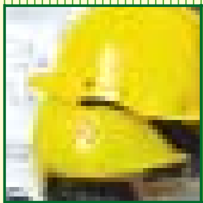
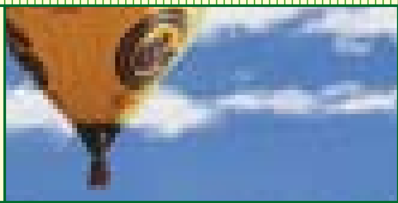
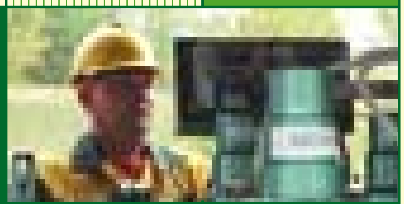
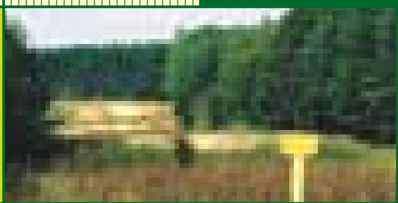
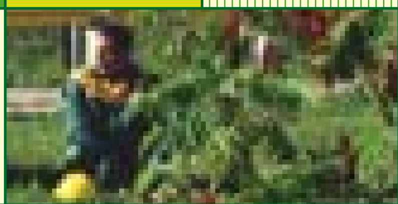
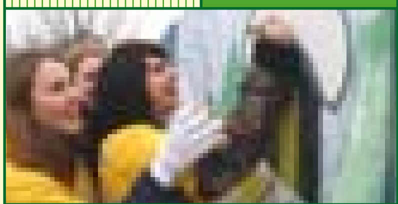
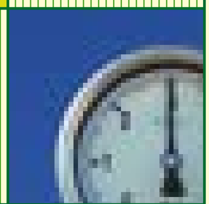
Annual Report 2003

LIETUVOS DUJOS

On 23 January 2004, representatives from the state enterprise State Property Fund and OAO Gazprom signed the sale-purchase agreement for a 34% stake in Lietuvos Dujos. Alexander Ryazanov, Deputy Chairman, Gazprom's Management Committee, and Povilas Milašauskas, General Manager, State Property Fund.

LIETUVOS DUJOS

AB Lietuvos Dujos
Annual Report 2003

On April 28, 2004, AB Lietuvos Dujos Annual Report 2003 was approved by the General Meeting of the Company's Shareholders.

CONTENTS

CHAIRMAN'S STATEMENT

In 2003, Lietuvos Dujos successfully met competitive challenges of the Lithuanian energy market. Natural gas competes in particular with heavy fuel oil and other oil products, orimulsion, wood chips, peat and LPG. In addition, Lietuvos Dujos competes with the Company Dujotekana, the natural gas sales market leader in Lithuania.

Although oil prices stayed on a high level and natural gas prices increased in many European countries, Lietuvos Dujos considerably lowered gas prices for consumers three times in a row, on 1 January 2003, 1 July 2003 and 1 January 2004. Consequently, natural gas is currently highly competitive in relation to heavy fuel oil in Lithuania. However, this situation may change; in 1999, for instance, natural gas lost a significant market share to oil due to low oil prices. To be prepared for such risks, Lietuvos Dujos successfully enhanced efficiency of its activity.

Compared with 2002, natural gas consumption in Lithuania increased by 8% in 2003. This was due to both colder winter temperatures and new customers. Gas consumption of existing customers generally decreases due to efficiency gains. Therefore, new customers are important for the growth of gas sales. In 2003, Lietuvos Dujos connected almost 3.5 thousand new customers compared to nearly 3 thousand in 2002. For 2004 a further increase is planned. Furthermore, in 2004, Lietuvos Dujos will start major investment projects like design work for the pipeline to Kaliningrad in order to increase gas transit, the construction of the pipeline to Visaginas and the construction of a new Metering Station on the border with Latvia. Moreover, Lietuvos Dujos is exploring the geological structure near Vaškai, which may be suitable for gas storage.

In 2003, Lietuvos Dujos increased its gas sales volumes by 42.5%, well above the growth rate of the market. The share of Lietuvos Dujos in the unregulated part of the market increased from 1.7% in 2002 to 11.5% in 2003. This was primarily due to the tender for gas supply to the Company Lietuvos Elektrinė, which Lietuvos Dujos won in competition with two other gas companies. Lietuvos Dujos enhanced gas-to-gas competition in Lithuania. The prices for unregulated customers fell strongly between the 1st half of 2002 and the 2nd half of 2003 – despite an increase in gas purchase prices and opposite trends on the international energy markets. This decrease, however, is also due to the currency-exchange development.

The performance of Lietuvos Dujos in the future will depend on a stable regulatory regime for access to the network and on the part of the regulated residential and commercial customers in the market. Natural gas prices of customers consuming more than 1 MCM/a should not be regulated, but negotiated freely to let market forces work. Furthermore, the EU Directive states that all consumers, except households, will become eligible consumers from 1 July 2004. We hope that this provision will be implemented transparently and neither gas consumers nor gas suppliers will be discriminated.

The conclusion of a long-term gas supply agreement with OAO Gazprom and the participation of Gazprom as shareholder in Lietuvos Dujos will contribute to ensuring the stability of gas deliveries at market-based, reasonable prices for consumers and to achieving a stable development of Lietuvos Dujos.

Dr. Eike Benke
Chairman of the Board of Directors

AB LIETUVOS DUJOS ANNUAL REPORT 2003

GENERAL MANAGER'S REPORT

The financial year 2003 was a successful one for the Company. We managed to increase the volume of gas sales to customers by 42.5% bringing the current market share of the Company to 28.6% of the total consumption of natural gas in Lithuania. More than 130 km of gas pipelines were built, allowing the connection of almost 3.5 thousand new customers. 41.9 million Litas were invested. In 2002, Lietuvos Dujos covered the losses brought forward from previous financial years. The result of the financial year 2003, a net profit of 61.8 million Litas, gives hope for further stable growth of the Company. The profitability per share reached 0.18 Litas.

It is important to note that the Company's obligations to financial institutions have been decreasing significantly. In 2003, financial debts were reduced by more than 110 million Litas. Positive financial results allow the Company to pay to its shareholders a total amount of 22 million Litas in dividends at the end of 2003, i.e. by 50% more than in 2002.

The activities of the Company, as well as the natural gas market, depend on a number of factors. The Annual Report of the Board of Directors of Lietuvos Dujos provides more detailed information on the changes in and development of various Company activities. I would like to underline just a few of the most significant Company events.

It is important to mention an integrated project of internal restructuring. The newly restructured organisational management structure of the Company, revision of functions and responsibilities as well as principles of organisation of work will ensure better planning and control of Company activities and an increase in its efficiency in the future. The analysis which was carried out allowed abandoning areas of activity which were not typical for the Company, while the main focus fell on customers, marketing, development and day-to-day activities. Experts of Ruhrgas AG provided significant technical assistance in this project. The results of close cooperation between the two companies are also evident in the areas of anticorrosion protection of pipelines, improvement in the efficiency of compressor station equipment and environmental protection.

2003 was a more stable year for the Company. However, newly adopted EU legislation poses new challenges for market players. It will be necessary to continue internal restructuring of Lietuvos Dujos. The anticipated further opening up of the market in the future demands that the Company begin the necessary preparations immediately.

In 2003, negotiations were continued with OAO Gazprom for the sale of a 34% stake in the Company. In January 2004, the share sale agreement was signed. After the closure of this deal, Company management was handed over to shareholders Ruhrgas AG and OAO Gazprom, which have international experience and a good reputation. It is the opinion of Company shareholders and management that the Company's main goal is to ensure the reliability of gas supply. The successful completion of negotiations with the gas supplier for a long-term natural gas supply agreement promises stability and the sustainable planning of future Company activities. Successful privatisation ensures the continuity of large investment projects related to the reliability of gas supply.

