

# VST

KAD GYVENTI BŪTŲ ŠVIESIAU



VST, AB  
ANNUAL PROSPECTUS – REPORT OF THE YEAR 2008



## BUSINESS PHILOSOPHY

### OUR MISSION

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

### OUR VISION OF 2010

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

### OUR VALUES

#### PROFESSIONALITY AND RESPONSIBILITY:

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

#### QUALITY:

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

#### TEAM WORK:

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

#### INITIATIVE:

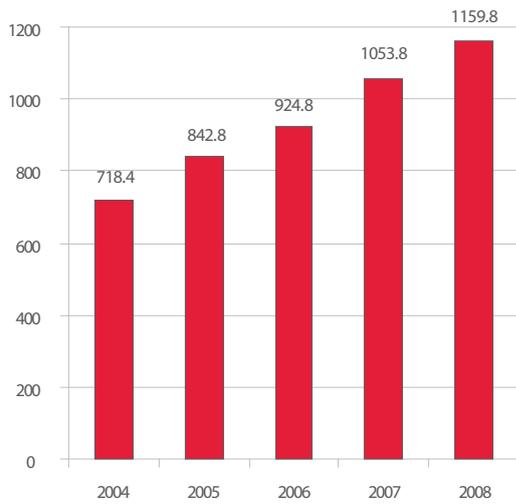
We are ready for new challenges, active and look for problem solution ways. We encourage creativity and always implement the best ideas.

#### EFFICIENCY:

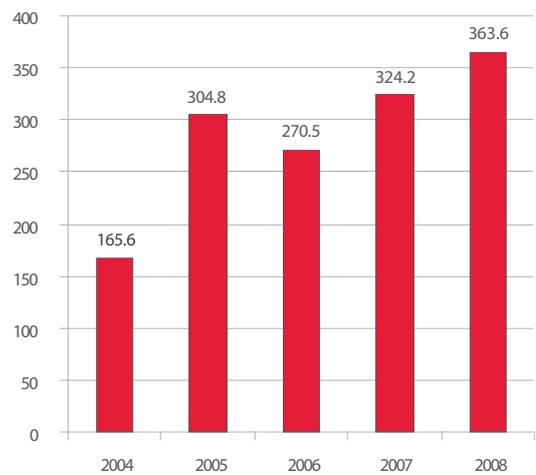
We seek for the efficiency of the operation individually and all together. Directed orientation toward the result lets us reach the set goals. Work of every one of us is important and it adds to the value to the company's operation. The stability and reliability of the company as well as open and clear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

THESE ARE THE MAIN CRITERIA WE TAKE GUIDANCE FROM IN ORDER TO BECOME A LEADING COMPANY

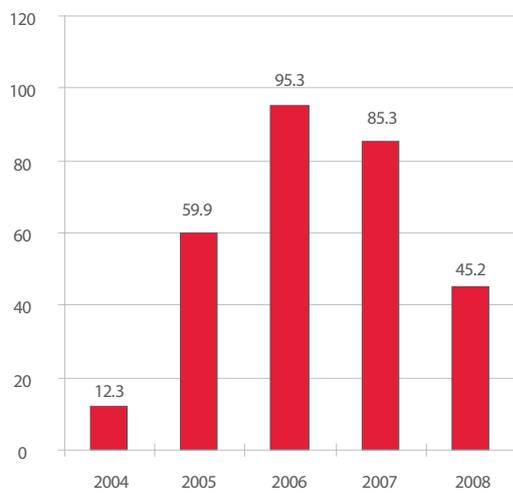
Net sales, LTL million



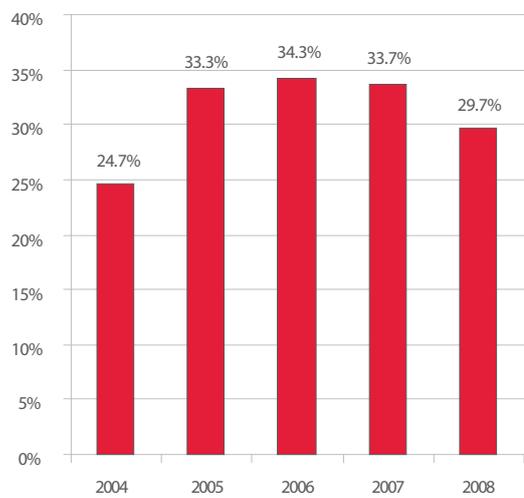
Net cash flows from operating activities, LTL million



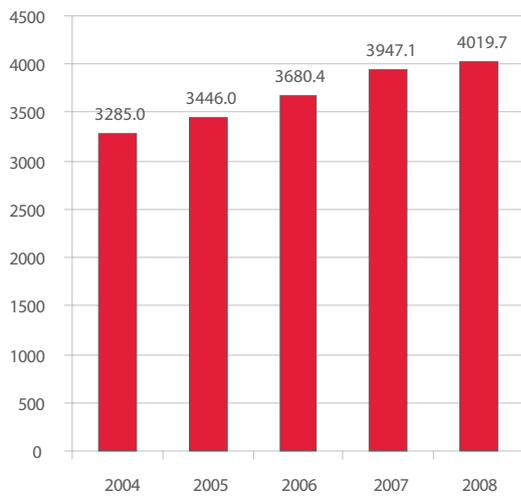
Operating profit, LTL million



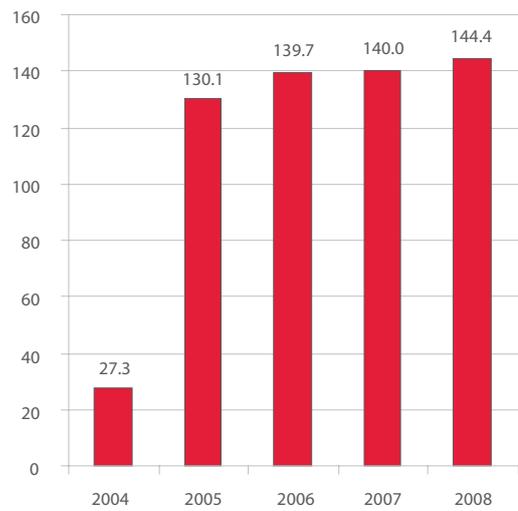
EBITDA, percent by turnover



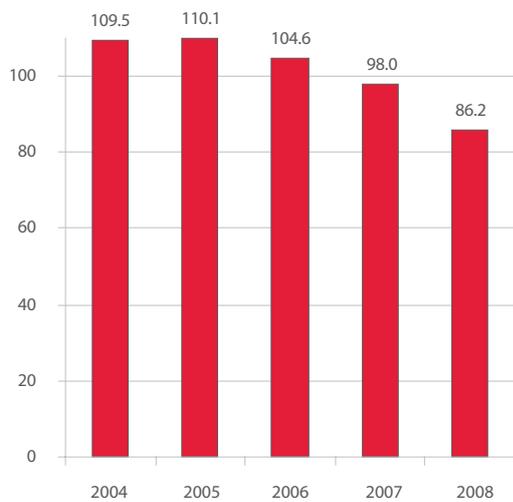
Sales, kWh million



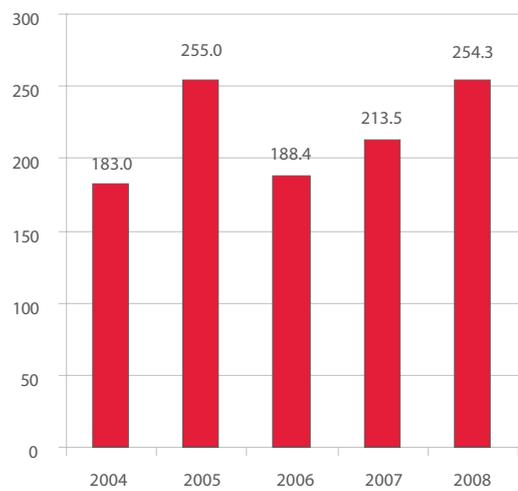
Investments, LTL million

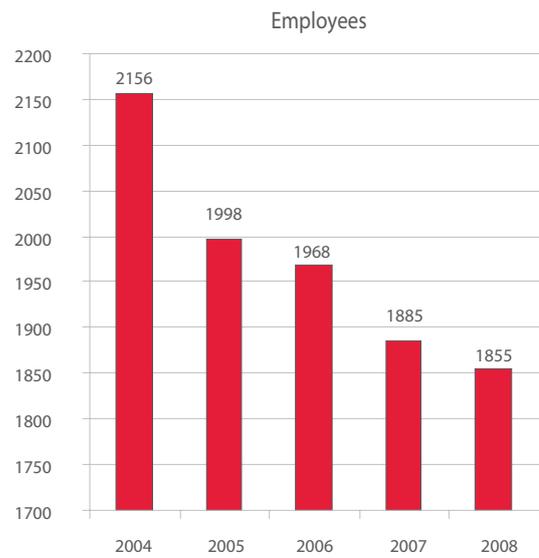
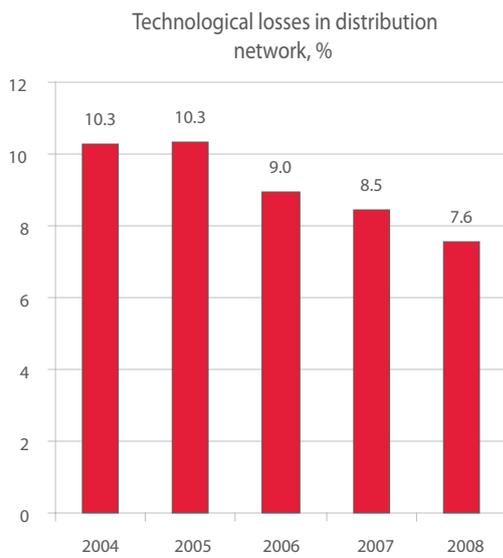


SAIDI (company responsibility and identified reasons)



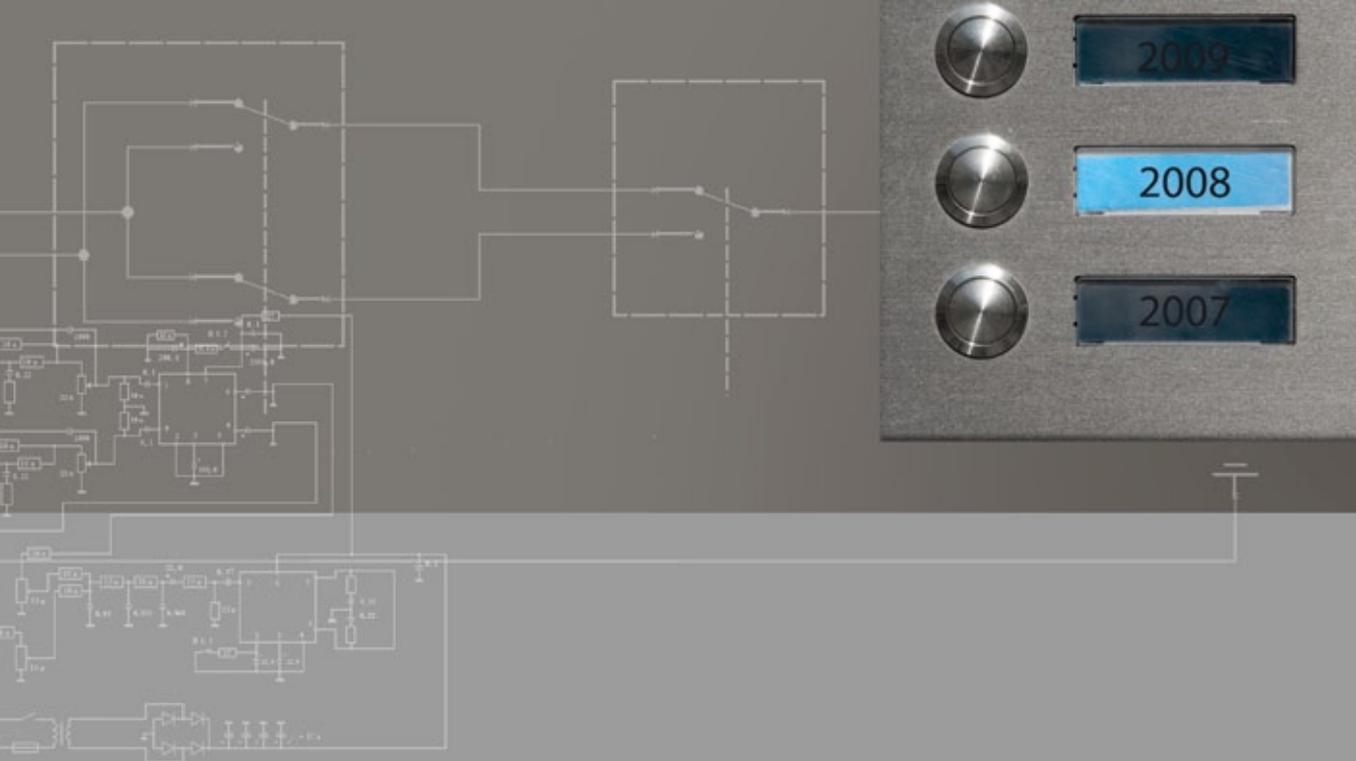
Current liabilities, LTL million





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## LETTER TO SHAREHOLDERS





## LETTER TO SHAREHOLDERS

**Dear Shareholders of VST AB,**

Over the five years of its activities, VST AB has been firmly and consistently seeking its ambitious goals. The progress has been particularly significant in 2008 including increased awareness of the company, customer satisfaction with the services provided by the company, speeded up issuance of technical specifications, and cutting of costs of electricity for internal needs. The name of the company is linked with the features of a company that invests constantly, is modern, reliable, stable and results-oriented, and provides charity and support. Surveys have shown that VST is perceived as the best company providing regulated services.

It should be noted that the achievements of the company must be evaluated as a result of teamwork. The objectives would not have been attained without the employees' contribution, without their dedicated work throughout the year.

