VST, AB

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius, Lithuania

2009-03-02

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 21 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we Aidas Ignatavičius, Chief Executive Officer of VST, AB, and Lina Minderienė, Chief Financial Officer of VST, AB, hereby confirm that, to the best of our knowledge, the attached VST, AB Annual Report for the year 2008 includes a fair review of the development and performance of the business.

Chief Executive Officer		Aidas Ignatavičius
Chief Financial Officer		Lina Minderienė

VST
KAD GYVENTI BŪTŲ ŠVIESIAU

VST, AB
ANNUAL REPORT
2008

OUR MISSION

We are working to ensure the supply of electric energy in western Lithuania.

OUR VISION

We are seeking to become the best provider of regulated services in Lithuania.

OUR VALUES

PROFFESSIONALITY 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 valuators of our activity and provided services.

TEAM WORK:

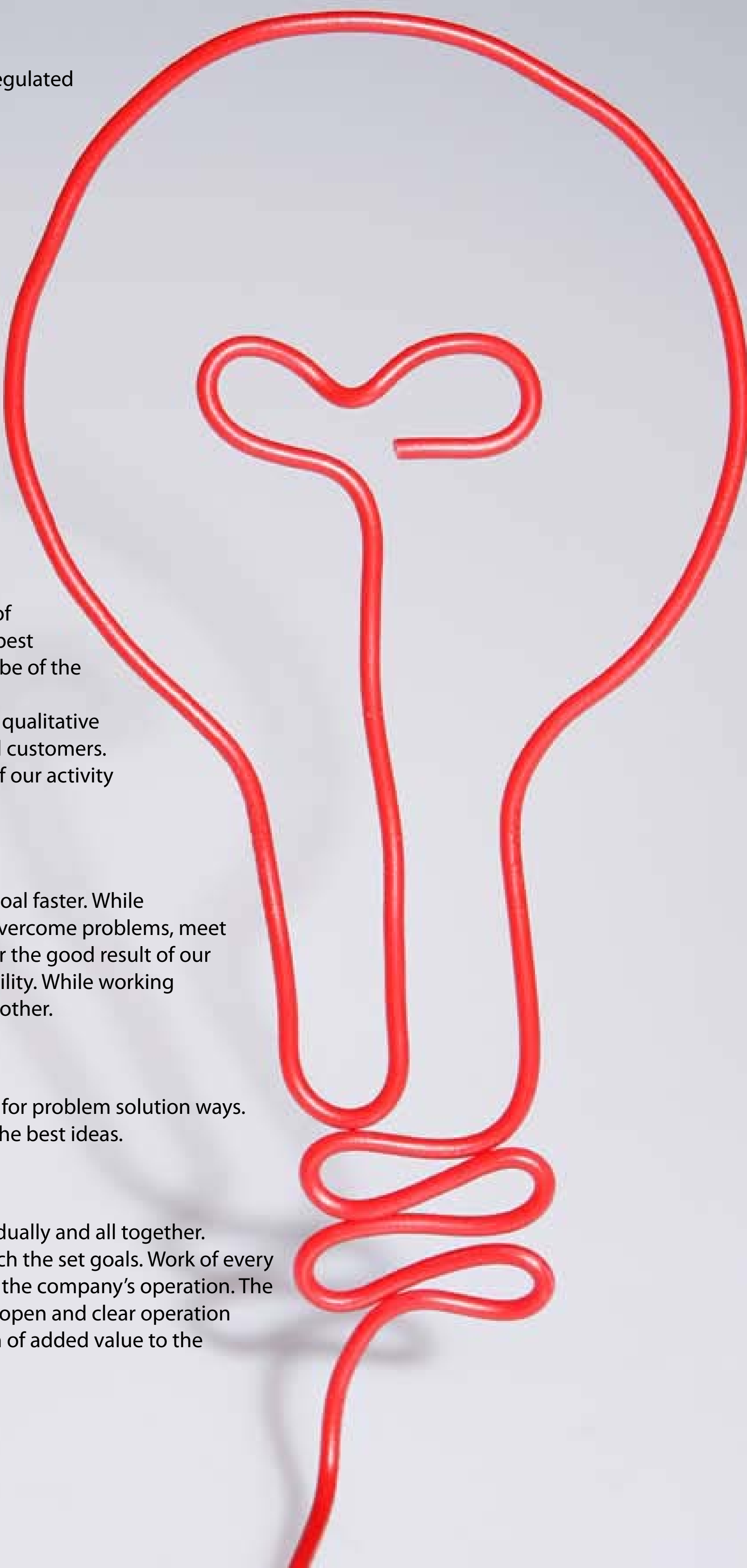
We are a team. Working as a team we reach our goal faster. While sharing our knowledge and experience we can overcome problems, meet challenges and find the best solutions. Aiming for the good result of our work we are aware of our function and responsibility. While working together we aim to be reliable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



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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent Auditors' Review Report on Annual Report of Joint Stock Company VST

We have reviewed Joint Stock Company VST (hereinafter the Company) Annual Report for the year ended 31 December 2008. The report is the responsibility of the Company's management. Our responsibility is to present report on the Annual Report based on our review.

We have audited the financial statements of Joint Stock Company VST for the year ended 31 December 2008 in accordance with International Standards of Auditing. On 23 February 2009 we have expressed unqualified opinion on these financial statements.

We have read the Annual Report for the year ended 31 December 2008 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis Auditor's licence No. 000003 President	Asta Štreimikienė Auditor's licence No.000382

The review was completed on 2 March 2009.

GENERAL INFORMATION ABOUT THE ISSUER

Accounting period covered by the Annual Report

The Report has been prepared for the year 2008 (the financial year of the company corresponds to the calendar year).

Key data on the Issuer:

Name of the company :	VST, AB
Address of its headquarters :	Jasinskio str. 16 C, 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 LTL
Legal-organizational form :	Legal body, joint stock company
Registration with the Register of Enterprises :	
- Place of registration:	Ministry of economy
- date of registration :	December 31, 2001
- Register code:	1108 70748
- Former code:	1087074
Registrant of the Register of legal bodies :	State Enterprise Centre of registers

Nature of the main activity

VST, AB is the owner of electric power distribution network (medium and low voltage power lines, transformer substations and other electricity distribution equipment). The main activity of the Company is the distribution of electricity through medium and low voltage power networks and supply of electric power to its consumers in Kaunas, Klaipėda and Šiauliai regions of Lithuania. It is responsible for the security, reliable performance, maintenance, management and development of these networks.

Contracts with the mediators of securities of public circulation

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

AB bank "Hansabankas"
Savanorių av. 19,
LT-03502 Vilnius
Tel.: 8-5 268 44 85
Fax: 8-5 268 41 70

Securities included into the trade lists of stock exchanges

Ordinary registered shares of the VST, AB (3 717 998 pcs., total par value 111 539 940 LTL) are included into the Baltic Secondary list of the NASDAQ OMX Baltic Stock Exchange (Trading code – VST1L; security code - 1237). Shares of the VST, AB are not included into other lists of stock exchanges.

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

ACTIVITY REVIEW, ESSENTIAL EVENTS OF THE ACCOUNTING PERIOD

Important events during the reporting period

On 20 May 2008, the national investment body LEO LT (Lietuvos Elektros Organizacija –*Lithuanian Electricity Organisation*) was established. With the establishment of the national investment body LEO LT, the joint stock company VST became a subsidiary of LEO LT, with VST's principal activity – the supply and distribution of electrical energy – remaining unchanged; likewise the firm's structure and management. AB "LEO LT" manages subsidiary electric power transmission and distribution companies AB "Lietuvos energija", AB "VST", AB "Rytų skirstomieji tinklai", the company developing the project of the new nuclear power plant UAB "Visagino atominė elektrinė" and UAB "InterLinks", which implements the projects of electrical connections connecting Lithuanian and electrical power transmission networks of other systems.

At a general shareholders' meeting of VST, AB on 8 July 2008, the new subsidiary's Board of Directors was chosen and confirmed. Members of the previous Board were appointed to the new Board, with a mandate to continue overseeing their responsibilities: Electricity Network Services to be managed by Rytis Borkys; Legal and Administrative Services to be managed by Gytis Kundrotas; and Financial Services to be managed by Lina Minderienė. The CEO of the firm, Aidas Ignatavičius, was appointed Chairman of the Board.

Assistance Projects

In 2008, the company supported innovative educational, cultural and scientific projects aimed at most vulnerable society members.

Over the years, "VST", AB has been continuously supporting social projects, organising town festivals, cultural and sport events and motivating the youth.

The company has also organised an educational event for children "Make friends with electricity, but do not play with it" for several years in a row. This event is aimed at instructing children about the way electricity should be treated. In 2006, the campaign visited 26 schools in the Western part of Lithuania and informed 10 000 students about possible perils of the electricity. This year, the organisers of the campaign are planning to visit 60 schools.

With the aim to involve the youth into purposeful activities, for the second year in a row the company has granted children living in child care houses in the regions of Kaunas, Klaipėda and Šauliai with the annual subscription to the youth journal "Gatvė" (Street). More than 3 000 children will have the opportunity to enjoy reading this youthful issue.

By supporting various regional events the company seeks to establish and maintain close contacts with city and town communities. In 2008, the company "VST" supported:

Cultural and urban festivals:

Raseiniai Bard Club, "Aušros" museum in Šauliai, the Centre of Ethnic Culture and Traditional Crafts of Šauliai Region Municipality, the Cultural Centre of Gardždai, the Community of Skaudvilė, the Cultural and Entertainment Centre of Šilutė, the Administration of the Žagarė Regional Park, the Rural Community of Šalčiai of the Region of Skuodas, the Cultural Centre of Kelmė, the Administration of Radviliškės Region Municipality, the organisation of the events to mark the anniversary of the city of Šauliai "The Days of Šauliai", the administration of Kretinga Region Municipality, the administration of Mažeikiai Region Municipality, the Public Enterprise "Impetus Musicus".

To child care homes:

Kuršėnai, Šakiai, Tauragė, Telšiai, child care homes in the Region of Jonava, and Pakruojis child care day centre under the Parish of St. John the Forerunner.

Training institutions:

The secondary school of Griškabūdis, the secondary school "Aukuras" in Kelmė, the secondary school "Versmė" in Pakruojis, the special school of Smalininkai, Vilnius Gediminas technical University, Kaunas Technological University.

It also granted support:

To Jurbarkas Centre of Social Services, Lithuanian Red Cross Day centre of Child Care, Education, Rehabilitation and Occupation, for the implementation of the project "Child-friendly Hospital" by students of the Scientific Fellowship of Kaunas University of Medicine. The funds granted by the company were also used to equip play rooms and supply them with various educable toys, painting inventory and child magazines and books. The main aim of this project is to help make the hospital environment to be home-like for little patients to feel better and recover faster.

Collaboration

The VST, AB collaborates with the academic community. For several years the Company has been awarding personal scholarships to the most promising students of the Faculty of Electricity Engineering and Control Systems of the Kaunas University of Technology. In 2008 such scholarships awarded to students for the fifth time. This year VST is also funding an international conference being organised by the Gediminas Technical University in Vilnius.

Environment Protection

In order to protect the large population of white storks in Lithuania, energy producers, along with the Ministry of the Environment and the Ecology Institute, are seeking effective ways of preserving stork breeding places. This spring the company continued its drive to protect storks' breeding places. The majority of the storks that spend the summer in Lithuania come to the Western part of Lithuania, therefore this spring employees of this firm carefully moved around 250 stork nests onto metal poles. This is the fourth year that the joint stock company VST has carried out the stork nest moving operations at its own expense. The firm's efforts to protect stork nests are appreciated not only by the Ministry of the Environment but also by environmental protection workers involved in protecting our national bird and by the residents of farmsteads where the storks have taken up residence.

In order to protect environment, transformer substations are equipped with devices used to collect rain wastewater and oil. These devices act as a prevention of the environmental pollution.

Employees of the company "VST" do care about the environment as well. In 2008, this company organised a campaign called "For a Brighter Life", during which the employees of this company cleaned the environment.

When performing its everyday activities the staff of the company "VST" uses resources and work measures efficiently: throughout 2008 the company was implementing the campaign "For a Green Life", aimed at saving paper resources.

Investments

The principle investments of the joint stock company VST are aimed at improving the quality of services provided. During 2008 year, the firm invested 104.2 million LTL into improving the 0.4–10 kV high tension electricity network in the Kaunas, Klaipėda and Šiauliai regions and into connecting new consumers. The firm's total investment for 2008 is 144.4 million LTL.

In year of 2008 investments amounted to 73.4 million LTL in Klaipėda region. In the city of Klaipėda has been completed Taika and Gedminai transformers substation (project value about 16.6 million LTL); Telšiai Tausalo 110/35 kV transformers substation (project value about 9 million LTL).

The 10 kV automatic installations of the Uostas transformer substation in the city of Klaipėda are reconstructed and work continued on the reconstruction of Šilutė transformer substation.

In year of 2008 investments amounted to 22.8 million LTL in Šiauliai region. The reconstruction of the Migla 110/10 kV transformer substation in the Mažeikiai was completed (project value 6.2 million LTL); the power transformer of the Tytuvėnai 35/10 kV transformer substation was changed (project value about 1.1 million LTL).

In year of 2008 investments amounted to 39.4 million LTL in Kaunas region. In the city of Kaunas has been completed Nemunas 110/10 kV transformers substation construction (project value about 12.4 million LTL).

Given the continuing rapid growth of urbanisation along the Kaunas–Klaipėda arterial highway in the sector from IX Fort to Babtai, a new 35/10 kV transformer substation with two 35 kV cable lines has been constructed at Giraitė to improve connection of new consumers to the firm's networks.

Quality of Client Services

Once again this year, the Company's top priorities were provision of quality services and consistent improvement of the client service culture. In 2008 and beyond, the quality of services provided will continue to be improved and training will be arranged for employees whose duties include direct service provision to clients. About 500 employees participated in training sessions on "Effective Provision of Service to Clients".

In its mission for improved provision of service to clients, the VST, AB has participated in the "March – Good Client Service Month" promotion for three years in a row. During the month of March, clients were requested to assess the specialist services provided to them and to give comments, praise and suggestions.

Seeking to ensure service provided to the Company's clients, were visited in services of customer centres and made a phone - the survey of a secret buyer was carried out.

In 2008 year are opened two modern services of customers centres in which all services are provided in a centralised way. These centres are opened in Prienai and Mažeikiai.

Last year a new service was offered to commercial/institutional clients: remote declaration of meter readings, which has received a great deal of attention this year. This service simplifies the meter reading declaration procedure, saves clients' time and makes the firm's work more efficient.

ACTIVITY RESULTS ANALYSIS

In 2008 the profit before taxes amounted to LTL 28.5 million. In the Report year the expenses of income tax were LTL 39.1 million, and the benefits of deferred income tax – LTL 22.3 million. The net profit of the company amounted to LTL 11.7 million in 2008**.**

Revenues

4 020 million kWh of electric power were sold to the consumers during 2008, 1.85 percent more comparing with 3 947 million kWh in 2007.