In trying to strengthen the Company's competitive edge in the market and continuously increase customer knowledge of natural gas, we further pursued fundamental issues related to the planning of our operations, especially in the fields of finance, investment and development of human resources.

Constructive dialogue and cooperation with trade unions and shareholders enabled us to sign a new collective agreement which provides more guarantees for our staff. These measures improved the microclimate and reinforced the prestige of Lietuvos Dujos as one of the largest employers in Lithuania. Together with our branches we took part in a number of regional events, exhibitions and promotional campaigns, which allowed us to strengthen our relations with the public.

I would like to acknowledge the staff of the Company for their creativity and contribution to the Company's successful performance in the financial year 2003.

Viktoras Valentukevičius
General Manager

Vilnius, 28 April 2004

The hot-air balloon of Lietuvos Dujos participated in the 2003 European Championships of Hot-Air Balloons which for the first time took place in Lithuania on 8-17 August.

MAJOR DEVELOPMENTS IN THE LITHUANIAN GAS SECTOR IN 2003

(according to the press, official institutions and Lietuvos Dujos (hereinafter LD))

January
On 1 January, new tariffs for natural gas transmission and distribution services entered into force. On this date also new natural gas prices for regulated consumers became effective (including transportation).

On 30-31 January, a meeting between the representatives of state enterprise State Property Fund and OAO Gazprom took place to negotiate on the draft purchase-sale agreement for the 34% state-owned stake in Lietuvos Dujos (LD) and draft shareholders agreement. The negotiations on shareholders agreement were also attended by the representatives of Ruhrgas AG and E.ON Energie AG consortium.

On 31 January, Algirdas Brazauskas, Prime Minister of the Republic of Lithuania, met with Alexander Ryazanov, Deputy Chairman of Gazprom's Management Committee, in Vilnius to discuss the process of privatisation of 34% stake in LD. It was noted during the meeting that both sides managed to agree on the key issues of the transaction, except for the price of shares offered.

March
On 5 March, the Government of the Republic of Lithuania extended the deadline of the privatisation tender for the submission of final bid for the 34% stake in LD until 11 April 2003.

On 20-21 March, a meeting between the representatives of state enterprise State Property Fund and OAO Gazprom took place to negotiate on the draft purchase-sale agreement for the 34% state-owned stake in LD, draft shareholders agreement and draft agreement on long-term gas supply. The negotiations on shareholders agreement were also attended by the representatives of Ruhrgas AG and E.ON Energie AG consortium.

April
On 11 April, the state enterprise State Property Fund received the final bid of OAO Gazprom in the LD privatisation tender.

On 30 April, the state enterprise State Property Fund asked OAO Gazprom to improve the final bid.

May
On 15 May, the Minister of Economy approved the new Regulations for Operation of Gas Transmission Pipelines. Documents intended for the gas sector were removed from the list of temporarily applicable legal acts.

On 28 May, the management of LD and the representatives of trade unions completed their negotiations and signed the collective agreement.

June
On 24 June, the Seimas of the Republic of Lithuania supplemented the Law on Energy of the Republic of Lithuania. Under the new wording of the Law, the companies operating energy facilities have to be certified.

July
On 1 July, new natural gas prices for the regulated consumers entered into force. Compared with the previous ones, these prices were reduced by 7.9% on average. They were in effect until 31 December.

On 15 July, the Government of the Republic of Lithuania repealed the clause of the Licensing Regulations for Natural Gas Transmission, Distribution, Storage and Supply which imposed the regulation of natural gas supply prices for the eligible consumers.

On 15 July, the Board of Directors of LD approved the new organisational management structure of the Company which definitively entered into force on 1 January 2004.

On 29 July, Ruslanas Gerasimovas resigned from the position of the member of the Board of Directors of LD.

August
The hot-air balloon of LD participated in the 2003 European Championships of Hot-Air Balloons which for the first time took place in Lithuania on 8-17 August.

On 11 August, the state enterprise State Property Fund received an improved financial proposal from OAO Gazprom for the privatisation of 34% stake in LD.

September
On 10 September, LD joined Gas Transmission Europe, association representing the gas transmission companies in Europe.

On 24 September, the Government of the Republic of Lithuania approved the improved sale price of 34% state-owned stake in LD as well as further negotiations with OAO Gazprom.

October
On 2 October, Algirdas Brazauskas, Prime Minister of the Republic of Lithuania, met with Alexander Ryazanov, Deputy Chairman of Gazprom's Management Committee, to discuss the process and terms of LD privatisation.

On 15-16 October, managers of LD, Latvijas Gaze A/S and Eesti Gaas AS met in Vilnius to discuss the possibilities for continuous cooperation.

November
On 18 November, the Minister of Economy passed the decree and established that the consumers who annually consume more than 1 MCM of natural gas are also regarded as eligible ones.

On 29 November, LD announced new natural gas prices for the regulated consumers. Compared with the previous ones, these prices were reduced by 2.3% on average and they entered into force on 1 January 2004.

December
On 4 December, the state enterprise State Property Fund and OAO Gazprom approved the draft purchase-sale agreement for the 34% state-owned stake in LD.

On 11 December, the European Bank for Reconstruction and Development, acting on behalf of European donors, and LD signed a grant agreement for the pipeline project to connect Visaginas and the Ignalina NPP to the gas network.

On 12 December, the Government of the Republic of Lithuania accepted the request of E.ON Energie AG to transfer its shares in LD to Ruhrgas Energie Beteiligungs AG. On 18 December, the shares were actually transferred.

On 29 December, the fortieth anniversary of natural gas introduction to town was celebrated in Panevėžys. LD organised a public youth event in Panevėžys. A press conference was held.

MANAGEMENT AND BUSINESS ORGANISATION

Business Vision

In the immediate future, AB Lietuvos Dujos (LD) is going to continue focusing its business activities on natural gas transmission, distribution, supply and natural gas market development.

LD will seek to maintain its leadership in the fields of natural gas transmission and distribution. Also, the Company is going to increase its market share in the field of natural gas supply. LD is going to develop its natural gas infrastructure with a particular emphasis on the reliability of the natural gas supply system and environmental issues.

More efforts will be devoted to promoting public awareness about natural gas as an environment-friendly, multi-functional and reliable fuel. LD is going to pursue a more targeted marketing policy.

LD is going to organise its business activities in such a way that all services rendered and tasks carried out by the Company are technically advanced and professionally accomplished.

Objectives of Business Activities

The following objectives of the Company's business activities have been singled out in the Bylaws of LD and were pursued in 2003:
- supply consumers in Lithuania with natural gas;
- develop and expand the gas sector in Lithuania;
- operate natural gas supply systems in a safe manner;
- make the most efficient use of the Company's assets as well as other resources;
- seek profit in order to ensure the property interests of shareholders.

In continuing the restructuring project launched in the Company in 2002, the comprehensive analysis of business activities of LD was carried out in 2003. Special task forces of LD employees submitted their conclusions on more efficient distribution of functions and responsibilities among the individual branches and employees of the Company.

In 2003, all actions necessary for the implementation of the new organisational management structure of LD were taken so that the new structure could be fully operational from 1 January 2004.

In its preparation to joint the European Union (EU), Lithuania has adopted and transposed the main provisions regulating the EU energy sector into the national legislation. The Law on Natural Gas, which entered into force in 2001, was harmonised with the Directive 98/30/EC establishing the common rules for EU internal market of natural gas.

The transposition of the provisions of the new Directive 2003/55/EC, which entered into force on 26 June 2003, should be completed by Lithuania. LD is considering possible options of restructuring its business activities accordingly.

