valuation was performed by the independent property valuation company UAB “Ober-Haus” Real Estate. Having evaluated the remaining lifetime of the damaged non-current assets (most of the assets is within the buildings and machinery group), it appeared that the remaining lifetime of particular pieces went down by 12 percent in average. As the consequence of it the depreciation of non-current tangible assets from February 2005 was recalculated based on the remaining lifetime. The result of this accounted evaluation is the increased depreciation costs in the Income statement, which makes approximately 23 million Lt per year.
2. The company has non-current tangible assets, which was purchased 40 years ago or even earlier. The management of the company revised the possibilities to use such assets in the future and decided that the lifetime of such assets has to be shortened by 35 per cent. This caused the 29.7 million Lt influence on the accounted Report of 2005 profit (loss).

After the company privatisation, the Board took into consideration the critical situation on the electric supply network and decided to allocate funds for the reconstruction and implementation of modern technologies into the development and maintenance of electricity distribution network. During 2005 the investment into the development and maintenance of the electricity supply network was the biggest since the start of the company operation - 130 million Lt.

Current assets

The accounted value of current assets during the year has increased from 216.3 million Lt in 2004 to 289.7 million Lt in 2005.

The current assets of the company in the end of the year :	2004 million Lt	2005 million Lt	Difference, %
Inventory	7.2	13.7	90.3
Trade and other receivables	54.4	67.5	24.1
Prepayments, deferred charges and accrued incomes	7.8	9.2	17.9
Cash and cash equivalents	146.9	199.3	35.7
TOTALLY:	216.3	289.7	33.9

The increase of inventory was determined by purchase of materials in 2005, which were used for the investment projects in 2006.

Liabilities

During the period of the annual Report the long term liabilities of the company went down by 3 % (22.9 million Lt), when the short term liabilities increased by 47 % (81.5 million Lt).

Long term liabilities went down due to the restored deferred income tax for the previous periods.

The increase of short term liabilities was due to investment projects started in 2005 – the payables for repair, building and construction work for the outsourced contractors. The increase of those liabilities makes 42 million Lt. Short term borrowing have also increased, because of the paybacks in 2006: the payback of the 35.4 million Lt (10 million EUR) is due to the Nordea Bank Finland Plc Lithuanian division and the payback of 17.26 million Lt (5 million EUR) is due to the AB bank "Hansabankas".

Taxing liabilities (excluding income tax) in 2005 made 17 425 Lt. Detailed information about the deferred net income tax liability is given in the audit Report (Ch. 18, page 22). Financial leasing liabilities in 2005 made 197 thousand Lt (in 2004 – 237 thousand Lt). More about company's liabilities and the principles of it accounting see in the Audit Report: Ch 2.11 "Lease"(page 11), Ch. 16 "Borrowings"(page 20).

Taxing liabilities in the end of the year	
Real estate tax	13 800
Land rent tax	485
Road tax	-10 000
Environment pollution tax	6 211
Duty	634
Payments to guaranty fund	6 295
Total	17 425

Cash flow

Due to the increase of the income the cash flow from operating activity increased by 84 % in 2005, up to 304.8, million Lt (in 2004 it was 165.6 million Lt). But the net cash flow after investments increased only by 31.5 %, from 139.6 million Lt in 2004 to 183.7 million Lt in 2005. The key factor was the allocations by the Board for the investment into the development and maintenance of electric power distribution network, which was the biggest since the start of the company operation.

Internal audit

Optimisation of the organisational structure of the company, changes of order and implementation of new procedures took place after the privatisation of the company. There is no internal audit division in the company, but its introduction is already on consideration.

40. Report of the Board

The company's activity Report for the year 2005, verified by auditors, is attached to this Report.

41. Information about audit

The auditing of financial Statements of the joint stock company "VST" for 2005 was performed by UAB "Ernst & Young Baltic". The Audit Company and Jonas Akelis, the audit candidate, were approved by the Securities Commission of the Republic of Lithuania. (Resolution on the approval of the audit company and the auditor candidacy for the joint stock company "VST", No 2K-212, dated 14 June, 2005). UAB "Ernst & Young Baltic" completed the auditing work and submitted the Audit conclusion on 24 February, 2006. The auditor's conclusion is presented together with the annual Report.

VI. Information on the managing bodies of the issuer

42. Members of the managing bodies

The managing bodies of the company are general meeting of the shareholders, the Board and Chief Executive Officer.

