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Dear Readers,

AB Lietuvos Geležinkeliai is a major Lithuanian company producing approximately 1.4 per cent of the gross domestic product (GDP).

Almost half of the total freight transported on the territory of Lithuania is carried by rail; approximately 5 million passengers are carried annually by the trains of AB Lietuvos Geležinkeliai.

The year 2008 was a successful year for the Company. Labour productivity in the Company rose by about 11 per cent over the year 2007, and the income went up by 14 per cent amounting to LTL 1.6 billion.

A total of LTL 779.8 million was invested in Lithuanian railways in 2008, i.e., almost twice as much as in 2007. Half of the total investment was comprised of the Company's funds. The EU financial assistance is very significant for Lithuanian railways as well. The absorption of the EU funds increased significantly in 2008; they made up one-fifth of the total investment. The funds were allocated for the modernisation of railway infrastructure in Lithuania, as well as for the implementation of information technologies and acquisition of rolling stock.

The passenger rolling stock fleet was renewed: new diesel trains and double-deck electric trains were acquired, as well as modern passenger coaches and rail cars.

In the autumn of 2007, the first modern freight locomotive, Eurorunner, was delivered to the Company by Siemens, while at the end of 2008, even 28 such diesel electric locomotives were operating on Lithuanian railways (24 locomotives were supplied in the year 2008).

The economic crisis that started in Lithuania and in neighbouring countries in mid-2008 made an impact on the Company's activity results. Declining production and construction industry determined a fall in freight flows and consequently in the income generated from these activities. We make every effort to optimise the Company's activities, and I am aware that we will overcome the recession that affected the entire country's economy.

The year 2009 marks the 150th anniversary of Lithuanian railways. In 1859, the first rail was laid on the territory of Lithuania on the section St. Petersburg–Warsaw. The history of Lithuanian railways reflects every twist of the history of our country, economic and political events, recessions and booms. History teaches us lessons, therefore, it is important to remember them. This publication contains illustrations representing the events significant for Lithuanian railways.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Stasys Dailydka'. The signature is stylized and cursive.

STASYS DAILYDKA
Director General of AB Lietuvos Geležinkeliai

REVIEW OF COMMERCIAL AND FINANCIAL ACTIVITIES

Main indicators

INDICATORS	2008	2007
Assets and Liabilities (LTL million)		
Assets	4,071.7	3,279.2
Equity	2,241.9	2,081.6
Total Revenues (LTL million)		
Revenues from core activities (sales)	1,593.9	1,406.9
Revenues from financial and investing activities	18.7	12.2
Other revenues	20.0	14.1
Total Costs (LTL million)		
Costs of core activities	1,480.1	1,250.1
Costs of financial and investing activities	23.5	16.9
Other costs	2.4	2.2
Result (LTL million)		
Profit before tax	126.6	164.0
Net profit	109.7	133.6
Financial Indicators		
Liquidity (current assets/current liabilities), %	0.7	1.1
Gross profitability (gross profit/sales), %	17.9	21.5
Net profitability (net profit/sales), %	6.9	9.5
EBITDA (earnings before interest, taxes, depreciation and amortisation) (LTL million)	418.2	414.3
Return on Assets (ROA) (net profit/assets), %	2.7	4.1
Return on Equity (ROE) (net profit/equity), %	4.9	6.4
Investment (LTL million)		
Investment	779.8	419.1
Company funds invested	386.9	266.8
Staff		
Number of staff	10,717	10,535
Average monthly salary (LTL)	2,954	2,452
Sales income per employee (LTL thous./person)	148.7	133.5



In the October of 2008, a new line Vilnius Railway Station–Vilnius International Airport was opened; the railcar acquired from PESA Bydgoszcz Spolka Akcyjna Holding started operating on this line.



At the end of December 2008, a modern double-deck train manufactured in the Czech Republic was launched on the line Vilnius–Kaunas.

Since June 2008, modern diesel trains RA-2 produced in Metrovagon-mash Plant, Russia, have been operating on the lines of Lithuanian railways.



Changes in the balance sheet

In 2008, the assets of the Company went up by 24 per cent amounting to LTL 4,071.7 million. The long-term assets accounted for 92 per cent in the total asset structure, an increase of 27 per cent up to LTL 3,727.8 million, compared to 2007. This was determined by an increase in the material assets of the Company (new rolling stock acquired, investment, land plots received from the municipalities by trust, other assets received by trust). The financial assets of the Company rose by 9 per cent due to the investments in subsidiary companies, up to LTL 118.7 million. The current assets went up by 2 per cent to LTL 343.9 million and accounted for 8 per cent in the total asset structure of the Company. A total of 12 per cent of the current assets accounted for money and its equivalents.

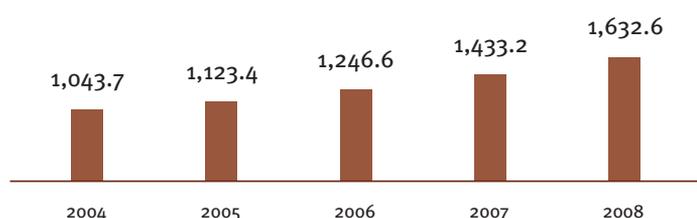
During the year 2008, the shareholders' equity grew by 8 per cent to LTL 2,241.1 million. Under the resolutions of the Government of the Republic of Lithuania, the Company's statutory capital was increased from the accumulated reserve, from the State budget, as well as from the EU funds designed for financing the railway infrastructure renovation and development projects.

By the end of 2008, the loan portfolio of the Company had reached LTL 445.2 million. It comprised the financial liabilities to credit institutions related to the infrastructure modernisation and rolling stock acquisition investment projects.

Revenues

In 2008, the revenues of the Company increased by 14 per cent, compared to 2007, up to LTL 1,632.6 million. The major part of revenues came from freight transportations.

Total revenues (LTL million)



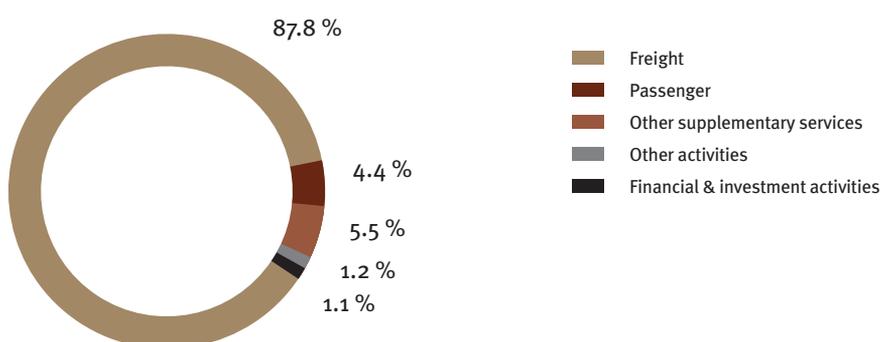
Freight revenues. The boost in Company's revenues was determined by an increase in transportation volumes and higher tariffs on freight services. In 2008, freight revenues rose by 14 per cent due to the increased volumes of local transportations of oil and oil products, foodstuffs, and their exports. Freight revenues accounted for 87.8 per cent in the total revenue structure.

Passenger revenues. Passenger revenues accounted for 4.4 per cent in the total revenue structure in 2008, a rise of 9 per cent over 2007. The revenues earned from passenger services and State subsidies did not cover the costs incurred, therefore, passenger services were making loss. A total of LTL 31.2 million subsidies were allocated for financing passenger traffic in 2008 to reimburse privileged passengers or to cover losses in domestic traffic.

REVIEW OF COMMERCIAL AND FINANCIAL ACTIVITIES

Other revenues. The revenues from rendering other supplementary services (repair and maintenance of private rolling stock, lease of own assets, wholesale trade, freight handling and storage services, and other transport-related services) grew by 8 per cent and accounted for 5.5 per cent in the total revenue structure. The revenues from financial activities increased by 1.5 times due to the changes in exchange rates and accounted for 1.1 per cent of the total incomes earned.

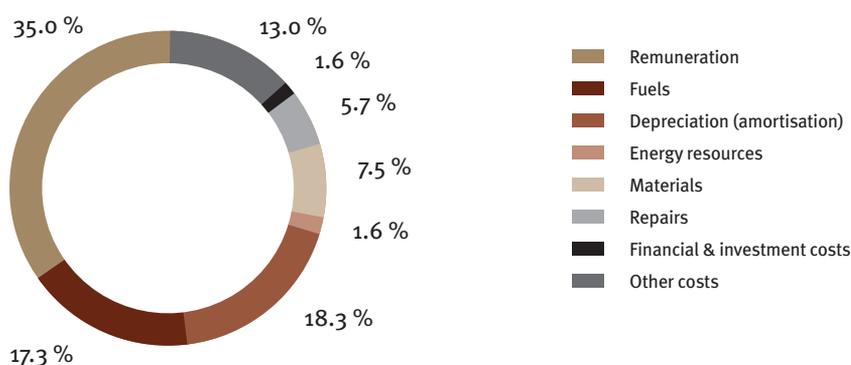
Revenue structure in 2008 (%)



Costs

The costs of the Company, with taking into account the impact of subsidies provided for loss-making passenger services, amounted to LTL 1,506.0 million in 2008, an increase of 19 per cent over 2007.

Cost structure in 2008 (%)



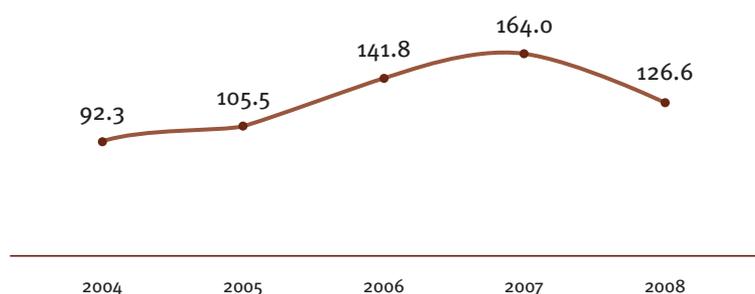
The growth in costs was mostly determined by a 26 per cent increase in diesel fuel prices, changes in average salary and wages, as well as by rising costs of other material resources. This resulted in higher costs for staff, fuels, power supply, and utility services. The adjustment of depreciation norms for long-term tangible assets determined the increase in depreciation costs.

Staff-related costs accounted for 35.0 per cent in the total cost structure, the long-term asset depreciation costs and the costs for fuels made up 18.3 per cent and 17.3 per cent respectively.

Profit

In 2008, the growth in the Company's costs exceeded that in revenues, and the profit of the Company before tax declined to LTL 126.6 million (cf. LTL 164.0 million in 2007), while the net profit fell to LTL 109.7 million (cf. LTL 133.6 million in 2007).

Profit before tax (LTL million)



Activity results of subsidiary companies

In 2008, AB Lietuvos Geležinkeliai group consisted of AB Lietuvos Geležinkeliai and its subsidiary companies, UAB Geležinkelio Tiesimo Centras, UAB Gelmagis, UAB Vilniaus Lokomotyvų Remonto Depas, UAB Gelsauga, and associated company UAB VAE Legetecha.