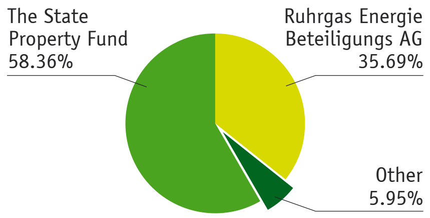
Shareholders of the Company

The authorised capital of LD was 340,877,835 Litas as of 31 December 2003. It is divided into 340,877,835 ordinary registered shares of the nominal value of 1 (one) Litas. The state owned 198,928,831 shares, or 58.36% of the authorised capital. The stake was held in trust by the state enterprise State Property Fund.

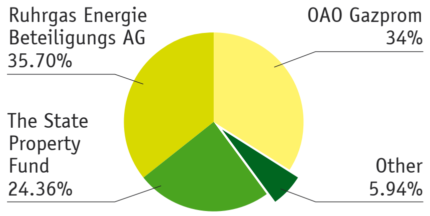
On 31 December 2003, Ruhrgas Energie Beteiligungs AG held 121,689,589 shares, or 35.69% stake in the authorised capital. Other foreign and domestic natural and legal entities held 5.95% of shares.

After approval of the Government of the Republic of Lithuania given on 12 December 2003, E.ON Energie AG

LD shareholders as of 31 December 2003



LD shareholders as of 24 March 2004



transferred its stake in LD to Ruhrgas Energie Beteiligungs AG on 18 December 2003. Ruhrgas Energie Beteiligungs AG is a 100% subsidiary of Ruhrgas AG. The LD shares were concentrated in this subsidiary in order to simplify the relationship between LD and shareholders.

Management

In 2003, LD continued to operate as a vertically integrated enterprise. General decisions were delegated to the authority of the Board of Directors while the decisions were implemented and day-to-day activities were managed by the General Manager. The Company was operating on the entire territory of Lithuania through its branches.

LD Centre of Administration and Gas Transmission, including two transmission pipeline units (of Vilnius and Panevėžys),

Management structure since 1 January 2004

Shareholders

Board of Directors

General Manager

Centre of Administration & Gas Transmission	Distribution Branches in the cities: Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys
	Divisions in towns & regions' centres
Functions: administration, transmission system operator, gas import, gas sales to eligible customers, gas transit	Functions: distribution system operator, gas sales to regulated customers

On 24 March 2004, prior to concluding the deal on sale-purchase of the Company's shares Alexander Ryazanov, Deputy Chairman of Gazprom's Management Committee, and Viktoras Valentukevičius, General Manager, Lietuvos Dujos, exchange copies of the signed long-term natural gas supply agreement.

The Board of Directors of the year 2003 (from left):
Vladas Kazimieras Gagilas, Director of the Energy Resources Department, Ministry of Economy;
Andrius Šukys, Property Management Director, State Property Fund;
Dr. Eike Benke (Chairman), Vice-president, Ruhrgas AG; member of the Executive Board, Ruhrgas Energie Beteiligungs AG;
and Dr. Thomas Meyer, Head of Corporate Development Europe, E.ON Energie AG.
Mr. Ruslanas Gerasimovas is missing in the photo: from 29 July 2003 he resigned from the position of the member of the Board of Directors.

AB LIETUVOS DUJOS ANNUAL REPORT 2003

was responsible for the administration of LD, organisation and control of activities and proper functioning of the transmission pipeline system.

On 15 July 2003, the Board of Directors of LD approved the new organisational management structure of the Company which was put in place on 1 January 2004. The new structure is outlined in the diagram in page No. 8.

Branches of the Company

In 2003, there were no changes in the number of LD branches directly working with consumers. Five regional natural gas distribution centres in Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys had the status of the branch.

LD branches do not have legal personality and operate on behalf of the Company pursuant to the Bylaws of LD, regulations of the branches and authorisations given by the General Manager.

The layout of LD regional natural gas distribution branches was made according to the administrative division of Lithuania into counties and according to relevant concentration of natural gas consumers. The branches operated within the territories allocated to them. According to the regulations of the branches approved by the Board of Directors, the key functions of regional gas distribution branches were as follows:
- maintenance of the territorial gas distribution infrastructure;
- gas supply to consumers;
- searching for new consumers, development of new distribution networks;
- provision of services related to the consumption of natural gas.

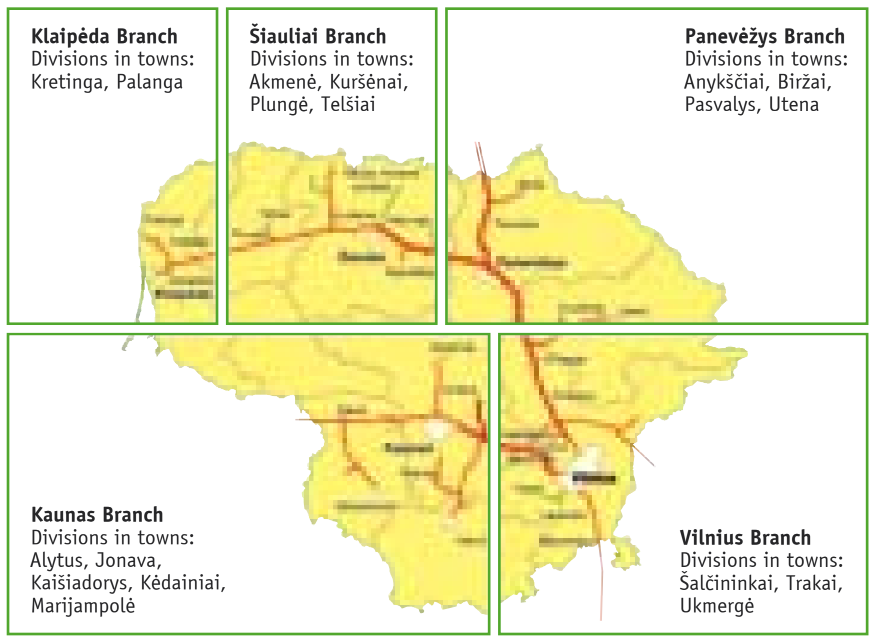
In 2003, the Training Centre (TC), a branch of LD, provided training to the staff operating in the gas sector under the labour market training courses approved by the Ministry of Education. The TC organised both specialised and general training courses for LD staff of various levels, gas consumers and other persons who wished to take part in training.

The restructuring project of LD provides for the change in the status of the TC. The TC lost the status of the branch as of 1 January 2004 and was integrated into the LD Human Resources Division.

Subsidiary Company. Financial Assets

LD has one subsidiary company, UAB Palangos Perlas. The authorised capital of the subsidiary company was 10,342,798 Litas as of 31 December 2003. LD held all shares in UAB Palangos Perlas.

Operating territories of branches since 1 January 2004



UAB Palangos Perlas owns the Palanga-based hotel Žydroji Liepsna and the seasonal recreation facilities located in Šventoji. The hotel Žydroji Liepsna has 30 rooms and a modern conference hall. The hotel is not only a place for recreation but also for seminars, conferences and other events. In 2004, the hotel should be awarded the category 3.

According to the procedure for representation of shares owned by LD in other companies by the right of ownership which was approved by the Board of Directors, the decisions of the General Manager of LD have the same effect as the resolutions of the General Meeting of Shareholders of UAB Palangos Perlas. LD has the right to appoint the manager of the subsidiary company who acts independently and manages all day-to-day activities.

In 2003, LD did not acquire or transfer its own shares or shares in other companies. The value of other financial assets of LD was 17,526 Litas.