The last amendments of the Bylaws of the company (dated 26 April, 2005) sets forth that the Board consists of 6 members (prior to the amendments – 5 persons). The members of the Board with the Office term of 4 years are elected by the general meeting of the shareholders.

Chief Executive Officer is appointed and recalled by the Board of the Company.

42.1 Positions, full names, data on participation in the share capital.

Board in the period 15/06/2004-26/04/2005

Full name	Position	Share of owned capital, %	Share of votes, %
Darius Nedzinskas	Chairman	-	-
Antanas Poška	Member	-	-
Andrius Jurkonis	Member	0%	0%
Arūnas Bivainis	Member	-	-

Board in the period 26/04/2005 -28/10/ 2005

Full name	Position	Share of owned capital, %	Share of votes, %
Darius Nedzinskas	Chairman	-	-
Antanas Poška	Member	-	-
Andrius Jurkonis	Member	0%	0%
Arūnas Bivainis	Member	-	-
Aidas Ignatavičius	Member	-	-
Rytis Borkys	Member	0%	0%

Board in the period 28/10/2005- 29/03/2008

Full name	Position	Share of owned capital, %	Share of votes, %
Darius Nedzinskas	Chairman	-	-
Antanas Poška	Member	-	-
Arūnas Bivainis	Member	-	-
Aidas Ignatavičius	Member	-	-
Rytis Borkys	Member	0%	0%

■ Board in the period 28/10/2005- 29/03/2008



Darius NEDZINSKAS

Position:

Chairman of the Board, Chief Executive Officer

Works within the company:

From the 2nd of February, 2004

Background:

Vilnius University, Faculty of Economics, Bachelor's and Master's degree in Banking and Finance.

Career:

Previous position – Head of the Board of AB Bank "Hansabankas".



Arūnas BIVAINIS

Position:

Member of the Board, Director Legal and Administration Division

Works within the company:

From the 2nd of February, 2004

Background:

University of Freiburg (Germany), Faculty of Law. Vilnius University, Faculty of Law. Holds Master's degrees (LLM).

Career:

Previous position – Director Legal Department / AB Bank "Hansabankas".
Vilnius University, Faculty of Law – assistant.



Antanas POŠKA

Position :

Member of the Board, Chief Financial Officer

Works within the company:

From the 2nd of February, 2004

Background:

University education. Antanas finished accounting and economical analysis studies in Vilnius University.

Career:

Previous position – Chief Financial Officer / AB Bank "Hansabankas".



Aidas IGNATAVIČIUS

Position:

Member of the Board, Director Power Supply Division

Works within the company:

From the 22nd of November, 2004

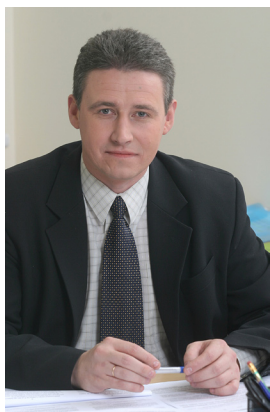
Background:

Vilnius University, Faculty of Humanities in Kaunas
Bachelor's and Master's degrees in Management and Business Administration

Career:

Previous position – Head of Business clients Department / AB Bank "Hansabankas".

(continued->)



Rytis BORKYS

Position:

Member of the Board, Director Electric Grid Division

Works within the company:

From the 17th of November, 1993

Background:

University education – Kaunas University of Technology,
Engineer – electro mechanic.

Career:

Started working within the company after studies.
Positions – electrical fitter, electrical fitter of the rapid response team,
foreman, senior supervisor, deputy head of the division, director of the division.

Administration in the period 02/01/ 2004 -09/02/ 2005

Full name	Position	Share of owned capital, %	Share of votes , %
Darius Nedzinskas	Chief Executive Officer	-	-
Gražina Valnickienė	Accounting Department Manager, Chief Accountant	-	-

Administration in the period 09/02/2005 -15/02/2005

Full name	Position	Share of owned capital, %	Share of votes , %
Darius Nedzinskas	Chief Executive Officer	-	-

Administration from 15/12/2005 to the day of the Report preparation

Full name	Position	Share of owned capital, %	Share of votes , %
Darius Nedzinskas	Chief Executive Officer	-	-
Lina Minderienė	Accounting Department Manager, Chief Accountant	-	-