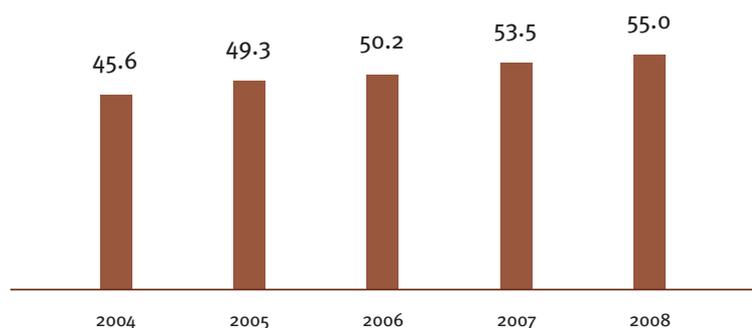
Company	Profit (loss) during the year reported for (LTL thous.)	Core activity
UAB Gelmagis	3,298.9	Railway construction
UAB Geležinkelio Tiesimo Centras	974.6	Railway construction
UAB Vilniaus Lokomotyvų Remonto Depas	3,361.2	Major overhauls to locomotives and diesel trains
UAB Gelsauga	1,081.9	Railway security services
UAB VAE Legetecha	4,822.3	Turnout manufacturing

FREIGHT TRANSPORTATION

Freight transportation

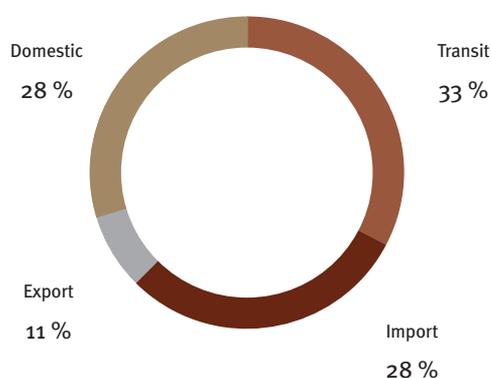
In 2008, AB Lietuvos Geležinkeliai carried 55.0 million tonnes of freight, a rise of 2.7 per cent over 2007 (53.5 million tonnes).

Freight volumes in 2004–2008 (million tonnes)



Transit freight accounted for 33 per cent (18.1 million tonnes) of the total freight, import freight for 28 per cent (15.6 million tonnes), domestic freight for 28 per cent (15.4 million tonnes), and export freight for 11 per cent (5.9 million tonnes).

Rail freight structure in 2008



The majority of transit rail freight was transported in Lithuania on International Corridor IX D (line Kena–Kybartai; the CIS freight going to/from the Kaliningrad region) and on International Corridor IX B (line Kena–Klaipėda; freight going to the port of Klaipėda).

IX B line is of exceptional importance to Lithuanian railways, as it is quite complicated to attract freight flows to this direction under the circumstances of fierce competition with the ports of other countries. Therefore, freight to Klaipėda Port is transported under especially favourable conditions, which are being constantly improved.

FREIGHT TRANSPORTATION

TRANSIT FREIGHT. In 2008, the volumes of transit freight accounted for 18.1 million tonnes. Compared to 2007, transit freight dropped by 8.7 per cent (cf. 19.8 million tonnes in 2007). Half of the transit freight was oil and oil products. Their volumes went down by 14.1 per cent (cf. 9.1 million tonnes in 2008, and 10.6 million tonnes in 2007), i.e., by 1.5 million tonnes, this determining the decline in total transit freight flows transported by Lithuanian railways.

A total of 7.7 million tonnes of oil and oil products were transported to the Kaliningrad Region (down 11.2 per cent from 8.6 million tonnes carried in 2007). Another important flow of oil and oil products was from Belarus to Latvia on the line Kena–Joniškis. On this line, the volumes of cargo fell by 26.9 per cent or by 0.5 million tonnes.

The only type of cargo having a positive impact on the results of transit freight transportations was hard mineral fuels. Their volumes increased by 35.4 per cent or 0.85 million tonnes, compared to 2007.

IMPORT FREIGHT. In 2008, import freight accounted for 15.6 million tonnes, a decline of 4.7 per cent from 16.3 million tonnes carried in 2007. The volumes of oil and oil products fell from 5.7 million tonnes in 2007 to 5.1 million tonnes in 2008, a drop of 11.5 per cent. Optimum logistics conditions and application of competitive tariffs boosted the carriage of mineral and chemical fertilisers from Belarus to Klaipėda Port by 4.7 per cent in 2008 (cf. 5.1 million tonnes in 2008, and 4.8 million tonnes in 2007). A rise of 10.6 per cent was recorded in the transportation of ferrous metals (cf. 1.3 million tonnes in 2008, and 1.2 million tonnes in 2007). A fall of 11.4 per cent was recorded in the transportation of mineral products (cf. 1.4 million tonnes in 2008, and 1.6 million tonnes in 2007).

A decline of 23.3 per cent was also recorded in the volumes of animal and vegetable fats and oils, that of 31.1 per cent in foodstuffs and tobacco, 39.0 per cent in timber and chemical wood-pulp, etc., 10.0 per cent in textile fabrics, 23.9 per cent in machinery, mechanical and electrical equipment, transport vehicles, and that of 34.2 per cent in other cargo.

EXPORT FREIGHT. In 2008, export freight amounted to 5.9 million tonnes, a rise of 18.2 per cent over 5.0 million tonnes exported in 2007. Export freight accounted for 11 per cent, thus making the least amount in the total freight structure in 2008.

Oil and oil products made up about 40 per cent of export freight in 2008. Their volumes rose by 2.3 million tonnes, an increase of 35.4 per cent over 2007. The oil products alone showed an increase of 605.5 thousand tonnes in 2008.

A fall of 15.6 per cent was recorded in the transportation of chemical and mineral fertilisers (cf. 182.7 thousand tonnes in 2008, and 216.6 thousand tonnes in 2007), that of 9.3 per cent in chemical products (cf. 203.4 thousand tonnes in 2008, and 224.2 thousand tonnes in 2007), 34.8 per cent in timber and chemical wood-pulp (cf. 375.7 thousand tonnes in 2008, and 576.7 thousand tonnes in 2007), and that of 11.5 per cent in machinery, mechanical and electrical equipment (cf. 292.9 thousand tonnes in 2008, and 330.8 thousand tonnes in 2007).

A negative impact on export freight was made by the decline in production volumes of chemical and mineral fertilisers in Lithuania at the end of the year 2008.

DOMESTIC FREIGHT. In 2008, domestic freight amounted to 15.4 million tonnes, a rise of 24.7 per cent over 12.4 million tonnes carried in 2007. Domestic freight accounted for 28.0 per cent of the total freight in 2008.

FREIGHT TRANSPORTATION

AB Mažeikių Nafta oil and oil products comprised about 40 per cent of the total freight transported on domestic lines in 2008 (cf. 25 per cent in 2007). The volumes of oil and oil products showed a rise of 2.8 million tonnes, this determining the boost in transporting domestic freight. Transportation flows of other commodities also increased on domestic lines. Volumes of plant products rose by 28.2 per cent (cf. 1.83 million tonnes in 2008, and 1.43 million tonnes in 2007), those of mineral products, ores, slag & ash by 3.1 per cent (cf. 3.21 million tonnes in 2008, and 3.12 million tonnes in 2007), foodstuffs, beverages, tobacco by 3.6 per cent (cf. 198.6 thousand tonnes in 2008, and 191.8 thousand tonnes in 2007), ferrous metals by 0.8 per cent (cf. 240.3 thousand tonnes in 2008, and 238.5 thousand tonnes in 2007), and those of machinery, mechanical and electrical equipment by 188.3 per cent (cf. 35.5 thousand tonnes in 2008, and 12.3 thousand tonnes in 2007).

The volumes of domestic freight were greatly influenced by the economic crisis started in Lithuania in the 2nd half of 2008, as the crisis resulted in the decline of production and construction industry.

Rail freight traffic in Lithuania was also determined by the trends dominating on the rail transport markets of other countries. For instance, the increasing popularity of container- and combined traffic worldwide had resulted in the growth of container flows in Lithuania, at the port of Klaipėda in particular. In view of this, Lithuanian, Belarusian and Ukrainian railway undertakings, ports and stevedoring companies launched the Viking project of combined traffic in 2003. The train Viking operates on the line Klaipėda–Odessa–Klaipėda; however, on this line the freight could be carried from Western and Northern Europe not only to Belarus or Ukraine, but also to Turkey, Georgia or other Transcaucasian countries. The uniform competitive tariff has been set for freight transportations on this train on the territories of all the countries involved in the project. All the countries participating in the project have also assigned train operators. AB Lietuvos Geležinkeliai operator is LG Ekspedicija, a subdivision of the Company.

In 2007, a total of 40.1 thousand TEU containers were carried on the train Viking, while in 2008 this figure declined to 34.0 thousand owing to economic recession. This project is one of the most successful rail freight projects of the Company.

Lithuanian railways are linked with the EU railway system by European Transport Corridor I from the Lithuanian border with Poland through Mockava, where the European gauge (1435 mm) tracks are interlaced with the wide gauge (1520 mm). Liquid freight brought by European standard wagons is reloaded into the wide gauge wagons or road transport vehicles at Mockava Station, while other freight is reloaded at Šeštokai Railway Station. On Corridor I, the freight is carried according to CIM, i.e., the rules applied in the EU countries.

Each year, AB Lietuvos Geležinkeliai concludes over 100 contracts for freight traffic with the forwarders from Lithuania and other countries.

On access roads of about 450 kilometres, AB Lietuvos Geležinkeliai provides services to the companies engaged in oil refinery, production of fertilisers and building materials, as well as to Klaipėda Port stevedoring companies, etc.

DEVELOPMENT OF LOGISTICS SERVICES. In 2008, the scope of logistics services provided by the Company was further developed in order to propose more adapted logistics solutions basing on customer needs. In early 2008 under the Resolution of the Government of the Republic of Lithuania, AB Lietuvos Geležinkeliai was committed to establish the public logistics centres in Vilnius and Kaunas that would provide for the development of intermodal traffic in Lithuania the necessary infrastructure and management, as well as attracting new freight flows.

In 2008, cooperation agreements were signed with Lineka, the Lithuanian National Forwarders Association, and with Germany's Logistiknetz, an association of logistics companies in Berlin and Brandenburg; the meetings were held with the Belarusian and Ukrainian Forwarders Associations and their members.

PASSENGER TRANSPORTATION

Passenger transportation

In 2008, AB Lietuvos Geležinkeliai trains operated on 50 domestic lines and on 8 international lines: 212 trains on domestic lines, and 8 trains (made up by the Company) on international lines.

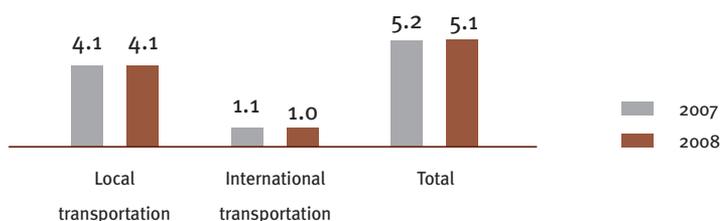
A total of 18 trains of the railway companies from other countries came to Lithuania or passed the territory of this country in transit.

In 2008, a total of 5.1 million passengers used the services of the Company including:

- › 4.1 million passengers on domestic trains; and
- › 1.0 million passengers on international trains (377.8 thousand passengers on the trains made up by AB Lietuvos Geležinkeliai).