Board of Directors of LD. Key Decisions

In 2003, the Board of Directors consisting of the following five members elected by the General Meeting of Shareholders of the Company on 27 June 2002 continued in office:
- Dr. Eike Benke, Vice-president of Ruhrgas AG, member of the Executive Board of Ruhrgas Energie Beteiligungs AG;
- Vladas Kazimieras Gagilas, Director of the Energy Resources Department of the Ministry of Economy;
- Ruslanas Gerasimovas, Head of the Legal Department of the Ministry of Economy;
- Dr. Thomas Meyer, Head of Corporate Development Europe of E.ON Energie AG;
- Andrius Šukys, Property Management Director of the state enterprise State Property Fund.

In 2003, Dr. Eike Benke acted as the Chairman of the Board of Directors. Ruslanas Gerasimovas resigned from the position of the member of the Board of Directors from 29 July 2003.

Aiming at bringing LD closer to meeting the requirements of modern gas sector, the Board of Directors approved a new organisational management structure of the Company in 2003.

In 2003, several key decisions were made regarding new large investment projects. The Board of Directors approved the construction of a pipeline system to the town of Visaginas and the Ignalina Nuclear Power Plant (NPP). This project is co-financed by the International Ignalina NPP Decommissioning Support Fund administered by the European Bank for Reconstruction and Development (EBRD), the National Ignalina NPP Decommissioning Support Fund, and LD. Construction will commence in 2004 and is due to be finished in summer 2005. As another major investment the Board of Directors approved a geological investigation of the potential natural gas storage site near Vaškai. Results of this investigation are expected for summer 2004. Moreover, the Board of Directors adopted all necessary decisions for the preparation of the construction of the Border Metering Station at the Lithuanian-Latvian border. Together with experts from Ruhrgas AG, the detailed design of this station was optimized. Construction is planned to start in 2004. In addition to such major projects, the Board of Directors drew important decisions on an increasing number of gasification projects.

In 2003, other issues delegated to the competence of the Board of Directors were discussed at its meetings. The approval was given to the reduction of natural gas prices for consumers, and funds were allocated for buying back of natural gas systems for common needs from the consumers.

PRIVATISATION OF THE COMPANY

The main provisions of LD privatisation set forth in the Resolution No. 246 of the Government of the Republic of Lithuania of 2 March 2000 (including subsequent amendments) are as follows:
- the Company shall be privatised by selling part of the state-owned shares;
- 34% of the Company's shares shall be sold to a strategic investor or consortium through a public tender;
- 34% of the Company's shares shall be sold to a natural gas supplier or consortium through a public tender;
- offering of LD shares to a natural gas supplier shall take place after a stake in LD has been sold to the strategic investor.

The first stage of LD privatisation was completed in 2002. On 17 May, the state enterprise State Property Fund and the consortium of Ruhrgas AG and E.ON Energie AG signed the purchase-sale agreement for the 34% stake in LD. On 26 June, the share purchase-sale transaction was completed and the shareholders agreement on the cooperation in the management of LD was signed between the State Property Fund and the consortium.

In 2003, the negotiations on the sale of the stake in LD to the gas supplier continued. OAO Gazprom became a potential buyer as far back as 2002 when the Government approved the list of potential LD buyers – gas suppliers in October indicating therein a single buyer – Gazprom. The negotiations with Gazprom continued regarding the signing of the share purchase-sale agreement, the shareholders agreement and the long-term gas supply agreement.

In July 2003, seeking to create a more favourable environment for the completion of negotiations with Gazprom and the conclusion of a long-term gas supply agreement, the Government repealed the regulation of gas supply prices for the eligible consumers. Pursuant to the decree of the Minister of Economy adopted in November 2003, consumers who annually consume more than 1 MCM of natural gas are also regarded as eligible consumers.

In September 2003, the Government approved the sale of 34% state-owned stake in LD and gave its consent to continue the negotiations with Gazprom on the improvement of terms and conditions of the share sale.

Early in December 2003, the State Property Fund and Gazprom approved the purchase agreement for the 34% state-owned stake in LD.

RESTRUCTURING

At the end of 2002, the restructuring project was launched in the Company in order to increase the efficiency of LD operations and to prepare for work under EU economic conditions. One of the key restructuring objectives was the strengthening of the main functions of the Company such as contacts with consumers and market development. Another aim was to eliminate the historic differences in the principles of work organisation in similar regional units of LD with further gradual reduction of sideline activities.

The integrated analysis of fields of activity and processes of LD allowed to make relevant conclusions on more efficient distribution of functions and responsibilities among individual units and employees of the Company. On 15 July 2003, the Board of Directors approved the new organisational management structure of LD. The deadline for the implementation was set as 1 January 2004. Since then the Company undertook intensive preparatory work for the transitional period. Appropriate efficiency criteria were used to determine the number of employees in the newly structured LD, functions of structural units, their composition and responsibilities. All necessary internal legal acts were drawn up. The representatives of trade unions also took an active role in the restructuring of LD.

There were no changes in the number of LD branches directly working with natural gas consumers. As before, LD has five regional branches in Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys.

This restructuring is one of the most comprehensive integrated reforms in the activities of LD in recent years.

CHANGES IN THE LEGAL BUSINESS ENVIRONMENT

Non Cost Reflective Calculation of Distribution Tariffs

The Regulations for Natural Gas Transmission, Distribution, Storage and Supply (the Regulations), as approved by the Minister of Economy on 5 February 2002, lay down the procedure for operation of the natural gas supply system, detail the Law on Natural Gas and enable the implementation of the main provisions of the Law.

Clause 143 of these Regulations defines on which basis the natural gas distribution tariff is calculated. This tariff depends on the natural gas quantity. According to international practice and corresponding to the associated distribution costs, the gas quantities consumed at each specific delivery point shall be taken as a basis. This was provided for in the first version of clause 143. However, at the initiative of heat suppliers, LD was faced with four versions of this clause in the course of two years. Each version moved further and further away from the above mentioned principle, reflecting the desire of some legal entities to pay according to the total quantity consumed by a legal entity. Comments of LD were not taken into account, though position of the Company was based on the principles applied in the international practice.

Status of Eligible Consumer

Under the Law on Natural Gas, all consumers of natural gas are divided into regulated consumers and eligible consumers. In contrast to eligible consumers, regulated ones are not entitled to choose a gas supply company. Virtually all regulated consumers in Lithuania purchase gas from LD. The prices for gas fixed by LD for these consumers are regulated by the National Control Commission for Prices and Energy (Commission for Prices).

In order to become eligible, consumers must meet certain requirements. The following consumers are eligible: 1) power stations; 2) consumers who annually consume more than 15 MCM of gas; 3) consumers whose systems are directly connected to the transmission pipeline; 4) distribution companies whose gas systems are directly connected to the transmission pipeline. Pursuant to the decree of the Minister of Economy of 18 November 2003, consumers who annually consume more than 1 MCM of natural gas are also regarded as eligible consumers.

The EU Directive states that all consumers, except households, will become eligible consumers from 1 July 2004. LD hopes that this provision will be implemented transparently in Lithuania and neither gas consumers nor gas suppliers will be discriminated.


Viktoras Valentukevičius,
General Manager


Dr. Joachim Hockertz,
Deputy General Manager –
Director of Commerce


Jonas Janulionis,
Deputy General Manager –
Technical Director

In 2003, Lietuvos Dujos had a 11.5% and almost 100% share in the eligible consumer market and the regulated consumer market, respectively.

Natural Gas Prices

On 23 December 2002, the Government adopted the resolution supplementing the Licensing Regulations for Natural Gas Transmission, Distribution, Storage and Supply. Under this resolution, the Government authorised the regulation of natural gas supply prices for the eligible consumers. On 31 December 2002, the National Control Commission for Prices and Energy set the natural gas supply price caps for the eligible consumers. These actions of public authorities were criticised by gas supply companies. On 15 July 2003, the Government repealed the clause of the Licensing Regulations validating the regulation of natural gas supply prices for eligible consumers.