42.2 Additional information on the Chairman of the board, head of the administration and Accounting Department Manager, Chief Accountant: education, profession, employers and positions occupied during the last 10 financial (business) years:

Chairman of the Board (Chief Executive Officer) – **Darius Nedzinskas**:



Education (profession)	Former employers in last 10 years	Positions	Data about criminal records for business crimes
University education, Vilnius University, faculty of economy. Banking and finance specialisation, bachelor, master.	1994 – 1995 AB State commercial bank of Lithuania,	Economist;	None
	1995 – 1998 AB Agricultural Bank of Lithuania,	Head of the money market department, Manager of Vilnius branch;	
	1998 – AB Vilnius bank,	Commercial director of Vilnius branch;	
	1998 – 2004 AB bank Hansabankas,	Deputy chairman of the Board;	
	2004 AB bank Hansabankas.	Chairman of the Board	

Accounting Department Manager, Chief Accountant – **Lina Minderienė**:



Education (profession)	Former employers in 10 years	Positions	Data about criminal records for business crimes
High (economist)	1993-1995 State Tax Inspectorate under the Ministry of Finance	Tax inspector	None
	1995-1996 Audit company „J. Kabašinskas ir partneriai“	Consultant	
	1996-2002 Ministry of Finance of Republic of Lithuania	Department of Tax policy, Head of the department	
	2002 UAB Enst & Young Baltic	Tax department, manager	
	2003-2005 AB bank Hansabankas	Department of financial accountancy and accounts	

42.3. Data about participation in the activities of other companies, institutions and organisations

Full name	Name of the company, institution or organisation, position	Share of capital and votes in other companies, %
Lina Minderienė	-	-
Darius Nedzinskas	UAB NDX energija, UAB Rudalita, member in the Board	5 -
Antanas Poška	-	-
Andrius Jurkonis	-	-
Arūnas Bivainis	-	-
Aidas Ignatavičius	-	-
Rytis Borkys	-	-

42.4 Data on the still valid criminal records of the members of the managing bodies for crimes on property, order of business, finance.

42.5 Data on the beginning of Office of each managing body and its terms.

The Bylaws of the company sets forth that the Board is elected for four years. The Office term of the present Board expires on 29 March, 2008. Chief Executive Officer shall be elected and recalled by a resolution of the Board.

43. Information about payment and loans to the members of managing bodies (Council of Observers, Board and members of Administration)

43.1. Information on the salaries, bonuses and other payments from profit in average amounts per one person

2005	Salary, Lt	Bonuses, Lt	Other payments from profit, Lt
In average per one member of the Board	153 094.37*	-	3 916.67
Totally for all Board members	918 566.23	-	23 500.00
In average per one member of Administration	143 783.78	-	-
Totally for all members of Administration	287 567.56	-	-

* As board members of "VST" also are directors of the company's divisions the salaries presented in the table above are paid as for director position.

This data includes payments to former members of managing bodies as well.

43.2. The sums paid to the Issuer's members of Council of Observers, Board, members of Administration as salaries, bonuses and other payments from profit during the Report period (for each category of the mentioned persons), received from companies where the share of share capital of the Issuer is over 20 percent.

43.3. Loans, granted guaranties and warranties for the members of managing bodies, which ensures their liabilities

44. Transactions with the interested persons

VII. The newest and essential events in the activity of the issuer, its perspectives

45. The newest events in the activity of the Issuer

28/04/2006 1Q activity result of the joint stock company "VST"

Preliminary pre-audit 2006 1Q activity result of "VST" is LTL 22.1 mil. (EUR 6.4 mil.) net profit before taxes.

Notice on the resolutions adopted at the general meeting of the shareholders which took place on 14/04/2006

The following resolutions were adopted at the general meeting of the shareholders of the joint stock company "VST" on 14 April, 2006:

1. To approve annual Report of the company for 2005.
2. Take into account the conclusions of the auditors UAB "Ernst & Young Baltic" when confirming the financial results of the company in 2005.
3. Approve the company's financial results for 2005.
4. Approve the company's distribution of profit (loss).