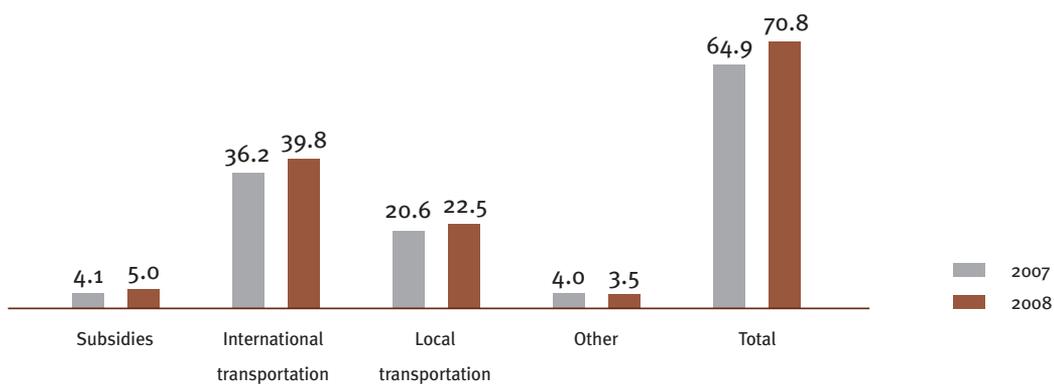
Compared to 2007, the number of passengers transported fell by 2.4 per cent in 2008.

Passenger transportation in 2007–2008 (million people)



The revenues from passenger services went up by 9.2 per cent or LTL 5.9 million, compared to 2007. Passenger revenues including the State subsidies amounted to LTL 70.8 million.

Passenger revenues in 2007–2008 (LTL million)



PASSENGER TRANSPORTATION

In 2008, the Company renewed the service on the lines Klaipėda–Šilutė, Šiauliai–Mažeikiai, opened the line Vilnius–Airport, and increased the frequency of service between Kaunas and Kybartai, between Šiauliai and Rokiškis, as well as from Vilnius to Kaunas, Klaipėda, Ignalina, Trakai, Varėna, Stasylos, and back. In 2008, the train Vilnius–St. Petersburg started its regular daily service (instead of the previous every other day service). Comfortable links were established for the rail passengers in Western Lithuania: they could reach Moscow and St. Petersburg daily with transfer in Vilnius (as well as coming back).

In 2008, the new booking and ticketing system was started to be implemented. It will ensure the accessibility to information about the services provided through all modern means (the Internet, ticketing systems of other companies, etc.), as well as creating favourable conditions for booking, paying and receiving the tickets (on the Internet or mobile phones, by using the electronic wallet to complete electronic transactions). The project aims eventually at developing with other Lithuanian transport companies the national electronic ticket system applicable for all public transport.

The work of railway train conductors (ticket selling) was facilitated by modern portable handheld ticket selling devices ensuring better control and allowing less probability of an error.

Passenger service staff lay their hopes on the implementation of the Rail Baltica project, as the railway would directly connect Warsaw–Kaunas–Riga–Tallinn, and the journeys by train would become the most convenient communication means with other European countries. In that case, Lithuania and Poland would have regular direct rail passenger communication with Latvia and Estonia.



Vilkaviškis Station: an aerial photo.



In 2008, a total of 24 new freight locomotives Eurorunner were delivered to AB Lietuvos Geležinkeliai; 4 locomotives were supplied in 2007.



After the restoration of Lithuania's independence, the window to Europe was opened for Lithuania on 7 July 1992: on that day the first international train arrived from the West, from Suwałki, Poland, to Šeštokai.

ROLLING STOCK

Rolling stock

Timely and qualitative preparedness of the rolling stock of AB Lietuvos Geležinkeliai is one of the most important factors determining traffic intensity, efficiency and safety, as well as the factor related to environment pollution.

The traction fleet of the Company consisted of the following in 2008:

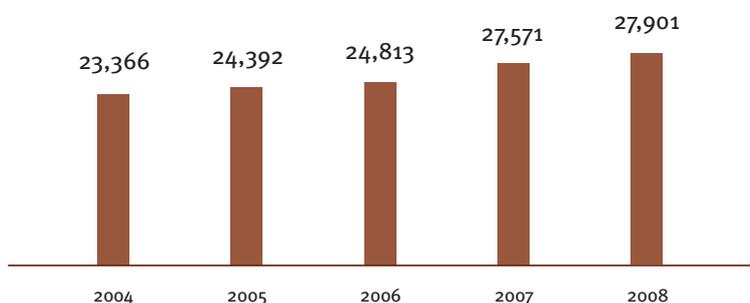
- › 28 freight locomotives ER20CF (produced by Siemens);
- › 96 freight locomotives 2M62, of which 25 locomotives 2M62K with internal combustion engine D49 and 29 locomotives 2M62M with internal combustion engine Caterpillar;
- › 40 freight locomotives M62, of which 2 standard gauge locomotives and 16 locomotives M62K with internal combustion engine D49;
- › 5 passenger locomotives TEP60, 4 passenger locomotives TEP70, and 4 passenger locomotives TEP70BS;
- › 41 shunting locomotives ČME3, of which 5 locomotives ČME3MG with Caterpillar engine (1450 kW) and 9 locomotives ČME3ME with Caterpillar engine (940 kW);
- › 37 shunting locomotives TEM2, and one locomotive TGK2.

The locomotives are allocated to Vilnius or Radviliškis Locomotive Depots, or to their workshops at Kaunas, Klaipėda, and Bugeniai. Traction rolling stock is registered within the Register of Rolling Stock and Containers.

The freight wagon fleet consisted of 9,648 wagons with different purpose, of which 10 were standard gauge wagons. The wagons are repaired by Radviliškis Wagon Depot, a subdivision of AB Lietuvos Geležinkeliai.

The performance of the freight traction rolling stock was 27,901 million gross tkm in 2008, a rise of 1.2 per cent over 2007.

Performance of freight trains (million gross tkm)

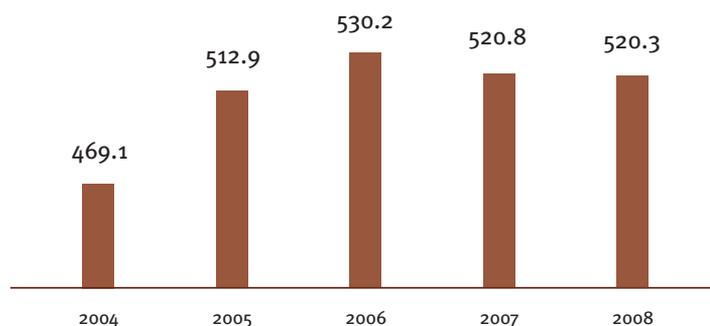


On average, 61.5 freight locomotives were operated daily (60.5 locomotives in 2007). The average daily efficiency of freight locomotives was 1,239.5 thousand gross tkm, down 0.8 per cent from 2007.

ROLLING STOCK

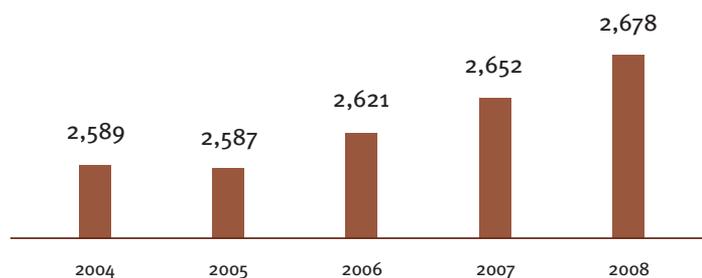
The average daily run of freight locomotives amounted to 520.3 km, down about 0.1 per cent from the 2007 figure.

Average daily locomotive run (km)



The average freight train weight was 2,678 tonnes (cf. 2,652 tonnes in 2007), and the operating speed grew from 46.3 km/h in 2007 to 46.4 km/h in 2008.

Average gross weight of a freight train (t)



Diesel fuel consumption per 10 thousand gross km fell to 22.03 kg (cf. 22.9 kg in 2007). The total diesel fuel consumption slightly dropped from 65.3 thousand tonnes in 2007 to 63.5 thousand tonnes in 2008, i.e., by 1.8 thousand tonnes, while the scope of work increased by 348 million gross tkm.

The number of unscheduled repairs to locomotives rose by 13 or 1.6 per cent in 2008 (cf. 791 in 2008, and 778 in 2007). In 2008, the plan for maintenance and repairs to locomotives was realised by 106.1 per cent. Running repair ER-3 was carried out to 78 locomotive units. Overhaul repairs were not performed to locomotives. The major repairs were conducted in cooperation with Daugavpils Locomotive Repair Plant (Latvia) and UAB Vilniaus Lokomotyvų Remonto Depas.

The reengining of the old internal combustion engines by new Caterpillar engines on locomotives 2M62 and ČME3 was further continued in 2008. A total of 4 locomotives 2M62 and 14 locomotives ČME3 were modernised. The modernisation amounted to LTL 81.0 million.

In July 2005, the contract for procurement of 34 new freight locomotives was signed between AB Lietuvos Geležinkeliai and Siemens TS AG. The first locomotive ER20CF was delivered in September 2007, while 28 more were supplied by the end of 2008. A total of LTL 296.2 million was paid for the locomotives in 2008.

ROLLING STOCK

AB Lietuvos Geležinkeliai focuses its attention on the modernisation of freight wagons. The modernisation of freight wagons is being conducted in two ways: (1) purchase of new wagons, and (2) modernisation of or overhaul repairs to existing wagons with the aim to extend their life cycle.

A total of 100 flat wagons, 50 covered wagons and 50 low-sided wagons were acquired in 2008. Scheduled repairs of freight wagons – low-sided, flat, covered, tank wagons, etc. – are conducted at Radviliškis Wagon Depot. The wagon modernisation workshop was completed in 2008. The covers for 10 new covered wagons were manufactured in this workshop in 2008. Overhaul repairs to 136 wagons are planned to be conducted in 2009.

A total of 36 freight wagons were modernised in 2008: flat wagons were readjusted to 3 flat wagon units for the transportation of refrigerating containers. A total of 50 flat wagons were equipped with removable equipment for timber transportation.

In 2008, a total of 3,194 wheel sets for freight wagons were assembled at Radviliškis Wagon Depot. The Depot also modernised 1,506 units of bogies type 18-100.

In 2008, the assessment of conformance of 74 wagons to the technical requirements of 1520 mm gauge was carried out at Radviliškis Wagon Depot, as well as extending their life cycle (50 tank wagons, 8 flat wagons, 8 covered wagons, and 8 low-sided wagons). The assessment in line with the RID requirements was undertaken to 50 tank wagons.

In 2008, the passenger rolling stock fleet consisted of the following:

- › 143 passenger cars;
- › 42 diesel trains;
- › 13 electric trains.

In 2008, the attention was mostly focused on the modernisation of rolling stock running on domestic lines:

- › the passenger rolling stock modernisation study was conducted;
- › overhaul repairs were carried out to 24 passenger cars and 3 electric trains;
- › 1 diesel train and 1 electric train were modernised;
- › 4 modern diesel trains RA-2 produced in Metrovagonmash Plant, Russia, in 2008 were acquired;
- › 2 new railcars 620M manufactured in PESA Bydgoszcz Plant, Poland, in 2008 were purchased;
- › 2 double-deck electric trains EJ575 produced in Škoda Vagonka Plant, the Czech Republic, in 2008 were acquired; one of them was delivered and put into operation;
- › 2 four-seat sleeping compartment cars manufactured in Tver Wagon-Building Plant, Russia, in 2008 were purchased.