During the report year the income from sales and services except financial activities was LTL 1 159.8 million (in 2007 – LTL 1 053.8 million). Like the last year, the major part of income was from sales of electric energy:

Income, LTL million	2008	2007	Change,%
Income from the sales of electric power	1 137.6	1 033.2	10.1%
Sales of reactive energy	15.6	15.8	-1.3%
Income from connection of new consumers	6.6	4.8	37.5%
Other income from operation	4.4	5.6	-21.4%
Total:	**1 164.2**	**1 059.4**	**9.9%**

In 2008 income from financial activities was LTL 16.2 million (in 2007 – LTL 8.2 million). The increase of financial income was determined by efficient management of cash flow and active use of short-term investment instruments.

Expenditures

In 2008 the Company's expenditure was LTL 1 118.9 million while in 2007 it was LTL 974.1 million.

The biggest part of all expenditures consisted of electricity purchase and transmission expense (60.5 percent), the remaining part consisted of the relatively fixed expense for repairs, personnel etc. Repair and maintenance expense increased due to reconstruction and modernization works.

Operating expenses, LTL million	2008	2007	Change,%
Purchase of electric power	677.0	581.4	16.4%
Depreciation and amortization	274.2	284.5	-3.6%
Wages, salaries and social security	71.2	56.0	27.1%
Repair and maintenance expenses	24.4	23.9	2.1%
Spare parts and other inventories	13.7	15.5	-11.6%
Utilities and communications expenses	6.7	5.7	17.5%
Other	51.7	7.0	638.6%
Total:	**1 118.9**	**974.0**	**14.9%**

In 2007 expenses of financial activities was LTL 33.0 million, as in 2007 these expenses were LTL 18.6 million.

Non-current assets

Through 2008 year the value of non-current assets increased by 4.2 percent from 2 735.8 million LTL to 2 849.6 million LTL. Due to the fact that the main shareholder of the Company changed in 2008, independent appraisers, performed valuation of the Company's property plant and equipment as of 31 May 2008. As, according to International Financial Reporting standards, the assets and liabilities of the acquired company at the date of acquisition (2008 05 27) or a date that is close to the date of acquisition (2008 05 31) have to be valued at fair value. The Company's property, plant, equipment and other long term tangible assets accounted for as of 31 May 2008 amounts to 2 949 million LTL.

Through 2008 year there were connected 12.5 thousands new customers (167 MW power), that is 10.6 percent more then in the same period of 2007, when there were connected 11.3 thousands new customers (140 MW power).

Investments

In 2008 LTL 144.4 million were invested into development and maintenance of electric power distribution network (LTL 140.0 million in 2007).

Current assets

The carrying value of current assets has decreased and amounted to LTL 123.8 million as in the same period of 2007 was 315.3 LTL million.

The current assets of the company in the end of the year , LTL million	2008	2007	Change,%
Inventory	11.2	7.8	43.6%
Trade and other receivables	95.1	89.9	5.8%
Prepayments, deferred charges and accrued incomes	11.3	11.3	0.0%
Cash and cash equivalents	6.2	206.4	-97.0%
Total:	**123.8**	**315.4**	**-60.7%**

Borrowings

Long term borrowings in the end of 2008 were equal to LTL 488.9 million, short term borrowings – LTL 105.9 million (in 2007 – LTL 298.9 million and LTL 80.4 million, respectively).

Financial liabilities for banks in the beginning of 2008 were LTL 377.7 million, while in the end of the year – LTL 594.8 million (table bellow shows Company's financial liabilities for banks in the end of 2008 and 2007).

Lender	Currency	Value in balance sheet (2007 12 31) LTL million	Payback, LTL million	Value in balance sheet (2008 12 31) LTL million
Syndicated loan	EUR	343.2	343.2	0
Bank „Hansabankas", AB	EUR	0	0	101.2
Nordea Bank Finland Plc Lithuania	EUR	0	0	93.6
Nordea Bank Finland Plc Lithuania	EUR	0	0	182.2
SEB Bank, AB	EUR	0	0	101.1
Danske Bank A/S Plc Lithuania	EUR	0	0	113.7
Bank „Hansabankas", AB overdraft contract	LT	0	0	0.06
Nordea Bank Finland Plc Lithuania	EUR	34.5	34.5	0
SEB Bank, AB overdraft contract	LT	0	0	2.94
Total:		**377.7**	**377.7**	**594.8**

The Company has overdraft contracts with AB bank "Hansabankas" and SEB Bank, AB. It is possible for the Company to borrow up to LTL 72.6 million using overdraft contracts. In the end of 2008 the Company's overdraft borrowings amounted for LTL 3.0 million.

KEY RISK FACTORS

Production and sales of electric power in Lithuania is regulated by the state more than other industry branches. Price caps for services are set by the National Control Commission for Prices and Energy. 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.

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.

Part of the distribution networks of the company date back to the fifties and sixties. Until all the worn out substations are totally renovated, reconstructed and modernised, a great number of failures may lead to certain power supply breaks and subsequent losses.

INFORMATION CONCERNING ENVIRONMENT AND PERSONNEL

The VST, AB 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.

Due to personnel policy which promotes professionalism and loyalty of employees, VST, AB is attractive to young and qualified specialist. Personnel trainings are largely financed, promotion schemes are successful and adjusted to needs of every level of employees. Furthermore, inner staff selections are organized and training and professional development system is functioning.

REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT THE INFORMATION PROVIDED IN THE ANNUAL FINANCIAL ACCOUNTABILITY

All other information is provided in Company's audited financial accountability report for the year 2008 notes to the financial statements.

TOTAL NUMBER OF OWN SHARES, THEIR NOMINAL VALUE AND SHARE IN COMPANY'S SHARE CAPITAL THAT THE COMPANY HAS PURCHASED AND OWNS

Company has not purchased own shares until and during the year 2008.

NUMBER OF OWN SHARES, THEIR NOMINAL VALUE AND SHARE IN COMPANY'S SHARE CAPITAL THAT THE COMPANY HAS PURCHASED AND TRANSFERRED DURING THE ACCOUNTING PERIOD

Company has not purchased or transferred its' own shares during the year 2008.

INFORMATION ON PAYMENT FOR OWN SHARES IF THESE SHARES WERE PURCHASED OR TRANSFERRED WITH CHARGE

Company has not purchased or transferred its' own shares during the year 2008.

REASONS FOR PURCHASING OWN SHARES DURING THE ACCOUNTING PERIOD

Company has not purchased own shares during the year 2008.

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 2008.

INFORMATION ON THE BRANCHES OF THE COMPANY

In 2008 the Company had no branch offices or representations.

PLANS AND FORECASTS OF THE COMPANY OPERATION

In 2009 the Company does not plan any changes in the key operation and is going to continue distributing electric power by medium and low voltage lines and supplying electric power to the consumers. In 2009 the Company will continue achieving the set objectives. The plan is to further invest into power distribution activities, reconstruct and modernise depreciated substations, and equip them with modern and ecological devices, which meet the highest quality standards. The Company is also planning to improve client services and introduce new services. In 2009, the Company's activities will be further aimed at ensuring high quality and reliability of power supply services. In addition, the Company is going to reduce its activity and energy expenses as well as to further secure the protection of transformer oil against thefts.

It is planned that the investment volume in the year 2009 will be like the year before.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2008, a pre-project study of the power network development in the surroundings of Sitkūnai–Kumpiai-Giraitė. The limited power network transmission of 35 kW and 10 kW made its problematic to connect new customers to VST, AB power networks. In order to solve this problem, the researchers had to perform technical and economic calculations and choose the optimum solution for power supply development in the surroundings of Sitkūnai–Kumpiai-Giraitė. The research was successfully performed and the objectives of the technical projects were set.

In 2008, a scientific study of overvoltage limitation devices of transformation substations of Palanga and Šventoji 110/10 kW power network and the places where they should be quipped was performed. The aim of the study was to define the required number of overvoltage limitation devices and exact places of their equipment, so that these devices could prevent the networks from overvoltage. After the research activities were over, the overvoltage devices were installed.

FINANCIAL RISK MANAGEMENT

All information is provided in Company's audited financial accountability report for the year 2008 notes to financial statements, comment 25.

OTHER INFORMATION ABOUT ISSUER

Share capital structure

Share capital has not been changed during the reported period and amounted to 111 539 940 LTL (registration date: 26 April, 2005).

Type of shares	Number of shares	Par value (LTL)	Total par value	Part in the share capital (%)
Ordinary registered shares	3 717 998	30	111 539 940	100
Total:	3 717 998	-	111 539 940	100

All shares of the company are fully paid.

Restrictions on the transfer of the securities

There is no data about any restrictions on the transfer of the securities

Shareholders

The number of the shareholders in December 31 of 2008 was around - 3 792.

The biggest shareholders, which holds under ownership right 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)	Numbers 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 corporate, percent
LEO LT, AB Žvejų str. 14A, LT-09310 Vilnius, code 301732248	3 651 524	3 651 524	98.2	98.2	-

Shareholders with special controlling rights and the description of these rights

There are no shareholders of the Company, having special controlling rights. All shareholders of the Company have equal rights (interest and non interest), provided in the Law on Companies of the Republic of Lithuania and Company's Articles of Association.

Restrictions on voting rights

There is no data about any restrictions on voting rights.

Agreements between the shareholders, known by the issuer, and that may limit the transfer of the securities and (or) voting rights

There is nor data about any agreements between the shareholders of the Company that may limit the transfer of the securities and (or) voting rights.

Data about significant direct and indirect holdings

The Company does not have any significant holdings, whether direct or indirect.

Employees

In 2008, the average number of employees of the VST, AB was 1855, and it decreased by 1.59 percent (1 885) as compared to the previous financial year. In 2008, the number of executive staff and specialists in the company accounted for 1 289 (0.62 percent less than in 2007, when the number reached 1 297), and the number of workers was 566 (3.74 percent less than in 2007, when the number reached 588).

The structure of the company's employees by education is as follows: 31.6 percent with higher university education, 54.0 percent with higher non-university education, post-secondary, special secondary, technical or vocational education, and 14.4 percent with secondary or lower than secondary education.

Constantly increasing average wage of the company's employees grew by 22.2 percent from LTL 1 993 to LTL 2 436 in 2008 (grew by 12 percent in 2007, and 14 percent in 2006). The average monthly wage of workers was LTL 2 061, and specialist and manager – LTL 2 602.

The implementation of the annual system of assessment of operations was continued in 2008. The company also constantly pay attention to employees' professionalism and loyalty. In-house selection was further organised with a view to promoting employees to realise their professional goals and ambitions in other positions. About 5.6 percent of employees changed their positions, of them 3.9 percent (72 employees) were promoted, 9 employees moved to executive (or senior executive) positions. This realistic career and development opportunity is very attractive to young specialists. The company also implements the study financing programme which partially (50 percent) finances academic studies in electrical engineering.

VST closely cooperates with academic institutions, and accepts students for professional traineeship. In 2008 there were practiced 64 students in the company. In 2007 and 2008, more than 100 representatives of academic youth improved their practical skills in the company. Most trainees (80 percent) are accepted to divisions which are directly related to the company's activity, electricity distribution and supply. Trainee students come from different educational establishments – Kaunas University of Technology, Šiauliai University, Vilnius University, Kaunas Technical College, Šiauliai College, and Vilnius College in Higher Education.

On 30 May 2008 the labour union and employee's representatives were signed collective agreement and it will be valid for 2 years. 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. Due to the Collective Agreement, annual conference of representatives of employees was arranged. Representatives of employees agreed the employer implements the provisions of the Collective Agreement.

The previous Collective Agreement, which was signed on 20 August 2004, was valid until 20 August 2007. During the negotiations with the company's employees on the new Collective Agreement, the Company proposed to further provide all the previous social guarantees and same additional ones. The Company supports its employees cultural and sport activities organised by professional unions. In 2008, it granted professional unions with LTL 21 000, i.e. 23.53 % more than in the previous year (in 2007 and 2006 it granted LTL 17 000).

The consistent personnel policy of the company is aimed at the implementation of the objectives of the Company. The personnel policy is aimed at the development of employees' skills necessary to achieve strategic aims of the company as well as at the formation of organisational culture of the company, which ensures additional value for the company's clients and partners.

Employee training and qualification upgrading were the focus of the company in the accounting year – it allocated about LTL 536 000 for the development of employees' competencies. 1 286 employees (69 percent of all employed in the company, as 2007 it was 29 percent) participated in training. 37 percent of all organised training was external training provided by licensed training institutions, and 63 percent was in-firm training.

The main training directions – development of leadership, professional and qualification upgrading training – were continued in 2008. All executives took part in the consistent cycle of leadership training. The 2008 cycle of leadership training laid emphasis on the topics of personal efficiency, professional communication, public rhetoric, and other management and leadership issues.

Like in the previous years, employees' professional development was the focus of attention. Professional training to acquire or develop specific qualifications and skills necessary for safe and professional execution of dangerous and potentially dangerous work was organised. The fields of professional training were similar to the previous years. The training was mainly provided to managers of steeplejack works, steeplejack workers, managers of lifting crane works, operators of mobile hoists, workers on lifting platforms, logging workers, welders, and construction technical maintenance managers.

Almost half of the Company's employees who work directly with clients had the opportunity to improve their communication skills at service courses. During the courses, the Company's employees had the opportunity to eliminate the shortcomings identified during the "Secret Customer" study.

Various qualification courses were also organised, and they were oriented to meet specific business needs, for example, employees attended different conferences in both Lithuania and abroad according to their field of expertise.

Procedure for amendment of the issuer's by-laws

According to the By-laws of VST, AB, By-laws of the company could be amended only by General Meeting of Shareholders and come into force after registering in the State Enterprise Centre of Registers.

The last amendments of the Bylaws of the company on dated July 9, 2008. Company's Articles can be found on the Company's site www.vst.lt.

Rules regulating the appointment, amendment and authorisation of the issuer

The last amendments of the Bylaws of the company (dated July 9, 2008) sets forth that the Board consists of 4 members. The members of the Board with the Office term of 4 years are elected by the general meeting of the shareholders.

Managing Director is appointed and recalled by the Board of the Company.

The competence, decision making procedures and procedures of selecting and cancelling the members of the Board are governed by laws, legal acts and the Statute of the Company.

The competence of the Director General, his selection and resignation procedures are governed by laws, legal acts and the Statute of the Company.

The competence of the General Shareholders' Meeting, the rights of shareholders and the implementation of those rights

The competence of the General Shareholders' Meeting, the procedures of summoning the meeting and the decision making are governed by laws, other legal acts and the Statute of the Company.

None of the Company's shareholders has special control rights; all the rights of the shareholders are equal. All the Company's shareholders have equal rights stipulated by laws, other legal acts and the Statute of the Company.