The strategic objectives of the company remain the same in 2009. The company will continue investing in its electrical facilities, seek to improve the service

quality, fight thefts of transformer oil and wires, reduce costs of electricity for internal needs, and improve the existing services and technologies as well as implement new ones.

**Technical specifications issued on time**

I can state with pleasure that as much as 99% of technical specifications are issued on time, i. e. within 10 working days. This indicator has improved by 7% compared to 2007. With this strategic aim – to improve the technical specifications' issuance indicator – in view, seminars on connecting new customers were organised and audits of the process of connecting new customers were conducted at the company's branches in 2008. It is obvious that appropriate measures have been employed in this work and now we can enjoy its results. It is important to maintain such performance levels this year and in the coming years.

**Considerable electricity cost cutting for internal needs**

For several years already, the efficiency-oriented company has been reducing electricity costs and the expenditure for electricity for internal needs. Last year the annual electric power costs were cut by 0.42 percentage points. This has been achieved by systematic checks of electricity meters – the actual rate of checks was higher than the target rate. Old meters were replaced with new ones. Last year, the number of meters replaced has increased by 25% compared with 2007. With this aim in view, analyses of electricity consumption were made, obsolete current metering equipment was replaced, and since the metering equipment is installed externally, a number of cases of illegal use of electricity were revealed. Maintenance work on medium-voltage transformers was carried out as well as the shortening of electric lines and the laying of underground and overhead cables.

**Theft prevention: an important task**

Thieves can inflict great damage to society, the environment, and any enterprise. 173 thefts were committed in the territory served by VST in 2008. More than 3 tons of aluminium wires and approx. 26 tons of transformer oil were stolen; 41 transformers were damaged. Power supply was disrupted to over 1,000 customers due to thefts. Thus theft prevention is a very important area of the company's

operations. The economic situation and market trends have direct influence over the number of thefts and explain the situation – the number of thefts of transformer oil increases considerably along with the rise in fuel prices, and this was the case also in 2008. Different methods are employed to fight thefts: the company cooperates with the police, there is a free hotline, etc. The criminal situation in the country can worsen in 2009 with the forecast of a deepening recession, therefore, the company faces new challenges in this field of activity this year.

#### **Our goal: to improve the reliability of supply**

Ensuring the reliable supply of electric power to customers is the priority and the main task of VST AB. The company seeks to minimise the values of key reliability indicators – the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI).

For this purpose, an analysis of equipment failures was made in 2008, which enabled the company to identify the equipment classes characterised by the highest failure rate. Accordingly, more investments were earmarked for such equipment. VST's branches were involved in this work – they made analyses of the equipment operated by them, identifying the lines and 10/0.4 kV transformer stations in which failures are repeatedly recorded. This process was followed by inspections and the elimination of the defects. Quarterly discussions of results with the heads of branches were organised, focussing on the failures and corrective measures taken. Monitoring of the power supply recovery times enabled to identify long-lasting disruptions; explanations were demanded from responsible branches. These measures had a positive effect on the improvement of the quality of the electricity supply to customers.

#### **Visibility of the company and customer satisfaction are increasing**

The visibility of VST has increased in 2008, achieving 93% among residents and 99% among companies. The absolute majority of companies both know the company and define its profile correctly. The results of the survey show that VST is ahead of many other service providers by a number of features.

New methods of payment have been introduced and renovation of customer service centres was carried

out in order to increase customer satisfaction with VST's services. In 2008, two centres were opened upon renovation (Prienai and Mažeikiai). The customers are constantly informed about the company's activities and services in the national and regional periodicals as well as in the company's website. A "secret customer" test was carried out in order to find out how the customers visiting VST's customer service centres or calling the company are served; this helped identify problematic areas and implement improvements.

The company as a socially responsible organisation allots support to children's care homes, sponsors festivities organised by municipalities, seeks to protect the environment, organises a campaign for children "Electricity as a Friend but Not a Playmate" (with 26 schools in Western Lithuania covered by the campaign in 2008), organises a social campaign for the company's employees, which involves also their family members and which seeks to contribute to social welfare by common efforts. Last autumn's campaign "To Live a Brighter Life" was very popular among the employees – each VST division contributed to the life of its community in one way or another.

The works accomplished in 2008 enabled the company to attain the set aim: the customers named VST as the best company providing regulated services.

We are going to achieve still higher efficiency of our operations next year, expecting to exceed both our own expectations and expectations of the society.

Yours Sincerely,

Aidas Ignatavičius  
Chief Executive Officer



## GENERAL PROVISIONS



## GENERAL PROVISIONS

### ACCOUNTING PERIOD

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:

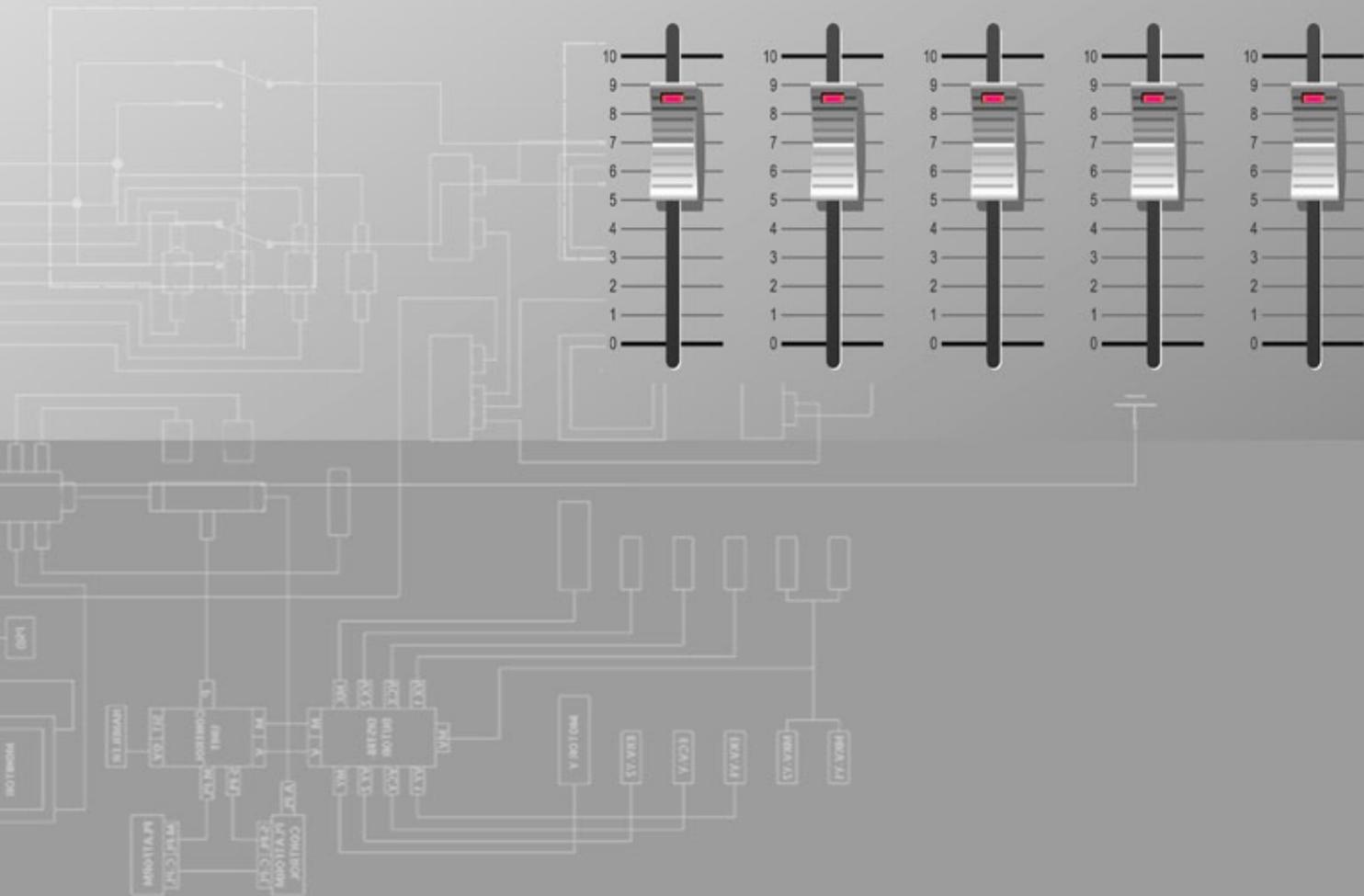
Name of the Company:	VST, AB
Address of its headquarters:	J. Jasinskio str. 16 C, LT-01112, Vilnius
Telephone number:	(8~5) 278 12 59
Fax number:	(8~5) 278 12 69
E-mail address:	www.vst.lt
Website:	vst@vst.lt
Share capital:	111 539 940 LTL
Legal-organization form:	Joint stock Company
Registration in the Register of Enterprises:	
- Place of registration:	Ministry of Economy
- Date of registration:	31 December 2001
- Code in the Registry of Enterprises:	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.

### VST, AB IN ITS OPERATION FOLLOWS THE LISTED LEGAL ACTS:

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



## INFORMATION ON THE MANAGING BODIES OF THE ISSUER

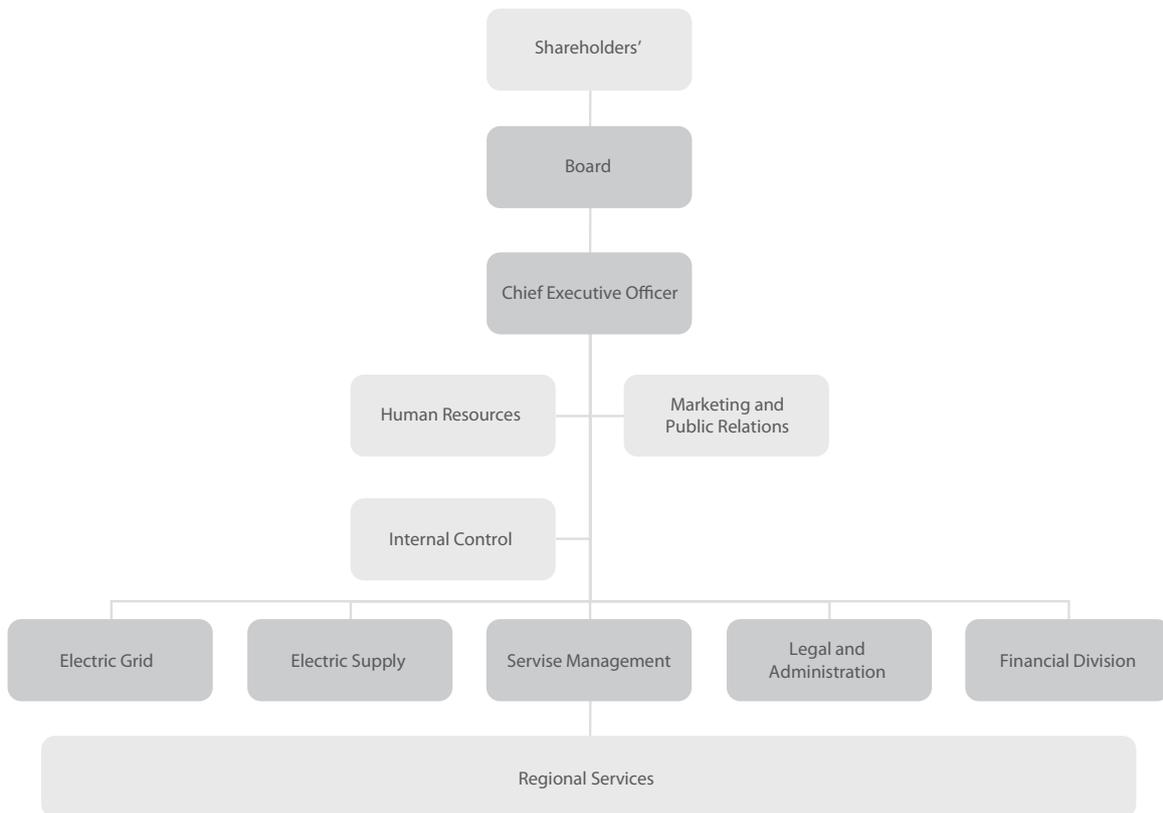


INFORMATION ON THE MANAGING BODIES OF THE ISSUER

MEMBERS OF THE MANAGING BODIES

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

VST, AB Managements bodies



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

VST, AB The Board (from July 9, 2008 to reporting period)



**AIDAS IGNATAVIČIUS**

**Position**

Chairman of the Board, Chief Executive Officer.

**Works within the company**

From the 22nd of November, 2004.

**Background**

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

**Career**

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



**LINA MINDERIENĖ**

**Position**

Member of the Board, Chief Financial Officer.

**Works within the company**

From 15th of February, 2005.

**Background**

University education. Vilnius University, Faculty of Economic. Economist.

**Career**

Previous position - AB Bank "Hansabankas", Financial adviser.



**RYTIS BORKYS**

**Position**

Member of the Board, Director Electric Grid Division.

**Works within the company**

From the 17th of November, 1993.

**Background**

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

**Career**

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



**GYTIS KUNDROTAS**

**Position**

Member of the Board, Director Legal and Administration Division.

**Works within the company**

From the 15th of March, 2004.

**Background**

Vilnius University, Faculty of Law. Holds Master's degrees.

**Career**

Previous position - AB "Hansabankas", Legal department's legist.