A total of LTL 97.9 million was invested in the passenger rolling stock fleet in 2008.

INFRASTRUCTURE

Infrastructure

The year 2008 saw further successful implementation of the investment projects financed from the EU funds. A total of LTL 294.7 million was allocated for the reconstruction and modernisation of railway infrastructure in 2008, of which LTL 39.5 million came from the State budget, LTL 152.5 million from the EU funds, and LTL 102.7 million from the Company's funds. Overhaul repairs were carried out to 15.7 km of tracks, while 51.1 km of rails and 82 sets of turnouts were replaced by new ones; 21.6 km of tracks were reconstructed at Klaipėda railway junction; 342 km of fibre optic cables were laid; 21 bridges were reconstructed; technological equipment was acquired for LTL 2.9 million; 36 level crossings were reconstructed, of which 33 were covered with rubber panels.

The infrastructure modernisation work of the two International Transport Corridors, I (IA) ir IX (B, D), crossing the territory of Lithuania was continued in 2008. The said corridors are of especial importance to the entire European transport system, and their modernisation was financed from the EU Cohesion Fund or from the European Regional Development Fund. The tracks were reconstructed and the station tracks extended, marshalling yards modernised, the reconstruction of Kaunas railway tunnel continued, signalling, telecommunications and power supply installations modernised, and the reconstruction of bridges and viaducts continued.

In 2008, the investment project on the reconstruction of bridges and viaducts on Corridor IX was completed, telecommunication installations on IX B line Kaišiadorys–Kybartai modernised, the first two stages of the project on the modernisation of automated control measures for rolling stock accomplished, the first two stages of the project on the development of Klaipėda railway junction (IX B link with Klaipėda Port) completed, level crossings and the pedestrian viaduct reconstructed at Šiauliai Station, the security system on the railway bridge over the River Dubysa installed, the construction work of the pedestrian viaduct at Klaipėda Station started. The technical assistance for preparing railway projects has also been provided, namely, the feasibility studies on the Development of Klaipėda Railway Junction and on the Installation of the Diagnostics Systems for Infrastructure were conducted, and those on the Establishment of the Traffic Management Centre as well as on the Development of Radviliškis Railway Junction started to be carried out.

In 2008, the strategic investment projects were continued to be implemented. The projects covered the development of Klaipėda Railway Junction, modernisation of signalling and power supply installations on the line Šiauliai–Klaipėda, reconstruction of bridges and viaducts on Corridor IX, extension of station tracks on Corridor IX, modernisation of telecommunication systems on the railway section State border with Latvia–Panevėžys–Radviliškis–Tauragė–Pagėgiai, modernisation of Lithuanian railways radio communication system by GSM–R, renovation of Kaunas railway tunnel, and modernisation of Vaidotai Marshalling Yard on Corridor IX. The decision on financing the first stage of Rail Baltica was adopted by the European Commission.

In 2008, a total of 32 investment projects financed from the Company's funds were being carried out: installation of technical security systems for railway bridges, reconstruction of station buildings and administrative buildings, reconstruction of the pedestrian viaduct at Paneriai Station, installation of interlocking, reconstruction of turnouts and spur tracks, replacement of turnouts, construction of the boarding platform for rail passengers at Vilnius Airport, construction of passenger areas at Kuršėnai, Papilė, Vieکشniai, and Mažeikiai stations, reconstruction of the interlocking installation at Vilnius Station, fencing of Vaidotai Marshalling Yard tracks, reconstruction of Paneriai pedestrian bridge (completed), reconstruction of even, odd turnouts at Šiauliai Station (completed), reconstruction of spur tracks at Telšiai Station, installation of access control systems to the premises of the officers on duty at stations, construction of copper cable and fibre optic cable on the line Radviliškis–Pakruojis, modernisation of a passenger car, etc. Design work for the projects to be implemented was conducted.

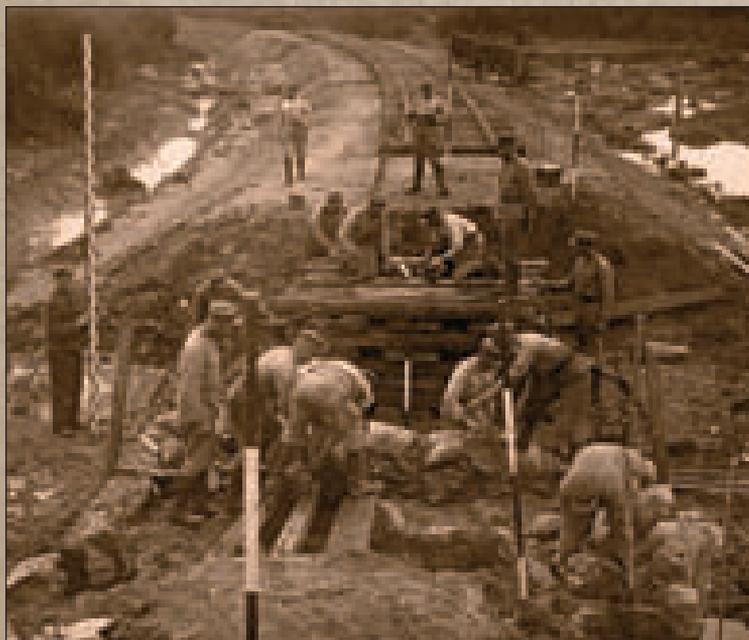


The Soviet period. In 1946–1979, the Children’s railway functioned in Vingis Park in Vilnius. The small steam locomotive later replaced by a diesel locomotive ran on a narrow gauge railway; it was an entertainment and great fun for children, as well as the first acquaintance with railways. The drivers would allow children to watch close how they drove, they used to tell about the vehicle, and even let the children drive the train and thus feel for a short while as real drivers.



The year 1918 saw the establishment of the independent Lithuanian state. In July 1919, the German military railway leadership transferred the first railway sections and stations to the disposition of the government of Lithuania; on 6 July the first Lithuanian train arrived from Kaišiadorys to Radviliškis. This date marked the beginning of independent railways of Lithuania.

The first Lithuanian President, Antanas Smetona, was fond of going to the Lithuanian seashore by train, and sometimes he took his car with him which was carried on a flat car.



Railway construction work in the years of independent Lithuania. In the period of independence, the railway lines were constructed, bridges and stations repaired, old rails replaced by new ones. On 23 February 1923, the Lithuanian government committed the Ministry of Transport to construct railway from Šiauliai to Klaipėda through Amaliai (Kužiai), Telšiai, Kretinga. In 1932, the lines Kužiai–Telšiai and Telšiai–Kretinga having been completed, the Klaipėda region was incorporated into the Lithuanian railway network.

INFRASTRUCTURE

In 2008, two railway section trolleys were manufactured upon the order of AB Lietuvos Geležinkeliai, and extra two will be produced in 2009; the total value of the project amounts to LTL 5.6 million. These vehicles will be used for loading, unloading or transportation of superstructure materials on their own platforms or on coupled on platforms. The vehicles will be used for the transportation of 25 m long rails, for hauling/pushing cargo up to 400 tonnes, and for performing shunting work on station tracks, etc.

In order to enhance competitiveness of the railway transport system on the domestic transport service markets, the reconstruction of railway lines is going to be continued in 2009–2011. The track repairs will be accompanied by the modernisation of telecommunication systems, signalling or power supply installations. The station tracks will be extended up to 1,050 m, this allowing admitting the trains of up to 6,000 tonnes.

In 2009, a total of 15 projects on the modernisation of railway infrastructure financed from the EU funds (Cohesion Fund, European Regional Development Fund, and TEN-T) amounting to LTL 707.0 million will be continued. The projects cover the modernisation of signalling equipment, power supply lines and telecommunication systems, installation of the GSM-R system, renovation of bridges and viaducts, reconstruction of Kaunas railway tunnel, extension of station tracks, modernisation of marshalling yards, modernisation of Kaunas bypass, and installation of diagnostics systems.

In 2009, AB Lietuvos Geležinkeliai is going to commence 16 new projects financed from the EU funds; the total value of the projects amounts to LTL 498.7 million, of which LTL 423.9 million comes from the EU funds. The main project to be started in 2009 is the design work of Rail Baltica line Warsaw–Kaunas–Riga–Tallinn–Helsinki on the Lithuanian territory; the value of the project is LTL 110.97 million.

Technical development and investment policy

The development strategy and investment policy of AB Lietuvos Geležinkeliai is a complex, purposeful and consistent process of implementing the projects on planning the Company's technical development and investment programmes and on modernisation of railway transport objects, ensuring the efficient activity of the Company by maintaining the technical interoperability and integrity.

In 2008, the draft strategy for 2008–2030 for AB Lietuvos Geležinkeliai was designed with the aim to set the development trends by 2030 for an integral national railway undertaking as both infrastructure manager and rail freight and rail passenger carrier. The strategy reveals the main external factors and their impact on the activity of AB Lietuvos Geležinkeliai, and defines the Company's objectives and tasks for the said period focusing on the long-term investment programme (on the implementation of the projects envisaged) covering the reconstruction, modernisation and development of both the assets owned or of the public assets managed by the Company. In addition, the funds needed for investment and possible financing sources were identified, and the main trends in the Company's organisational changes and personnel policies defined.

The Company's development trends and investment policies have been shaped in view of the long-term (by 2015) development strategy of the Lithuanian economy and on the long-term (by 2025) development strategy of the Lithuanian transport system, as well as on the feasibility studies, research work, and on the analysis of the transport market research.

The most important priorities for the development of Lithuanian railways are traffic safety, environmental issues, saving of energy resources, competitiveness, and diversified high quality customer-centric services. The achievement of these goals requires from the Company consistent modernisation of railway infrastructure and related installations, as well as the intense renewal of the rolling stock fleet with the attention being focused on the IT development in order to ensure the implementation of the EU directives.

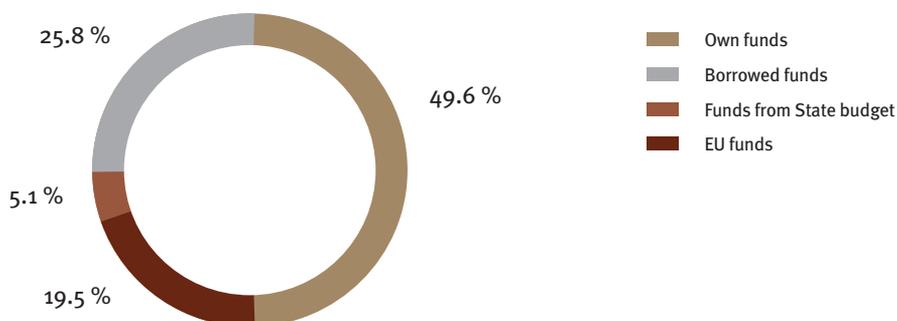
The projects carried out by the Company are being implemented on the basis of the Lithuanian Strategy for Absorbing the EU Structural Funds in 2007–2013; the said projects ensure the successful integration of the railway transport sector into the European transport system. This process is important for the country's economic development, since rail transport is one of the main arteries implementing the EU principles on free movement of goods and people.