The managing authorities of the company create proper conditions for the implementation of the Company shareholders' rights.

Members of the managing bodies

The managing bodies of the company are general meeting of the shareholders, the Board and Managing Director.

The Board is elected till July 9, 2012 by the general meeting of the shareholders

Full name	Position	Share of owned capital, %.	Share of votes, %
Aidas Ignatavičius	Chairman	-	-
Rytis Borkys	Member	0%	0%
Gytis Kundrotas	Member	-	-
Lina Minderienė	Member	-	-

The company doesn't have a supervisory board.

Administration

Full name	Position	Share of owned capital, %.	Share of votes, %
Aidas Ignatavičius	Chief Executive Officer	-	-
Rimantas Bartuška	Chief Accountant, Accounting Department Manager	-	-

Chairman of the Board, Chief Executive Officer (in the period 6/08/2007 to the day of the Report preparation) Aidas Ignatavičius:

Education (profession)	Former employers in last 10 year	Positions	Data about
University education. Vilnius University, Faculty of Humanities in Kaunas Bachelor's and Master's degrees in Management and Business Administration	1997-2000 AB „Vilnius bank", Kaunas branch 2000 AB „Vilnius bank" 2001 – 2004 AB bank „Hansabankas"	Account manager Chief manager of the Department of Business clients Big clients section Head of Business clients department	None

Chief Accountant, Accounting Department Manager (in the period 29/10/2007 to the day of the Report) – Rimantas Bartuška:

Education (profession)	Former employers in last 10 year	Positions	Data about
Lithuanian University of Agriculture, Faculty of Economics and Management, Department of Accounting and Finance - Bachelor of Accounting and Finance. Kaunas University of Technology, Faculty of Economics and Management, Department of Finance – Master of Finance Management.	1999-2001 AB "Lietuvos Energija" 2001-2002 AB "Lietuvos Energija" 2002-2004 AB "Vakaru Skirstomieji Tinklai" 2004-2005 AB"VST" 2005-2007 AB "VST"	Accountant Economist Managing accountant Chief accountant at interim Deputy chief accountant	None

Information on participation in other companies and organisations; over 5% shareholdings in other companies

Full name	Name of the company, institution or organisation, position	Share of owned capital, %.	Share of votes, %
Aidas Ignatavičius	-	-	-
Rytis Borkys	-	-	-
Gytis Kundrotas	-	-	-
Lina Minderienė	-	-	-
Rimantas Bartuška	-	-	-

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

2008	Salary, LTL	Bonus, LTL	Other payments from profit, LTL	Salary, LTL
In average per one member of the Board*	90 000	-	-	-
Totally for all Board members*	360 000	-	-	-
In average per one member of Administration	315 623	-	-	-
Totally for all members of Administration	631 246	-	-	-

* Members of the Board receives salary for the director's position they execute.

VST,AB haven't transferred any assets to members of managing bodies. Company has covered civil insuarance policy for the members of the Board.

Data about the fields of the Company's activities

Director General is a one person managing authority of the Company, who executes the decisions made by the General Shareholders' Meeting and the Board, analyses, deliberates and assesses the Company's activities and the prevailing situations, plans the activities of the Company, decides upon the Company's activities, acts on behalf of the Company and forms transactions, controls the activities of the Company and organises the everyday activities of the Company.

Data about the filed of activities of the Board of the Company

The Board manages the Company. The Board analyses, deliberates and assess the activities of the Company and the prevailing situation, plans the activities of the Company, makes all management decisions and controls the activities of the Company. The competence of the Board cannot be delegated to any other authority.

Risk scope and risk management

Economical:

VST, AB is the 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-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.

The key economic risk factor is insufficient capacity of the company and its contractors to eliminate the damages quickly, which occur in result of natural calamities. Due to the disorders of electric power supply the incomes may be lost and losses may occur.

Political:

Distribution and supply of electric power in Lithuania is regulated by the state more than in other industry branches. The electric power distribution and supply are subject to the Law on Electricity of the Republic of Lithuania.

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 Company provides development opportunities for students. Each year, around 50 students from various educational institutions are offered traineeships at VST, AB, also there are annual scholarships given to students by The Company. Therefore, the company is 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:

VST, AB is an electric power distribution and supply 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. Ecologically 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.

Technological:

VST was the first to voice a concern about the critical condition of the power distribution networks. Part of the distribution networks of the company date back to the 50ies and 60ies. Prior to privatisation, repairs of such installations were undertaken only in case of power supply failures. Therefore, renovation of the old networks requires solid investments.

For the fourth year already the majority of the company's investments have been earmarked for the improvement of the quality and reliability of power supply and the maintenance of the distribution networks. The company has undertaken substantial renovation of the obsolete substations and construction of new ones and installation of electrical equipment that is durable, meets the latest standards and enables the reliable power supply under any weather conditions. VST is seeking technical solutions that would ensure continuous control over the distribution networks, effective elimination of failures and prevention of interruptions in the power supply.

Internal control system

The Company has the Department of Internal Control, which is directly subject to the Director General. The main aim of this department is to define possible perils for the Company's assets and employees. The Department of Internal Control performs the following activities:

- Monitors the installation and technical condition of power meters within the territory of the activities performed under "VST" and performs special checks in order to define persons overusing energy;
- Controls the work of regional personnel with energy consumers, participates in investigations of claims submitted by consumers and assists employees of various divisions while analysing and eliminating activity shortcomings and failures;
- Cooperates with law enforcement authorities in order to investigate thefts of energy, cables and transformer oil as well as to prevent the property of the company from being devastated, etc.

Significant agreements, party of which is the issuer and which would inure, change or intermit in case of change of control of the issuer

Company has no significant agreements that would inure, change or intermit in case of change of control of the Company.

Agreements between the issuer and its members of managing bodies or employees that cover compensation in case of their resignation or deposition without just reason or termination of job because of change of control of the issuer

There is an aggrement bettwen Company and members of the Board, concerning activities of the members of the Board. This aggrement forsees compensations for the members of the Board in case of unreasoned discharge or if the member of the Board leaves the office for some other reason.

Related party transactions

Information about related party transactions is provided in audited financial accountability report for the year 2007 notes to financial statements, comment 28.

ESSENTIALS EVENTS WHICH TOOK PLACE AFTER THE END OF THE PAST FINANCIAL YEAR

2009-02-13 Information regarding the acquired volume of electricity

AB VST hereby informs that in January 2009 the company bought 411 million kWh of electricity, which is by 5,84 per cent less than in January 2008.

PUBLICLY DECLARED INFORMATION

(all the information is provided in Company's site www.vst.lt)

2008-12-29 Information regarding the decision adopted by the National Control Commission for Prices and Energy

National Control Commission for Prices and Energy during the session held on November 29th, 2008 made a decision to set ex-parte the rules for electricity prices, tariffs and their application for VST, AB for the year 2009 and to publish them (more information can be found on the Commission's web page http://www.regula.lt).

The VST, AB informs, that regarding the decision adopted by the National Control Commission for Prices and Energy, VST, AB forecast that the company may incur losses for the year 2009. VST, AB the information regarding particular results of the company will provide in the due course of the year. A notice regarding particular information shall be announced according the requirements for publication of such information.

2008-12-18 Information regarding the notice of the Ministry of Economy

The Ministry of Economy has informed that yesterday (on December 17, 2008) The Ministry of Economy appealed to the LEO LT, AB asking to oblige stock company's "Lietuvos energija", "VST" and Rytų skirstomieji tinklai to revise formerly confirmed tariffs of electricity transmission, distribution service and the tariffs of end-users prices and submit these tariffs to the National Control Commission for Prices and Energy for publishing.

In recalculation of prices for the year 2009, The Ministry of Economy for the year 2009 suggests to leave the same prices of electricity transmission and distribution as they were in the year 2008. The electricity tariffs for the end-user, according to The Ministry of Economy, must be changed by follow – the price for the end-users for distribution via medium voltage networks for the Rytų skirstomieji tinklai, AB must be about 25,8 ct/kWh, for distribution via low voltage networks (and for the household-consumers) – 32,31 ct/kWh; accordingly the distribution price for the VST, AB - 25,81 ct/kWh and 33,47 ct/kWh. According to this, the ultimate price for end-users would increase by 3 ct/kWh.

2008-11-28 VST, AB Financial interim report for the nine months of 2008.

VST, AB published interim Financial report for the nine months of 2008 with confirmation of responsible persons.

2008-11-27 Information regarding the decision adopted by the National Control Commission

National Control Commission for Prices and Energy during the session held on November 27th, 2008 made a decision to postpone the consideration of the item regarding the electricity prices and tariffs of VST, AB and their application procedure, which had been confirmed by the board of VST, AB on the October 31st, 2008 by the protocol number 19/2008.

More information can be found on the Commission's web page http://www.regula.lt.

2008-11-21 The decisions adopted in the Extraordinary General meeting of the shareholders of VST, AB on November 21, 2008

The Extraordinary General shareholders meeting of VST, AB, held on November 21, 2008, adopted the following decisions:

1.The item of the agenda: "The Elections of the audit company for auditing company's financial statements for 2008 and setting the conditions of the payment for the audit services":

1.1.To elect the audit company „Ernst & Young Baltic", UAB for the audit of financial statements for 2008 of VST, AB and to pay for audit services a compensation not exceeding LTL 115,000 (excluding VAT).

2008-11-10 The draft resolution of the general meeting of the shareholders of VST, AB

According to the decision of the Board of VST, AB a General meeting of the shareholders of VST, AB is called on November 21, 2008 and shall take place at the office of the company J. Jasinskio 16C, Vilnius, 5th floor, at 1.00 PM.

The shareholders will be asked to approve the following proposal:

1.The item of agenda: "The Elections of the audit company for auditing company's financial statements for 2008 and setting the conditions of the payment for the audit services":

1.1. To elect audit company „Ernst & Young Baltic", UAB for the audit of financial statements for 2008 of VST, AB and to pay for audit services a compensation not exceeding LTL 115,000 (excluding VAT).

2008-10-31 Information regarding the decisions and changes of the rules for electricity prices, tariffs and their application

• For distribution via medium voltage networks - 8,14 ct/kWh (2,36 Euro cents/kWh). 2008 – 8,23 ct/kWh (2,38 Euro cents/kWh);

• For distribution via low voltage networks - 10,23 ct/kWh (2,96 Euro cents/kWh) 2008 – 10,36 ct/kW (3,00 Euro cents/kWh);

• For public supply - 0,20 ct/kWh (0,06 Euro cent/kWh). 2008 – 0,20 (0,06 Euro cent/kWh). More information can be found on the National Control Commission's web page www.regula.lt and on the website of the VST, AB – www.vst.lt .

31 October 2008 VST, AB submitted to the National Control Commission for Prices and Energy the adjusted rules for electricity prices, tariffs and their application. In the adjusted rules there is calculated that the end price for the I group consumers (household-consumers) will increase by 5,9 ct/kWh (1,7 Euro cents/kWh) without VAT, the end price for the II-III group consumers will increase by 4,5 ct/kWh (1,3 Euro cents/kWh) without VAT. The rules for electricity prices, tariffs and their application are published by the National Control Commission for Prices and Energy according the procedures laid down in the legal acts. Public electricity prices come into force after a month, they are published

2008-10-17 The General meeting of the shareholders of VST AB is called on November 21, 2008

The Board of VST AB on October 17, 2008 adopted the decision to call the General shareholders meeting of VST AB and approved the following agenda of the meeting:

1. The Elections of the audit company for auditing company's financial statements for 2008 and setting the terms and the conditions of the payment for the audit services.

The date and time of the General shareholders meeting: November 21, 2008, 1.00 pm.
The shareholders meeting place: Vilnius, Jasinskio str. 16C (5th floor).
The accounting day of the shareholders meeting: November 14, 2008.
Registration starts: November 21, 2008, 0.25 pm.
Registration ends: November 21, 2008, 0.55 pm.

2008-10-17 Preliminary pre-audit activity result for the 3rd quarter of 2008 of VST, AB

Preliminary pre-audit activity result for the 3rd quarter of 2008 of VST, AB is 20.8 million LTL (6.0 million EUR) net profit. Throughout the 3rd quarter of 2008 VST, AB the revenue from sales amounted to 265.8 million LTL (77.0 million EUR) and had a net loss of 13.3 million LTL (3.9 million EUR) due to the increase in purchase price of electricity power and in operating expenses

2008-10-14 Due to the announcement of the President of the Constitutional Court of the Republic of Lithuania

On October 11th, 2008 "Valstybės žinios" (Official Gazette) has published the announcement of the President of the Constitutional Court of the Republic of Lithuania, that the validity of paragraph 1 of article 10 and item 1 of paragraph 1 of article 11 of the Law On The Nuclear Power Plant of the Republic of Lithuania, with due extent, is suspended till the decision of the Constitutional Court of the Republic of Lithuania on request of Seimas of the Republic of Lithuania according to the Resolution No. X-1729 of September 22nd, 2008 on the Application to the Constitutional Court of the Republic of Lithuania for an Investigation of Whether the Law on the Amendment to Articles 8, 10, 11 and 20 of the Law on the Nuclear Power Plant of the Republic of Lithuania does not Contradict the Constitution of the Republic of Lithuania will be officially promulgated.

2008-09-04 Corrected annual report for year of 2007

The corrected annual report for year of 2007 is provided by the Issuer. The corrected version of the report includes additional information. Also provided corrected confirmation of the responsible persons.

2008-07-18 Preliminary pre-audit activity result for the 1st half of 2008 of VST, AB

Preliminary pre-audit activity result for the 1st half of the year 2008 of VST, AB is 34.2 million LTL (9.9 million EUR) net profit.

2008-07-14 Procedure for the payout of dividends for the year 2007

The Repeated Second Ordinary General shareholders meeting of VST, AB, held on July 11, 2008, have decided to allocate the Company's profit for the year 2007 and to allocate of 620 611 296 LTL (179 741 455,05 EUR) to the payment of dividends.

The dividends to the shareholders of VST, AB should be paid in the amount of 166,92 LTL (48,34 EUR) per one ordinary registered share of the company.

The right to receive dividends shall have those persons, which on the end of the record date, i.e. on the end of July 25, 2008, shall be the shareholders of VST, AB. The dividends to such persons should be paid according to the paragraph 60 part 4 of the Lithuanian Republic Law on Companies, i.e. in one month from the adoption day of the decision to pay dividends, payment being made through the company's shareholders' issuer accountants and the company's (issuer's) issuer accountant - AB bankas "Hansabankas".

2008-07-11 The decisions adopted in the Repeat Second Ordinary General meeting of the shareholders of VST, AB on July 11, 2008

The Repeat Second Ordinary General shareholders meeting of VST, AB, held on July 11, 2008, adopted the following decisions:

1. The item of the agenda: „The consideration of the distribution of 2007 profit (loss) of VST, AB":

„1.1. Approve the distribution of 2007 profit (loss) of VST, AB (attached)."