On 1 January 2003, new tariffs for natural gas transmission and distribution services entered into force and since 1 January 2004 remained unchanged. On 1 January 2003 also new natural gas prices for regulated consumers entered into force (including transportation). From 1 July 2003 they were reduced by 7.9% on average. From 1 January 2004 these gas prices for regulated consumers were again lowered by 2.3% on average.

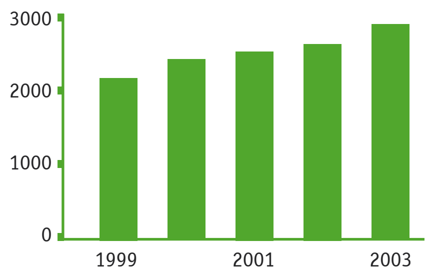
NATURAL GAS TRADE

For its natural gas business activities, LD used the open-ended licences for transmission and distribution (these licences were issued to LD in 2001) as well as supply of natural gas (issued in 2002). The licences entitle to engage in licensed business activities in a defined territory under certain conditions. The licences are issued by the National Control Commission for Prices and Energy.

Natural Gas Consumption in Lithuania

In 2003, the consumption of natural gas in Lithuania reached 2,894.3 MCM, an increase of 8.0% compared with 2002 (2,679.9 MCM). Natural gas was consumed as follows:
- 53.4% by heat and power generating enterprises;
- 26.7% by fertiliser producer AB Achema;
- 11.1% by industrial enterprises;
- 5.1% by residential customers;
- 2.9% by commercial utilities;
- 0.8% by agricultural enterprises.

Natural gas consumption in Lithuania in 1999–2003, MCM



LD sold 828.1 MCM (28.6% of all gas consumed by Lithuanian consumers) of natural gas to consumers. It is an increase of 42.5% compared with 2002 when the direct sales amounted to 581.3 MCM, or 21.7% of all gas consumed by Lithuanian consumers. A breakdown of sales of natural gas by LD in 2003:
- 37.4% to heat and power generating enterprises;
- 32.0% to industrial enterprises;
- 17.9% to residential customers;
- 9.9% to commercial utilities;
- 2.8% to agricultural enterprises.

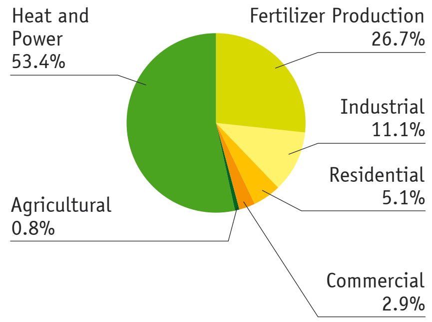
LD transported 2,066.2 MCM of natural gas for third parties in Lithuania (not buying gas from LD), i.e. 1.5% less than in 2002 (2,098.5 MCM). The breakdown of transportation volumes for third parties is as follows:
- 59.7% to heat and power generating enterprises;
- 37.5% to AB Achema;
- 2.8% to industrial enterprises and other consumers.

In 2003, natural gas transit of LD to the Kaliningrad Region of the Russian Federation increased by 0.9% compared with 2002.

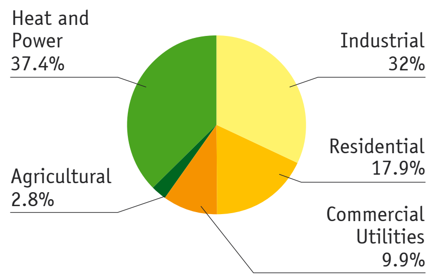
In 2003, LD purchased 871.8 MCM of natural gas, i.e. 42.4% more than in 2002 (612.4 MCM). These quantities in 2003 were purchased from OAO Gazprom and UAB Dujotekana in equal shares.

Natural gas losses and gas used for technological needs did not exceed the technologically justifiable limits and made up 1.1% of the total sales and transportation volumes.

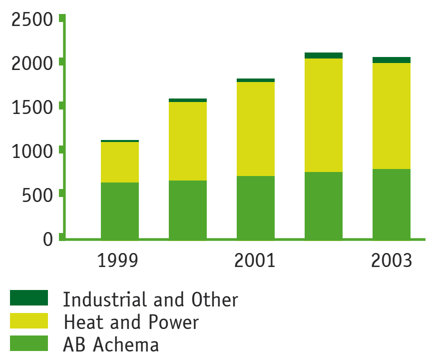
Natural gas consumption in Lithuania in 2003, %



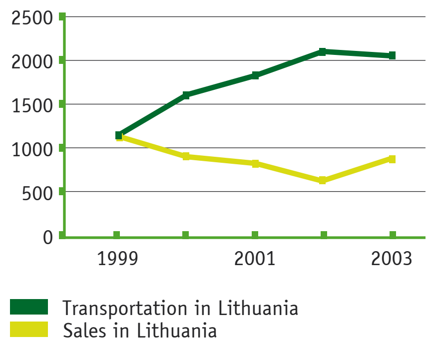
LD sales in 2003, %



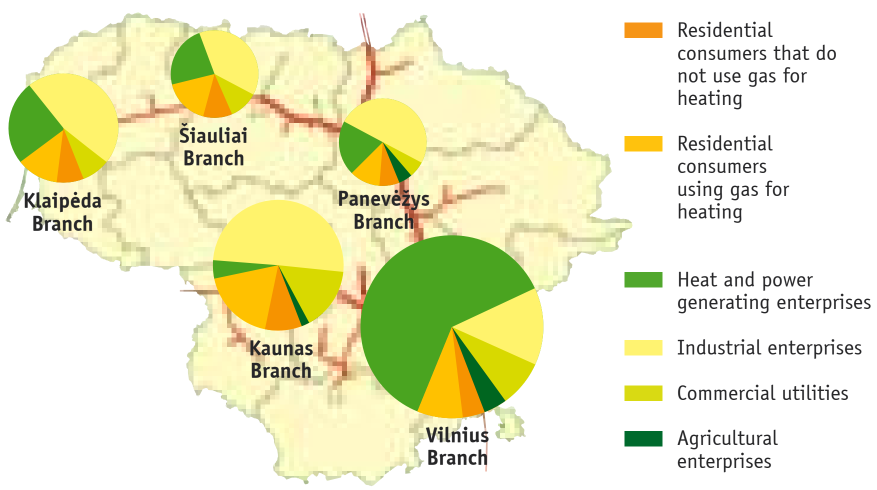
LD transportation services for third parties in 1999–2003, MCM



LD sales, transportation for third parties in 1999–2003, MCM

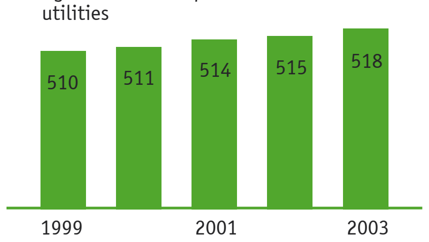


LD regional sales in 2003, %



Number of consumers in 1999–2003, '000

Industrial, Heat and power generating, Agricultural enterprises and Commercial utilities



Residential consumers

Peculiarities of the Natural Gas Market

On 31 December 2003, 22 natural gas consumers in Lithuania had the status of eligible consumer. In 2003, the eligible consumers represented 81.9% of the total gas consumption in Lithuania while the regulated consumers accounted for the remaining 18.1%.

In 2003, LD had a 11.5% and almost 100% share in the eligible consumer market and the regulated consumer market, respectively. In the long-term natural gas supply agreement signed on 24 March 2004, OAO Gazprom agrees to supply to LD no less than 70% of the gas necessary to satisfy the demand of Lithuanian consumers, except AB Achema and Kaunas heat-and-power generation plant. According to this agreement, LD has the opportunity to cover some 40% of the overall Lithuanian gas demand. As far as gas-to-gas competition is concerned, the eligible consumers market is relevant.