At the general meeting of the shareholders of the joint stock company "VST", which took place on 14 April, 2006, a resolution on paying dividends to the shareholders of the company equal to 34.51 litas (9.99 EUR) per one ordinary registered share of the Company, was adopted. The persons, who in the end of the day of the dividends announcement, i.e., 14 April, 2006, were shareholders of the Company, are entitled to receive dividends. The dividends will be paid via the Company's securities accounts managers and the manager of the Company's (issuer) securities the AB bank „Hansabankas“. Following the provisions of the Art.6, part 4 of the Law on joint stock companies the dividends will be paid within one month period after the resolution on paying dividends has been adopted.

Draft resolutions of the general meeting of the shareholders dated 03/04/2006

On 14 April, 2006 in Vilnius, at the address 16C, J. Jasinskio str, floor V at the headquarters of the joint stock company "VST" by the resolution of the Company's Board, dated 10 March, 2006, a general meeting of the shareholders of the company is called.

The shareholders are suggested to approve the following draft resolutions:

1. To approve the annual Report of the company activity for 2005.
2. When approving the Financial Reports for 2005, to consider the Audit conclusions of the Company's audit enterprise UAB „Ernst & Young Baltic“.
3. To approve the Financial Report for 2005.
4. To approve the following profit (loss) distribution:

Retained earnings (loss) in the beginning of the financial year	97 347 Lt (EUR 28 193.64)
Net annual operating result (profit (loss))	48 48 471 567 Lt (EUR 14 038 336.13)
Transfers from reserves:	
Transfers from revaluation reserve	112 749 528 Lt (EUR 32 654 520.39)
Transfers from legal reserve	0 Lt
Contributions of shareholders to cover the loss of the company (in case part of the loss or full loss was decided to be covered by the shareholders)	0 Lt
Profit (loss) for appropriation totally	161 318 442 Lt (EUR 46 721 050.16)
Part of profit allocated for mandatory reserve	0 Lt
Part of the company's profit allocated for reserve to purchase own shares	0 Lt
Part of profit allocated to other reserves	0 Lt
Part of profit allocated for paying dividends	0 Lt
Part of profit allocated for annual bonuses to the members of the Board and Council of Observers, employees and for other purposes	0 Lt
Retained earnings (loss) in the end of the financial year, deferred to the next financial year:	61 318 442 Lt (EUR 46 721 050.16)

10/03/2006 On 14 April, 2006 a general meeting of the company's shareholders is being called

On 10 March, 2006 the Board of the joint stock company "VST" adopted a resolution to call a general meeting of the shareholders of the joint stock company "VST" and approved the following agenda:

1. Approval of the Company's activity report of the year 2005.
2. The company's auditor statement.
3. Approval of Financial Statements for 2005.
4. Distribution of profit (loss) for 2005.

The time and date of the shareholders meeting: 14 April, 2006, 2 p.m.

The place of the shareholders meeting: 16C, J.Jasinskio str., Vilnius, floor 5.

The registration of the shareholders meeting day – 07/04/ 2006.

The start of shareholders registration – 14/04/ 2006, 1.25 p.m.

The Board of the company does not suggest the shareholders to adopt a resolution to pay dividends.

Audited 24/02/2006 profit before taxes for 2005

The audited profit of the joint stock company "VST" for 2005, according to the International Reporting Standards is 47.7 million litas (13.81 million EUR).

46. Essential events

28/10/2005 Activity result for the 3Q quarter

The Result of the joint stock company "VST" for the 3Q of 2005 according to the International accountancy standards is 21.9 million litas (6.3 million EUR) of not audited net profit.

21/10/2005 Audrius Jurkonis, a member of the Board resigned

Andrius Jurkonis resigned from his position as a Board member of the joint stock company "VST" from 28 October, 2005.

29/09/2005 Resolutions of the extraordinary meeting of shareholders

On September 29th, 2005 the shareholders meeting of the joint stock company "VST" made a decision to elect UAB "Ernst&Young Baltic" to audit financial accounting of 2005 and determine conditions for payment for audit services

23/08/2005 The extraordinary meeting of the shareholders of the joint stock company "VST" is called

On 23 August, 2005 the Board of the joint stock company "VST" adopted a resolution to call the extraordinary meeting of the shareholders of the joint stock company "VST" on 29 September, at 10.00 o'clock. The following agenda for the meeting was approved by the resolution of the Board:

The selection of the audit company to perform the audit of the company's Financial Statements for 2005 and establishment of payment for the audit services. The day of the shareholders registration for the meeting is 22/09/2005.