The approved distribution of 2007 profit (loss) of VST, AB:

1. Retained earnings at the beginning of the financial year 394 510 552 LTL (114 258 153,38 EUR);
2. Net annual operating result (profit/loss) 67 243 911 LTL (19 475 182,75 EUR);
3. Profit (loss) of the financial year that is unrecognized in the profit (loss) statement 0 LTL (0 EUR);
4. Transfers from reserves:

4.1. Transfer from revaluation reserve 158 856 833 LTL (46 008 118,92 EUR);

4.2. Transfer from compulsory reserve 0 LTL (0 EUR);

5. Shareholders contributions to cover losses (if shareholders decided to cover all or a portion of losses) 0 LTL (0 EUR);
6. Total distributable profit (loss) 620 611 296 LTL (179 741 455,05 EUR);
7. Profit allocation to the compulsory reserve 0 LTL (0 EUR);
8. Profit allocation to the reserve to purchase company's own shares 0 LTL (0 EUR);
9. Profit allocation to other reserves 0 LTL (0 EUR);
10. Profit allocation to pay out dividends (166,92 ,LTL (48,34 EUR) per 1 share) 620 611 296 LTL (179 741 455,05 EUR);
11. Profit allocation to yearly pay outs to board and council members, employee bonuses and other purposes 0 LTL (0 EUR);
12. Retained earnings carried forward to next financial year 0 LTL (0 EUR).

Please note that one share will receive LTL 166,92 (EUR 48,34).

2008-07-10 The decisions of the Board of VST, AB. The new wording of the Bylaws of VST, AB has been registered

July 9, 2008 the Board of VST, AB has elected Mr. Aidas Ignatavičius chairman of the Board that will further be the Chief Executive Officer of the Company.

July 9, 2008 the new wording of the Bylaws of VST, AB which has been approved in the shareholders meeting July 8, 2008 has been registered.

2008-07-08 The decisions adopted in the extraordinary General meeting of the shareholders of AB "VST" on July 8, 2008

The decisions adopted in the extraordinary General meeting of the shareholders of AB "VST" on July 8, 2008.

The extraordinary General shareholders meeting of AB "VST", held on July 8, 2008, adopted the following decisions:

1. The item of the agenda "Recall of the Board":

1.1. To recall the Board of VST, AB that authority terminates as of the start of the new members of the Board activity.

2. The item of the agenda "Election of the Board":

2.1. To elect the persons listed below to the company's Board:

1. Aidas Ignatavičius;
2. Rytis Borkys;
3. Gytis Kundrotas;
4. Lina Minderienė.

2.2. To settle that the new members of the Board start their activity from the day as the new wording of the Bylaws of VST, AB are registered in the Register of Legal Entities.

3. The item of the agenda "Approval of the new wording of the Bylaws of the Company":

3.1. Approve the new wording of the Bylaws of VST, AB;

3.2. to authorize Aidas Ignatavičius, Chief Executive Officer of VST, AB, to sign the new wording of the Articles of Association of the company;

3.3. to delegate Aidas Ignatavičius, Chief Executive Officer of VST AB, or another authorized persons to register the new wording of the Articles of Association of the company and to perfom other necessary actions abiding by the procedure set forth by the Law.

4. The item of the agenda "Approval of the conditions of the contract with the Board members and the appointment of the person authorized to sign contracts with the Board members":

4.1. To assign the conditions of the contracts with the Board members and the chairman of the Board.

4.2. To appointment Mr. Rymantas Juozaitis as the authorized person of the name of company to sign contracts with the Board members and the chairman of the Board.

2008-06-27 The drafts resolutions of the general meeting of the shareholders of VST, AB

According to the decision of the Board of VST, AB a general shareholders meeting is called on July 8th, 2008 and shall take place at the office of the Company 5th floor, J.Jasinskio 16c, Vilnius, at 11.30 am. Initiator of the shareholders meeting is LEO LT, AB. The shareholders will be asked to approve the following items:

1. The item of the agenda "Recall of the Board":
2. The item of the agenda "Election of the Board":
3. The item of the agenda "Approval of the new wording of the Bylaws of the Company":
4. The item of the agenda "Approval of the conditions of the contract with the Board members and the

The draft of the new wording of the Bylaws of VST, AB can be found at the website of Vilnius stock exchange http://www.baltic.omxgroup.com or VST, AB website - www.vst.lt .

Following the provisions of Article 25 (3, 4) of the Law on Securities of the Republic of Lithuania, shareholders, which owned shares provide not less than 1/10 of all the votes, may at any time before the General Meeting or during the Meeting propose the new draft decisions on the items put on the agenda.

2008-06-26 Updated agenda of the Extraordinary General Shareholders Meeting of VST AB to be held on July 8, 2008

According to LEO LT AB request, the Board of VST AB on June 26, 2008 adopted the decision to add the fourth question to the agenda of the Extraordinary General Shareholders Meeting to be held on 8 July 2008.

Updated agenda of the Meeting:

1. Recall of the Board;
2. Election of the Board;
3. Approval of the new wording of the Bylaws of the Company.
4. Approval of the conditions of the contract with the Board members and the appointment of the person authorized to sign contracts with the Board members.

Initiator of the shareholders meeting: LEO LT AB;

The date and time of the shareholders meeting: July 8, 2008, 11.30 a.m.;

The shareholders meeting place: Vilnius, Jasinskio st. 16C (5th floor).;

The accounting day of the shareholders meeting: June 30, 2008.;

Registration starts: July 8, 2008, 10.55 a.m.;

Registration ends: July 8, 2008, 11.25 a.m.;

2008-06-17 LEO LT, AB announced about the intention to advice to pay dividents

VST, AB informs, that news agency BNS published the information about the intention of the Board of LEO LT, AB - shareholder's of VST, AB, that owns 97, 1 percent of the shares of VST, AB - to advise to pay 620.611 millions LTL dividends - all distributing profite of the year 2007.

The Company has not received more official information.

2008-06-17 The Repeat Second Ordinary General Meeting of the Shareholders of VST, AB

The Repeat Second Ordinary General Meeting of the Shareholders of VST, AB is called on July 11, 2008.

Due to the fact that the Second Ordinary General Meeting of Shareholders of VST, AB did not take place on June 13, 2008, the Board of VST, AB adopted a decision to call the Repeat Second Ordinary General Meeting of the Shareholders of VST, AB on July 11, 2008. The agenda of Second Ordinary General Meeting and the draft decision, that was proposed by the Bord of VST, AB shall be valid at the Repeat Second Ordinary General Meeting:

1. The item of the agenda: „The consideration of the distribution of 2007 profit (loss) of VST, AB":

„1.1. Approve the distribution of 2007 profit (loss) of VST, AB". Profit (loss) distribution project proposed to approve in a general shareholders meeting:

1. Retained earnings at the beginning of the financial year 394 510 552 LTL (114 258 153,38 EUR);
2. Net annual operating result (profit/loss) 67 243 911 LTL (19 475 182,75 EUR);
3. Profit (loss) of the financial year that is unrecognized in the profit (loss) statement 0 LTL (0 EUR);
4. Transfers from reserves:

4.1 Transfer from revaluation reserve 158 856 833 LTL (46 008 118,92 EUR);

4.2 Transfer from compulsory reserve 0 LTL (0 EUR);

5. Shareholders contributions to cover losses (if shareholders decided to cover all or a portion of losses) 0 LTL (0 EUR);

6. Total distributable profit (loss) 620 611 296 LTL (179 741 455,05 EUR);

7. Profit allocation to the compulsory reserve 0 LTL (0 EUR);

8. Profit allocation to the reserve to purchase company's own shares 0 LTL (0 EUR);

9. Profit allocation to other reserves 0 LTL (0 EUR);

10. Profit allocation to pay out dividends (LTL per 1 share) 0 LTL (0 EUR);

11. Profit allocation to yearly pay outs to board and council members, employee bonuses and other purposes 0 LTL (0 EUR);

12. Retained earnings carried forward to next financial year 620 611 296 LTL (179 741 455,05 EUR).

The Board of VST AB will suggest the General shareholders meeting to adopt the decision to pay no dividends for the year 2007 and to carry forward the Retained earnings to next financial year.

Following the provisions of Article 25 (3, 4) of Law on Securities of Republic of Lithuania, shareholders, who hold shares with not less than 1/10 of all votes attaching to them, may at any time before the General Meeting or during the Meeting propose new draft decisions on the items put on the agenda.

2008-06-13 The Second Ordinary General Meeting of Shareholders of VST, AB did not take

In the absence of the quorum, the Second Ordinary General Meeting of Shareholders of VST, AB did not take place.

2008-06-12 The Lithuanian Securities Commission decided to approve the obligatory tender offer circular of LEO LT, AB

Lithuanian Securities Commission informed that following the provisions of Article 31 (4) of Law on Securities of Republic of Lithuania, the Lithuanian Securities Commission decided to approve the obligatory tender offer circular of LEO LT, AB with the intent to buy remaining ordinary registered shares of VST, AB at the price of LTL 757.41 per share.

2008-06-02 VST, AB has received the notification regarding the deprivation and acquisition of the voting rights

June 2, 2008 VST, AB has received the notification from UAB "NDX energija" regarding the deprivation of the voting rights. With the notification UAB "NDX energija" informed that it deprivated the voting right after the shares of VST AB were conceded to LEO LT, AB as non monetary contribution. From the transaction date, May 27, 2008 UAB "NDX energija" has no shares of VST, AB.

June 2, 2008 VST, AB received the notification from LEO LT, AB where it is said that LEO LT AB acquired the voting rights of VST, AB after the shares were conceded to LEO LT as capital contribution. From the transaction date, May 27, LEO LT, AB owns 3 610 159 (three million six hundred and ten thousands one hundred fifty nine) shares of VST, AB and directly controls 97. 1% (ninety seven point one percent) of the voting rights.

2008-06-02 The draft resolution of the second general meeting of the shareholders of VST, AB

The Board of VST, AB adopted a decision to call the second General shareholders meeting of VST, AB on June 13th, 2008, 2 p.m. The shareholders meeting place: Vilnius, Jasinskio st. 16C (5th floor).

The shareholders will be asked to approve the following item:

1. Distribution of 2007 profit (loss) of VST, AB (attached hereto).

Profit (loss) distribution project proposed to approve in a second general shareholders meeting:

1. Retained earnings at the beginning of the financial year 394 510 552 LTL (114 258 153,38 EUR);

2. Net annual operating result (profit/loss) 67 243 911 LTL (19 475 182,75 EUR);

3. Profit (loss) of the financial year that is unrecognized in the profit (loss) statement 0 LTL (0 EUR);

4. Transfers from reserves:

4.1. Transfer from revaluation reserve 158 856 833 LTL (46 008 118,92 EUR);

4.2. Transfer from compulsory reserve 0 LTL (0 EUR);

5. Shareholders contributions to cover losses (if shareholders decided to cover all or a portion of losses) 0 LTL (0 EUR);

6. Total distributable profit (loss) 620 611 296 LTL (179 741 455,05 EUR);

7. Profit allocation to the compulsory reserve 0 LTL (0 EUR);

8. Profit allocation to the reserve to purchase company's own shares 0 LTL (0 EUR);

9. Profit allocation to other reserves 0 LTL (0 EUR);

10. Profit allocation to pay out dividends (LTL per 1 share) 0 LTL (0EUR);
11. Profit allocation to yearly pay outs to board and council members, employee bonuses and other purposes 0 LTL (0 EUR);
12. Retained earnings carried forward to next financial year 620 611 296 LTL (179 741 455,05 EUR).

2008-06-02 VST, AB has received the notification from LEO LT, AB

June 2, 2008 VST, AB received the notification where it is said that LEO LT, AB following the decision of the Board intends to announce the compulsory non competitive offer to buy 107 839 (one hundred and seven thousands eight hundred thirty nine) ordinary registered shares of VST, AB with nominal value of 30 (thirty) LTL each, that amounts to 2,9 % (two point nine percent) of the total shares and their rights of the vote in the general shareholders meeting.

In the notification it is said that on May 27, 2008 LEO LT, AB acquired more than 40 % (forty percent) of the shares of VST, AB. LEO LT, AB has under it's ownership 3 610 159 (three million six hundred and ten thousands one hundred fifty nine) ordinary registered shares of VST, AB with nominal value of 30LTL that amounts to 97.1 % (ninety seven point one percent) of the total shares and their rights of the vote in the general shareholders meeting.

Prospective way of the payment is money.

The Company has not received more official information.

2008-05-30 VST, AB Interim financial report for three months of 2008

VST, AB Interim financial report for three months of 2008.

2008-05-28 The Extraordinary General Meeting of the Shareholders of VST AB is called on July 8, 2008, 11.30 a.m.

The Extraordinary General Meeting of the Shareholders of VST AB is called on July 8, 2008, 11.30 a.m. According to LEO LT AB request, the Board of VST AB on May 28, 2008 adopted a decision to call the Extraordinary General Meeting of the Shareholders of VST AB and approved the following agenda of the meeting:

1. Recall of the Board;
2. Election of the Board;
3. Approval of the new wording of the Bylaws of the Company.

2008-05-28 The Shareholders Agreement of LEO LT, AB was signed and the authorized capital was increased.

The Shareholders Agreement of LEO LT, AB was signed and the authorized capital was increased. On 27 May, 2008, the Shareholders Agreement of LEO LT, AB, the national investor company, was signed. Afterwards the extraordinary shareholders meeting of LEO LT, AB was held, whereat it was resolved to increase the authorized capital of LEO LT, AB by the shareholders equity contributions - the shares of VST AB, Rytų Skirstomieji Tinklai AB and Lietuvos Energija AB. Alongside that, the Articles of Association of LEO LT, AB were appropriately amended, which were registered in the Register of Legal Persons.

2008-05-09 Convocation of the second general meeting of the shareholders of VST AB

May 9, 2008 the Board of VST AB following the decision adopted by the repeat general shareholders' meeting on April 30, 2008 adopted the decision to call the second general shareholders meeting of VST AB and approved the following agenda of the meeting.

2008-04-30 Preliminary pre-audit 2008 first quarter activity result of VST AB

Preliminary pre-audit 2008 Q1 activity result of VST AB is LTL 23,7 mil. (EUR 6,9 mil.) net profit.

2008-04-30 The decisions adopted in the Repeat General meeting of the shareholders of VST AB on April 30th, 2008

The Repeat General shareholders meeting of VST AB, held on April 30th, 2008, adopted the following decisions.

2008-04-22 The Government of the Republic of Lithuania adopted the project agreement with "NDX energija"

The Government of the Republic of Lithuania adopted the project agreement with "NDX energija". VST AB informs that the Government of the Republic of Lithuania adopted the decree Nr. 331 on April 15, 2008 that was published in "State news" Nr.45 on April 19, 2008 and with that decree:

1.Approved the project agreement and it's project supplements between Government of the Republic of Lithuania acting on behalf of Republic of Lithuania and "NDX energija" UAB regarding the establishment of the national investor;

2.Agreed that "NDX energija" shall concede the shares under it's ownership to establishing „LEO LT". The Company does not have other official information regarding the subject.