Competitiveness of Natural Gas

The increase in the natural gas consumption in Lithuania in 2003 was primarily caused by the cold start of the year. The average air temperature during January–March 2003 was lower by 3–7°C compared with the same period in 2002. The price of the fuel oil remained high; therefore, power and heat generating companies used more of gas fuel. The consumption of natural gas in other sectors was growing as a result of general improvement of the economic situation, attractive natural gas prices and new consumers. In 2003, the consumption of natural gas by commercial utilities and residential customers increased by 8.8% and 7.7%, respectively, compared with 2002.

The sale of natural gas by LD is competing with other gas supplying companies and suppliers of other types of fuel such as fuel oil, orimulsion, etc. In 2003, natural gas represented more than one forth of all primary energy sources in the national energy balance, i.e. more than one fourth of energy consumed in Lithuania was generated by using natural gas.

Gas Consumption Forecasts

In 2004, the overall consumption of natural gas in Lithuania may reach about 3 billion cubic metres. It is expected that after the closure of the first block of Ignalina NPP at the end of 2004 the overall gas consumption in Lithuania will further grow by 30%. After the final closure of Ignalina NPP scheduled for 2009, the annual natural gas consumption in Lithuania is forecasted to reach 5 billion cubic metres.

New Consumers

In 2003, LD invested 20.6 million Litas into construction of new gas pipelines and built 130.9 km of gas network. Almost 3.5 thousand new consumers were connected to the gas network.

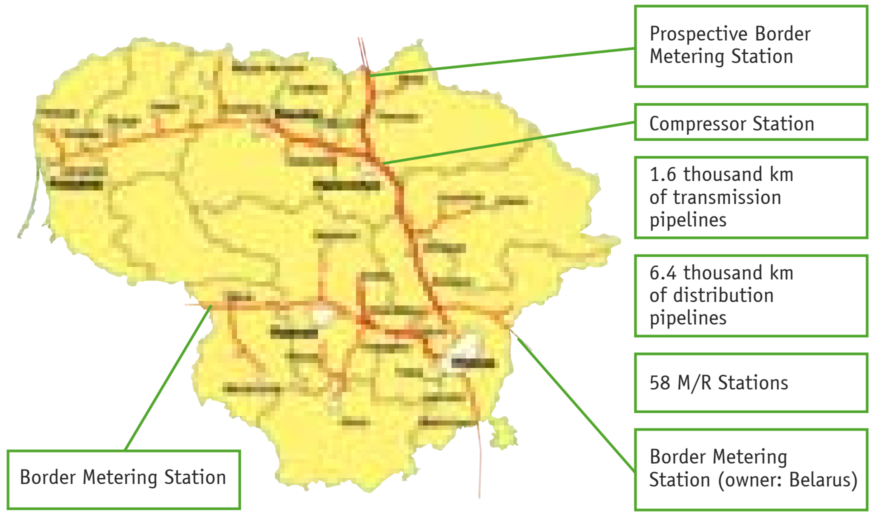
The program for the closure of the Ignalina NPP and the decommissioning of its reactors provides for the construction of a gas transmission pipeline from Pabradė to Visaginas (nearly 100 km) and a distribution system near Visaginas (ca. 10 km). Natural gas will become the main fuel for the Visaginas and the Ignalina NPP boiler-houses. In 2005–2009 annual gas consumption of both consumption sites in aggregate will vary between 4 and 15 MCM. After closure of the second reactor, annual consumption will reach 105 MCM in 2010. The low consumption levels do not allow constructing a pipeline on a merely economical basis. Therefore, the Government of the Republic of Lithuania, European donors, represented by the EBRD, and LD agreed to co-finance the project. They further agreed that LD will design and construct the pipeline system. The corresponding agreement between the EBRD, acting on behalf of the donors, and LD was signed on 11 December 2003.

A moment employees are at leisure.

A B L I E T U V O S D U J O S A N N U A L R E P O R T 2 0 0 3

In 2003, the major share of funds allocated for repairs of pipelines and related equipment (65%) was used for the repair of transmission pipelines, their equipment and M/R stations.

Natural gas transmission and distribution system in Lithuania in 2003



TECHNICAL POLICY

The key objective of the technical policy is to ensure the cost-effective and safe operation and technological control of the gas systems as well as the reliable gas supply to consumers. LD successfully achieved its objective of safe and reliable operation of the gas system.

LD operates the technical gas transmission and distribution system consisting of the following elements:
- reciprocating Panevėžys-based compressor station (7,700 kW);
- 1.6 thousand km of transmission pipelines (design pressure 55 bar, max. diameter 1,220 mm);
- 58 M/R stations installed on the transmission pipelines;
- 6.4 thousand km of distribution pipelines.

Reconstruction, Modernisation and Repair Programmes

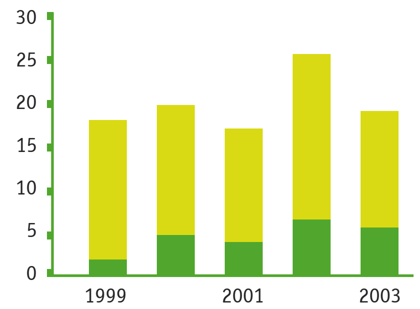
In 2003, a total of 13.3 million Litas was spent on reconstruction of gas pipelines and related equipment, 5.9 million Litas on technical modernisation of gas systems, 2.1 million Litas on reconstruction of buildings and other services, and 13.8 million Litas was spent on repair of gas pipelines and their equipment.

The major share of funds allocated for reconstruction (4.56 million Litas) was used for the restructuring of the M/R stations. 4 new container M/R stations were acquired together with the main process equipment necessary for the reconstruction of gas pressure control unit of the most powerful M/R station in Elektrėnai. It is expected that the new stations and process equipment will be installed in 2004. In 2003, gas purification, heating and other systems were replaced in three M/R stations. The installation of automated gas odorising systems was continued and 2 of such systems were assembled. The reconstruction of the design depth and damaged drainage system was carried out in the Ivatsevichi–Vilnius–Riga transmission pipeline. The safe depth was restored in some sections of this pipeline (for the total length of 8.8 km) by creating earth walls.

In 2003, 12.3 km of distribution pipeline were reconstructed (of which 9.1 km were reconstructed by running the polyethylene pipes through the worn-out steel pipes). In addition, the corrosion protection equipment, consumer gas metering systems, technological equipment of gas regulation units, closing valves as well as other equipment were further reconstructed.

Under the technical modernisation programme, pressure regulators and closing valves in Panevėžys compressor station were renewed, new devices for diagnostics and control metering systems, special motor vehicles and other means were purchased.

Technical modernisation, reconstruction in 1999–2003, M LTL



In 2003, the major share of funds allocated for repairs of pipelines and related equipment (65%) was used for the repair of transmission pipelines, their equipment and M/R stations. In 2003, according to international technical standards the experts of Ruhrgas AG analysed and assessed the results of inspection by the intelligent pigging device in the transmission pipeline Minsk–Vilnius. On the basis of this assessment, 18 most questionable defective sites were uncovered and checked with the help of modern instruments. The actual data obtained were used to calculate the evaluation of the state of metal and might be used for planning of further repair work. It is very important to carefully plan the repair of this transmission pipeline since it is the only pipeline currently delivering natural gas to Lithuania and the gas flow cannot be interrupted.

Under the repair programme, other pipelines were checked by carrying out pressure tests. This method was used to check some part of Vilnius–Kaunas transmission network.