The investment projects on railway modernisation and development are closely interconnected, their specific feature being the long term. The implementation of many of these projects from idea to key usually takes 5 years, while that of individual projects – railway infrastructure projects in particular – even longer. The assets created while implementing the projects, namely, railway transport objects are in many cases used for 30 and more years.

In 2008, the Company invested in Lithuanian railways LTL 779.8 million (cf. LTL 419.1 million in 2007), of which 49.6 per cent or LTL 386.9 million was own funds. An important share in the Company's investment programme is taken by the increased and still further increasing absorption of the EU funds for implementing the railway infrastructure projects. In 2008, the Company absorbed LTL 152.5 million of the EU funds (cf. LTL 121.0 million in 2007), LTL 200.9 million of the EIB loans, and LTL 39.5 million of the State budget funds.

TECHNICAL DEVELOPMENT AND INVESTMENT POLICY

Structure of investment in 2008 (%)



INVESTMENTS IN BUSINESSES IN 2008

Railway infrastructure	LTL 294.7m	37.8 %
Freight transportation	LTL 382.8m	49.1 %
Passenger transportation	LTL 72.4m	9.3 %
Information technologies	LTL 28.5m	3.5 %
Other	LTL 1.4m	0.3 %
Total	LTL 779.8m	

RECONSTRUCTION AND MODERNISATION OF RAILWAY INFRASTRUCTURE

In 2008, a total of LTL 294.7 million was invested in Lithuanian railway infrastructure. The following major works were carried out:

- › overhaul repairs were completed to 15.7 km of tracks;
- › 21.6 km of tracks were reconstructed at Klaipėda railway junction;
- › 51.1 km of rails were replaced by new ones;
- › 82 sets of turnouts were replaced by new ones;
- › 36 level crossings and 21 bridges were reconstructed;
- › 342 km of fibre optic cables were laid;
- › the Passenger Building at Kaunas Station was reconstructed;
- › the interlocking installation at Vilnius Station was reconstructed;
- › passenger areas were constructed at Kuršėnai, Papilė, Viekšniai, and Mažeikiai stations;
- › automated control measures for rolling stock were modernised;
- › the security system on the railway bridge over the River Dubysa was installed;
- › the feasibility studies on the Development of Klaipėda Railway Junction and on the Installation of the Diagnostics Systems for Infrastructure were conducted;
- › the following investment projects were completed: the Modernisation of Automated Control Measures for Rolling Stock, the Development of Klaipėda Railway Junction (IX B link with Klaipėda Port), Ensuring Traf-

TECHNICAL DEVELOPMENT AND INVESTMENT POLICY

fic Safety through the Reconstruction of Level Crossings and of the Pedestrian Viaduct over the Railways at Šiauliai Station, the Modernisation of Telecommunication Installations on IX B line Kaišiadorys–Kybartai, the First Stage of the Modernisation of Connecting Lines Kužiai–Mažeikiai (Bugeniai) and Vilnius–Stasylos;

- › a total of 11 contracts were signed for implementing the projects financed by the EU funds for Programming period 2007–2013, the total value of the projects being LTL 222.3 million.

MODERNISATION OF FREIGHT ROLLING STOCK AND RENEWAL OF RELATED ASSETS

In 2008, a total of LTL 382.8 million was invested in freight services. The following major works were conducted:

- › 24 new freight locomotives ER20CF were delivered to the Company;
- › 50 new covered wagons, 50 low-sided wagons, and 100 flat wagons were purchased;
- › 13 shunting locomotives ČME3 and 4 freight locomotives 2M62 were modernised;
- › freight wagons were being modernised: 36 flat wagons were readjusted to 3 flat wagon units for the transportation of refrigerating containers;
- › the modernisation of a flat wagon readjusted for transporting wheel sets was completed;
- › the construction of the wagon modernisation workshop at Radviliškis Wagon Depot was completed;
- › the access tracks and turnouts were reconstructed at Radviliškis Locomotive Depot, and the crane runway at Kaunas Station repaired.

MODERNISATION OF PASSENGER ROLLING STOCK AND RENEWAL OF RELATED ASSETS

In 2008, a total of LTL 72.4 million was invested in passenger services. The following major works were carried out:

- › 4 diesel trains RA2 and 2 trailer coaches were purchased and commissioned;
- › 2 double-deck electric trains were acquired; one of them was delivered and put into operation;
- › 2 new modern passenger cars and 2 rail cars were purchased;
- › one diesel train DR1A was modernised, the modernisation of passenger compartment in one electric train was completed;
- › the national booking and ticketing system was started to be implemented.

IT DEVELOPMENT

In 2008, a total of LTL 28.5 million was invested in the development of information technologies. The information systems Opkis and Krovynys were expanded with new functions. The funds were allocated for the development of IT infrastructure, replacement of obsolete hardware, as well as for acquiring systems software.

The financial management system, SAP, was further introduced. LTL 1.0 million was spent for implementing the system in 2008:

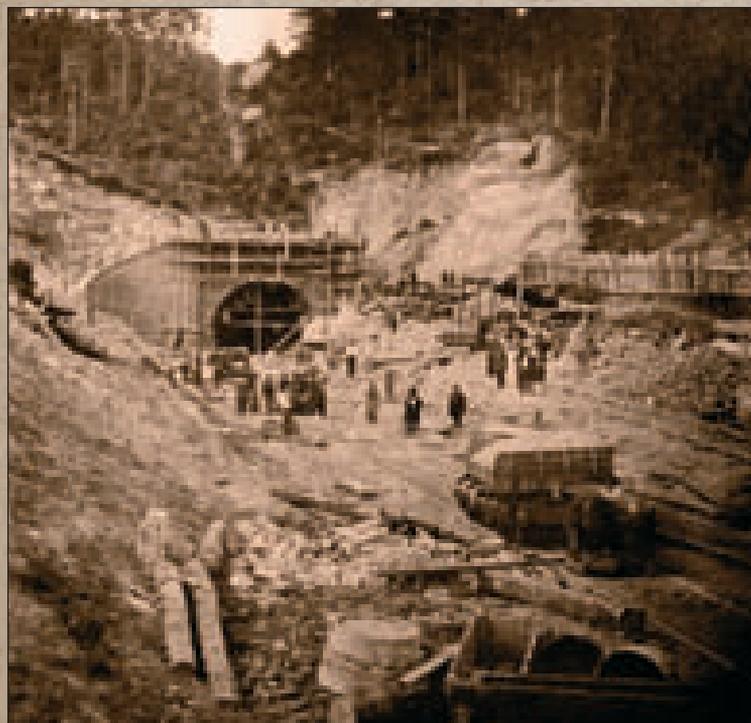
- › the pilot operation of the main modules (finance, costs, and management, stocks and purchases, long-term asset management, sales and distribution) was completed, the detected drawbacks eliminated, and preparations for eliminating the accounting duplication with the help of other programmes made;
- › in order to ensure the proper management of investments and investment projects, the functional technical requirements for introducing the modules of investment management were prepared, which would serve as the basis for further configuration; the SAP functions to be implemented additionally were parametrised and tested;
- › mySap configuration changes were immediately made responding to the amendments to the laws of the Republic of Lithuania on VAT and Corporation taxes related to their tariffs ensuring the accounting record and drawing up respective documents in line with the amendments to the laws.

The Interwar period. The construction of Šateikiai Station on the Telšiai–Kretinga section in 1932.



The Interwar period. Railwaymen at the steam locomotive in Radviliškis. The railway company employed approximately 4,000 people in the interwar period.

Vilnius Station at the turn of the 20th century. While constructing the first railway line, as many as 21 railway stations were built in Lithuania. The Passenger Building at Vilnius Station was completed in 1861. At that time, Vilnius Station served as a freight transit centre.



The origin of Lithuanian railways: the construction of Lithuanian railways was started in 1859; the first rail on the territory of Lithuania was laid on the line St. Petersburg–Warsaw. While constructing the first railway, the Paneriai Railway Tunnel was built.

TRAFFIC SAFETY

Traffic safety

In order to ensure traffic safety on Lithuanian railways, the modern technology is being purchased by the Company, advanced IT installed, and the train traffic management system improved.

The Company's efforts were acknowledged by the Safety Certificate and safety authorizations (Part A) issued by the State Railway Inspectorate under the Ministry of Transport and Communications of Lithuania on 18 December 2008 confirming that the Company had implemented the traffic safety management system in line with the Railway Safety Directive 2004/49/EC of the European Parliament and of the Council of 29 April 2004. The safety certificate proves that the railway undertaking has developed its own traffic management system in order to ensure the risk control and to work safely on the railway network, and that it is able to meet the requirements set in technical interoperability specifications, other relevant EU legal acts or national safety regulations.

The safety certificate can be renewed not less than five years upon the request of the railway undertaking. The certificate is fully or partly renewed only in case when the railway undertaking's activity or its scope undergo essential changes.

Though the freight transportation volumes increased on Lithuanian railways in 2008, the number of traffic accidents declined. A total of 51 traffic accidents were recorded in 2008, a fall of 14 per cent from the previous year (cf. 59 traffic accidents in 2007).

The main reasons for traffic accidents were non-compliance with the instructions, work technologies or job descriptions.

In order to reduce the number of traffic accidents, it is necessary to focus attention on the technical training of employees, as well as on their professional improvement.

A total of 13 road accidents occurred at the level crossings in 2008 (the vehicle drivers ignored restrictive aspects and entered the level crossing area), during which 4 people perished and 4 were injured (cf. 16 road accidents in 2007 with 4 people perished and 5 injured).

ENVIRONMENTAL PROTECTION

Environmental protection

The inventory of air pollution sources, the maintenance of air cleaning equipment, and check measurements of stationary pollution sources were conducted at the Company in 2008.

In addition, the comparative analysis of new, modernised, and old rolling stock was being carried out at the Company. It was stated that diesel fuel consumption by the new rolling stock per 10,000 gross tkm had been 7 per cent less than that by the modernised rolling stock, and 35 per cent less than by the old rolling stock. The diesel fuel consumption by the modernised rolling stock was 32 per cent less than that by the old rolling stock.

The Company operates 25 watering-places (38 borings); more than 50 per cent of the drinking water extracted from the 15 of them is supplied to the inhabitants.

Following the legal requirements, the waste is sorted out (into secondary, communal, construction, hazardous, etc.) and delivered to waste management companies.

In order to evaluate the impact of the Company's activity on the soil and groundwater, the monitoring of groundwater was further continued in seven units.

The railway noise was abated by implementing new technologies, modernising and repairing rolling stock and tracks or renewing the rolling stock fleet with modern vehicles producing less noise.

INFORMATION TECHNOLOGIES

Information technologies

In 2008, the IT implementation projects were further continued. The main projects were related to the establishment of the data communication network, the design and installation of the cargo accounting system, as well as ensuring information security. A new high value project – the development of a new server station – was started.

The year 2008 saw further development and modernisation of the Company's data communication network, i.e., the fourth stage of this project was completed. At this stage, the trunk segment was installed on sections Pagėgiai–Radviliškis–Obeliai, Kužiai–Bugeniai, and at Šilainiai Station. The data acquisition and distribution segment of the data communication network was also modernised aiming at ensuring data transmission between cities/stations and connecting local data transmission networks and installations to the trunk segment (the trunk segment aims at transmitting data flows between cities). Within the framework of said project, 20 objects (entities) were networked to the trunk segment.