2008-04-21 The Repeat Ordinary General Meeting of the Shareholders of VST AB is called on April 30, 2008

Due to the fact that the Ordinary General Meeting of Shareholders of VST AB did not take place on April 18, 2008, the Board of VST AB adopted a decision to call the Repeat Ordinary General Meeting of the Shareholders of VST AB on April 30, 2008. The agenda of the Essential General Meeting shall be valid at the Repeat General Meeting.

2008-04-18 Ordinary General Meeting of Shareholders of VST AB did not take place

In the absence of the quorum, the Ordinary General Meeting of Shareholders of VST AB did not take place.

2008-04-07 The draft resolutions of the general meeting of the shareholders of AB "VST"

According to the decision of the Board of AB "VST" a general shareholders meeting is called on April 18th, 2008 and shall take place at the offices of the Company 5th floor, J.Jasinskio 16c, Vilnius, at 14.00 AM. The Board will ask shareholders to approve the following items:

1. The consideration of the 2007 Annual report of AB "VST".
2. Approval of the 2007 financial statements of AB "VST".
3. Distribution of 2007 profit (loss) of AB "VST".

Profit (loss) distribution project proposed to approve in a general shareholders meeting:

1. Retained earnings at the beginning of the financial year 394 510 552 LTL (114 258 153,38 EUR);
2. Net annual operating result (profit/loss) 67 243 911 LTL (19 475 182,75 EUR);
3. Profit (loss) of the financial year that is unrecognized in the profit (loss) statement 0 LTL (0 EUR);
4. Transfers from reserves:

4.1. Transfer from revaluation reserve 158 856 833 LTL (46 008 118,92 EUR);

4.2. Transfer from compulsory reserve 0 LTL (0 EUR);

5. Shareholders contributions to cover losses (if shareholders decided to cover all or a portion of losses) 0 LTL (0 EUR);
6. Total distributable profit (loss) 620 611 296 LTL (179 741 455,05 EUR);
7. Profit allocation to the compulsory reserve 0 LTL (0 EUR);
8. Profit allocation to the reserve to purchase company's own shares 0 LTL (0 EUR);
9. Profit allocation to other reserves 0 LTL (0 EUR);
10. Profit allocation to pay out dividends (LTL per 1 share) 0 LTL (0EUR);
11. Profit allocation to yearly pay outs to board and council members, employee bonuses and other purposes 0 LTL (0 EUR);
12. Retained earnings carried forward to next financial year 620 611 296 LTL (179 741 455,05 EUR).

The annual report of AB "VST" and the draft financial statements can be found at the internet site of AB "VST" at http://www.vst.lt and at the internet site of Vilnius stock exchange at http://www.baltic.omxgroup.com.

2008-03-14 The General meeting of the shareholders of VST AB is called on April 18, 2008

The Board of VST AB on March 14, 2008 adopted a decision to call the General shareholders meeting of VST AB and approved the following agenda of the meeting.

2008-02-29 VST, AB interim financial report for twelve months of 2007

VST, AB non-audited interim financial report for twelve months of 2007 and confirmation of responsible persons.

2008-02-15 VST, AB result for the year 2007

The Company's non-audited net profit for the year 2007 is 67.2 million LTL (19.6 million EUR) according to the International Financial Reporting

Standards, in 2006 audited net profit was - 59.7 million LTL (17.3 million EUR).

The Company's revenue - 1 059 million LTL (306.7 million EUR) in 2007, compared with 928.6 million LTL (268.9 million EUR) in 2006.

In 2007 the Company sold 3 940 million kWh of electric power, compared with 3680 million kWh in 2006.

According to the independent valuators, the Company's property, plant,equipment and other long term tangible assets accounted for as of 1 January 2007 amounts to 2 807 million LTL (812.9 EUR).

In 2007 the Company invested 140 million LTL (40.5 million EUR) into electric power distribution and other property, plant and equipment.

ADHERENCE TO THE CODE OF COMPANY MANAGEMENT

Vilnius Board of the stock exchange NASDAQ OMX Vilnius, seeking to improve the management of private companies and promote the best practice among the companies listed in the stock exchange, has approved the Management Code of the NASDAQ OMX Vilnius Listed Companies and its provisions.

For more information of the Company's adherence to the Management Code please visit the website of the Company at www.vst.lt

Chief Executive Officer Aidas Ignatavičius

March 2, 2009

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Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company „VST“ (latter in commentaries referred as the Company), following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	YES	
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	YES	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Not applicable	Supervisory body is not set up in the Company. See 2.1.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	YES	
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	NO	Supervisory body is not set up in the Company, as after taking into account the structure of shareholders and the regulated activities of the Company, it is considered as not relevant.

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	YES NO	Supervisory body is not set up in the Company. See 2.1.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	NO	Supervisory body is not set up in the Company. See 2.1.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	and YES, and NO	Supervisory body is not set up in the Company. See 2.1. The Company's Board partly acts according to the Principles III and IV. Further information about compliance with Principles III and IV is given below.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	YES	Provided that "small group of individuals" is taken as a group of not more then two individuals. The Board is comprised of four members. The meeting of the Board has quorum when meeting is attended by at least 3 members of the Board. Decisions are taken by a simple majority of votes of the Board members present at the meeting
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Not applicable	Supervisory body is not set up in the Company. See 2.1. Non-executive directors are not elected in the Company.

[1] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board, should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

[2] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	NO	There are no restrictions for Chief Executive Officer to be a chairman of the Board in the Company. The Company thinks that Chief Executive Officer and the Board are executive bodies of the Company and above mentioned restriction would be not appropriate.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	YES	The Board of the Company is elected by the General Shareholders Meeting according to the rules prescribed in the Law on Companies of the Republic of Lithuania.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	YES	

[3] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	and YES, and No	All information about the Board members, the Company considers as necessary to disclose, is provided on the Company's site, in the Annual Report of the Company, the prospectus – report and in the other sources, where such discourse is mandatory under the applicable legal acts.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	NO	According to the Law on Companies of the Republic of Lithuania the issues concerning the Boards' formation is assigned to the General Shareholders Meeting. The Board has no legal opportunities to form it self. Paragraph 6 of Article 52 of the Republic of Lithuania Law on Audit stipulates that the public interest entity which is a subsidiary and the financial statements whereof are consolidating may derogate from the requirements of the Republic of Lithuania Law on Audit regarding the formation of the Audit Committee if the same is formed by its parent company. Thus, in accordance with LEO LT, AB report on the formation of LEO LT, AB Audit Committee, dated 20 October 2008, an audit committee is not formed in the Company.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	YES	There is no formal review to identify knowledge of the Board's members in the Company. However, the Board's members attend special seminars or courses, if there is a necessity.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	NO	In the Company's Articles of Association there are no provisions about independent members' elections to the Board. The Company thinks, such provisions are not necessary, as there is enough means provided by the laws to resolve all material conflicts of interest related with a member of the Board. Moreover, issues concerning Boards' formation are assigned to the General Shareholders Meeting and the independent member can be elected to the Board only if one gets enough shareholders' votes.

[4] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[5] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major	NO	See 3.6.

supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body	NO	See 3.6.

it considers to be independent.		
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	NO	See 3.6.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	NO	See 3.6.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	YES	

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

[7] See Footnote 3.

[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	YES NO	Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the Board are not elected, see 3.6.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	YES	Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[10] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	YES	Where decisions of a collegial body may have a different effect on the Company's shareholders, the collegial body should treat all shareholders impartially and fairly. Shareholders are being informed about Company's affairs, strategies, risk management and resolution of conflict of interest according to the requirements laid in the legislation. The role of members of the Board when communicating with and committing to shareholders is established according to the requirements laid in the legislation. In the Company there is no regulations setting specific role of members of the Board when communicating with and committing to shareholders.

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

[10] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	YES	Provided that independent members of the collegial body are not elected.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[11]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	YES	Provided that comities of the collegial body are not formed.

[11] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	NO	Independent members of the collegial body are not elected, see 3.6. Comities are not formed, as the Company thinks the work of the Board is well organized and efficient enough. The Board itself can properly perform all the functions that, according to recommendations, should be assigned to the comities.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	NO	Comities are not formed, see 4.7.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-	NO	Comities are not formed, see 4.7.

executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	NO	Comities are not formed, see 4.7.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	NO	Comities are not formed, see 4.7.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	NO	Comities are not formed, see 4.7.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information	NO	Comities are not formed, see 4.7.

disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest,	NO	Comities are not formed, see 4.7.

the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six		

months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	NO	The Board does not conduct any formal assessment of its activities. Company's activities, as well as Board's activities, are assessed by shareholders' according to the rules prescribed in the legislation.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	YES	
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12].	YES	Board meetings of the Company are convened following the procedure established in the Rules of Procedure of the Board of the Company. Article 34 of the Rules of Procedure provides that with a view to ensuring uninterrupted resolution of the essential corporate governance issues of the Company, ordinary Board meetings are held at least monthly. Normally Board meetings are held weekly. If necessary, extraordinary Board meetings are convened on the initiative of the Chairman of the Board, any Board member or the Company's CEO.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	YES	
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	Supervisory body is not set up in the Company, see 2.1.

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	YES	
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	YES	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	YES	In the cases provided for in the Company's Articles of Association, the Company's Board may take decisions subject to prior approval of the Company's general shareholders' meeting. The Company provides all its shareholders with access to the documents of the general shareholders' meeting and with the opportunity to participate in the decision-making at the meeting in the manner prescribed by legal acts.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	YES	

[13] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[14]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	YES	
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	YES	
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	NO	The Company thinks that at this time there is no need to organize voting using means of modern technologies. Moreover, such organization of voting would require large amounts of investment.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		

[14] The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	YES	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	YES	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	YES	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	YES	
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	NO	Statement of the Company's remuneration policy is not made, because, according to the Company's opinion, it is irrelevant and not obligatory according to the legislation.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	NO	See 8.1.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	NO	See 8.1.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	NO	See 8.1.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	NO	See 8.1.
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	NO	See 8.1.

8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	NO	See 8.1.

8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	NO	See 8.1. New issue of shares and determination of minimal emission price, according to the legislation, is attributed to General Shareholders Meeting. All questions concerning issue of the Company's shares are met by General Shareholders Meeting.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	YES	Stakeholders can participate in corporate governance in the manner prescribed by legal acts of the Republic of Lithuania.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	YES	
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	YES	
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	YES YES YES NO YES YES NO YES	All information listed in this recommendation, except information on members of the Company's Board, Chief Executive Officer of the Company and their remuneration and material issues regarding employees and other stakeholders is disclosed in the Company's annual prospectus – reports and Company's announcements. Information on members of the Company's Board, Chief Executive Officer of the company and their remuneration and material issues regarding employees and other stakeholders is disclosed as much as it is required by the legislation. Additional information about the Company is provided on the Company's website.
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	NO	The Company discloses only information related to the Company. Information about whole group to which the Company belongs is disclosed by parent company.
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	NO	Information about the amount of remuneration received from the Company and other income with regard to members of the Company's management bodies and Chief Executive Officer is not disclosed, as in the Company's opinion, it is irrelevant and not obligatory according to the legislation.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	NO	Information related to stakeholders, the Company considers as necessary to disclose, is provided on the Company's website and in the press releases. The Company thinks that there is no need to disclose the same information in the Company's annual reports or by other special means. Moreover, such discloser is not obligatory according to the legislation.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	YES	

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	YES	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	YES	
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	YES	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	YES	
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	YES	

VST, AB

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius, Lithuania

2009-03-02

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 21 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we Aidas Ignatavičius, Chief Executive Officer of VST, AB, and Lina Minderienė, Chief Financial Officer of VST, AB, hereby confirm that, to the best of our knowledge, the attached audited VST, AB Financial statements for the year 2008, prepared in accordance with International Financial Reporting Standards, and gives a true and fair view of the assets, liabilities, financial position and profit or loss of VST, AB.

Chief Executive Officer	Aidas Ignatavičius
Chief Financial Officer	Lina Minderienė

VST

KAD GYVENTI BŪTŲ ŠVIESIAU

Joint Stock Company "VST"

Financial statements for the year 2008 prepared according to International Financial Reporting Standards presented together with independent auditor's report

CONTENTS

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Register of Legal Entities

Independent auditors' report to the shareholders of Joint Stock Company VST

Report on the Financial Statements

We have audited the accompanying 2008 financial statements of Joint Stock Company VST, a company registered in the Republic of Lithuania (hereinafter the Company), which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements
The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company VST as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Management Annual Report for the year ended 31 December 2008 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003
President

Asta Štreimikienė
Auditor's licence
No.000382

The audit was completed on 2 March 2009.

(all amounts are in LTL '000 unless otherwise stated)

Income statement

	Notes	2008	2007
Sales	3	1 159 752	1 053 757
Other operating income	4	4 397	5 574
		1 164 149	1 059 331
Purchases of electricity	5	(676 956)	(581 436)
Depreciation and amortisation	11, 12, 19	(274 197)	(284 476)
Wages, salaries and social security		(71 188)	(56 034)
Repair and maintenance expenses	6	(24 442)	(23 941)
Spare parts and other inventories	13	(13 715)	(15 452)
Utilities and communications expenses		(6 735)	(5 697)
Other operating expenses	7	(51 679)	(7 039)
		(1 118 912)	(974 075)
Operating profit		**45 237**	**85 256**
Financial income	8	16 183	8 159
Financial (expenses)	8	(32 946)	(18 559)
Profit before tax		**28 474**	**74 856**
Current and prior year income tax (expenses)	22	(39 083)	(41 023)
Deferred income tax benefit	22	22 284	33 411
Net profit		**11 675**	**67 244**
Basic and diluted earnings per share, in LTL	10	3.14	18.09

The financial statements presented on pages 5 to 29 were approved by the General Director and Director of Financial Department on 2 March 2009.