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	-	-

#### 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	-	-	-

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

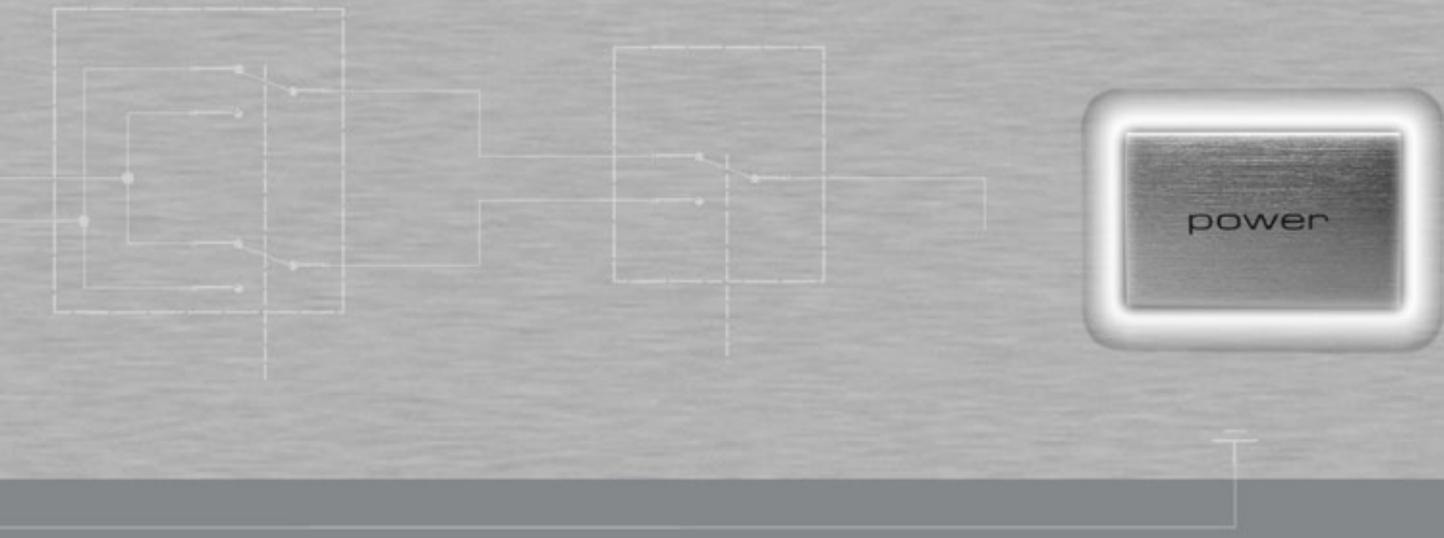
Chief Accountant, Accounting Department Manager (in the period 29/10/2007 to the day of the Report) – Rimantas Bartuška:

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"	Accountant	None
	2001-2002 AB "Lietuvos Energija"	Economist	
	2002-2004 AB "Vakaru Skirstomieji Tinklai"	Managing accountant	
	2004-2005 AB "VST"	Chief accountant at interim	
	2005-2007 AB "VST"	Deputy chief accountant	

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

2008 m.	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	-	-	-

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



INFORMATION ABOUT THE  
SHARE CAPITAL OF THE ISSUER  
AND THE ISSUED SECURITIES



INFORMATION ABOUT THE SHARE CAPITAL OF THE ISSUER AND THE ISSUED SECURITIES

Share capital registered in the Register of companies

405 261 782 LTL	(registration date: December 31, 2001)
3 717 998 LTL	(registration date: December 2, 2004)
111 539 940 LTL	(registration date: April 26, 2005)

After 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	100.00
Total:	3 717 998	–	111 539 940	100.00

All shares of the company are fully paid.

Total number of the 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 30173224848	3 651 524	3 651 524	98.2	98.2	–

Key characteristics of the publicly traded securities

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

After 02/12/2004 the share capital was divided into 3 717 998 ordinary shares with the par value of each 1 LTL.

After 26/04/2005 it was divided into 3 717 998 ordinary registered shares with the par value of each 30 LTL.

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

**Data on non-publicly traded shares**

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

**Data on depository notes issued on the basis of shares**

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

**The main characteristics of debt securities issued for public circulation of securities**

The company has not issued debt securities for public circulation.

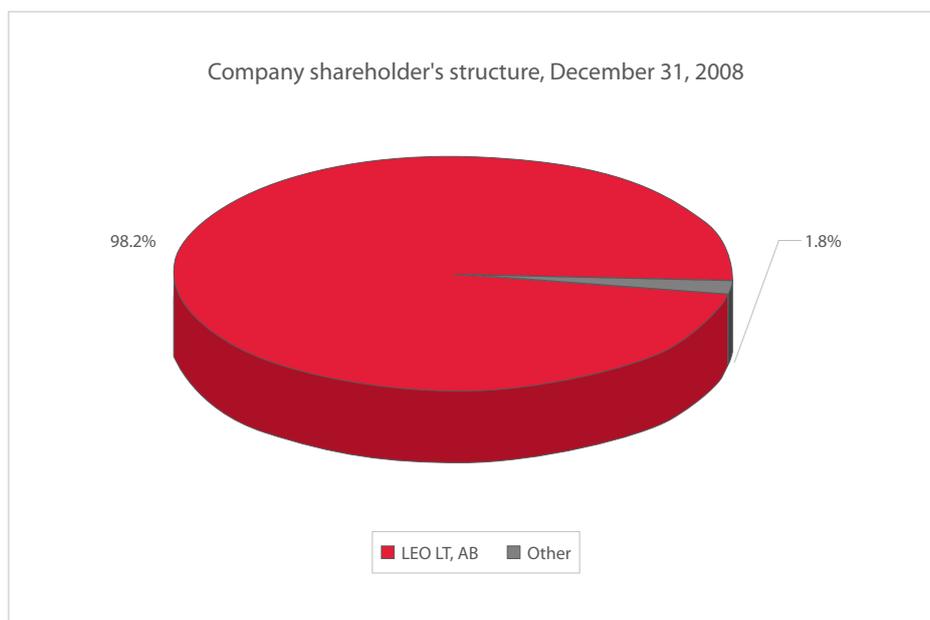
**Data on non-publicly traded debt securities**

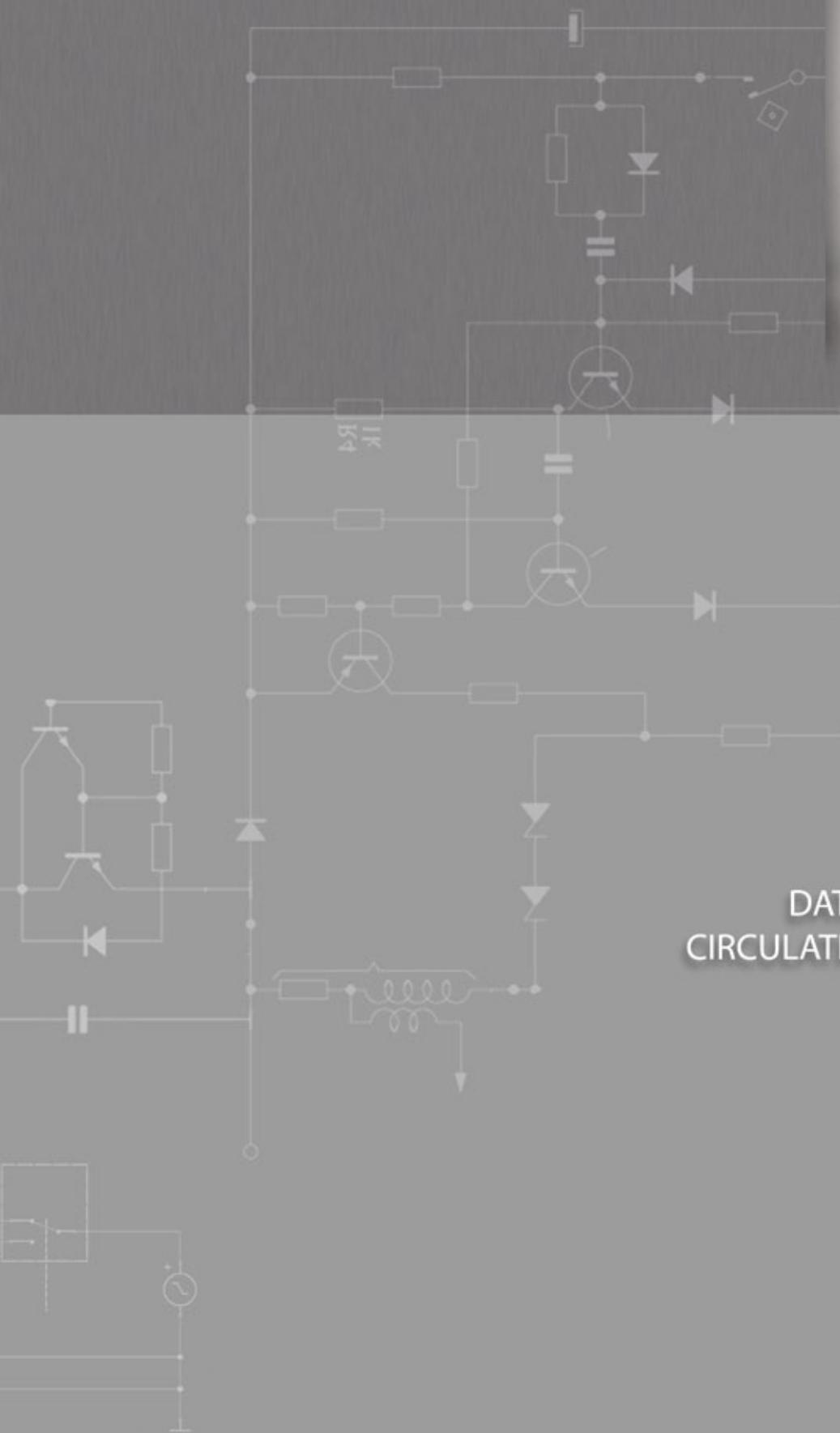
The company has not issued debt securities for non-public circulation.

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

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

**Company shareholder's structure are presented below**





DATA ON THE SECONDARY  
CIRCULATION OF THE SECURITIES  
ISSUED BY THE ISSUER



DATA ON THE SECONDARY CIRCULATION OF THE SECURITIES ISSUED BY THE ISSUER

**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 on the Baltic Secondary list of the NASDAQ OMX Baltic Stock Exchange (Trading code – VST1L; VP kode – 1237). VST AB’s shares are not traded in other stock exchanges.

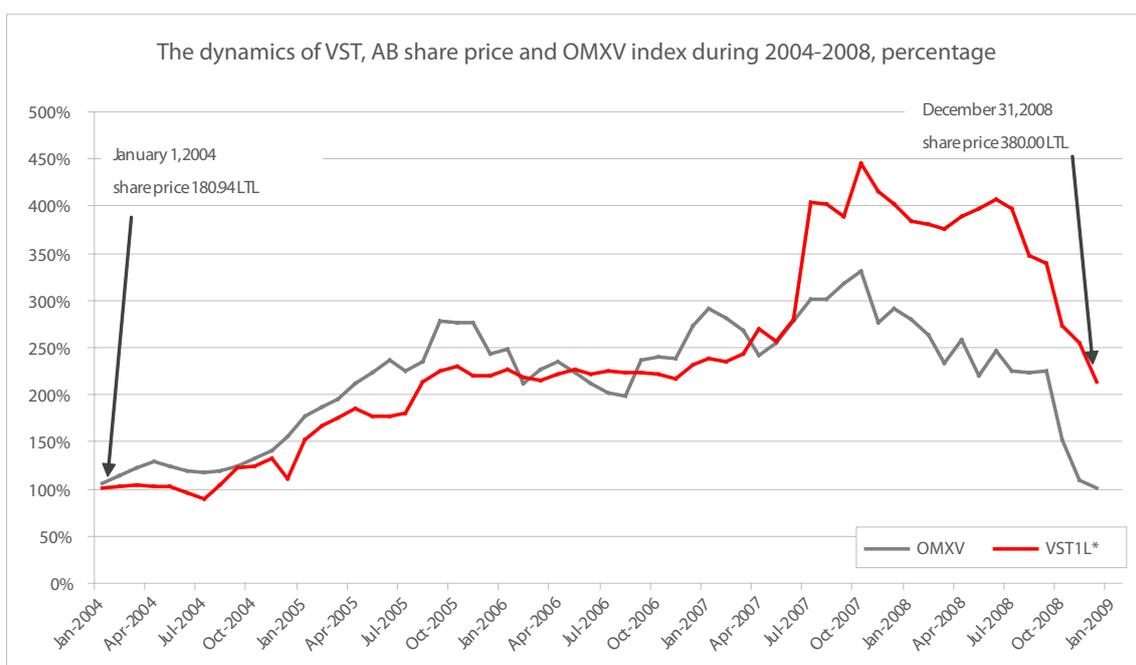
ISIN code	Sales list	Number of shares, pcs.	Par value of a share, LTL	Total par value, LTL
LT0000126377	BALTIC I-LIST	3 717 998	30	111 539 940

**Trading in Baltic Secondary list of NASDAQ OMX Vilnius**

Shares of VST, AB are listed on the Baltic Secondary list of the NASDAQ OMX Baltic Stock Exchange (Trading code – VST1L). In 2004–2008, the lowest share price was 156.00 LTL, the highest 840.00 LTL.

The average price per VST share in 2008 (arithmetic average of closing price) is 630.00 LTL. In 2007, the lowest share price was 370.00 LTL, the highest 810.00 LTL.

Below the dynamics of the value of the company’s shares and the OMXV <sup>1</sup> index in 2004–2008 are presented (%). The share value has more than doubled during this period.



\* The VST share price as shown in the graph has been adjusted to reflect changes in the authorised capital.

<sup>1</sup> OMXV index is an all-share index which includes all the shares listed on the Main and Secondary lists on the NASDAQ OMX Vilnius with exception of the shares of the companies where a single shareholder controls at least 90% of the outstanding shares. The aim of the index is to reflect the current status and changes on the Vilnius market. The base date for the OMXV is December 31, 1999, with a base value of 100. The index is available as GI. The index values are disseminated in real time.

**Chart data**

Index/Equity	01/01/2004	31/12/2008	Changes, %	+/-
OMXV	174.48	179.25	2.73	↑
VST1L	180.94	380.00	110.01	↑

Source: [www.baltic.omxgroup.com](http://www.baltic.omxgroup.com)

**Sales of Issuer's securities outside the Stock Exchange**

Shares of VST, AB are sold in the Baltic Secondary list of the NASDAQ OMX Baltic Stock. The sales are only possible on the Central market and/or direct deals.