Metering Station on the Lithuanian-Latvian Border

In 2003, the engineering design of the Metering Station on the Lithuanian-Latvian border was finalised together with experts from Ruhrgas AG. After that LD prepared the documents of the tender for construction. The Border Metering Station will enable LD to make regular use of the Inčukalns Underground Natural Gas Storage owned and operated by Latvijas Gaze A/S.

Central Control Room

The main function of the Central Control Room is to ensure safe, reliable and efficient transmission of natural gas to consumers, balancing of the transmission system and the control of performance of its elements. The volumes of gas specified in the agreements with consumers were transmitted without any disturbances and accidents.

The staff of the Central Control Room used SCADA system. At the end of year, all 58 M/R stations, Panevėžys compressor station, 8 cathode protection stations and 15 isolating valves (all with remote closing function) installed at vital pipeline sections were integrated into the system. Data collected by this system are used to perform day-to-day tasks as well as to forecast natural gas flows in the future, possible changes in the system caused by changing consumption or import of natural gas.

It is expected, that using information scanning mode the Kotlovka Border Metering Station located in neighbouring Belarus will be connected to the existing SCADA system in 2004. It is expected to use the possibilities of SCADA system more efficiently and to upgrade software used by the Central Control Room.

INFORMATION TECHNOLOGIES

Development of Telecommunication and Telemetry Systems

In the process of modernisation of LD data transmission and telephony network, the following work was carried out in 2003:
- installation of security equipment for data transmission network, the so-called firewall. This equipment reduced the probability of "hacking" of network resources and encrypts information sent through the internal network;
- upgrading of versions of data transmission network terminal equipment software.

In the course of improving the control of transmission pipeline facilities and collection of information from remote facilities, the following was carried out:
- 5 more M/R stations, 2 isolating valves and Panevėžys compression station were connected to the technological control and data collection system SCADA;
- transition to data collection from SCADA controllers in M/R stations in on-line mode.

In 2003, LD continued installing telemetry systems in gas regulation units of branches and in gas metering units of industrial enterprises. The centralisation of these systems was started by uploading data to the central database. In 2003, the first stage was completed during which software in all branches was uniformed and the central data server was installed.

Application of Information Systems

In 2003, previously developed application programmes were being extended alongside the development and installation of the new ones:
- geodesic surveys were carried out according to the standard of LD Geographic Information System (GIS) and common digital database of transmission pipelines was developed in the Company. All graphic information about transmission pipelines of LD as well as data on land owners and communications in the protected area of these pipelines was converted into digital format;
- graphic information about distribution pipelines of the first branch (in Šiauliai) was converted into the general GIS data format;
- as in other branches, the GIS system GeoDispečeris was installed in Panevėžys Branch. This system is designed for emergency services.

The natural gas customer accounting system was supplemented with the accounting module for big consumers. Vilnius, Kaunas, Klaipėda and Panevėžys Branches started to apply the common accounting system for residential natural gas consumers. This system has already been installed in the Šiauliai Branch.

The system for document processing and control of management assignments was upgraded in the Company and the previous groupware system was supplemented with new information.

At the end of 2003, all 58 M/R stations of Lietuvos Dujos were integrated into the technological control and data collection system SCADA.

Alvydas Makarevičius, Operator of the Kaišiadorys M/R station, in his everyday workplace.

BUYING BACK OF PIPELINES OWNED BY OTHER ENTITIES

Pursuant to the procedure approved by the Ministry of Economy, LD started the process of buying back natural gas systems for common needs owned by other legal and natural persons in 2002. These systems were purchased at the recommended prices for natural gas systems for common needs publicly announced and agreed upon with the National Control Commission for Prices and Energy.

In 2003, LD concluded 30 purchase-sale agreements and bought back the systems for common needs of a total length of 65.9 km for 1.2 million Litas. Since the start of the buying back process, LD has received and registered 164 requests to buy back a total of 222.4 km of natural gas systems for common needs. All systems were bought back if their owners agreed to the recommended prices.

From the economic perspective, the buying back is not profitable as these pipelines deliver only about 2% of all gas consumed by Lithuanian consumers, the pipelines themselves are rather old, their average useful life is 14 years. By buying back these pipelines LD seeks to ensure the integrity, safety and reliability of its gas system and its further development by connecting new consumers.

ENVIRONMENTAL PROTECTION

LD protects the environment by supplying and transporting eco-friendly fuel natural gas, and by ensuring compliance with the technical safety requirements. The goal of the Company is to reduce the negative environmental impact.

In 2003, LD continued to install modern automated odorising systems in M/R stations. In 2003, such systems were built in two M/R stations. Currently, 30 of the 58 M/R stations have the environment-friendly equipment installed.

Because the Panevėžys compressor station is involved in the gas transmission process, the emission of certain amount of pollutants into the environment is inevitable. Due to the cold winter and increased gas consumption the gas powered Panevėžys compressor station worked more than 1.5 times longer in 2003 as compared with 2002. Therefore, the emissions of carbon and nitrogen oxides were slightly higher.

Pursuant to legal acts of Lithuania, LD recorded and declared the following emissions of hazardous pollutants:

Pollutant	2002	2003
CO (tons)	15.3	18.6
NO_x (tons)	9.1	11.7
Methane (MCM)	18.9	9.7

In 2003, LD paid 68.9 thousand Litas in taxes for environmental pollution (60.2 thousand Litas in 2002).

LABOUR SAFETY AND HEALTH

The objective of the Company is to organise its activities in such a way as to allow its employees to work in a healthy working environment and to reduce occupational risk. Therefore, LD staff have personal protection means, are trained and certified for their specific work, health, if necessary, of relevant employees is being checked and they are insured against accidents at work (on the way to/from work) under social security schemes. The management of LD takes care of working conditions of its employees by cooperating with the representatives delegated by the trade unions of employees.

Bearing in mind the EU legal norms, seeking to create a safe working environment for its employees and avoid accidents, LD implements new legal acts and improves the existing ones. The Company organises regular training courses for its staff on occupational safety. The compliance with the legal acts regulating labour, health, hygiene and fire protection is regularly checked. The preventative measures allowed to reduce the number of work-related injuries in 2003. Although employees of the Company have to carry out a lot of potentially hazardous work, more than half of the accidents took place either on the way to or from work rather than at the workplace in recent years.

STAFF MANAGEMENT

Staff

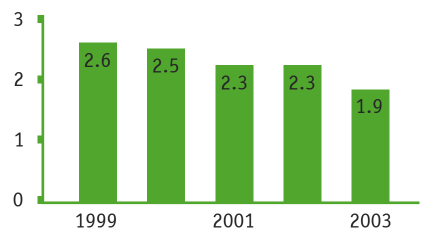
In 2003, the number of LD staff was reduced from 2.3 thousand to 1.9 thousand employees. The reduction in the number of employees is directly linked to the implementation of the new organisational management structure in LD.

In the course of reorganisation of the organisational management structure, the number of LD staff was reduced by nearly 400 during November–December 2003. Where it was not possible to offer a job in the new structure, employees had the opportunity to benefit from the favourable terms of termination of their employment contracts. Approx. half of those wishing to terminate their employment contracts with the Company were employees of the retirement age. Adjusting to the requirements of current market situation some new employees were also hired. It is expected that LD will have about 2,000 employees in 2004. Work according to the new structure commenced from 1 January 2004 in the Company.

In 2003, workers (blue-collars) made up 52%, whereas managers, specialists and clerks (white-collars) made up 48% of the total staff at LD. Men made up 68%, whereas women made up 32% of LD staff.

The average age of LD staff was around 43 years, and the average work record with the Company was around 13.5 years.

Number of employees as of 31 December 1999–2003, '000



Note: The number of employees in 1999–2000 does not reflect the staff of former LD branch Liquefied Gas. From 1 January 2001, after the reorganisation of LD, the branch was separated and an independent company AB Suskystintos Dujos was founded.