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

(all amounts are in LTL '000 unless otherwise stated)

Balance sheet

	Notes	As of 31 December 2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	11	2 849 527	2 734 971
Intangible assets	12	98	798
		2 849 625	2 735 769
Current assets			
Inventories	13	11 193	7 753
Trade and other receivables	14	95 070	89 846
Prepayments, deferred charges and unbilled revenue	15	11 311	11 284
Cash and cash equivalents	16	6 232	206 440
		123 806	315 323
Total assets		**2 973 431**	**3 051 092**
EQUITY			
Share capital	17	111 540	111 540
Revaluation reserve	2	1 319 030	1 345 069
Legal reserve	2	11 154	11 154
Retained earnings		179 925	620 612
Total equity		**1 621 649**	**2 088 375**
LIABILITIES			
Non-current liabilities			
Borrowings	18	488 937	298 929
Grants and subsidies	19	26 698	25 243
Employee benefit liability	20	1 185	-
Deferred income	21	180 744	131 863
Deferred income tax liability	22	399 938	293 214
		1 097 502	749 249
Current liabilities			
Borrowings	18	105 869	80 389
Trade, other financial liabilities and other payables	23	84 950	67 643
Other payables	23	5 447	7 429
Advances received, accrued charges and deferred income	24	56 934	55 334
Income tax payable		1 080	2 673
		254 280	213 468
Total liabilities		**1 351 782**	**962 717**
Total equity and liabilities		**2 973 431**	**3 051 092**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

(all amounts are in LTL '000 unless otherwise stated)

Cash flow statement

	Notes	2008	2007
Cash flows from operating activities			
Net profit		11 675	67 244
Adjustments for non-cash items:			
- Income tax	22	16 799	7 612
- Depreciation and amortisation	11, 12	275 734	285 234
- Depreciation of property, plant and equipment received at no consideration	19	(1 537)	(758)
- Recognition of income from the connection of new customers	3, 21	(6 624)	(4 751)
- Unbilled revenue from electricity sales	15	(594)	(2 252)
- Loss on sale of property, plant and equipment	7	442	373
- Write-offs and impairment (reversal of impairment) of property, plant and equipment, revaluation effect	7	24 914	(14 439)
- Impairment (reversal) of impairment of receivables and prepayments	7	2 578	(7 967)
- Inventories surplus and (reversal) of inventories impairment		(1 990)	(3 010)
- Accrued wages, salaries and social security expenses and other accruals	24	2 421	1 168
- Net loss from transactions in foreign currencies	8	-	4
- Interest (income)	8	(16 183)	(8 159)
- Interest expenses	8	32 835	18 479
- Other (income)		-	(16)
		340 470	338 762
Changes in working capital:			
- (Increase) decrease in inventories		(1 386)	1 782
- (Increase) decrease in receivables, prepayments and deferred charges		(15 325)	4 792
- Increase in deferred income	21	61 112	56 518
- Increase (decrease) in payables, other financial liabilities, advances received and accrued charges		11 344	(23 383)
Cash flow from operations		396 215	378 471
Income tax (paid)	22	(32 580)	(54 270)
Net cash flows from operating activities		**363 635**	**324 201**
Cash flows (to) investing activities			
(Purchase) of property, plant and equipment	11	(144 784)	(138 520)
(Purchase) of intangible assets	12	-	(126)
Proceeds from sale of property, plant and equipment		945	605
Interest received		16 183	7 273
Loan repayments received		43	22
Net cash flows (to) investing activities		**(127 613)**	**(130 746)**
Cash flows (to) financing activities			
Proceeds from loans		846 489	423 231
Loans (repaid)		(630 882)	(435 301)
Financial lease payments	18	(119)	(95)
Interest (paid)		(32 377)	(18 355)
Dividends (paid)	9	(619 341)	(59 426)
Net cash flows (to) financing activities		**(436 230)**	**(89 946)**
Effects of exchange rate changes on cash balance	8	**-**	**(4)**
Net (decrease) increase in cash and cash equivalents		**(200 208)**	**103 505**
Cash and cash equivalents at beginning of year		206 440	102 935
Cash and cash equivalents at end of year	16	**6 232**	**206 440**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

(all amounts are in LTL '000 unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total
Balance as at 31 December 2006		**111 540**	**830 011**	**11 154**	**453 999**	**1 406 704**
Revaluation of non-current assets	11	-	673 234	-	-	673 234
Change in estimation of deferred tax due to the change in tax rate	22	-	681	-	-	681
Transfer from revaluation reserve to retained earnings		-	(158 857)	-	158 857	-
Total income and expense for the year recognised directly in equity		-	515 058	-	158 857	673 915
Net profit for the year		-	-	-	67 244	67 244
Total income and expense for the year		-	**515 058**	-	**226 101**	**741 159**
Dividends declared for 2006	9	-	-	-	(59 488)	(59 488)
Balance as at 31 December 2007		**111 540**	**1 345 069**	**11 154**	**620 612**	**2 088 375**
Revaluation of non-current assets	11	-	231 113	-	-	231 113
Change in estimation of deferred tax due to the change in tax rate	22	-	(88 903)	-	-	(88 903)
Transfer from revaluation reserve to retained earnings		-	(168 249)	-	168 249	-
Total income and expense for the year recognised directly in equity		-	(26 039)	-	168 249	142 210
Net profit for the year		-	-	-	11 675	11 675
Total income and expense for the year		-	**(26 039)**	-	**179 924**	**153 885**
Dividends declared for 2007	9	-	-	-	(620 611)	(620 611)
Balance as at 31 December 2008		**111 540**	**1 319 030**	**11 154**	**179 925**	**1 621 649**

Aidas Ignatavičius
General Director

(signature)

Linа Minderienė
Director of Financial Department

(signature)

Notes to the financial statements

1 General information

Joint Stock Company VST (hereinafter the Company) is a joint stock company registered in the Republic of Lithuania and was established following the reorganisation of JSC Lietuvos Energija and registered on 31 December 2001. The Company has changed the name to JSC VST on 26 April 2005 from JSC Vakarų Skirstomieji Tinklai.

The financial statements cover the separate Company's financial statements as of 31 December 2008.

The shares of the Company are traded on the Baltic Secondary List of the NASDAQ OMX Vilnius.

As of 27 May 2008 and 31 December 2007 the shareholders of the Company were as follows:

Shareholder	Number of shares	(%)
UAB NDX Energija	3 610 159	97.10
Other shareholders	107 839	2.90
	3 717 998	100.00

On 27 May 2008 UAB NDX Energija transferred 3 610 159 shares of the Company to LEO LT, AB as a non-monetary contribution.

After 27 May 2008 the shareholders of the Company were as follows:

Shareholder	Number of shares	(%)
LEO LT, AB	3 610 159	97.10
Other shareholders	107 839	2.90
	3 717 998	100.00

As of 31 December 2008, the shareholders of the Company were as follows:

Shareholder	Number of shares	(%)
LEO LT, AB	3 651 524	98.21
Other shareholders	66 474	1.79
	3 717 998	100.00

The Company's main activity is distribution and supply of electricity in Western Lithuania.

The average number of the Company's employees was 1 855 in 2008 (1 885 in 2007).

The shareholders of the Company have a statutory right to either approve these financial statements or not to approve them and require a new set of financial statements to be prepared.

2 Summary of accounting policies

2.1 Basis of preparation

These financial statements have been prepared on a historical cost basis, except for property, plant and equipment that have been measured at revalued amounts.

The financial statements are presented in Litas and all values are rounded to the nearest thousand (LTL 000), except when otherwise indicated.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter EU).

Adoption of new and/or changed IFRSs and International Financial Report Interpretation Committee (IFRIC) interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Company and Treasury Share Transactions.*

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments the International Accounting Standards Board (IASB) implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The company did not have financial instruments caught by these amendments.

IFRIC 11 *IFRS 2 – Company and Treasury Share Transactions*

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Company has not issued instruments caught by this interpretation.

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

Standards issued but not yet effective

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements are not applicable to the Company.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Company as the Company does not have share-based payments.

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The new requirements are not applicable to the Company.

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Company is still evaluating what operating segments will be determined in accordance with IFRS 8.

Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Company is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

Improvements to IFRSs:

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Company anticipates that these amendments to standards will have no material effect on the financial statements:

- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements*. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- *IAS 18 Revenue.* Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting.* Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- *IAS 38 Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

IFRIC 12 *Service Concession Arrangements* (effective once adopted by the EU).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Company is not an operator and, therefore, this interpretation has no impact on the Company.

IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008).

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Company does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Company.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2009).

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Company does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Company.

IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Company does not conduct such activity, therefore, this interpretation will not have an impact on the financial statements.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).

The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the financial statements because the Company does not have hedges of net investments.

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the financial statements because the Company does not distribute non-cash assets to owners.

IFRIC 18 *Transfers of Assets from Customers* (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the financial statements.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application, except for IAS 23 Borrowing costs and IAS 1 Presentation of Financial Statements – Revised.

2 Summary of accounting policies (cont'd)

2.2 Foreign currency translation

Functional currency

The amounts shown in these financial statements are measured and presented in local currency, Litas (LTL). The Litas is the functional currency of the Company.

Since 2 February 2002, the Litas is pegged to the Euro at a rate of LTL 3.4528 = EUR 1.

Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement under finance income or costs.

2.3 Segment information

The Company is vertical integration entity, providing supply and distribution services, therefore it operates in one geographical and business segment. Due to this reason no segment information is presented in these financial statements.

2.4 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to the estimation of accrued revenue recognition (Notes 2.5 and 21), over declared income calculation (Note 24), depreciation (Notes 2.8 and 11) and impairment evaluation (Notes 2.10, 2.19 and 2.20). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Overdeclaration of income

The Company increased electricity prices from the beginning of the year 2009. Due to this reason some of the residents declared more electricity than actually consumed in order to pay at lower prices. The Company calculated the over declared amount based on the historical electricity consumption pattern and booked the amount as deferred income.

For more details on other estimates please refer to the respective notes mentioned above.

2.5 Revenue recognition

All revenue are recognised net of value added tax and discounts directly related to sales.

Electricity sales revenue

Revenue on electricity sales to residential sector customers is recognised when electricity is provided. An estimate of unbilled revenue is made to record amounts earned, but not yet received at the end of each accounting period.

Revenue on electricity sales to business customers is recognised when services are rendered based on the actual usage of the electricity.

Customers' connection fees

Contributions received from the new customers and producers for connection and reconstruction or transfer of the network items or equipment, according to the request of the customers, producers and others, initially are recognised as deferred revenue and subsequently recognised as income over the same period during which the related costs of installation are charged. The related costs of installation, which include cost of property, plant and equipment and other costs are capitalised and depreciated over the estimated useful lives of the capitalised assets.

Interest income

Revenue is recognised as interest accrues (using the effective interest method). Interest income is included in the finance revenue in the income statement.

Other income

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the rendering of services is recognised on accrual basis, the period when the services are actually provided which is usually completed by the work acceptance act. The Company does not operate under long term service rendering contracts.

2 Summary of accounting policies (cont'd)

2.6 Income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Income tax related to items recognised directly in equity is recognised in equity.

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

The standard income tax rate in Lithuania is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with 15% corporate income tax, for one financial year beginning on 1 January 2006 companies have to pay an additional 4% tax calculated based on the income tax principles, and one financial year beginning on 1 January 2007 – 3% tax. After the year 2007 the income tax rate applied to the companies in the Republic of Lithuania will be 15%. Starting 1 January 2009 new income tax rate of 20 % will be applied.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

2.7 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.8 Property, plant and equipment

Tangible assets are attributed to property, plant and equipment if their useful life exceeds one year.

Construction in progress is stated at historical cost less accumulated impairment losses.

All other property, plant and equipment are shown at revalued amounts, based on periodic (at least every 5 years) valuations by external independent appraisers or by the Company's management (the management estimated values for assets that will be 100 % reconstructed in the nearest future), less subsequent accumulated depreciation and subsequent accumulated impairment losses. Cost includes property, plant and equipment part replacement expenses, as incurred, if these expenses correspond the recognition criterion. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is adjusted to the revalued amount of the assets. All other repair and maintenance costs are recognised in profit or loss as incurred.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited directly to equity under the heading of revaluation reserve and decreases are recognised in the income statement. Decreases arising on subsequent revaluations that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. Revaluation increases in property plant and equipment value that offset previous decreases are taken to income statement. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to the retained earnings taking into account the effect of deferred tax.

Depreciation of property, plant and equipment is calculated using the straight-line method of the carrying value of each asset over its estimated useful lives as follows:

- Buildings	10 - 80 years
Including:	
35 - 110 kV transformer substation buildings	35 years
10 kV distribution point buildings	35 years
10/0.4 kV transformer buildings	50 years
Connection and control system buildings	25 years
- Structures and machinery,	5 - 50 years
Including:	
35 - 110 kV transformer substations (except buildings)	25 - 40 years
10 kV distribution points (except buildings)	35 years
10/0.4 kV power transformers	35 years
35 kV power lines	40 years
0.4 - 10 kV electricity network	30 - 40 years
10/0.4 kV transformers (except buildings)	30 years
Connection and control systems (except buildings)	10 - 40 years
- Vehicles	4 - 15 years
- Other tangible assets	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The review of useful lives is performed after revaluation of assets as well.

The useful lives of assets that are planned to be 100 % reconstructed in the future are shortened until the start of the reconstruction date.

2 Summary of accounting policies (cont'd)

2.8 Property, plant and equipment (cont'd)

Property, plant and equipment obtained at no consideration is accounted for at fair value in corresponding captions of property, plant and equipment and deferred income. Property, plant and equipment obtained at no consideration is depreciated by using straight-line method over the estimated useful life of these assets. The amounts accounted for in the deferred income caption are recognised as revenue in the income statement over the period of useful life of this property, plant and equipment and the depreciation expenses of the related property, plant and equipment in the income statement are reduced by this amount.

Interest costs on borrowings to finance the construction of property, plant and equipment are not capitalised and are recognised in the income statement when incurred.

When property is retired or otherwise disposed of, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement. Gains and losses on disposal of property, plant and equipment are determined as a difference between proceeds and the carrying amount of the assets disposed. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

Construction in progress is transferred to appropriate group of property, plant and equipment when it is completed and ready for its intended use.

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

2.10 Impairment of non-current assets

Each year, property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

2.11 Financial lease and operating lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Financial lease, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expenses in profit or loss on a straight line bases over the lease term.

Company as lessor

Lease where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. Initial direct cost incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.12 Grants

Government grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised as income in the financial statements over the period of depreciation of the assets associated with this grant. In the income statement, depreciation expense account is decreased by the amount of grant amortisation.

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

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, transport, and other costs directly attributable to the cost of inventories. Net realisable value is the estimate of the selling price, less the costs of completion, marketing and distribution.

2 Summary of accounting policies (cont'd)

2.14 Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at hand, demand deposits, and other short-term highly liquid investments.

2.15 Share capital

Ordinary shares are stated at their par value.

2.16 Reserves

Legal reserve

A legal reserve is a compulsory reserve under the Law on Joint Stock Companies of the Republic of Lithuania. Annual transfers of 5 % of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, are required until the reserve reaches 10 % of the share capital. The Company has already fully formed the reserve. The legal reserve cannot be distributed as dividends, but can be used to cover any future losses.

Revaluation reserve

Revaluation reserve represents an increase in the carrying amount of property plant and equipment due to the revaluation. The reserve is decreased by the amount of relating deferred income tax upon its recognition. The revaluation reserve included in equity is transferred to retained earnings when it is realised. The revaluation reserve is realised on retirement or disposal of the asset or as the asset is used by the Company, i.e. the amount of reserve realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

2.17 Dividends

Dividends are recorded in the financial statements at the moment they are declared by the Annual General Shareholders' Meeting.