**Data on purchasing of own shares by the Issuer**

The company has not purchased its own shares.

**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.

**Announcement of official offers**

On 2 Juny, 2008 VST, AB has received the notification from LEO LT, AB regarding the intention to announce the compulsory non competitive offer to buy the shares.

On 12 Juny, 2008 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. During the compulsory non Competitive offer LEO LT, AB purchased 30 077 shares of VST, AB. On till 31 December, 2008 LEO LT, AB additionally purchased 11 288 shares of VST, AB. Neither has the VST, AB announced official offers to purchase securities of other Issuers.

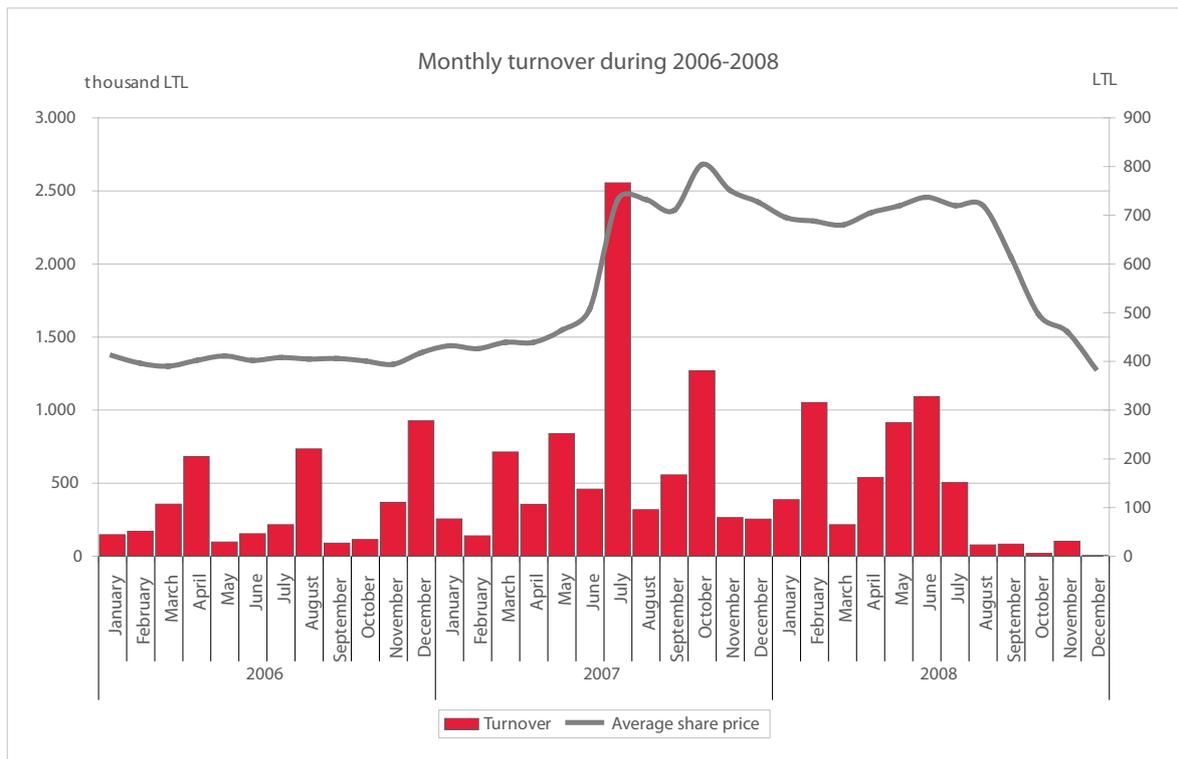
## DATA ON THE SECONDARY CIRCULATION OF THE SECURITIES ISSUED BY THE ISSUER

### Daily sales in NASDAQ OMX Baltic Stock during 2006–2008

Report period	Price (LTL)				Turnover (LTL)			Data of last session	Quarterly turnover	
	Average	Max	Min	Last session	Max	Min	Last session		Pcs.	LTL
2006 I Q	397	430	370	390	79 345	0	3 900	2006-03-31	1 689	675 085
2006 II Q	405	415	380	414	143 606	0	8 224	2006-06-30	2 308	933 388
2006 III Q	406	417	390	404	530 400	0	4 838	2006-09-29	2 585	1 040 556
2006 IV Q	405	440	385	440	558 614	0	22 700	2006-12-29	3 476	1 410 439
<b>2006</b>	<b>403</b>	<b>440</b>	<b>370</b>	<b>440</b>	<b>558 614</b>	<b>0</b>	<b>22 700</b>	<b>2006-12-29</b>	<b>10 058</b>	<b>4 059 468</b>
2007 I Q	431	499	400	498	162 051	0	0	2007-03-30	2 494	1 108 261
2007 II Q	490	625	450	620	560 685	0	123 033	2007-06-29	3 407	1 653 407
2007 III Q	719	825	599	710	736 456	0	23 430	2007-09-28	4 809	3 430 234
2007 IV Q	768	850	695	748	364 090	0	0	2007-12-28	2 274	1 786 061
<b>2007</b>	<b>606</b>	<b>850</b>	<b>400</b>	<b>748</b>	<b>736 456</b>	<b>0</b>	<b>0</b>	<b>2007-12-28</b>	<b>12 984</b>	<b>7 977 963</b>
2008 I Q	686	745	599	690	888 482	0	12 410	2008-03-31	2 342	1 653 691
2008 II Q	720	757	681	716	746 094	0	26 557	2008-06-30	3 480	2 544 000
2008 III Q	678	830	595	600	153 715	0	0	2008-09-30	926	664 841
2008 IV Q	459	590	370	380	45 600	0	0	2008-12-30	266	126 833
<b>2008</b>	<b>667</b>	<b>830</b>	<b>370</b>	<b>380</b>	<b>888 482</b>	<b>0</b>	<b>0</b>	<b>2008-12-30</b>	<b>7 014</b>	<b>4 989 365</b>

## DATA ON THE SECONDARY CIRCULATION OF THE SECURITIES ISSUED BY THE ISSUER

The monthly turnover of trading in VST shares in 2006-2008 is presented below:



Capitalisation of shares shows the value of the company at market prices; it is the product of the number of outstanding shares and the market price of the shares.

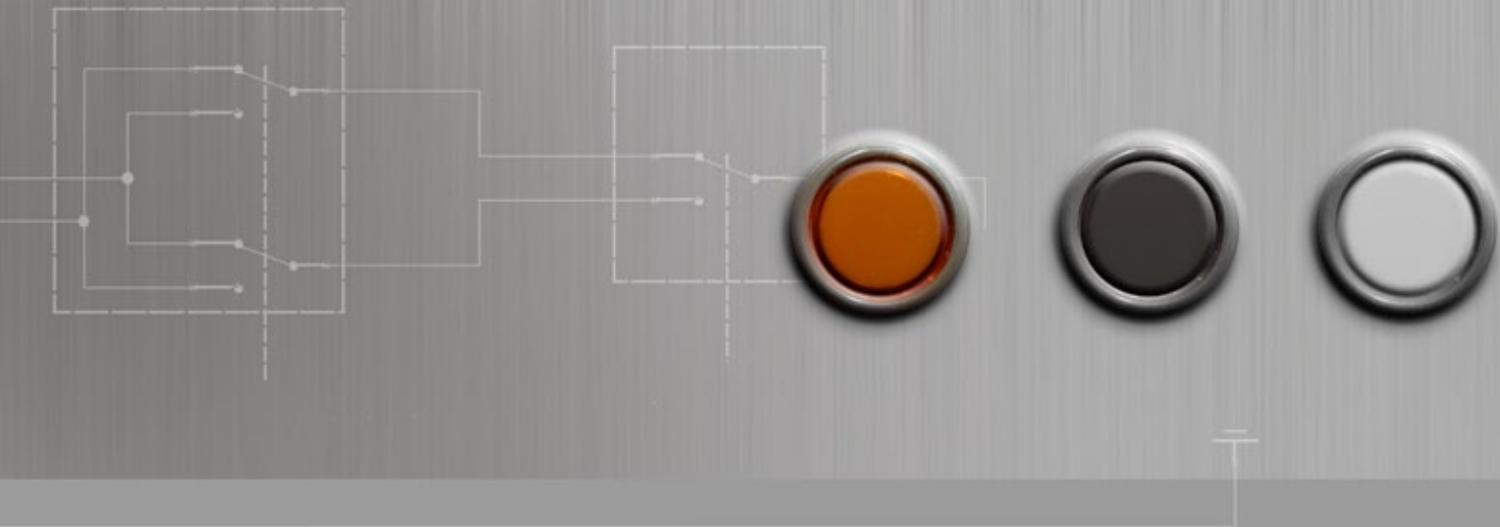
Reporting period	Capitalization, LTL million
2008 I Q	2 565.4
2008 II Q	2 662.1
2008 III Q	2 230.8
2008 IV Q	1 412.8
<b>2008</b>	<b>1 412.8</b>

### Contracts with the mediators of securities public circulation

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

„Swedbank“, AB data:

Savanorių av. 19, LT-03502 Vilnius  
 Phone (8 5) 268 44 44  
 Fax (8 5) 268 47 00



## DATA ON THE ACTIVITY OF THE ISSUER

VST, AB

VST AB'S DISTRIBUTION NETWORK

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## VST, AB

After 21 July 2007, when the Government of the Republic of Lithuania started negotiations with NDX Energija UAB for the establishment of a national investor, VST AB found itself in the centre of events significant for the Lithuanian state and society.

Upon the formation of the national investor - LEO LT, AB (the Lithuanian Electricity Organisation) on 20 May 2008, VST became its subsidiary. Core activities of VST – the distribution and supply of electric power – remained the same; the company preserved its structure and management and is pursuing its strategic aims. The company is a significant component of the national energy system with new opportunities and prospects.

LEO LT, AB as a holding company owns shares in its subsidiaries: major power transmission and distribution companies - Lietuvos Energija AB, VST AB and

Rytų Skirstomieji Tinklai AB; a company formed for the preparation of the project for the new nuclear power plant - Visagino Atominė Elektrinė UAB; and Interlinks UAB implementing the projects on inter-system power links that will connect Lithuania's energy system with the energy systems of other countries. Through its subsidiaries, LEO LT, AB controls the main part of the electrical energy system of the Republic of Lithuania – the electricity transmission and distribution grids.

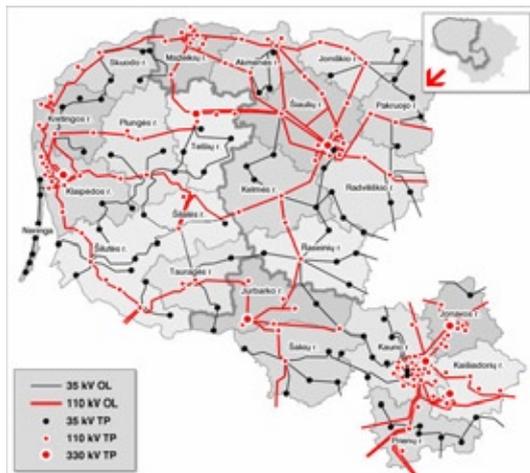
At a general shareholders' meeting of VST, AB on 8 July 2008, the new subsidiary's Board of Directors was chosen and confirmed. Members of the previous Board were appointed to the new Board, with a mandate to continue overseeing their responsibilities: Electricity Network Services to be managed by Rytis 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.



## VST AB'S DISTRIBUTION NETWORK

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

Schematic diagram of the distribution networks controlled by VST AB



The company distributes and supplies electric power to nearly 700 thousand customers in western Lithuania. It owns over 16 thousand transformer substations and 57 000 km of overhead and cable lines and is responsible for the safe operation, control and maintenance of these assets.

Name	Units	Quantity
110 kV transformers substation	pcs.	104
35 kV transformers substation	pcs.	90
35 kV airlines	kilometre	1 682
6-10 kV transformers	pcs.	16 418
6-10 kV airlines	kilometre	19 220
35 kV cable lines	kilometre	20
6-10 kV cable lines	kilometre	4 912
0.4 kV airlines	kilometre	26 603
0.4 kV cable lines	kilometre	5 192



## MEMBERSHIP ORGANIZATIONS

VST AB is a member of the Klaipėda Association of Industrialists and the Lithuanian Electrical Energy Association:

- Klaipėda Association of Industrialists began its activity in 1990. It is an independent non-profit making incorporation of the industry and businesses in Klaipėda region. The incorporation carries out the household, economical, social, etc. goals and functions of the association members. Government and private capital enterprises, banks, and organizations of Klaipėda region belong to the Klaipėda Association of Industrialists (See more [www.kpa.lt](http://www.kpa.lt)).
- The Lithuanian Electrical Energy Association is a voluntary organisation of electrical power and heat energy generation, transmission, distribution and supply companies, energy construction enterprises, other associated energy structures, and other entities operating in the energy generation and supply and energy facilities



designing sector. It represents and protects the interests of such companies, enterprises and entities. The Association is a not-for-profit organisation which is independent on the government structures and is not financed by the Government. It takes part in the drafting of Lithuanian laws and regulations in the electrical power sector development and management area, examines matters relevant to the activities of its members, prepares and implements sectoral programmes. Establishes and develops economic and technical relations with international organisations and individual foreign partners. Renders assistance to its members by providing information on power generation and supply and business and management consulting. Holds exhibitions, conferences, seminars, market and public opinion surveys. Represents interests of its members as employers. The activities of the Association are based on the principles of publicity and equal rights for all the members and on democratic forms of management (see [www.leea.lt](http://www.leea.lt)).

## 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, 50.0 percent with higher non-university education, post-secondary, special secondary, technical or vocational education, and 18.4 percent with secondary or lower than secondary education.