29/07/2005 Result of the 1st half of the year of the joint stock company "VST"

The result of the 1st half of the year of the joint stock company "VST" for 2005 according to the International Reporting standards is 14.9 million litas (4.3 million EUR) of not audited net profit.

29/04/2005 Activity result of the 1st quarter of 2005

The activity result of the 1st quarter of 2005 of the joint stock company "VST" according to the International Reporting Standards is 7 244 thousand litas not audited net profit.

27/04/2005 Amendments of the Company Bylaws registered with the Register of legal bodies

After the day of the amendments registration with the Register of legal bodies, the name of the AB „Vakarų skirstomieji tinklai“ was changed. The new name of the company registered with the Register of legal bodies is the joint stock company "VST".

From the Bylaws amendments registration with the Register of legal bodies the share capital of the joint stock company "VST" is equal to 111 539 940 litas, which is divided into 3 717 998 pcs of ordinary registered shares with the par value of 30 litas each .

From the Bylaws amendments registration with the Register of legal bodies, the newly elected at the general meeting of the shareholders on 15 April, 2005 members of the Board Aidas Ignatavičius and Rytis Borkys start in their position as members of the joint stock company "VST" Board .

From the Bylaws amendments registration with the Register of legal bodies the joint stock company "VST" has a new company (identification) code - 1108 70748.

15/04/2005 Resolutions of the shareholders meeting

At the general meeting of shareholders of the joint stock company AB "Vakarų skirstomieji tinklai", which took place on 15 April, 2005 the following resolutions were adopted:

1. To approve the Financial Report of the company for 2004.
2. To consider the Company Auditor's Conclusion on the Financial Report for 2004.
3. To approve the Company's financial Report for 2004.
4. To distribute the profit (loss) for 2004.
5. To increase the share capital of the company.
6. To change the name of the company from AB „Vakarų skirstomieji tinklai“ to the joint stock company "VST".
7. To increase the number of Board members up to 6.
8. To amend the Bylaws of the Company.
9. To elect new members of the Board.

The shareholders meeting of AB Vakarų Skirstomieji Tinklai which took place on April 15th, 2005, decided to pay the company's shareholders dividends in the amount of 118 083 616 (One hundred and eighteen million eighty three thousand six hundred and sixteen) Litas, i.e. 31.76 Litas for each of the company's 1 Litas nominal value ordinary registered share. Entities that were shareholders of the company up to the end of the day on which the shareholders meeting announced the dividend issue, i.e. the end of the day of April 15th, 2005, have the right to receive dividends. The dividends will be paid through the company's shareholders' issuer accountants and the company's (issuer's) issuer accountant - AB Bankas Hansabankas. The shareholders meeting of which took place on April 15th, 2005, decided to increase the share capital of the company by increasing the nominal value of the ordinary registered shares using the company's own funds, from 3 717 998 Litas (currently made up of 3 717 998 ordinary registered shares having a nominal value of 1 Litas) to 111 539 940 Litas (made up of 3 717 998 ordinary registered shares having a nominal value of 30 Litas). The company intends to present the changes of the company's statute regarding the increase of the company's share capital to the Registrar of Legal Entities on April 25th, 2005.

The shareholders meeting which took place on April 15th, 2005, decided to increase the number of board members to 6 and elect two new board members – Aidan Ignatavicius and Rytis Borkys, who will begin their duties as board members on the date the company's statute changes are registered with the Register of Legal Entities.

10/03/2005 Result of the audited activity of the Company

The audited result of the company AB "Vakarų skirstomieji tinklai" for 2004 is net profit of 5.9 million litas.

28/01/2005 Notice of the damages and losses caused by the hurricane

The hurricane which raved on 8-9 January, 2005 caused loss of 5 (five) million litas to the company AB "Vakarų skirstomieji tinklai".

10/01/2005 Notice on the force majeure circumstances

On 9-10 January, 2005 due to the circumstances of force majeure, i.e., strong storm, the electric power supply to a part of the consumers of the AB "Vakarų skirstomieji tinklai" was stopped.

VST

**ACTIVITY REPORT OF THE JOINT STOCK COMPANY
“VST”
FOR THE YEAR 2005**



ACTIVITY REVIEW

The key activity of the joint stock company "VST" (hereinafter referred to as Company) is the distribution of electric power by medium and low voltage lines network and the supply of electric power to its consumers.