2.18 Borrowings

Borrowing costs are expensed as incurred.

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings.

2.19 Deferred income tax

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxation authority and the same taxable entity.

2.20 Investments and other financial assets

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

2 Summary of accounting policies (cont'd)

2.20 Investments and other financial assets (cont'd)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Receivables are carried at original invoice amount less allowance made for impairment of these receivables. An allowance for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The change of the allowance is recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

The Company does not have financial instruments at fair value as of 31 December 2008 and 2007.

2.21 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.22 Offsetting and comparative figures

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

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

2.23 Employee benefits

Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits related to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is firmly committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits recognised are recognised at present value discounted using market rate.

Employee benefit liability

Pension liability represents calculated amounts to be paid according to Lithuanian legislation. Each employee is entitled to 2 months salary payment when leaves the job at or after the start of pension period. The defined benefit obligation as of balance sheet date as well as the costs of providing such benefits are based on actuarial calculations applying the projected credit unit method. The discount rate applied reflects the rates set for governmental bonds with a duration similar to the expected benefit payments.

2 Summary of accounting policies (cont'd)

2.24 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements, however is disclosed.

2.25 Subsequent events

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

(all amounts are in LTL '000 unless otherwise stated)

3 Sales

	2008	2007
Sales of electricity	1 137 555	1 033 199
Sales of reactive energy	15 573	15 807
Customers' connection fees (Note 21)	6 624	4 751
	1 159 752	**1 053 757**

4 020 million kWh of electricity were sold in 2008, i. e. by 1.85 % more than in 2007 (3 947 million kWh – in 2007).

4 Other operating income

	2008	2007
Income from installation works	1 002	1 845
Fines received	949	686
Profit on sales of materials	792	1 157
Services related to electricity	690	587
Rent and teleinformation income	612	633
Other income	352	666
	4 397	**5 574**

5 Purchase of electricity

Purchase of electricity expenses present purchases of electricity from Ignalina Nuclear Power Plant, AB Lietuvos Energija and other electricity producers. The increase in expenses is in line with increase in sales. Moreover, the increase in purchase of electricity expenses was caused by the temporary closing of Ignalina Nuclear Power Plant, as the Company has to purchase more expensive electricity from other suppliers.

6 Repair and maintenance expenses

Repair and maintenance expenses mainly present maintenance works purchased from services providers.

7 Other operating expenses

	2008	2007
Impairment (reversal of impairment) and write-off of property, plant and equipment and (increase) in value that covers decrease in value during previous revaluation	24 914	(14 438)
Fuel	4 691	4 015
Cash collection expenses	2 839	4 969
Impairment (reversal of impairment) and write-off of receivables and prepayments	2 578	(8 113)
Taxes other than income tax	2 295	1 396
IT expenses	1 171	1 073
Loss on disposal of property, plant and equipment	442	373
(Reversal) of net realisable value adjustment	(1 494)	(2 226)
Other expenses	14 243	19 990
	51 679	**7 039**

8 Financial income / (expenses), net

	2008	2007
Interest income	16 183	8 159
Total finance income	16 183	8 159
Interest (expenses)	(32 835)	(18 479)
Loan administration (expenses)	(80)	(75)
Net foreign exchange (losses)	(20)	(4)
Penalties and fines (paid)	(11)	(1)
Total finance (expenses)	(32 946)	(18 559)
	(16 763)	**(10 400)**

(all amounts are in LTL '000 unless otherwise stated)

9 Dividends

	2008*	2007*
Dividends declared	620 611	59 488
Weighted average number of shares (thousands)	3 718	3 718
Approved dividends per share (expressed in LTL per share)	166.92	16.00

* The year when dividends are declared

The shareholders of the Company declared dividends in the amount of LTL 620 611 thousand for the year 2008 (LTL 59 488 thousand for 2007). The major part of the amount was paid out in year 2008. The remaining liability to the shareholders of the Company as of 31 December 2008 amounts to LTL 7 888 thousand (LTL 6 617 thousand as of 31 December 2007) and is accounted for in trade, other financial liabilities and other payables in the balance sheet (Note 23).

10 Earnings per share, basic and diluted

	2008	2007
Net profit attributable to shareholders	11 675	67 244
Weighted average number of ordinary shares in issue (thousands) (Note 17)	3 718	3 718
Basic earnings per share (expressed in LTL per share)	3.14	18.09

The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share equal to basic earnings per share.

11 Property, plant and equipment

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construction in progress	Total
At 31 December 2006						
Cost or revalued cost	227 612	2 401 231	32 386	31 443	88 929	2 781 601
Accumulated depreciation	(42 538)	(645 084)	(1 941)	(12 474)	-	(702 037)
Accumulated impairment	-	-	-	-	(473)	(473)
Net book value	185 074	1 756 147	30 445	18 969	88 456	2 079 091
Year ended 31 December 2007						
Opening net book value	185 074	1 756 147	30 445	18 969	88 456	2 079 091
Additions	302	825	6 112	578	130 703	138 520
Disposals	(626)	(80)	(167)	(108)	(5 095)	(6 076)
Write-offs	(137)	(6 262)	(25)	(115)	-	(6 539)
Revaluation	140 116	669 111	(2 208)	7 604	-	814 623
Changes in impairment charge per year	-	-	-	-	(183)	(183)
Reclassifications between groups	8 589	134 837	1	11 993	(155 420)	-
Depreciation charge	(12 982)	(251 483)	(8 838)	(11 162)	-	(284 465)
Closing net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971
At 31 December 2007						
Cost or revalued cost	333 318	2 554 578	34 158	38 921	59 117	3 020 092
Accumulated depreciation	(12 982)	(251 483)	(8 838)	(11 162)	-	(284 465)
Accumulated impairment	-	-	-	-	(656)	(656)
Net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971
Year ended 31 December 2008						
Opening net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971
Additions	140	509	7 472	242	136 421	144 784
Disposals	(428)	(8)	(852)	(99)	-	(1 387)
Write-offs	(181)	(3 397)	(113)	(70)	-	(3 761)
Revaluation	71 000	163 723	5 202	9 694	-	249 619
Changes in impairment charge per year	-	-	-	-	335	335
Reclassifications between groups	9 150	133 949	(17)	13 649	(156 731)	-
Depreciation charge	(15 274)	(245 471)	(6 327)	(7 962)	-	(275 034)
Closing net book value	384 743	2 352 400	30 685	43 213	38 486	2 849 527
At 31 December 2008						
Cost or revalued cost	384 743	2 493 610	34 383	48 679	38 807	3 008 541
Accumulated depreciation	-	(141 210)	(3 698)	(5 466)	-	(156 693)
Accumulated impairment	-	-	-	-	(321)	(321)
Net book value	384 743	2 352 400	30 685	43 213	38 486	2 849 527

(all amounts are in LTL '000 unless otherwise stated)

11 Property, plant and equipment (cont'd)

The Company accounted for increase in prepayments between 2008 and 2007 in the additions of construction in progress in amounting to LTL 345 thousand (LTL 1 389 thousand decrease between 2007 and 2006).

Revaluation of property, plant and equipment

On 31 May 2008 the Company's property, plant and equipment (except for construction in progress) was revalued by external independent appraiser, UAB Ober-Haus Nekilnojamasis Turtas, qualification certificate No. 000011 issued on 24 January 2000. Valuations were made on the basis of replacement cost, except for other assets (with no business specific features) that were revalued using comparable prices method. The increases and decreases in carrying amounts arising from the revaluation of property, plant and equipment are as follows:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
Increase in carrying amount	165 170	374 931	5 621	12 481	558 203
Decrease in carrying amount	(75 805)	(211 192)	(419)	(2 563)	(289 979)
	89 365	163 739	5 202	9 918	268 224

Revaluation surplus, amounting to LTL 558 203 thousand, emerged due to LTL 516 141 thousand increase in revaluation reserve and coverage of impairment for previous assets revaluation in the amount of LTL 42 062 thousand. The decrease of LTL 289 979 thousand comprises LTL 233 339 thousand decrease of revaluation reserve of previous revaluation and LTL 56 640 thousand decrease in assets' value, which was accounted for in the income statement. The revaluation surplus, net of applicable deferred income tax effect is accounted for in the revaluation reserve in equity and amounts to LTL 240 382 thousand, while impairment is accounted for in the income statement.

In addition, the Company's property, plant and equipment was revalued by external independent appraiser, UAB Ober-Haus Nekilnojamasis Turtas, using comparable prices method as of 31 December 2008. The increases and decreases in carrying amounts arising from the revaluation of property, plant and equipment are as follows:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
Increase in carrying amount	2	13	-	-	15
Decrease in carrying amount	(18 367)	(29)	-	(224)	(18 620)
	(18 365)	(16)	-	(224)	(18 605)

According to the Company's management and as confirmed by the independent appraisers, the fair value (replacement costs) of other asset groups' did not change significantly for the period from 31 May 2008 to 31 December 2008. The carrying amount of Company's property plant and equipment does not differ materially from that which would be determined using fair value at the balance sheet date.

Revaluation surplus, amounting to LTL 15 thousand, emerged due to LTL 15 thousand increase in revaluation reserve. Decrease by LTL 18 620 thousand emerged due to LTL 11 601 thousand decrease of revaluation reserve and LTL 7 019 thousand of impairment expenses accounted for in the income statement. The decrease in revaluation effect, net of applicable deferred income tax effect is accounted for in the revaluation reserve in equity and amounts to LTL 9 269 thousand, while impairment is accounted for in the income statement.

If property, plant and equipment would not be revaluated, carrying values of property, plant and equipment as of 31 December 2008 and 2007 would be as follow:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
As of 31 December 2008	241 728	1 041 124	30 718	33 839	1 347 409
As of 31 December 2007	242 687	995 014	29 179	25 380	1 292 260

Property, plant and equipment acquired under financial lease

The Company did not have property, plant and equipment acquired under financial lease as of 31 December 2008. The net book value of this property in 2007 amounted to LTL 166 thousand.

Fully depreciated assets still used by the Company

As of 31 December 2008 the acquisition (revalued) cost of fully depreciated property, plant and equipment, but still in active use of the Company was LTL 2 521 thousand (LTL 8 253 thousand as of 31 December 2007).

(all amounts are in LTL '000 unless otherwise stated)

12 Intangible assets

	Computer software
Year ended 31 December 2007	
Opening net book amount	656
Additions	126
Reversal of allowance	785
Amortisation charge	(769)
Closing net book value	798
At 31 December 2007	
Cost	8 065
Accumulated amortisation	(7 267)
Net book value	798
Year ended 31 December 2008	
Opening net book amount	798
Amortisation charge	(700)
Closing net book value	98
At 31 December 2008	
Cost	8 065
Accumulated amortisation	(7 967)
Net book value	98

13 Inventories

		Year ended 31 December	
		2008	**2007**
Spare parts and supplies (at cost)		11 891	11 261
Electricity meters (at cost)		2 367	2 445
		14 258	13 706
Impairment allowance	(a)	(3 065)	(5 953)
		11 193	**7 753**

(a) The Company reviewed slow moving inventories in 2008 and updated the impairment allowance for inventories, accordingly. The decrease in impairment allowance occurred as some of inventories, in amount of LTL 1 394 thousand, were written off or used.

The acquisition cost of the Company's inventories accounted for at net realisable value as of 31 December 2008 amounted to LTL 3 065 thousand (LTL 5 953 thousand as of 31 December 2007). Changes in the impairment allowance for inventories for the year 2008 and 2007 have been included into operating expenses.

The amount of write-down of inventories recognised as expenses is LTL 13 715 thousand for the year 2008 (LTL 15 452 thousand for the year 2007).

14 Trade and other receivables

		Year ended 31 December	
		2008	**2007**
Trade receivables		115 344	119 390
Other receivables		2 828	1 615
Trade and other receivables, gross		118 172	121 005
Impairment allowance for trade receivables	(a)	(22 410)	(30 463)
Impairment allowance for other receivables		(692)	(696)
		(23 102)	(31 159)
		95 070	**89 846**

(a) The decrease in trade receivables impairment allowance in 2008 is due to write off of LTL 10 588 bad debts.

Trade receivables are non-interest bearing and are generally on 30 - 90 days terms.

As of 31 December 2008 trade receivables with the nominal value of LTL 17 058 thousand (as of 31 December 2007 – LTL 25 085 thousand) were impaired and fully provided for.

(all amounts are in LTL '000 unless otherwise stated)

14 Trade and other receivables (cont'd)

Movements in the allowance for impairment of receivables were as follows:

Balance as of 31 December 2006	39 272
Charge for the year	9
Written off	(146)
Amounts reversed	(7 976)
Balance as of 31 December 2007	31 159
Charge for the year	2 531
Written off	(10 588)
Balance as of 31 December 2008	23 102

Trade and other receivables that are individually impaired amount to LTL 16 768 thousand as of 31 December 2008 (LTL 24 824 thousand as of 31 December 2007).

Trade and other accounts receivables are written off when the management is of opinion that the amount will not be recovered.

The ageing analysis of trade and other receivables as of 31 December 2008 and 2007 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 - 60 days	60 - 90 days	90 - 120 days	More than 120 days	Total
2008	89 110	4 015	555	188	116	1 086	95 070
2007	82 536	5 096	493	513	589	619	89 846

Credit quality of financial assets neither past due nor impaired

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

15 Prepayments, deferred charges and accrued income

	Year ended 31 December	
	2008	2007
Unbilled revenue from electricity supply	10 255	9 661
Accrued interest income	-	1 022
Prepayments for services	658	284
Other prepayments and deferred charges	485	357
	11 398	11 324
Allowance for prepayments	(87)	(40)
	11 311	**11 284**

16 Cash and cash equivalents

	Year ended 31 December	
	2008	2007
Cash at bank and on hand	4 111	3 422
Short-term bank deposits	2 121	34 519
Bonds	-	168 499
	6 232	**206 440**

As of 31 December 2008 and 2007, cash and cash equivalents include LTL 12 674 thousand allowance for cash in banks under liquidation.

In 2008 the effective interest rate for the short-term deposit is 2.28 %. In 2007 the effective interest rate for the short-term deposit was 4.068 %, and maturity was up to 3 days.

As of 31 December 2007 the Company had bonds issued by Danske Bank A/S Lithuania Branch with the maturity of 62 and 20 days and the effective interest rate of 6.3 % and 5.7 %.

The fair value of cash, short term deposits and bonds as of 31 December 2008 amounts to LTL 6 232 thousand (LTL 206 440 thousand as of 31 December 2007).

(all amounts are in LTL '000 unless otherwise stated)

17 Share capital

As of 31 December 2008 and 2007, the Company's share capital amounted to LTL 111 540 thousand. As of 31 December 2008 and 2007, the share capital is divided into 3 717 998 ordinary registered shares of LTL 30 par value each. All shares are fully paid. The Company did not hold any of its shares.