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, students come from different educational establishments – Kaunas University of Technology, Šiauliai University, Vilnius University, Kaunas Technical College, Šiauliai and Vilnius CollegeS in Higher Education 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.

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 pre-



vious 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.

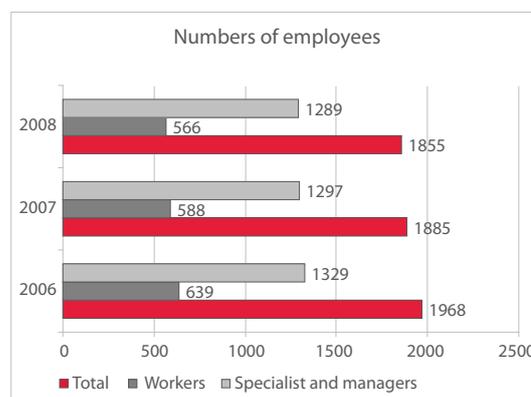
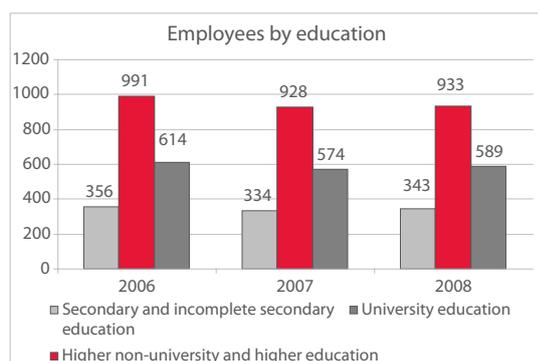
The main training directions – development of leadership, professional and qualification upgrading training – were continued in 2008. All executives took part in the consistent cycle of leadership training. The 2008 cycle of leadership training laid emphasis on the topics of personal efficiency, professional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



## INCENTIVE POLICY

The employee remuneration and bonus policy pursued by the company is aimed at attracting and retaining best employees of the company. It takes account of the company's overall performance results and development in the labour market.

The purpose of the bonus system is to fairly evaluate individual performance results of each worker and structural division and team results, to determine the level of achievement of objectives and to link them to the corporate strategic objectives and performance indicators.

The types of bonuses identified and the principles of giving bonuses:

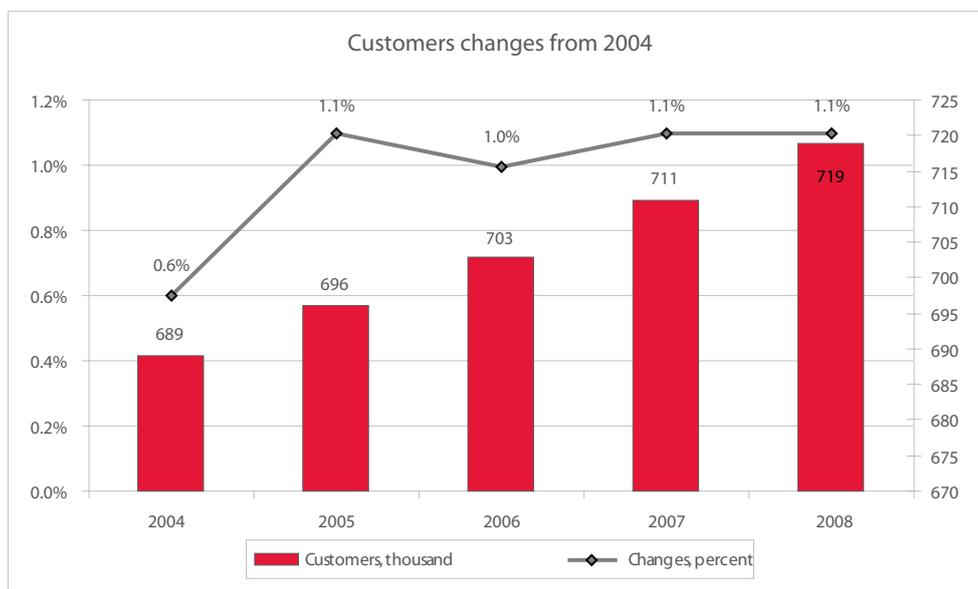
- monthly bonuses to employees of the divisions engaged in core activities of the company based on evaluation of the division's performance results and the each employee's individual contribution;
- annual bonuses to administration personnel (managers) based on evaluation of the achievement of the set targets and contribution by the divisions;
- additional bonuses may be paid for excellent performance by the decision of the board;
- additional bonuses are also paid to employees for the collection of funds for the company under the inspection reports on non-accounted consumption of electricity.

The remuneration and bonus policy is flexible and takes account of the contribution of employees of different grades into the corporate results. The policy is under constant review and improvement.

## CUSTOMERS

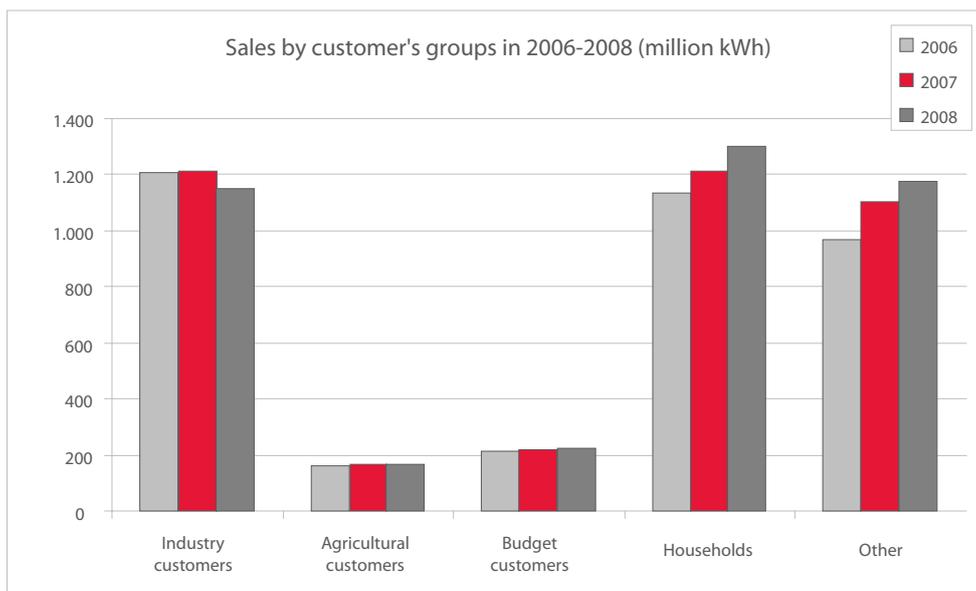
The company distributes and supplies electric power in the western and central territory of Lithuania. It is the area of 30 378 square kilometres, which has about 1.89 million residents.

The company supplies electric power to over 718 thousand customers. This number is constantly increasing. Throughout 1 year the numbers of the company's customers increased by 1.1 percent. Throughout 5 years the number of the company's customers increased by 4.2 percent.



The biggest part of the electric power distributed and supplied by the Company (about 28.6 percent) is bought by other companies and (about 32.4 percent) households, and others bought about 29.3 percent. The remaining part of electric power is consumed by residents and budget organizations and Agricultural consumers.





As shown by the chart, the electric power demand has been increasing in all customer segments in 2008, only industry customers decreased. In particular, the electricity consumption by households and other customers has increased considerably in 2007 and 2008.

Since 2006, there has been a 12.9 % increase in electricity consumption by private customers; agricultural customers – 0.9%, budgetary institutions – 4.4%, other customers (mainly non-industrial) – 17.67%.

VST AB concludes open-ended agreements with customers without fixing a specific term. The share of the largest customer in the company's income from electric power sales is 1.3%, therefore, the company is not dependent upon any single customer.



## FACTORS AFFECTING OPERATIONS OF THE COMPANY

### 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.

Natural phenomena such as storms, downpours, and snowdrifts cause extensive damage to the economy and the company and create inconvenience for residents. The Lithuanian seaside has suffered from winter storms force winds more than once. Trees falling on the overhead electric lines break and damage them. The company puts forth efforts to take emergency response actions and to eliminate the consequences as soon as possible.

Insufficient capacities of the company and its contractors to effectively eliminate failures in case of emergency is a major economic risk. Income is lost and losses are incurred in cases of the energy supply disruptions.

Specialists of the company work consistently in the area of detection of cases of illegal consumption of electricity. The company implements more stringent control measures in the areas where such cases are recurrent in order to detect thefts.

In all, 427 cases of non-accounted energy consumption were reported in 2008 in the territory serviced by the company. The number of thefts totalled 173 last year, with more than 3 tons of aluminium wires and approx. 26 tons of transformer oil stolen and 41 transformer damaged. Electricity supply was disrupted to over 1000 customers through the fault of thieves.

Lithuania's economy is not isolated from other economies, therefore, the global economic crisis has touched Lithuanian companies including VST. Upon evaluation of the economic situation where electricity consumption is decreasing every day, the Board of the company has unanimously resolved to reduce remuneration to the Board members by 15%.

### 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 legal regulations would have a negative influence on the company's operation.

Global phenomena are increasingly affecting the company's environment and creating new challenges in the area of energy security. As a result of the European Commission's initiatives, political activity of the Lithuanian Government in the energy markets has increased considerably. Energy levers have become much stronger in the formulation of the country's foreign and national security policy; the goals of the Lithuanian energy policy are seen as the ones concurrent with the goals in the foreign policy and national security areas. The weight of political factors restricting the freedom of market forces is also increasing.

The decision on the closure of the Ignalina NPP in 31 December, 2009 has made the issue of Lithuania's energy security more acute. For the time being Lithuania have the Ignalina NPP which generated over 7 TWh of electricity for the domestic market.

### Social:

The company devotes a lot of attention to increasing public awareness of its activities of electrical power supply and distribution. Information about the VST's operations and other information can be found in the periodicals, in the company's website and at its branches. VST is open to the public. For several years already it has been supporting innovative research, educational and cultural projects, providing support to children's care homes and hospitals, and maintaining cooperation ties with research institutions. The company accepts students for vocational practice periods; for the fifth year already VST awards nominal grants for the best students of the Faculty of Electrical and Control Engineering at the Kaunas University of Technology.

**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.

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

The company continues its campaign for the preservation of stork nests on the utility poles. In early spring and late autumn, the company erects special metal masts over the poles, on which the birds later build their nests. In order to preserve the white stork population, VST seeks, in cooperation with the Ministry of Environment and the Institute for Ecology, effective methods to preserve the nests. In 2008, more than 400 nests were raised by the VST's specialists in the Kaunas, Klaipėda and Šiauliai regions.

**Technological:**

For the fifth year already, VST has been consistently investing in the improvement of service quality, i. e. the renovation and modernisation of its electrical power facilities. 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. In 2008, VST invested LTL 144.4 m in the modernisation of the grid in the Kaunas, Klaipėda and Šiauliai regions.

## 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 101 302 thousand LTL and 296 286 thousand LTL 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.

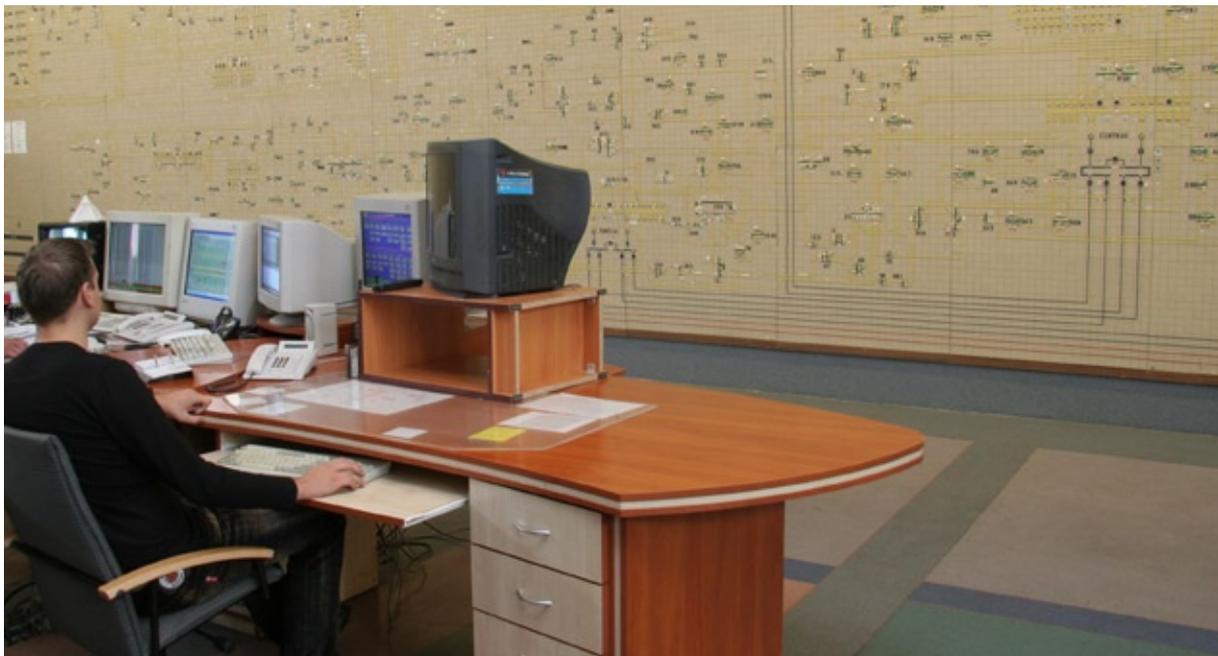
The major part of the company's borrowings is with variable rates, related to EURIBOR and LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2008 and 2007.

### 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 0.50 and 0.46, respectively (1.52 ir 1.48 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.

#### 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.

#### COMPETITION

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

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

## ELECTRICITY SUPPLY

The main producer and supplier of electric power for the company is the State enterprise (SE) "Ignalinos atominė elektrinė" (Ignalina nuclear power station). It supplied 50 – 60 percent of electric power in average during recent years.