Successful development and modernisation resulted in rapid and reserved data transmission, as well as in safe access to the Company's centralised information resources on the aforementioned sections and entities. This allowed the Company to reject the data transmission services provided by the third party at 10 railway stations.

In order to ensure proper management and service of the data communication network, a special software was acquired and installed.

In 2008, the information systems related to the computerisation of freight services accounting were further developed.

INFORMATION SYSTEM 'KROVINYS' (CARGO)

- › The Customer Service Module was expanded with new functions. The customers can see the general freight nomenclature and view the VAT invoices issued or any other necessary information. They can also fill orders related to international freight transportations (to book wagons and containers). Up to now, 48 customers have signed contracts for using the system Krovinys on the Internet; they were granted the right to operate in this system;
- › The test trials to transmit the data on economic indicators to the financial management system through the interface were completed. The transmission of the data on issued VAT invoices is being conducted successfully;
- › Since June 2008, the data on electronic consignment note have been exchanged with the Russian railway company; 5 notices for handling the e-consignment note information were drafted and installed. In 2008, an agreement was signed with the Belarusian railway company on the transmission of preliminary consignment note data to AB Lietuvos Geležinkeliai, however, the Belarusian railway company has not yet handled the e-consignment note at border stations, but only has transmitted the information received from the Russian railway company;
- › The system Krovinys was enabled to print out VAT invoices and their annexes for freight services rendered during a specified period;
- › The General Freight Nomenclature Directory and the Wagons Directory were rearranged and supplemented. The measures for handling the information on hired wagons were prepared, and the system was integrated with other systems at AB Lietuvos Geležinkeliai and with foreign systems;

INFORMATION TECHNOLOGIES

- › The module Application for Carriage was expanded with new functions, this allowing the Company's freight staff to handle more effectively freight shipping documents and the financial accounting staff to make calculations, meet and control the requirements for applications for carriage;
- › The work with the Freight and Goods and Customs information systems at Klaipėda State Seaport Authority was developed.

THE OPERATIVE COMPUTERISED INFORMATION SYSTEM FOR HAULAGE (OPKIS)

- › The wagon flows software designed for the analysis of freight wagon flows accounting on the basis of OPKIS central database established on the data accumulated from wagon lists and freight train movement notices was supplemented;
- › Programming measures were developed for receiving information about the wagon hire from the information system Krovynys and transmitting said information to the Railway Administration Information Computing Centre, for receiving notices from the Computing Centre confirming the wagon run and transmitting these notices to the information system Krovynys, for receiving notices from the aforementioned Centre about the wagons hired from other railway companies that will run on the territory of Lithuania and providing these data in the information system Krovynys;
- › Programming measures were developed for receiving information from the Computing Centre about the wagons owned by Russian companies (regarded as hired wagons on the territory of Lithuania), its accumulation in the OPKIS database and transmission to the information system Krovynys;
- › Additional functions were developed and changes in software made related to the opening of Kena Border Station and changes in the working functions of Vaidotai and Paneriai stations;
- › A programming measure was developed for submitting information to the weighing system 'Registration' at Kybartai Station;
- › Additional functions were developed for building new OPKIS notes (certificates) and controlling the initial data;
- › The wagon search task was improved; it is operated in the OPKIS Administration Department of Freight Directorate.

The year 2008 saw the modernisation of the existing Data Centre (the power supply and air conditioning systems were renewed, video surveillance cameras installed, etc.).

The modern backup data centre meeting all the technical requirements for this type of buildings was started to be equipped. Hence, the protective capsule will be mounted (protecting the data centre from water, fire and electromagnetic impulses), as well as the air conditioning system, complex security system (consisting of security signalling/entrance control, surveillance and fire alarm subsystems), and premises control system (consisting of ventilation/conditioning and environment surveillance, warning subsystems). The electric power transformer substation will also be modernised, two highly reliable, duplicating each other 875 KW backup power supply systems combined with diesel generators into one unit will be designed and installed. The backup data centre being fully equipped, the technical equipment and software necessary for operating the information systems will be mounted and installed. The backup copying will be ensured by highly effective and reliable backup copying equipment.

Within the framework of this project, the infrastructures of the existing and the new backup data centres will be combined, this ensuring high reliability for operating the information systems.

INFORMATION TECHNOLOGIES

With the aim to enhance the Company's information systems security, the following documents were drafted in 2008:

- › The procedure for coordinating the protection of information. The procedure for issuing the permission for commissioning was completed, the state of information protection was evaluated, and the report on ensuring the compliance with the requirements for information protection was compiled;
- › The procedure for protecting against malware software. The procedure for using antivirus software was completed, the antivirus software installation and configuration works completed, and the software was transferred into movable media that cannot be re-recorded, etc.;
- › The procedure for staff security. Job descriptions of every employee at AB Lietuvos Geležinkeliai having access to important information or information systems contain a provision related to their responsibility for information protection, a list of cancellation of accounts in the event of terminating the employment contract or upon expiry of the contracts for works or services provided by contractors was drafted;
- › The procedure for backup copying. A list of systems backup copies to be made by the IT centre was drafted, the backup copying equipment and software selected and installed, etc.;
- › The procedure for user access management and supervision. All information systems users were checked for unique names, the information systems with group user names were verified and identified, the rules for using passwords for access to information and information systems prepared;
- › The procedure for planning business continuity. The business continuity plan for information systems in emergency situations was worked out.

INTERNATIONAL RELATIONS

International relations

The development of international relations is one of the main trends in the activities of AB Lietuvos Geležinkeliai. International cooperation contributes to gaining importance on the market of transport services and makes an impact on the processes of the Company's strategic planning and formation of business environment. The Company's international relations policy is closely connected with the provisions of the EU transport policy.

Lithuania's geographic position and the existing business relations determine the presence of AB Lietuvos Geležinkeliai in the dimension of legal and economic regulation of the EU and CIS countries.

It is strategically important for AB Lietuvos Geležinkeliai to maintain good partner relations with railway undertakings from neighbouring countries. Production issues are being solved with specialist staff from Belarusian, Polish, Russian, Ukrainian, Latvian, and Estonian railway companies, as well as holding frequent meetings on discussing the issues related to traffic organisation, increase in freight volumes, and negotiations of border crossing contracts.

International relations are of great importance for improving the Company's image and marketing policy. The cooperation with logistics and forwarding companies from different countries is also very important.

On 9–12 January 2008 and 24–28 November 2008, the representatives of Azerbaijan State railway undertaking visited AB Lietuvos Geležinkeliai. During the visit they learnt about AB Lietuvos Geležinkeliai activities and the capacity to render quality freight services; they were also updated on the issues relating to the Company's restructuring and implementation of new technologies. The representatives of the World Bank having come together with the Azerbaijan delegation regarded the restructuring model of AB Lietuvos Geležinkeliai as a successful one, to be followed by railway companies in other countries.

On 10 January 2008, executives of Estonian railway undertaking visited AB Lietuvos Geležinkeliai. The issues relating to cooperation in the field of infrastructure management and maintenance were discussed during the meeting.

On 15 January 2008, the President of the Confederation of Swiss Railway Transport and Associated Companies, as well as members of the Swiss Chamber of Commerce Representative Office in the Baltic States based in Lithuania paid a visit to AB Lietuvos Geležinkeliai. During the meetings with our specialist staff, the possibilities for freight transportations through Lithuania were discussed; the representatives of AB Lietuvos Geležinkeliai were also familiarised with the passenger rolling stock produced in Switzerland.

On 7–8 February 2008, a tripartite meeting of representatives from Lithuanian, Belarusian, and Kaliningrad railway companies was held in Klaipėda. The parties discussed the issues relating to traffic organisation and management, exchange of timely information, and station operating technologies.

On 14–16 April 2008, a meeting of representatives from Lithuanian and Polish railway companies was held with the aim to discuss the renewal of passenger traffic on the line Vilnius–Warsaw.

On 18 April 2008, a multilateral meeting was organised in Klaipėda to discuss freight traffic along Lithuanian, Russian, Ukrainian, Belarusian, German, and Polish railways (East–West–East).

On 26–27 May 2008, representatives of PKP Cargo, Polish freight company, visited AB Lietuvos Geležinkeliai. They discussed the issues relating to an increase in freight flows from Poland to Lithuania by making the process of cargo reloading at Šeštokai freight station more effective.

The following foreign companies and organizations paid visits to and established cooperation relations with AB Lietuvos Geležinkeliai in 2008: Spanish company Indra, producer of equipment for rail infrastructure signal-

INTERNATIONAL RELATIONS

ling systems and traffic management centres, Association of Swedish companies producing different items for railway transport, representatives from French Chamber of Industry and Commerce Fekan Bollbek, as well as representatives of French company Lohr Industrie, producer of special railway platforms.

On 22–25 April 2008, the Company participated in Moscow International Transport and Logistics Exhibition TransRussia 2008. AB Lietuvos Geležinkeliai presented freight and passenger services, revealed its competitive advantages compared to other transport modes and neighbouring railway companies, established relations with new business partners and clients, e.g., Wagener and Herbst Management Consultants GmbH, the consortium of logistics centres and companies operating in Berlin and Brandenburg regions, as well as with Russkaya Troyka, major Russian freight and forwarding company. Meetings were held and cooperation agreements were signed with said companies.

AB Lietuvos Geležinkeliai have been actively participating in the activities of the following international organizations: CER (The Community of European Railway and Infrastructure Companies), UIC (International Union of Railways), OTIF (Intergovernmental Organisation for International Carriage by Rail), OSJD (Organisation for Cooperation of Railways), CCTST (International Coordinating Council on Transsiberian Transportation), and the Railway Transport Council of the CIS, Estonia, Latvia, and Lithuania. Important issues having a strategic impact on the activities of AB Lietuvos Geležinkeliai are being solved in these international organisations.

With AB Lietuvos Geležinkeliai integration into the EU railway system, the issues of technical interoperability specifications gain a vital importance. The Company's specialist staff have been participating in the activities of ERA's WP-1520 (The European Railway Agency). This working party carried out a study on the analysis of 1520 mm gauge technical parameters. The study was presented at the ERA's WP-1520 meeting held in Cracow, Poland, on 28–29 October 2008, and submitted to the European Commission in December.

A similar working party on the issues of 1520 mm gauge was set up at the CER. The Company's specialists responsible for technical interoperability have been participating in this working group. The questions of technical specifications important for our Company are being analysed and discussed in the meetings of said WP. CER's WP-1520 actively collaborates with the ERA.

On 5 November 2008, AB Lietuvos Geležinkeliai participated in the UIC General Assembly meeting on Common Components while implementing the TAF-TSI requirements of the EU Regulation held in Paris, where AB Lietuvos Geležinkeliai signed a Common Components agreement on exchanging information among the EU railway and infrastructure companies.

The issues of technical interoperability are being also discussed by the Company's specialist staff as technical experts in OSJD, where a joint ERA/OSJD working party was established with the aim to analyse the specificities of 1520/1524 mm and 1435 mm gauges.

Representatives of AB Lietuvos Geležinkeliai have been participating in the UIC's WP on illegal migration and Schengen aquis, where the issues related to setting border crossing procedures in the Schengen area are being discussed.