On 15 April, 2005 at the ordinary general meeting of shareholders of AB "Vakarų skirstomieji tinklai" important resolutions regarding the increase of share capital, change of the name, change of the number of the Board members (from 5 to 6) and the election of new members and the amendments of the Bylaws of the company were adopted. The name of the AB "Vakarų skirstomieji tinklai" was changed after the registration of the amendments with the Register of Legal bodies on 26 April, 2005. The new name is the joint stock company "VST". The renovation of the joint stock company "VST" relates with the clear guideline of the company activity. The company introduced the mission, vision and values of its activity, which are the basement of the essential principles of the company activities.

During 2005 the work, which has been started after the company privatization in 2004, was continued. The company started to introduce customer service standards, to organize training for customer servicing staff—managers, dispatchers, engineers, administrators and other personnel. The customer service centres modernisation have been started.

New tariffs and the order of their application, were approved by the National Prices and Energy Control Commission at 25 November, 2004. By the resolution No. O3-125 these tariffs entered into force starting from 1 January, 2005.

Following pricing solutions mostly concerned the legal bodies - customers of the company, which receive the electric power from the low voltage electricity lines. The joint stock company "VST" from 1 August, 2005 introduced three, free to select, payment plans. When selecting the new plan not only the quantities of the electricity consumed were considered but the power allowed to use as well. Before the introduction of the new pricing the sum of allowed power of the legal bodies-customers of the company exceeded 1700 MW, but its efficiency was only 8 percent, i.e., the subscribed power was used at a very low level. After the introduction of the new payment plans within 4 months the customers refused about 400 MW of power. This proves that the subscribed power was used inefficiently or not used at all. Upon big surplus of subscribed power of the customers, the company had to have powerful transformers, while those, due to poor load, operated idle and generated big electricity losses. Funds needed for the restoration of those transformers exceeded the real needs of the customers, which resulted in losses because of the surplus power support.

Activity results

In 2005 the profit before taxes amounted to 47.7 million Lt. In the Report year the expenses of income tax were 37.9 million Lt, and the benefits of deferred income tax – 38.7 million Lt. The net profit of the joint stock company "VST" in 2005 was 48.5 million Lt.

Revenues

3.446 million kWh electric energy were sold to the consumers in 2005, i.e., 4.9 percent more than in the previous year (2004 – 3.285 million kWh). In 2005 the sales in low voltage network went up by 2.2 percent and the sales in high and medium electric power network went up by 5.9 percent.

During the report year the income from sales and services except financial activity of the company was 846.7 million Lt. (in 2004 – 725.4 million Lt.) The major part of income is from the sales of electric energy.

Income :	2005 million Lt	2004 million Lt	Change %
Income from the sales of electric power	799.4	693.6	15.3
Capacity charge	26.6	9.2	189.1
Sales of reactive energy	14.3	13.7	4.4
Income from connection of new consumers	2.4	1.8	33.3
Other income from operating activity	0.4	0.9	-55.6
Other income from operation	3.6	6.2	-41.9
Total:	846.7	725.4	16.7

In 2005 the income from capacity charge increased more than twice. Aiming to improve the efficiency of use of allowed power and optimise the costs related to unused power, the capacity charge for legal bodies' in low voltage network was introduced.

Income from financial activities was 4.8 million Lt in 2005 (in 2004 – 1.5 million Lt.). The increase of this income was determined by efficient management of cash flow and active use of short-term investment instruments.

Expenditures

In 2005 the operating expenses of the company was 786.82 million Lt, while in 2004 these expenses were 713.16 million Lt.

In 2005 57.3 percent of all operating expenses were the electricity purchase and transmission expenses, the remaining part of the operating expenses were of the relatively fixed expenses.

Operating expenses	2005 million Lt	2004 million Lt	Change, %
Purchase of electric power	451.2	428.6	5.3
Depreciation and amortization	212.1	157.6	34.6
Wages, salaries and social security	57.2	54.6	4.8
Repair and maintenance expenses	27.8	20.2	37.6
Taxes except for the profit tax	3.1	14.5	-78.6
Utilities and communications expenses	6.2	6.3	-1.6
Other	29.2	31.4	-7
Total:	786.8	713.2	10.3

In 2005 expenses of financial activities was 16.96 million Lt (in 2004 – 3.3 million Lt), the biggest part of it was interest expenses – 16.76 million Lt (in 2004 – 2.9 million Lt).