No	Name of the power station	Type of deal	Bought, kWh million		
			2006	2007	2008
1	Ignalinos atominė elektrinė, VĮ	Contractual	2120.0	2593.5	2314.1
2	Lietuvos energija, AB	Additional	1102.3	852.1	1689.2
3	Lietuvos energija, AB	VIAP	652.8	768.0	-
4	Vilniaus energija, UAB	Contractual	0.0	0.0	304.0
5	Kauno termofikacinė elektrinė, UAB	Contractual	156.1	0.0	0.0
6	Klaipėdos energija, AB	Contractual/VIAP *	16.2	20.0	14.2
7	Šiaulių energija, AB	Contractual/VIAP *	6.5	6.5	7.0
8	Small power stations	Contractual/VIAP *	34.0	68.0	56.3
	<b>Total VST, AB</b>	<b>Electric power</b>	<b>4087.8</b>	<b>4308.2</b>	<b>4384.9</b>
	Lietuvos energija, AB	Service	4043.7	4229.6	4313.5

\*from 2008 year contractual

Electricity is purchased from VĮ Ignalinos Atominė Elektrinė (Ignalina NPP), Lietuvos Energija AB and other electrical power producers. The increase in the purchase volumes is directly related to the increase in sales.

The electric power purchase and transmission costs in 2008 amounted to 677.0 million LTL, in 2007 - 581.4 million LTL, and in 2006 – 491.1 million LTL. The cost increase has been caused by the:

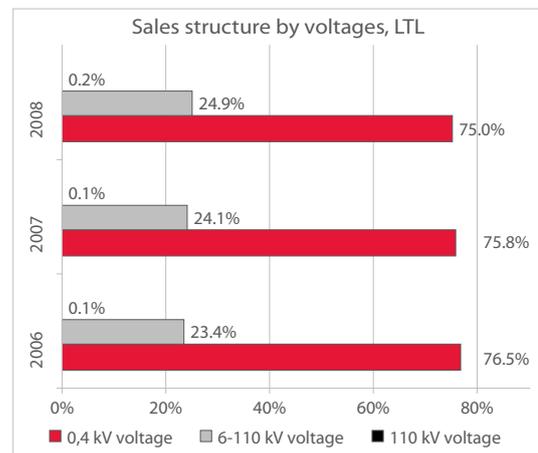
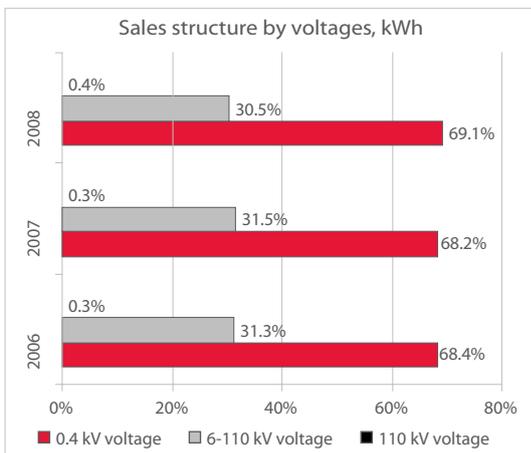
- increase in the additional price for electricity;
- increase in the transmission service price;
- increase in the amount of electricity purchased;
- increase in the funds allotted for public services;
- etc.

Long term contracts are concluded with the suppliers of electric power. The remaining demand for electric power the company satisfied purchasing electric power at the auctions or by the obligation to supply services corresponding to the public interest ( or VIAP – electric power produced using renewable or waste-origin sources of energy, closedown costs of Ignalina NPS and etc.) and from small power stations. The transmission service for the company is provided by the joint stock company "Lietuvos energija", which ensures the transmission of electricity from Lithuanian power stations to the distribution networks companies.

PERFORMANCE RESULTS

Over the past three financial years, the amount of electricity sold by the company totalled 11 647.2 million kWh, with the total income from core activities amounting to 3 076.23 million LTL. In 2008, 4 019.7 million kWh of electricity were sold to the customers, which is 1.8 % more than in previous years (2007 – 3 947.1 million kWh, 2006 – 3 680.4 million kWh).

Most income (69.1 percent) VST, AB gets from the sales of electric power from 0.4 kV voltage lines.



## SERVICE PRICES

The electricity prices are regulated by the State Commission on Prices and Energy Control, which performs, according to the procedure established by the Republic of Lithuania Law on Energy and other legal acts, the functions of control and surveillance of activities regulated by the state and local authorities. The Commission establishes the price ceilings based on the approved methodologies for the setting of the public electricity prices, the public supply prices and the transmission and distribution prices as well the relevant price ceilings.

Electric power prices and tariffs, as well as order of their application during the year 2008 were approved by the National Prices and Energy control Commission by its resolution No.03-125, dated November 30, 2007. Since January 1, 2009 electric power prices and tariffs came into force; they were approved by the National Prices and Energy control Commission by its resolution No.03-218, dated December 29,

2008. They are available for publicity at the websites of the VST, AB ([www.vst.lt](http://www.vst.lt)) and the NATIONAL Prices and Energy Control Commission ([www.regula.lt](http://www.regula.lt)).

In recent years, the prices for oil and natural gas have been rising, as a result of which the electrical power generation costs have increased, followed by the increase in the electricity purchase price in Lithuania. In 2008, the average electricity price for the final customer was approx. 0.283 LTL/kWh, 2007 – 0.262 LTL/kWh, 2006 – 0.246 LTL/kWh.

In the future, the electricity price should depend upon the emergence of the power links with the Western European and Nordic countries and the levels of electricity prices in these markets as well as upon the scope of use of renewable energy sources in Lithuania.



## INVESTMENTS IN GRID RENOVATION AND DEVELOPMENT

In 2008, VST continued making investments in the improvement of service quality 144.4 million LTL were invested in the modernisation of the grid in the Kaunas, Klaipėda and Šiauliai regions.

For the fifth year already, VST has been consistently investing in the improvement of service quality, i. e. the renovation and modernisation of its electrical facilities.

Reliable and high-quality supply of electricity to customers is the main goal of the company. Continued investments in the grids operated by the company prevent disruptions in the electrical power supply.

The majority of the investments – over 73.4 million LTL was allotted to the Klaipėda region because this part of Lithuania is strongly affected by the maritime climate – storms, gusty winds and abundant precipitation. 39.4 million LTL were invested in the Kaunas region and nearly 22.8 million LTL in the Šiauliai region.

73.4 million LTL were invested in 2008 in the Klaipėda region. Reconstruction of “Taikos” and “Gedminių” transformer substations in Klaipėda was completed, with the total project value of 16.6 million LTL. 110/35 transformer substation in Tausalas (Telšiai) reconstruction is being accomplished; 9.0 million LTL were allotted to the project.

Automation equipment in the “Uosto” transformer substation (Klaipėda) is being reconstructed; reconstruction of the Šilutė substation is continued.

22.8 million LTL were invested in the Šiauliai region in 2008. Reconstruction of a 110/10 kV transformer substation in Mažeikiai (“Miglos” TS) was completed, with 6.2 million LTL invested in the project. Replacement of the power transformer at the Tytuvėnai 35/10 kV transformer substation cost approx. 1.1 million LTL.

In 2008, 39.4 million LTL were invested in the Kaunas region. Construction of the “Nemuno” 110/10 kV TS in Kaunas was completed, with 12.4 million LTL invested in the project.

“Giraitės” 35/10 kV TS was built near the Kaunas-Klaipėda highway (between IX Fortas and Babtai), necessitated by rapid urban development and the need to improve new customers’ connections to the VST grid.

Last year the company built 285 new and completed repairs of 1341 transformer substations (6–10 kV). 430 km of new overhead and cable lines were laid including 406 km of underground cable lines ensuring the high-quality electricity supply in any weather. Repairs of 4 241 km of electricity lines were completed.

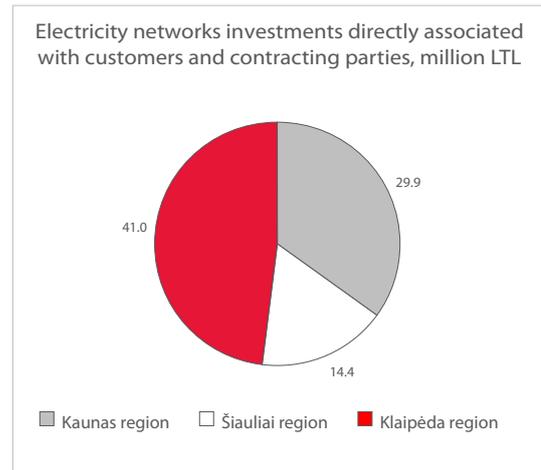
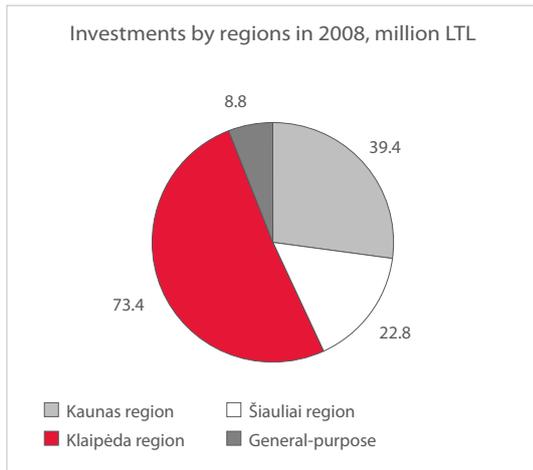
In 2008, 19.0 million LTL and 27.2 million LTL respectively were invested in the development and reconstruction of the 10–0.4 kV and 110–35 kV grids. The majority of investments in the 110–35 kV grid was made in the Klaipėda region, while the Kaunas region received the largest part of investments earmarked for the 10–0.4 kV grid.

Investment projects implemented by the company involve the construction of new and renovation of obsolete substations and the installation of electrical equipment meeting the modern quality standards and enabling the reliable supply of electricity. The company seeks technological solutions ensuring uninterrupted control of the distribution grids and preventing disruptions in the supply. Environmentally-friendly equipment preventing release of pollutants into the environment is installed at the transformer substations being renovated.

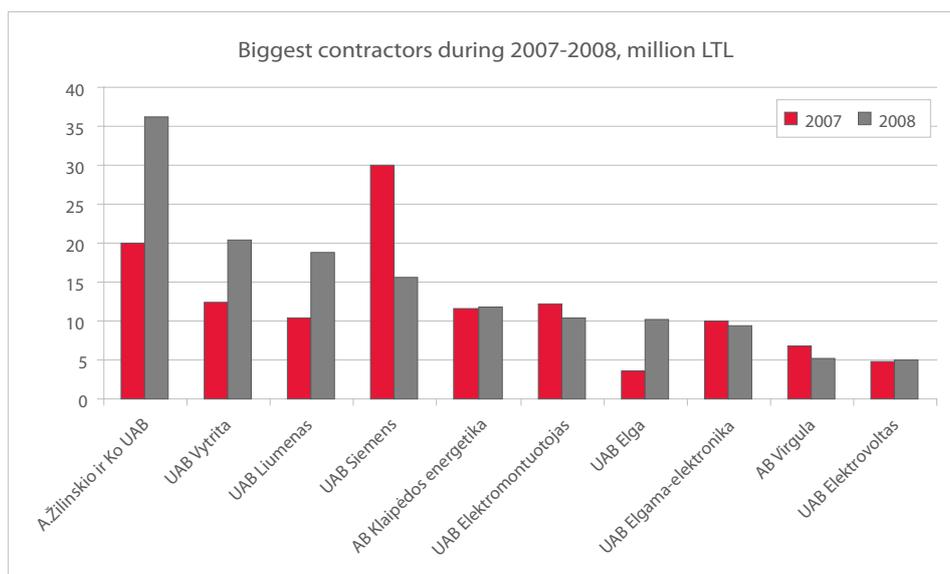
In 2008, 12 524 new customers were connected (166 876 kW). Over 79.1 million LTL were earmarked for the connection of new customers, with the largest part of the investments made in the Klaipėda region.



## INVESTMENTS IN GRID RENOVATION AND DEVELOPMENT



In order to ensure smooth development and renovation of the network, part of the works are done by contractors. Ten contractors, which performed most of the repair works and the investment in 2008 and 2007, are given in the Chart. There are quite a number of contractors capable to perform the needed work; therefore successful partnership is grounded on possibility to choose quality services for a good price.



### Innovations

Quality customer service is one of the key priorities of VST. The company seeks to provide its customers with the opportunities to pay for electricity in the most convenient way. A new method of payment was implemented in 2008: payment cards can be used at VST divisions in Klaipėda, Šiauliai and Kaunas.

Two new modern customer service centres were opened in Prienai and Mažeikiai, where the "one-stop-shop" service model was implemented. Experienced and highly qualified specialists effectively provide all the required information and assistance. The customer is conveniently served at a single point without the need to visit different rooms.

Improvements of the SCADA distant control system were implemented in 2008 in Radviliškis and Kaunas. 20 alarm systems transmitting the signals to SCADA have been installed at the substations.

The company's internal business processes are being constantly improved. Last year a document movement accounting system (AJAP) was implemented; the drawing up of reports and other documents was automated, the procedures for the document registration, issue and archiving were simplified, and processes and procedures were standardised and automated. The main purpose was to establish an integrated system recording all the business processes related to the NEEVVA (meter thefts) and AUSSEA (meter failures) reports.