On 26 April–1 May 2008, AB Lietuvos Geležinkeliai participated in the OSJD Directors General 23rd conference held in Teheran (the Islamic Republic of Iran). This is one of the most important OSJD meetings organised once per year where the OSJD activity results and work plan for the coming year are being discussed.

On 29–30 May 2008, AB Lietuvos Geležinkeliai participated in the 48th meeting of the Railway Transport Council held in Bishkek (Kyrgyzstan). The issues of freight transportation results, wagon use statistics, international settlements for freight services and wagon use were discussed at the meeting.

INTERNATIONAL RELATIONS

On 3–6 June 2008, the 19th meeting of the participants of OSJD Committee and MTT (International Transit Tariff) Agreement was organised in Klaipėda.

On 21 July 2008, AB Lietuvos Geležinkeliai hosted in Vilnius the UEEIV (Union of European Railway Engineer Associations) seminar on Rail Baltica design and construction.

On 23–24 July 2008, James Pond, representative of the Transport and Energy Directorate of the European Commission responsible for the railway projects in the Baltic States financed by TEN-T funds, paid a visit to Lithuania. The aim of his visit was to discuss the issue of implementing the Rail Baltica project and to evaluate the status of Rail Baltica line from Kaunas to the Latvian border.

On 29–31 July 2008, the OSJD's SMPS (International Passenger Transport) working party meeting was held in Vilnius. Delegates from Russia, Ukraine, Belarus, the Czech Republic, Latvia, Poland, and Kazakhstan participated in the meeting.

On 8 October 2008, an agreement between AB Lietuvos Geležinkeliai and Belarusian Railways on cooperation in international traffic by rail was signed in Minsk.

On 13–17 October 2008, the Company hosted the training course within the framework of French–Egyptian Twinning project financed by the EU funds. Representatives of the Egyptian railway sector were familiarised with the projects implemented in Lithuanian railways.

On 12–13 November 2008, representatives of AB Lietuvos Geležinkeliai participated in the 17th meeting of CCTST. The issues of attracting extra freight to Transsiberian line, optimisation of freight traffic logistics schemes, development of logistics chains, and that of adjusting freight transportation tariffs were discussed in the meeting.

On 13–14 November 2008, a bilateral meeting of the representatives from AB Lietuvos Geležinkeliai and RZD, Russian Railways, was held aiming at discussing the possibilities to develop cooperation and increase freight flows to be transported through the territory of Lithuania.

On 20–21 November 2008, AB Lietuvos Geležinkeliai participated in the 49th meeting of the Railway Transport Council held in Kiev, Ukraine.

On 18 December 2008, a cooperation agreement was signed with the Russian freight forwarding company, Russkaya Troyka, on increasing freight flows to be transported from Western Europe to Russia through the territory of Lithuania.

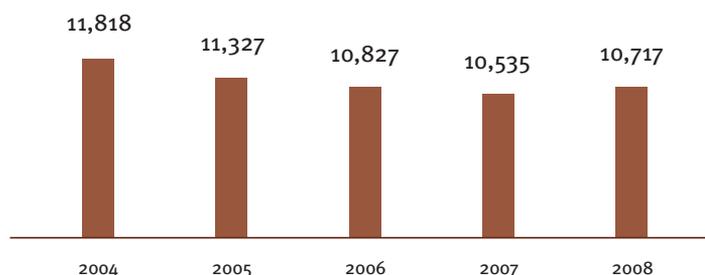
On 23 December 2008, a cooperation agreement was signed between AB Lietuvos Geležinkeliai, Wagener and Herbst Management Consultants GmbH, the consortium of German freight and logistics companies, and IPG Infrastruktur-Projekten-Twicklungsgesellschaft GmbH on intermediation and assistance in establishing the public logistics centre in Vilnius.

HUMAN RESOURCES

Human resources

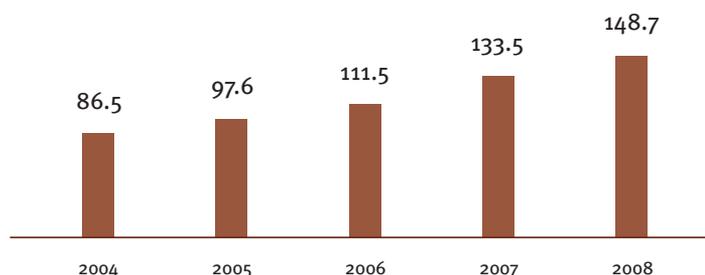
The Company employed 10,717 people in 2008. Compared to the previous year, the average number of employees had increased by 182.

Change in staff numbers



The labour productivity went up to LTL 148.7 thousand of sales income per employee, a rise of 11.4 per cent.

Change in labour efficiency (LTL thousand/worker)



One of the most important elements of social security was improvement in the remuneration and motivation system. The average level of monthly salaries increased by 20.5 per cent or LTL 502 and amounted to LTL 2,954, compared to the year 2007.

In order to effectively manage Kaunas Station and neighbouring interim stations, the Kaunas Region Stations Department was established in the Company in 2008.

In 2008, a total of 530 employees studied at universities and colleges, 21 contracts for partial financing of studies were signed. 169 employees completed their studies. In 2008, a total of 49 students were employed in the Company after they had graduated from universities or colleges.

Funds were allocated for maintaining the staff training, rehabilitation and recreation centre in Giruliai, as well as for the children's summer camp in Ignalina.

In 2008, about LTL 12 million was spent on occupational safety and healthcare.

HUMAN RESOURCES

As many as 6,379 employees were examined at medical institutions. Extensive medical examinations were performed to all the staff engaged in train traffic. The Company also signed contracts with Vilnius University Hospital Santariškių Clinics and UAB Elite Medicale, where medical checks were conducted to 300 employees.

1,411 employees received vaccination against tick-borne encephalitis, and 2,590 employees were vaccinated against flu.

The staff performing hazardous work are consistently trained and certified in occupational safety and healthcare.

A total of 8,340 workers were provided for with due means of individual protection.

The Company's specialist staff drafted or improved 124 instructions related to occupational safety and healthcare.

The attention was focused on the improvement in personnel management:

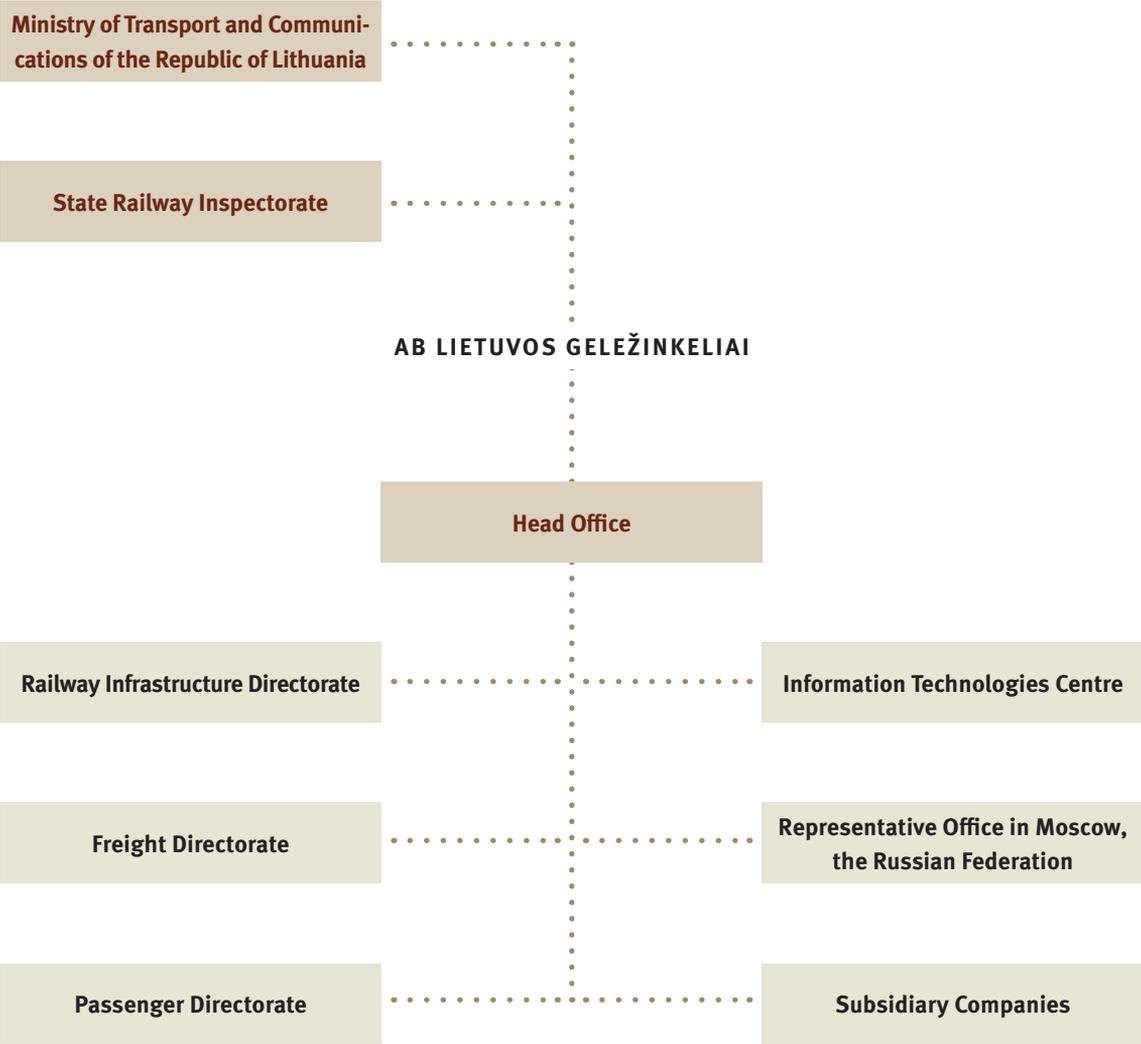
- › The procedure for staff search, selection, recruitment, adaptation, training and redundancy was drafted;
- › The project on evaluating the social and managerial competencies in AB Lietuvos Geležinkeliai was completed aiming at implementing the system of evaluating social competencies in personnel management. Social competencies of 995 administrative staff were evaluated, as well as assessing managerial competencies of 70 managers;
- › The Code of Conduct for the staff of AB Lietuvos Geležinkeliai was prepared and published;
- › in order to envisage the personnel policy, ensure human resources planning, develop specialist staff, set the main principles in personnel management, and to specify clearly and uniformly the personnel management function in separate divisions, the Strategy for AB Lietuvos Geležinkeliai Personnel Management by 2013 was devised.

In order to reach the centralised accounting of personnel, staff training and improvement of staff qualifications, working hours, remuneration, and employee's incomes, and to submit the mandatory statements to the state authorities, it was decided to implement the information system for personnel management and remuneration accounting. The terms of reference for this system were prepared.

The seminars on the application of the uniform staff remuneration and motivation system were conducted for trade union members and heads of divisions in 2008.