Non-current assets

The accounted value of the non-current assets decreased from 2 257.0 million Lt in 2005 to 2 164.9 million Lt. in 2004. The decrease was caused by the depreciation and amortization of the non-current assets, which were equal to 212.5 million Lt in 2005.

In the year 2005 the management of the company changed the accounted valuations of a part of non-current tangible assets lifetime. This change of the accounted valuations was influenced by two reasons:

(1) Extremely bad and non-typical for Lithuania weather conditions in January 2005. Because of the damages caused by strong storms in the mentioned period for a particular non-current assets in the

regions of Kaunas, Klaipeda and Siauliai the Company applied to an independent property valuator to estimate the remaining lifetime of the assets. The valuation was performed by the independent property valuation company UAB "Ober-Haus" Real Estate. Having evaluated the remaining lifetime of the damaged non-current assets (most of the assets is within the buildings and machinery group), it appeared that the remaining lifetime of particular pieces went down by 12 percent in average. As the consequence of it the depreciation of non-current tangible assets from February 2005 was recalculated based on the remaining lifetime. The result of this accounted evaluation is the increased depreciation expenses in the Profit (loss) statement, which makes approximately 23 million Lt per year.

(2) The company has non-current tangible assets, which was purchased 40 years ago and even earlier. The management of the company revised the possibilities to use such assets in the future and decided that the lifetime of such assets has to be shortened by 35 percent. This caused the 29.7 million Lt influence on the Income report of 2005

After the company privatisation, the Board took into consideration the critical situation on the electricity distribution network and decided to allocate funds for the reconstruction and implementation of modern technologies into the development of electricity distribution network and its maintenance. During 2005 investment into the development and maintenance of the electricity distribution network was the biggest since the start of the company operation - 130 million Lt.

Current assets

The accounted value of current assets during the year has increased from 216.3 million Lt in 2004 to 289.7 million Lt in 2005

The current assets of the company in the end of the year :	2005 million Lt	2004 million Lt	Difference, %
Inventory	13.7	7.2	90.3
Trade and other receivables	67.5	54.4	24.1
Prepayments, deferred charges and accrued incomes	9.2	7.8	17.9
Cash and cash equivalents	199.3	146.9	35.7
Total:	289.7	216.3	33.9

The increase of inventory was determined by the purchase of materials in 2005. These materials were used for the investments of 2006.

Borrowings

Borrowings in the beginning of 2005 were 496.9 million Lt, in the end of the year – 489.0 million Lt. Long term borrowings in the end of 2005 were 388.6 million Lt, short term borrowings were equal to 100.4 million Lt.

PURCHASE AND TRANSFER OF OWN SHARES

The company has not purchased own shares before the report period and has not purchased own shares during the year 2005.

SUBSIDIARY COMPANIES, PURCHASE OR SALES OF SHARES

The company has no shares of other companies. There were no transactions made regarding purchase or sales of other companies' shares during the year 2005.

INFORMATION ON THE BRANCHES OF THE COMPANY

In 2004 the operation of Klaipeda and Siauliai region branches were closed; in 2005 the company had no branch offices or representations.

THE MOST IMPORTANT EVENTS AFTER THE END OF FINANCIAL YEAR

In the beginning of 2006 modern customer service centres were opened in Siauliai and Klaipeda. Households or other customers may conclude contracts on electric energy purchase declare the meters accounting data, get the failures registered. The new consumers of electric energy will be issued Terms of reference; they will get advice from specialists in the customer service centres. The companies' representatives and the residents will be able to pay invoices for the services at the customer service centres. When paying for the services at the centre, at the cash desk, no administration fee will be applied and that is the continuation of the long term policy of the company.

PLANS AND FORECASTS OF THE COMPANY OPERATION

In 2006 the joint stock company "VST" does not plan any changes in the key operation and is going to continue the distribution of electric power by medium and low voltage lines and the supply of electric power to the consumers.

The reconstruction and modernisation work will be continued further on.

Joint stock company "VST" plans to continue work on the improvement of customer service quality and to open three more modern customer service centres in Kretinga, Kaišiadorys and Pakruojis in 2006.

Chairman of the Board

Darius Nedzinskas



9 March, 2006

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