## REAL ESTATE AND CONSTRUCTION IN PROGRESS

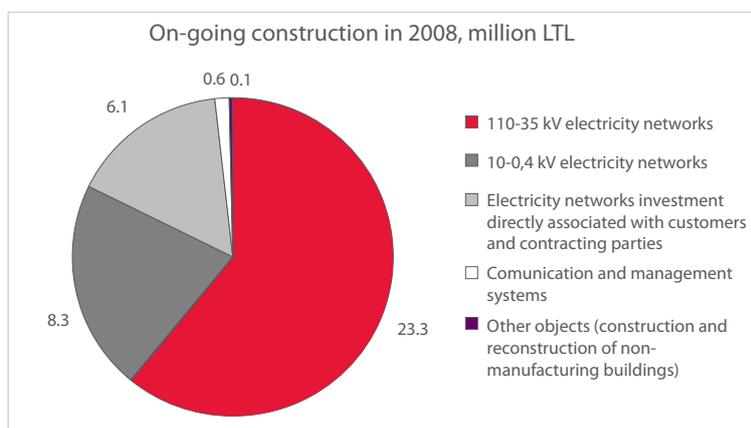
### Real estate and other main property

The biggest part of the real estate owned by VST, AB is built on the state owned land. The base to use the land is the Land rent contracts concluded with the Heads of the County administrations, which manage the state owned land under the right of trust. The land owned by private persons on whom the property of VST, AB is located, is being used by the company on other legal grounds set forth in the Civil Code of the Republic of Lithuania and other laws (rent, sub-rent, beneficial use, servitude and other rights). Besides, for the land on which energy objects or devices owned by the company are built, special conditions of use are set forth according to the order established by the laws and registered at the Register Centre; the special conditions of use consolidates the right of VST, AB to use the land owned by other persons as much as it is necessary to use, service, repair and ensure the exploitation of energy objects and devices.

In 2008 the area of land rented from the state and used by the company was 110.82 ha: 31.83 ha - in Siauliai region, 42.43 ha - in Klaipėda region and 36.56 ha in Kaunas region.

### On-going construction

The diagram shows the structure of on-going construction by investment spheres.



The biggest projects of on-going construction

Project	Start of project	End of project	Project value, million LTL	On-going construction value, 31-12-2008
Reconstruction of Tausalas 110/35/10 kV TP	2008	2009	9.4	9.0
Reconstruction of Šilutė 110/35/10 kV TP	2008	2009	13.3	9.5
Construction of Nemunas 110/10 kV TP 10 kV electric airlines in Kaunas	2007	2009	6.9	4.3
Šiauliai city industrial park (I stage I and II part)	2008	2009	3.3	1.7

PATENTS, LICENCES, CONTRACTS AND CIVIL CLAIMS

In 2008 VST,AB carried two licensed activities in the electric power sector, i.e., public supplier of electric power and the operator of the electric power distribution network.

Name	Issue date	Number	Issued to	Issued to Valid till	Issuing institution
Licence of public electric power supplier	25/03/2002	No. VET-1	Vakarų skirstomieji tinklai, AB	Not limited	National Prices and Energy Control Commission, Resolution No 28, dated 20/03/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 128, dated 17/12/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 28, dated 03/10/2003
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 03-120, dated 11/11/2004
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 03-29, dated 26/05/2005
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 03-3, dated 24/01/2007
Licence of public electric power supplier	25/03/2002	No. ES-1	Vakarų skirstomieji tinklai, AB	Not limited	National Prices and Energy Control Commission, Resolution No 28, dated 20/03/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 51, dated 20/05/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 85, dated 10/09/2002
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 03-29, dated 11/11/2004
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 03-29, dated 26/05/2005
Amendments of the Licence of public electric power supplier					National Prices and Energy Control Commission, Resolution No 03-3, dated 24/01/2007

Certificates held by VST, AB - for the activities in the electric energy sector:

Name	Issue date	Number	Issued to	Issued to Valid till	Issuing institution
Certificate to operate electric devices	13/05/2005	No. E-0827	VST, AB	01/02/2012	State Energy inspection at the Ministry of Economy, Resolution No 2655, dated 01/02/2007
Certificate to perform design and construction works of a part of a building	06/05/2005	No. 3151	VST, AB	06/05/2010	Ministry of Environment of the Republic of Lithuania
Permit to export electric power	09/07/2002	No. LE-0003 attachment 3	Vakarų skirstomieji tinklai, AB	Not limited	Ministry of Economy of the Republic of Lithuania, Order No 51, dated 12/02/2002

Three certificates were issued to VST, AB by the State Patent Office:

Name	Issue date	Number	Issued to	Issued to Valid till	Issuing institution
Patented trademark „VST“ (verbal)	04/04/2007	No. 53237	VST, AB	05/04/2015	The state patent Bureau
Patented trademark „VST KAD GYVENTI BŪTŲ ŠVIESIAU“ (visual)	04/04/2007	No. 53238	VST, AB	05/04/2015	The state patent Bureau
Patented trademark „KAD GYVENTI BŪTŲ ŠVIESIAU“ (verbal)	04/04/2007	No. 53239	VST, AB	05/04/2015	The state patent Bureau

Hearings in courts and arbitrage

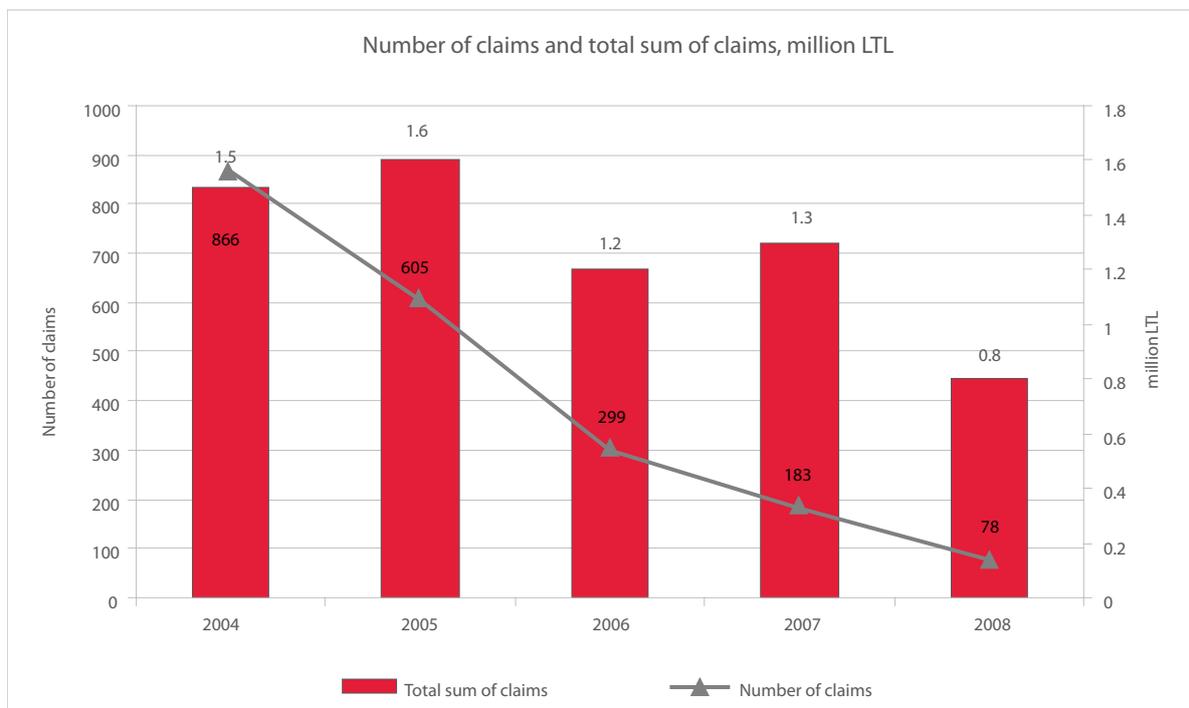
There were no court or arbitrage hearings during the of annual Report, which might essentially influence the financial situation of the issuer.

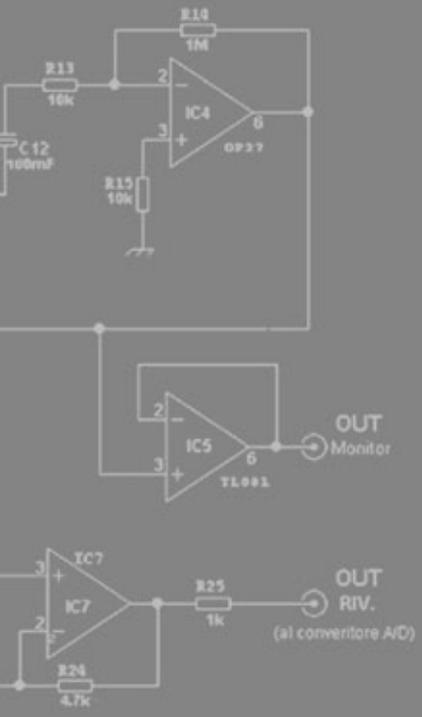
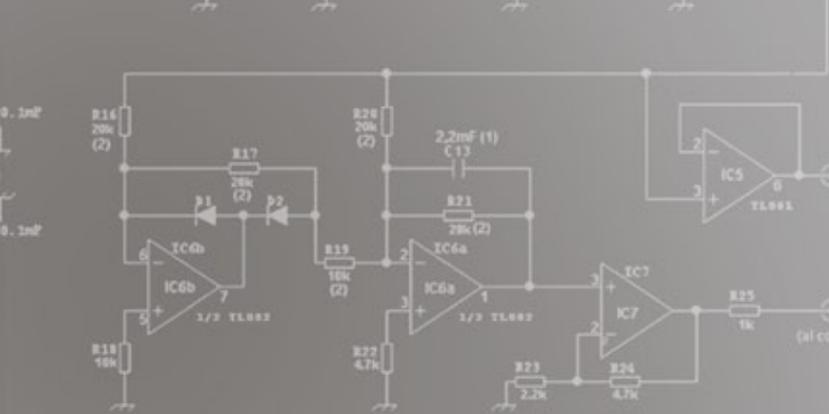
In 2008 there were 78 civil claims presented to court on consumers regarding unpaid electric power and damages caused by illegal consumption of electric power coverage. The total sum of claims amounts up to 0.8 million LTL and from 2004 went down by 0.7 million LTL.

Civil claims by VST AB

Year	Number of claims	Total sum of claims (million LTL)
2004	866	1.5
2005	605	1.6
2006	299	1.2
2007	183	1.3
2008	78	0.8

In 2006 company concluded a contract with the third party establishing pretrial recovery of debts. Thus, the number of claims regarding the debts for electric power decreased, as well as the costs of debts recovering, which would be acknowledged as hopeless. A cooperation agreement on out-of-court collection of debts was concluded with a second partner in September 2007. This has made the collection of debts more effective and speedier.





FINANCIAL ACCOUNTABILITY  
 GENERAL FINANCIAL INDICATORS  
 EXPLANATORY LETTER



FINANCIAL ACCOUNTABILITY

Following financial statements are prepared in accordance with the International Financial Reporting Standards.

Income statement

VST,AB

INCOME STATEMENT (in LTL '000)	31/12/2008	31/12/2007	31/12/2006
Sales	1 159 752	1 053 757	924 779
Other operating income	4 397	5 574	4 935
	1 164 149	1 059 331	929 714
Purchases of electricity	(676 956)	(581 436)	(491 125)
Depreciation and amortisation	(274 197)	(284 476)	(217 999)
Wages, salaries and social security	(71 188)	(56 034)	(50 659)
Repair and maintenance expenses	(24 442)	(23 941)	(21 619)
Spare parts and other inventories	(13 715)	(15 452)	(14 968)
Utilities and communications expenses	(6 735)	(5 697)	(5 445)
Other operating expenses	(51 679)	(7 039)	(32 632)
	(1 118 912)	(974 075)	(834 447)
<b>Operating profit</b>	<b>45 237</b>	<b>85 256</b>	<b>95 267</b>
Financial income	16 183	8 159	5 196
Financial (expenses)	(32 946)	(18 559)	(16 862)
<b>Profit before tax</b>	<b>28 474</b>	<b>74 856</b>	<b>83 601</b>
Current and prior year income tax (expenses)	(39 083)	(41 023)	(54 383)
Deferred income tax benefit	22 284	33 411	30 459
<b>Net profit</b>	<b>11 675</b>	<b>67 244</b>	<b>59 677</b>
Basic and diluted earnings per share, in LTL	3.14	18.09	16.05

## Balance sheet

VST, AB

BALANCE SHEET (in LTL '000)	31/12/2008	31/12/2007	31/12/2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2 849 527	2 734 971	2 079 091
Intangible assets	98	798	656
	2 849 625	2 735 769	2 079 747
<b>Current assets</b>			
Inventories	11 193	7 753	6 525
Trade and other receivables	95 070	89 846	83 039
Prepayments, deferred charges and unbilled revenue	11 311	11 284	12 672
Cash and cash equivalents	6 232	206 440	102 935
	123 806	315 323	205 171
<b>Total assets</b>	<b>2 973 431</b>	<b>3 051 092</b>	<b>2 284 918</b>
<b>EQUITY</b>			
Share capital	111 540	111 540	111 540
Revaluation reserve	1 319 030	1 345 069	830 011
Legal reserve	11 154	11 154	11 154
Retained earnings	179 925	620 612	453 999
<b>Total equity</b>	<b>1 621 649</b>	<b>2 088 375</b>	<b>1 406 704</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	488 937	298 929	347 091
Grants and subsidies	26 698	25 243	20 106
Employee benefit liability	1 185	-	-
Deferred income	180 744	131 863	116 279
<b>Deferred income tax liability</b>	<b>399 938</b>	<b>293 214</b>	<b>206 293</b>
	1 097 502	749 249	689 769
<b>Current liabilities</b>			
Borrowings	105 869	80 389	49 489
Trade and other financial liabilities	84 950	67 643	89 887
Other payables	5 447	7 429	4 812
Advances received and accrued charges	56 934	55 334	28 321
<b>Income tax payable</b>	<b>1 080</b>	<b>2 673</b>	<b>15 936</b>
	254 280	213 468	188 445
<b>Total liabilities</b>	<b>1 351 782</b>	<b>962 717</b>	<b>878 214</b>
<b>Total equity and liabilities</b>	<b>2 973 431</b>	<b>3 051 092</b>	<b>2 284 918</b>