MANAGEMENT STRUCTURE

Management Structure of AB Lietuvos Geležinkeliai



MAIN EVENTS

Main events

1. 4 January 2008: Subsidiary company Vilniaus Lokomotyvų Remonto Depas presented the first modernised shunting locomotive ČME3.
2. 10 March 2008: The reconstructed Passenger Building at Kaunas Station was opened.
3. 16 June 2008: Modern diesel trains RA-2 produced in Metrovagonmash Plant, Russia, were launched on the lines of Lithuanian railways.
4. 2 October 2008: A new line Vilnius Railway Station–Vilnius International Airport–Vilnius Railway Station was opened; the railcar acquired from PESA Bydgoszcz Spolka Akcyjna Holding started operating on this line.
5. 2 October 2008: The first double-deck electric train manufactured in the Czech Republic was presented at Vilnius Railway Station.
6. October 2008: The wagon modernisation workshop at Radviliškis Wagon Depot started operating at full capacity.
7. 24 December 2008: Modern double-deck train EJ 575 manufactured in the Czech Republic was launched on the line Vilnius–Kaunas.
8. 18 December 2008: Valdas Adamkus, President of Lithuania, and Bronislovas Lubys, President of the Lithuanian Confederation of Industrialists, granted AB Lietuvos Geležinkeliai two gold medals of the competition Lithuanian Product of the Year 2008: one for the modernisation of shunting locomotives ČME3M, and another for the launch of a railcar between Vilnius Railway Station and Vilnius International Airport in early October.



ERNST & YOUNG

UAB „Ernst & Young Baltija“

Tulsiu gatvė 7
LT-00127 Vilnius
Lithuania

Tel.: +370 5 274 2100
Faks.: +370 5 274 2111
ernstyoung.com
www.ey.com/lt

Įmonės kodas: 300878442
PVM kodas: LT300878442
Įrašytas įmonės registre

Ernst & Young Baltija UAB

Tulsiu gatvė 7
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Lithuania

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ernstyoung.com
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Code of legal entity: 300878442
VAT code: LT300878442
Register of Legal Entities

To the shareholder of AB Lietuvos Geležinkeliai

We have performed an audit of the complete set of financial statements of AB Lietuvos Geležinkeliai (hereinafter the Company), based on which the accompanying balance sheets of the Company and the Group as of 31 December 2008 and the income statements for the year then ended were prepared. As required by Business Accounting Standards of the Republic of Lithuania, the statements of changes in equity, the cash flow statements and explanatory notes are included in the above mentioned complete set of financial statements along with the balance sheets and income statements hereby attached. On 20 March 2009 we have expressed the following opinion on the complete set of financial statements of AB Lietuvos Geležinkeliai, which are available at the Company upon request:

“Report on the Financial Statements

We have audited the accompanying financial statements of AB Lietuvos Geležinkeliai, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Lietuvos Geležinkeliai and its subsidiaries (hereinafter the Group), which comprise the balance sheets as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management’s Responsibility for the Financial Statements

The Company’s management is responsible for the preparation and fair presentation of these financial statements in accordance with Business Accounting Standards of the Republic of Lithuania. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with Business Accounting Standards of the Republic of Lithuania.



Emphasis of Matter

Without qualifying our opinion we draw your attention to the Note 9 of these financial statements, where indicated, that in 2008 trade receivables mainly increased due to outstanding debt from AB Mažeikų Nafta amounting to LTL 71 833 thousand. AB Mažeikų Nafta does not agree with the basic tariffs applied by the Company (Note 27), and therefore does not repay the debt. Due to this reason the Company brought AB Mažeikų Nafta to court. In turn AB Mažeikų Nafta gave counterclaim to the Company (Note 27). As at the date of audit opinion the Company did not have any reliable information about the probable end of these claims, therefore no adjustments were made in these financial statements related to this significant contingency.

Report on Other Legal and Regulatory Requirements

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

The audit was completed on 20 March 2009.*

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001235



Jonat Mikelis
Auditor's licence
No. 000003
President

BALANCE SHEETS

Balance sheets

		GROUP		COMPANY	
		As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
ASSETS					
A.	NON-CURRENT ASSETS	3 658 273 725	2 896 939 620	3 727 811 737	2 940 716 828
I.	Intangible assets	16 857 929	17 316 449	16 735 367	17 167 944
II.	Property, plant and equipment	3 625 300 433	2 867 249 598	3 583 833 974	2 808 372 431
II.1.	Land and buildings	738 006 713	650 855 244	718 833 886	630 852 933
II.2.	Structures and machinery	1 371 029 051	1 173 515 422	1 346 214 756	1 123 238 205
II.3.	Vehicles	837 552 616	372 900 559	839 036 792	371 461 598
II.4.	Other equipment and tools	25 958 418	26 272 712	23 846 033	24 037 592
II.5.	Other property, plant and equipment	140 438 578	129 291 843	135 278 570	129 117 493
II.6.	Construction in progress and prepayments	510 917 017	512 706 361	519 225 897	527 957 153
II.7.	Investment property	1 398 040	1 707 457	1 398 040	1 707 457
II.7.1.	Buildings	1 398 040	1 707 457	1 398 040	1 707 457
III.	Financial assets	6 733 982	5 785 765	118 663 573	109 013 982
III.1.	Investments into subsidiaries and associated companies	6 544 238	5 514 396	118 473 830	108 742 613
III.2.	Non-current receivables	189 744	271 369	189 743	271 369
IV.	Other non-current assets	9 381 381	6 587 808	8 578 823	6 162 471
IV.1.	Deferred income tax asset	9 381 381	6 587 808	8 578 823	6 162 471
B.	CURRENT ASSETS	404 794 903	391 680 203	343 854 063	338 516 303
I.	Inventories, prepayments and contracts in progress	145 314 979	135 596 287	112 263 325	109 153 722
I.1.	Inventories	124 626 507	108 097 984	99 744 799	89 887 869
I.2.	Property, plant and equipment held for sale	3 140 974	3 458 860	3 140 974	3 458 860
I.3.	Prepayments	17 547 498	23 983 044	9 377 552	15 806 993
I.4.	Contracts in progress	–	56 399	–	–
II.	Current receivables	200 995 710	130 665 267	189 767 891	131 150 142
II.1.	Trade receivables	155 357 915	100 751 465	142 656 881	94 494 991
II.2.	Receivables from subsidiaries and associated companies	21 087	25 129	1 067 603	918 761
II.3.	Other receivables	45 616 708	29 888 673	46 043 407	35 736 390
III.	Other current assets	89 679	32 129 584	88 669	30 021 924
III.1.	Bonds	–	29 999 872	–	29 999 872
III.2.	Other current investments	–	2 099 071	–	–
III.3.	Other current assets	89 679	30 641	88 669	22 052
IV.	Cash and cash equivalents	58 394 535	93 289 065	41 734 178	68 190 515
	TOTAL ASSETS	4 063 068 628	3 288 619 823	4 071 665 800	3 279 233 131

BALANCE SHEETS

Balance sheets (cont'd)

		GROUP		COMPANY	
		As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
C.	EQUITY AND LIABILITIES	2 241 893 681	2 081 624 534	2 241 893 681	2 081 624 534
I.	Equity	2 089 814 899	1 672 129 781	2 089 814 899	1 672 129 781
I.1.	Share capital (signed)	2 089 812 000	1 672 128 000	2 089 812 000	1 672 128 000
I.2.	Share premium	2 899	1 781	2 899	1 781
II.	Revaluation reserve (results)	–	–	–	–
III.	Reserves	42 399 601	275 904 186	42 399 601	275 904 186
III.1.	Legal reserve	31 000 000	21 000 000	31 000 000	21 000 000
III.2.	Other reserves	11 399 601	254 904 186	11 399 601	254 904 186
IV.	Retained earnings (deficit)	109 679 181	133 590 567	109 679 181	133 590 567
IV.1.	Current year's profit (loss)	109 679 181	133 590 558	109 679 181	133 590 558
IV.2.	Previous year's profit (loss)	–	9	–	9
D.	GRANTS AND SUBSIDIES	898 520 374	650 129 120	898 383 052	649 970 606
E.	LIABILITIES	922 654 573	556 866 169	931 389 067	547 637 991
I.	Non-current liabilities	422 428 781	251 057 468	415 598 018	242 326 027
I.1.	Financial borrowings	412 769 031	234 552 675	406 953 411	225 821 234
I.2.	Provisions	9 645 143	16 490 186	8 630 000	16 490 186
I.3.	Other accounts payable and non-current liabilities	14 607	14 607	14 607	14 607
II.	Current liabilities	500 225 792	305 808 701	515 791 049	305 311 964
II.1.	Current portion of non-current borrowings	41 209 230	36 541 263	38 293 409	33 625 442
II.2.	Financial borrowings	–	2 629 872	–	–
II.3.	Trade payables	278 532 747	149 577 040	253 709 966	140 016 016
II.4.	Accounts payable to subsidiaries and associated companies	2 957 409	142 721	61 858 032	23 575 712
II.5.	Advances received	8 183 791	7 222 087	7 843 716	7 209 830
II.6.	Taxes payable	9 696 161	12 064 476	1 097 890	9 948 617
II.6.1.	Income tax liabilities	1 221 203	9 025 099	–	8 786 261
II.6.2.	Other taxes	8 474 958	3 039 377	1 097 890	1 162 356
II.7.	Labour-related liabilities	72 594 249	59 663 449	66 151 592	53 495 233
II.8.	Provisions	1 712 787	10 349 498	1 588 231	10 051 646
II.9.	Other accounts payable and current liabilities	85 339 418	27 618 295	85 248 213	27 389 468
	TOTAL EQUITY AND LIABILITIES	4 063 068 628	3 288 619 823	4 071 665 800	3 279 233 131

INCOME STATEMENTS

Income statements

		GROUP		COMPANY	
		2008	2007	2008	2007
I.	Sales	1 596 881 697	1 409 795 727	1 593 914 347	1 406 947 649
II.	Cost of sales	(1 294 980 201)	(1 095 117 301)	(1 308 552 357)	(1 103 979 825)
III.	Gross profit	301 901 496	314 678 426	285 361 990	302 967 824
IV.	Operating expenses	(185 268 269)	(157 609 764)	(171 583 553)	(146 110 269)
V.	Profit from operations	116 633 227	157 068 662	113 778 437	156 857 555
VI.	Other activities				
VI.1.	Income	22 686 165	13 729 882	19 971 998	14 081 994
VI.2.	Expenses	(5 022 041)	(1 606 905)	(2 398 532)	(2 159 976)
		17 664 124	12 122 977	17 573 466	11 922 018
VII.	Financial and investing activities				
VII.1.	Income	18 027 689	12 589 635	18 663 114	12 158 626
VII.2.	Expenses	(24 199 954)	(16 879 729)	(23 462 148)	(16 944 022)
		(6 172 265)	(4 290 094)	(4 799 034)	(4 785 396)
VIII.	Profit from ordinary activities	128 125 086	164 901 545	126 552 869	163 994 177
IX.	Extraordinary gain	–	–	–	–
X.	Extraordinary loss	–	–	–	–
XI.	Profit before tax	128 125 086	164 901 545	126 552 869	163 994 177
XII.	Income tax	(18 445 905)	(31 310 987)	(16 873 688)	(30 403 619)
XIII.	Net profit	109 679 181	133 590 558	109 679 181	133 590 558

AB Lietuvos Geležinkeliai

Mindaugo g. 12/14

LT-03603 Vilnius

Tel. + 370 5 269 2038

Faks. + 370 5 269 2128

e-mail: lgkanc@litrail.lt

www.litrail.lt