18 Borrowings

	Year ended 31 December	
	2008	2007
Non-current borrowings		
Bank loans	488 937	297 696
Financial lease liabilities	-	-
Other long term payables	-	1 233
	488 937	298 929
Current borrowings		
Current portion of non-current bank loans	105 869	80 003
Financial lease liabilities	-	119
Current portion of other long term payables	-	267
	105 869	80 389
Total borrowings	594 806	379 318

In 2008 the Company refinanced the LTL 343 171 thousand outstanding balance of the syndicated loan signed on 19 January 2007. The Company signed these new loan agreements:
with AB Bankas Hansabankas for the amount of LTL 116 678 thousand, maturity of the loan - 30 November 2011;
with Nordea Bank Finland Plc for the amount of LTL 109 816 thousand, maturity of the loan - 30 November 2011;
with AB SEB Bankas for the amount of LTL 116 677 thousand, maturity of the loan - 30 November 2011;
with AB Bankas Hansabankas for the amount of LTL 103 584 thousand, maturity of the loan - 27 March 2011 (the loan was repaid in 2008);
with Nordea Bank Finland Plc for the amount of LTL 207 168 thousand, maturity of the loan - 31 March 2013;
with Danske Bank A/S for the amount of LTL 120 000 thousand, maturity of the loan - 1 April 2013;

These loans are denominated in EUR.

The Company also accounts for overdraft from AB Bankas Hansabankas and AB SEB Bankas. The overdraft from AB SEB Bankas amounts to LTL 2 942 thousand as of 31 December 2008, and has to be repaid until 1 June 2009. The interest rate of the overdraft varies depending on VILIBOR interest rate fluctuation plus 0.55 % margin. The overdraft from AB Bankas Hansabankas amounts to LTL 58 thousand as of 31 December 2008, and has to be repaid until 1 June 2009. The interest rate of the overdraft varies depending on O/N VILIBOR interest rate fluctuation plus 0.55 % margin.

In 2008 the Company did not fulfil its obligations concerning cash flows through bank accounts, but it received confirmations from banks that they will not require loan repayment in advance. Therefore the loans were not reclassified to current.

Actual interest rates are close to effective interest rates. As of 31 December 2008 the weighted average interest rate on long term borrowings (except for financial lease) was 5.66 % (as of 31 December 2007 – 5.066 %). All financial liabilities are subject to variable interest rates. As of 31 December 2008 and 2007 the interest rate refixing periods on financial liabilities varied from 3 to 6 months.

The maturity of non-current borrowings (except for financial lease liabilities) was as follows:

	Year ended 31 December	
	2008	2007
Within one year	105 869	80 270
Within 2 to 5 years	488 937	298 762
After 5 years	-	167
	594 806	379 199

Financial lease liabilities – minimum lease payments:

	Year ended 31 December	
	2008	2007
Within one year	-	121
Within 2 to 5 years	-	-
	-	121
Future interest expenses of financial lease	-	(2)
Current value of financial lease liabilities	-	119

There were no assets pledged as a collateral for financial liabilities.

(all amounts are in LTL '000 unless otherwise stated)

19 Grants and subsidies

Grants and subsidies relate to financing received from the EU structural funds and property, plant and equipment received by the Company for no consideration.

	Year ended 31 December 2008	2007
Financing from European Union funds	18 450	16 630
Property, plant and equipment received at no consideration (less accumulated depreciation)	8 248	8 613
	26 698	25 243

Financing from the European Union structural funds represents support received under the contract signed on 8 July 2005 for the implementation of infrastructure modernization of the Company. According to this project the Company received LTL 2 991 thousand during the year 2008 (LTL 15 992 thousand in 2007).

Amortisation of grants and subsidies, related to property, plant and equipment received at no consideration and financing from European Union funds, amounting to LTL 1 537 thousand in 2008 (LTL 758 thousand in 2007) decreased the depreciation expenses of property, plant and equipment in the income statement.

20 Employee benefit liability

The amount presents pension liability according to Lithuanian legislation.

21 Deferred income

Deferred income relates to contributions received from new customers for the assets installed.

Information about the connection income is presented below:

	Year ended 31 December 2008	2007
Opening balance	137 405	100 899
New customers fees received during the year	58 120	41 257
Recognised as income in the income statement	(6 624)	(4 751)
Closing balance	188 901	137 405
Current portion of new customer connection income (Note 24)	(8 157)	(5 542)
	180 744	131 863

22 Deferred tax liability, net

The change in the deferred income tax accounts is as follows:

	Year ended 31 December 2008	2007
Components of income tax expenses (benefit):		
Current year income tax expenses	39 373	48 068
Adjustments of income tax for the previous years	(290)	(7 045)
Deferred income tax (benefit)	(22 284)	(33 411)
Income tax expenses (income) charged to the income statement	16 799	7 612

	Year ended 31 December 2008	2007
Components of deferred income tax asset:		
New customers connection income	12 267	9 528
Accrued expenses	190	162
Deferred income	806	-
Impairment of assets (inventories and trade accounts receivable)	5 087	5 456
Deferred income tax asset before valuation allowance	18 350	15 146
Less: valuation allowance	(244)	(558)
Deferred income tax asset, net	18 106	14 588
Components of deferred income tax liability:		
Property, plant and equipment revaluation and changes in depreciation periods	(400 402)	(292 926)
Investment incentive	(17 642)	(14 876)
Deferred income tax liability	(418 044)	(307 802)
Deferred income tax, net	**(399 938)**	**(293 214)**

(all amounts are in LTL '000 unless otherwise stated)

22 Deferred tax liability, net (cont'd)

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. In 2008 valuation allowance was made for the part of the deferred tax asset components – trade receivable impairment, which according to the management will not be tax deductable in the future. Deferred income tax asset and deferred income tax liability are set off in the balance sheet of the Company, as they both are related to the same tax authority.

While assessing deferred income tax asset and liability components for the year ended 31 December 2008 the Company has used the income tax rate of 20 % for those items, which will be realised in 2009 and later. Increase of deferred tax asset liability due to increase in income tax rate amounted to LTL 88 903 thousand and was accounted for in the equity.

Deferred income tax related to items charged or credited directly to equity

	Year ended 31 December	
	2008	2007
Change in estimation of deferred tax due to the change in tax rate	(88 903)	681
Deferred tax on assets revaluation	(40 103)	(121 013)
	(129 006)	(120 332)

The reported amount of income tax expenses attributable to operations for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 15 % for 2008 and 18 % for 2007 to pretax income from continuing operations as follows:

	Year ended 31 December	
	2008	2007
Income tax calculated at 15 % (2007 – 18 %)	4 271	13 474
Permanent differences	1 534	6 856
Prior year income tax corrections	(290)	(7 045)
Changes in valuation allowance	(314)	(3 727)
Effects of changes in income tax rate	11 598	(1 946)
Income tax (benefit) expenses charged to the income statement	16 799	7 612

23 Trade, other financial liabilities and other payables

	Year ended 31 December	
	2008	2007
Trade payables	77 032	60 996
Dividends payable	7 888	6 617
Other	30	30
Trade and other financial liabilities	84 950	67 643
Wages, salaries and social security payable	478	1 266
Taxes other than income tax	4 969	6 163
Other payables	5 447	7 429
	90 397	75 072

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15 - 60 day terms. The same terms apply for sales to related parties.
- Other payables are non-interest bearing and have an average term of 1 - 2 months.

24 Advances received, accrued charges and deferred income

		Year ended 31 December	
		2008	2007
Accrued charges	(a)	21 121	22 940
Advances for new connections		19 637	24 746
Current portion of new customer connection income (Note 21)		8 157	5 542
Deferred income – advances received for the electricity	(b)	5 230	875
Other advances		2 789	1 231
		56 934	55 334

(a) An accrued charges caption mainly contains accrued payroll-related liabilities to employees (vacation and bonus accruals) and related social security taxes that amounted to LTL 7 281 thousand and LTL 4 859 thousand as of 31 December 2008 and 2007, respectively. Moreover accrued payment to Ignalina Nuclear Power Plant amounting to LTL 8 737 thousand is accounted for in 2008 (LTL 12 232 thousand in 2007) for the electricity purchased in the respective year.

(b) The Company has deferred the estimated overdeclaration of electricity that took place in 2008 due to the fact that the electricity prices were increased from 1 January 2009. The overdeclared amount was accounted for as advances for electricity received.

(all amounts are in LTL '000 unless otherwise stated)

25 Financial risk management

Credit risk

The Company does not face a significant credit concentration risk. Credit risk or the risk that the transaction party will not be able to recover amount receivable, is controlled by the application of credit terms and monitoring procedures.

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

Due to the specific activity of the Company there is no requirement for collateral.

Maximum exposure to credit risk amounts to LTL 101 302 thousand and LTL 296 286 thousand as of 31 December 2008 and 2007, respectively.

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets.

The major part of the Company's borrowings is with variable rates, related to EURIBOR and LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2008 and 2007.

The following table demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Company's equity, other than current year profit impact.

	Increase/ decrease in percentage points	Effect on profit before tax
2008		
LTL	+ 0,5	(15)
LTL	- 2,0	60
EUR	+ 0,5	(2 959)
EUR	- 2,5	14 794
2007		
LTL	+ 0.5	(7)
LTL	- 2.0	30
EUR	+ 0.5	(1 889)
EUR	-1.0	3 778

Foreign exchange risk

All monetary assets and liabilities of the Company are denominated in litas or euro, and the exchange rate of the latter is fixed in respect to litas; therefore, the Company practically is not exposed to the foreign exchange rate risk.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2008 were 0.49 and 0.44, respectively (1.48 and 1.44 as of 31 December 2007, respectively).

Current liabilities of the Company exceed its current assets, because the Company started to apply longer period of repayment for transactions with suppliers and contractors. However according to the management of the Company and analysis of future cash flows the Company does not face shortage of cash flow operations. Moreover, the Company has unused overdraft funds as of 31 December 2008 and is able to use them when needed.

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2008 and 2007 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	16 440	82 310	323 010	182	421 942
Trade and other financial liabilities	-	89 887	-	-	-	89 887
Balance as of 31 December 2007	-	106 327	82 310	323 010	182	511 829
Interest bearing loans and borrowings	-	49 021	142 850	466 745	-	658 616
Trade and other financial liabilities	-	84 951	-	-	-	84 951
Balance as of 31 December 2008	-	133 972	142 850	466 745	-	743 567

25 Financial risk management (cont'd)

Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

The carrying amount of the financial assets and financial liabilities of the Company as of 31 December 2008 and 2007 approximates their fair value.

The fair value of loans, other financial liabilities and other financial assets have been calculated using market interest rates.

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

a) The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value due to their relatively short maturity.

b) The fair value of non-current debt is based on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

Capital management

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2008 and 31 December 2007.

The Company is obliged to keep its equity up to 50 % of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

Moreover the Company has externally imposed capital requirements from the banks. They require that equity/assets ratio is not less than 30 %. The management monitors that the Company is in line with the requirement. No other capital management tools are used.

26 Commitments and contingencies

Capital commitments

As at 31 December 2008, capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 32 442 thousand (LTL 18 203 thousand as of 31 December 2007).

Buyout of electricity facilities jointly used by owners and the Company

According to Lithuanian legislation, the Company is entitled to buy out from natural and legal persons electricity distribution installations jointly used by them and the Company. The deadline for final settlement with the owners of these electricity distribution installations is 31 December 2010.

As of 31 December 2008, the Company received 232 applications from installation owners to buy out electricity distribution installations. The amounts to be paid are still being calculated by the Company.

27 Cash generated from operations

When calculating cash flows from operations, the following main non-cash transactions were eliminated:

In 2008

Income tax was set-off with VAT prepayment, reducing the income tax payable by LTL 8 000 thousand.

In 2007

Disposed non-current assets to AB Lietuvos Energija amounted to LTL 5 098 for repayment of the payable liability.

(all amounts are in LTL '000 unless otherwise stated)

29 Related party transactions

Transactions with Company's management

In 2008 total remuneration of the Company's management (5 managers) amounted to LTL 1 660 thousand (in 2007 – LTL 2 337 thousand to 5 managers). The management of the Company did not receive any loans, guarantees no other payments or property transfers were made or accrued.

Transactions with other related parties

Till 27 May 2008 other related parties were the entities controlled by shareholders of UAB NDX Energija.

Transactions with other related parties as of 27 May 2008 are presented below:

(I) Sales of services (excl. VAT):

	January - May 2008	2007
Maxima LT, UAB	6 830	13 789
Akropolis, UAB	5 140	9 319
UAB Eurovaistinė	61	130
UAB NDX Energija	28	142
UAB Tikras Kelias	118	162
	12 177	23 542

(II) Purchase of goods and services (excl. VAT):

	January - May 2008	2007
UAB NDX energija – consultation services	40	137
Maxima LT, UAB – gift vouchers and food products	2	34
UADBB CITO draudimas – insurance services	-	1
	42	171

After 27 May 2008 other related parties are the entities controlled by shareholders of LEO LT, AB and institutions controlled by the Ministry of Economy of the Republic of Lithuania. Transactions with other related parties after 27 May 2008 are presented below:

(I) Sales of services (excl. VAT):

	June - December 2008
AB Lietuvos Energija	5 199
UAB Kauno Energetikos Remontas	143
State Non-food Products Inspectorate under the Ministry of Economy	15
Kaunas Territorial Statistics Board	4
Klaipėda Territorial Statistics Board	2
AB Kauno Hidroelektrinė	2
	5 365

(II) Purchase of goods and services (excl. VAT):

	June - December 2008
AB Lietuvos Energija - electricity	322 081
Ignalina Nuclear Power Plant - electricity	81 085
LEO LT, AB - consulting services	580
UAB Elektros Tinklo Paslaugos - works	170
Kaunas Territorial Statistics Board - services	220
Klaipėda Territorial Statistics Board - services	191
UAB Kauno Energetikos Remontas - works	46
Public Institution Centre of Training for Energy Specialists - services	12
UAB Elektros Pajėgos - works	1
Šiauliai Territorial Statistics Board - services	1
	404 387

(all amounts are in LTL '000 unless otherwise stated)

28 Related party transactions (cont'd)

(III) Payables and advances received:

	Year ended 31 December 2008
AB Lietuvos Energija	46 326
LEO LT, AB	684
UAB Elektros Tinklo Paslaugos	29
	47 039

(IV) Receivables:

	Year ended 31 December 2008
Ignalina Nuclear Power Plant	5 474
AB Lietuvos Energija	1 736
UAB Kauno Energetikos Remontas	24
UAB Gotlitas	3
	7 237

All related party transactions are made at arms length terms.

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2008 and 2007, the Company has not made any provision for doubtful debts relating to amounts owned by related parties as all the assets are not overdue. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

29 Subsequent events

No important subsequent events occurred after the date of the balance sheet.

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