## Cash flow statement

VST, AB

Cash flows from operating activities	31/12/2008	31/12/2007	31/12/2006
<b>Cash flows from operating activities</b>			
Net profit	11 675	67 244	59 677
<b>Adjustments for non-cash items:</b>			
- Income tax	16 799	7 612	23 924
- Depreciation and amortisation	275 734	285 234	218 365
- Depreciation of property, plant and equipment received at no consideration	(1 537)	(758)	(366)
- Recognition of income from the connection of new customers	(6 624)	(4 751)	(3 558)
- Unbilled revenue from electricity sales	(594)	(2 252)	(621)
- Loss on sale of property, plant and equipment	442	373	373
- Write-offs and impairment (reversal of impairment) of property, plant and equipment, revaluation effect	24 914	(14 439)	3 920
- Impairment (reversal) of impairment of receivables and prepayments	2 578	(7 967)	558
- Inventories surplus and (reversal) of inventories impairment	(1 990)	(3 010)	(804)
- Accrued wages, salaries and social security expenses and other accruals	2 421	1 168	3 065
- Net loss from transactions in foreign currencies	-	4	4
- Interest (income)	(16 183)	(8 159)	(5 196)
- Interest expenses	32 835	18 479	16 781
- Other (income)	-	(16)	-
	340 470	338 762	316 122
<b>Changes in working capital:</b>			
- (Increase) decrease in inventories	(1 386)	1 782	7 980
- (Increase) decrease in receivables, prepayments and deferred charges and accrued income	(15 325)	4 792	(8 832)
- Increase in deferred income	61 112	56 518	31 499
- Increase (decrease) in payables, other financial liabilities, advances received and accrued charges	11 344	(23 383)	(3 514)
Cash flow from operations	396 215	378 471	343 255
Income tax (paid)	(32 580)	(54 270)	(61 295)
<b>Net cash flows from operating activities</b>	<b>363 635</b>	<b>324 201</b>	<b>281 960</b>
<b>Cash flows (to) investing activities</b>			
(Purchase) of property, plant and equipment	(144 784)	(138 520)	(141 113)
(Purchase) of intangible assets	-	(126)	(885)
Proceeds from sale of property, plant and equipment	945	605	4 502
Interest received	16 183	7 273	5 060
Loan repayments received	43	22	39
<b>Net cash flows (to) investing activities</b>	<b>(127 613)</b>	<b>(130 746)</b>	<b>(132 397)</b>
<b>Cash flows (to) financing activities</b>			
Proceeds from loans	846 489	423 231	-
Loans (repaid)	(630 882)	(435 301)	(101 237)
Financial lease payments	(119)	(95)	(41)
Interest (paid)	(32 377)	(18 355)	(16 533)
Dividends (paid)	(619 341)	(59 426)	(128 113)
<b>Net cash flows (to) financing activities</b>	<b>(436 230)</b>	<b>(89 946)</b>	<b>(245 924)</b>
<b>Effects of exchange rate changes on cash balance</b>	<b>-</b>	<b>(4)</b>	<b>(4)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(200 208)</b>	<b>103 505</b>	<b>(96 365)</b>
Cash and cash equivalents at beginning of year	206 440	102 935	199 300
<b>Cash and cash equivalents at end of year</b>	<b>6 232</b>	<b>206 440</b>	<b>102 935</b>



Statement of changes in equity

VST, AB

STATEMENT OF CHANGES IN EQUITY (in LTL '000)	Share capital	Revaluation reserve	Legal reserve	Retained earnings	Total
<b>Balance as at 31 December 2005</b>	<b>111 540</b>	<b>925 424</b>	<b>11 154</b>	<b>429 730</b>	<b>1 477 848</b>
Transfer from revaluation reserve to retained earnings	-	(92 900)	-	92 900	-
Reassessment of deferred income tax	-	(2 513)	-	-	(2 513)
Net profit for the year	-	-	-	59 677	59 677
<b>Total income and expense for the year</b>	<b>-</b>	<b>(95 413)</b>	<b>-</b>	<b>152 577</b>	<b>57 164</b>
Dividends declared for 2005	-	-	-	(128 308)	(128 308)
<b>Balance as at 31 December 2006</b>	<b>111 540</b>	<b>830 011</b>	<b>11 154</b>	<b>453 999</b>	<b>1 406 704</b>
Revaluation of non-current assets	-	673 234	-	-	673 234
Change in estimation of deferred tax due to the change in tax rate	-	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
<b>Total income and expense for the year</b>	<b>-</b>	<b>515 058</b>	<b>-</b>	<b>226 101</b>	<b>741 159</b>
Dividends declared for 2006	-	-	-	(59 488)	(59 488)
<b>Balance as at 31 December 2007</b>	<b>111 540</b>	<b>1 345 069</b>	<b>11 154</b>	<b>620 612</b>	<b>2 088 375</b>
Revaluation of non-current assets	-	231 113	-	-	231 113
Change in estimation of deferred tax due to the change in tax rate	-	(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 in equity	-	(26 039)	-	168 249	142 210
Net profit for the year	-	-	-	11 675	11 675
<b>Total income and expense for the year</b>	<b>-</b>	<b>(26 039)</b>	<b>-</b>	<b>179 924</b>	<b>153 885</b>
Dividends declared for 2007	-	-	-	(620 611)	(620 611)
<b>Balance as at 31 December 2008</b>	<b>111 540</b>	<b>1 319 030</b>	<b>11 154</b>	<b>179 925</b>	<b>1 621 649</b>

## GENERAL FINANCIAL INDICATORS

Indicators	2008	2007	2006
EBITDA margin (percent by turnover)	29.7%	33.7%	34.3%
Operating profit margin (percent by turnover)	3.9%	8.1%	10.3%
Profit/ loss before taxes (percent by turnover)	2.5%	7.1%	9.0%
Net profit margin (percent)	1.0%	6.4%	6.5%
Return on assets (ROA), (percent)	0.4%	2.2%	2.6%
Return on shareholders equity (ROE), (percent)	0.7%	3.2%	4.2%
Return on capital employed (ROCE), (percent)	1.7%	3.0%	4.5%
Debt ratio	0.5	0.3	0.4
Debt - equity ratio	0.8	0.5	0.6
General liquidity ratio	0.5	1.5	1.1
Asset turnover	0.4	0.3	0.4
Earnings per share, LTL	3.1	18.1	16.1
Price - earnings ratio (P/E)	121.0	41.4	27.4
Share book value, LTL	436.2	561.7	378.3

## General operating indicators during 5 years:

Indicators	2004	2005	2006	2007	2008
Turnover, million LTL	718 360	842 781	924 779	1 053 757	1 159 752
Net profit, million LTL	5 918	48 472	59 677	67 244	11 675
Share price, LTL	240	399	440	748	380

## EXPLANATORY LETTER

The explanatory letter discusses material changes in financial statements and the reasons for such changes.

### Revenue

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 1 159.8 million LTL (in 2007 – 1 053.8 million LTL). Like the last year, the major part of income was from sales of electric energy:

Income, million LTL	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%
<b>Total:</b>	<b>1 164.2</b>	<b>1 059.3</b>	<b>9.9%</b>

In 2008 income from financial activities was 16.2 million LTL (in 2007 – 8.2 million LTL). 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 1 118.9 million LTL while in 2007 it was 974.1 million LTL.

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, million LTL	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	27.0%
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	18.2%
Other	51.7	7.0	634.2%
<b>Total:</b>	<b>1 118.9</b>	<b>974.1</b>	<b>14.9%</b>

In 2007 expenses of financial activities was 32.9 million LTL, as in 2007 these expenses were 18.6 million LTL.

### 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 (27/05/2008) or a date that is close to the date of acquisition (31/05/2008) 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 144.4 million LTL were invested into development and maintenance of electric power distribution network (140.0 million LTL in 2007).

In 2008 finished investment project value	million LTL
Nemunas 110/10 kV TP building	12.4
Reconstruction of Migla 110/10 kV TP	6.2
Reconstruction of Gedminai 110/10 kV TP	9.7
Reconstruction of Taika 110/10/6 kV TP (10 kV part) and replacing transformer	6.9
Giraitė 35/10 kV and TP 35 kV cable line building, Žemaitkiemis town, Kaunas region	5.8
SCADA installation in Radviliškis	3.3
SCADA installation in Plungė	2.9
SCADA installation in Šilalė	2.8
Reconstruction of distribution SP-2 10 kV (AJ was replaced by VJ) in J.Janonis str. 3A, Kuršėnai city	1.7
Replacing transformer of Tytuvėnai 35/10 kV TP	1.1

### Amortization of goodwill

VST has not calculated amortisation of goodwill; if necessary such calculation will be made in accordance with the International Financial Reporting Standards.

### Current assets

The carrying value of current assets has decreased to 123.8 million LTL, when in 2007 amounted to 315.3 million LTL.

The current assets of the company in the end of the year, million LTL	2008	2007	Change, %
Inventory	11.2	7.8	43.6%
Trade and other receivables	95.1	89.8	5.9%
Prepayments, deferred charges and accrued incomes	11.3	11.3	0.0%
Cash and cash equivalents	6.2	206.4	-97.0%
<b>Total:</b>	<b>123.8</b>	<b>315.3</b>	<b>-60.7%</b>

### Borrowings

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

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

Lender	Currency	Value in balance sheet (2007 12 31) million LTL	Payback, million LTL	Value in balance sheet (2008 12 31) million LTL
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	LTL	0	0	0.06
Nordea Bank Finland Plc Lithuania	EUR	34.5	34.5	0
SEB Bank, AB overdraft contract	LTL	0	0	2.94
<b>Total:</b>		<b>377.7</b>	<b>377.7</b>	<b>594.8</b>

The company has overdraft contracts with AB bank “Hansabankas” (now “Swedbank” AB) and SEB Bank, AB. It is possible for the company to borrow up to 72.6 million LTL using overdraft contracts. In the end of 2008 the company's overdraft borrowings amounted for 3.0 million LTL.

### Activity results

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

### Cash flows

In comparison with 2007, cash flows from the main activities increased by 12.2 percent and amounted to 363.6 million LTL in 2008.

Net cash flows from investing activities decreased by 2.4 percent and amounted to 127.6 million LTL, as in 2007 it amounted to 130.7 million LTL.

Net cash flows from the financing activities increased to 436.2 million LTL in 2008, as in 2007 it amounted to 89.9 million LTL.

### Dividend paid

No dividend policy has been formulated by VST.

The shareholders are entitled to dividend provided that the company has been operating profitably and has timely paid all the taxes due in accordance with the procedure established by the law.

An adjourned general meeting of shareholders of VST AB held on 11 July 2008 adopted a decision to pay dividends to the shareholders. 620.6 million LTL was allotted for dividends of 2007 (166.92 LTL per ordinary registered share).

No dividends were paid in 2007. The dividend per ordinary registered share paid in 2006 was 16.00 LTL, in 2005 - 34.51 LTL, in 2004 - 31.76 LTL.

Last financial year	Dividends per share, LTL	Dividend lump sum/ net profit
2004	31.76	19.95
2005	34.51	2.65
2006	16.00	1.00
2007	Dividends were not announced to the day of the Report preparation	-
2008	166.92	53.16

Dividends are paid according to Article 60(4) of the Republic of Lithuania Law on Companies, i. e. within one month from the date of adoption of decision on payment of dividends, through managers of securities accounts held by VST's shareholders and through the manager of securities issued by VST - AB Bankas Hansabankas (now „Swedbank“ AB).

During the past five financial years no reduction of dividend took place according to the statutory provisions or provisions of the Articles of Association of the issuer. There were no cases of refusal of dividends by the shareholders.

### Information about audit

The extraordinary meeting of shareholders held on 21 November 2008 resolved that the audit of the company's financial statements for 2008 will be carried out by Ernst & Young Baltic UAB. The audit was completed and the audit opinion was presented on 2 March 2009.

According to the Republic of Lithuania Law on Audit and the Requirements for Audit Committees approved by the Securities Commission of the Republic of Lithuania, an audit committee was formed under the Supervisory Council of LEO LT, AB and charged with the functions provided for in the Law.

The rights and responsibilities and the size of the Audit Committee, the term of office of its members, the member eligibility requirements, the terms of organisation of activities, holding of meetings, decision adoption procedures etc. are set out in the Work Regulations of the Supervisory Council of LEO LT, AB.

### Internal audit

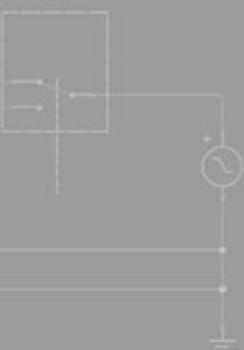
The company has no internal audit unit because it is not mandatory; however, its formation is being considered.

### 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.



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2009-03-03 Regarding the decision of the Constitutional Court of the Republic of Lithuania.	2008-10-17 Preliminary pre-audit activity result for the 3rd quarter of 2008 of VST, AB
2009-02-27 VST, AB Financial interim report for the twelve months of 2008	2008-10-14 Due to the announcement of the President of the Constitutional Court of the Republic of Lithuania
2009-02-27 VST, AB preliminary result for the year 2008	2008-09-04 Corrected annual report for year of 2007
2009-02-13 Information regarding the acquired volume of electricity	2008-07-18 Preliminary pre-audit activity result for the 1st half of 2008 of VST, AB
2008-12-29 Information regarding the decision adopted by the National Control Commission for Prices and Energy	2008-07-14 Procedure for the payout of dividends for the year 2007
	2008-07-11 The decisions adopted in the Repeat Second Ordinary General meeting of the shareholders of VST, AB on July 11, 2008

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

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

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

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

2008-06-17 LEO LT, AB announced about the intention to advise to pay dividends

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

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

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

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

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

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

2008-05-30 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.

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

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

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

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

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

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

2008-04-18 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"

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

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

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