Qualitative composition according to education, average work history and age is given in the graphs below.

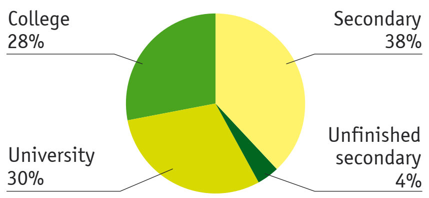
Collective Agreement

In 2003, all gas distribution branches of LD had local subdivisions of trade unions which were united by the Lithuanian Association of Trade Unions of Gas Workers.

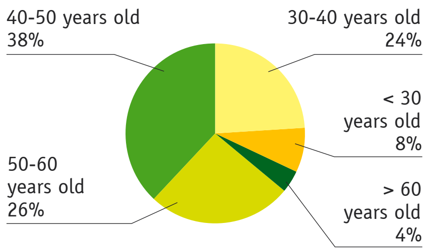
At the joint initiative of the LD management and trade unions of workers, a collective agreement for one year was signed on 28 May 2003. The signing of the collective agreement between both sides of the industry was prompted by the adoption of new laws related to labour relations. In this agreement, the parties laid down more favourable employment, occupational and social guarantees for employees than those provided for in the laws and other legal acts of the Republic of Lithuania.

Staff in 2003

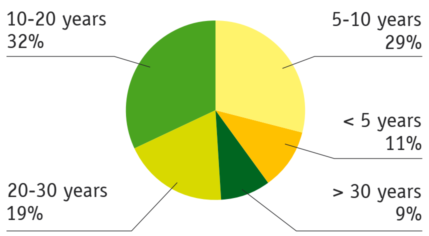
Education



Age



Work record

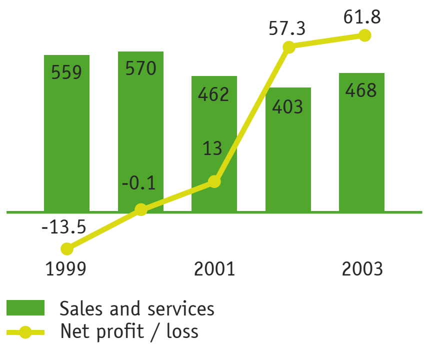


FINANCIAL RESULTS

As the consumption of natural gas in Lithuania and the volumes of natural gas sold by LD increased (the increase in sales is related to cold weather which prevailed at the start of the year, high prices for fuel oil, reduced natural gas prices on the internal market, higher number of new consumers), the sales of the Company jumped from 402.6 million Litas to 468.4 million Litas in 2003, an increase of 16% compared with 2002. The cost of sales, as compared with 2002, also increased by 15% to 348.0 million Litas.

In 2003, the profit of the Company before taxes was 77.2 million Litas (69.5 million Litas in 2002). The net profit was 61.8 million Litas (57.3 million Litas in 2002). The profit from the main activities (natural gas) was 68.5 million Litas (53.8 million Litas in 2002).

Sales and services, profit and loss in 1999–2003, M LTL



The positive results of LD are the outcome of continuous and targeted work. These results were influenced by the increase in sales, regular control of expenditures, favourable changes in Lithuanian and international financial markets. In the future, the project of internal restructuring completed by the Company in 2003 will also help to ensure the efficient operation.

Same as during the previous year, LD paid particular attention to the reduction of its financial debt in 2003. During the reporting year, the liabilities to financial creditors decreased by 41% from 272.8 million Litas (as of 31 December 2002) to 161.0 million Litas (as of 31 December 2003). However, it is worth mentioning that due to objective reasons the implementation of some large investment projects planned for 2003 was shifted to 2004. Due to the reduction in the financial debt and comparative interest rates the costs of financial debt of LD handling in 2003, compared to 2002, were reduced by 7.25 million Litas, or by 39.7%.

INTERNATIONAL COOPERATION

Association Representing the Gas Transmission Companies in Europe

On 10 September 2003, LD became a member of Gas Transmission Europe (GTE), association representing the gas transmission companies in Europe. GTE was founded in July 2000. In 2003, more than 30 European gas transmission companies were members in this association.

The main objects of GTE are as follows:
- to promote safety and reliability of the European gas transmission pipeline system so that it can meet current and future needs;
- to promote proper management and functioning of the European gas transmission pipeline system;
- to enhance the performance of the European gas transmission pipeline system by transmitting gas through the borders of individual countries;
- to promote relevant market-oriented decisions.

International cooperation and contacts with the gas transmission companies in Europe engaged in similar activities will allow LD to gain additional experience which will be useful for the Company's role in the consolidation processes in Europe.

Baltic Gas Association

In 2003, LD continued to work with members of the Baltic Gas Association.

On 29 December 2003, the fortieth anniversary of natural gas introduction to town was celebrated in Panevėžys. Lietuvos Dujos organised a public youth event in Panevėžys.

A B L I E T U V O S D U J O S A N N U A L R E P O R T 2 0 0 3

In 2003, almost 3.5 thousand new consumers were connected to the gas network.

LD has been a member of the Association since it was established in 1999. Baltic Gas, as the association of gas transmission companies in the Baltic Region, promotes the use of natural gas in the Baltic Region, seeks to develop an integrated market for use of this fuel, reduce non-commercial obstacles for natural gas business such as those related to tax policy, environmental protection, etc. In 2003, 15 companies were members of the Association.

The Association carried out a repeated assessment of the situation in natural gas market in the Baltic Region which was based on the Integrated Gas and Electricity Study for the Baltic Region carried out in 2001. The results of this study were presented at the annual meeting of Association members held in April in Warnemünde (Germany).

In 2003, Baltic Gas became more active in its cooperation with BASREC, an organisation providing support to the cooperation of governmental organisations of the Baltic Region in the field of energy. In several joint sessions, representatives of Baltic Gas and BASREC discussed the state of natural gas business development and possible perspectives in the Baltic Sea Region.

In 2003, LD completed a one-year term of office in the Executive Committee of the Association.

Meeting of Managers of Lithuanian, Latvian and Estonian Gas Companies

On 15-16 October 2003, LD initiated the meeting of managers of Lietuvos Dujos, Latvijas Gaze A/S and Eesti Gaas AS in Vilnius. LD put forward a proposal to renew regular cooperation between the gas companies of all three Baltic States. The main areas of activities where the cooperation between the companies operating in one geographical region would be most beneficial were discussed in Vilnius.

During the meeting, the managers discussed the new EU Directive on gas and possibilities to cooperate in the implementation of this Directive. Having assessed the interests of joint shareholders of LD, Latvijas Gaze and Eesti Gaas, the managers discussed the possibility to use uniform legal documents such as technical standards, regulations and methodologies for their work. Approval was given for direct contacts between the specialists of these companies.

SPONSORSHIP PROGRAMMES

In 2003, LD, as successfully operating company, sought sponsoring of various public events, campaigns or organisations trying to show its position as a responsible member of the society. The sponsorship campaigns helped to raise awareness about LD.

A large share of sponsorship funds were used to support sport events. Various cultural initiatives were supported. LD has old and strong traditions of healthy life style promotion. Every year LD organises regular sport competitions and cultural events for its employees. Therefore, sponsorship of important sports and cultural events is in line with the overall position and approach of the Company towards a healthy life style and essential values. Not concentrating on any type of sport, LD sponsored the general training programme Atėnai 2004 under which the Lithuanian Olympic Team has been training for participation in the 28th Olympic Games in Athens.

In 2003, LD carried out other sponsorship campaigns which also helped promote the name of the Company, raise awareness and confidence in LD. The Company intends to continue working with targeted sponsorship programmes.

CELEBRATED EVENTS: 40TH ANNIVERSARY OF NATURAL GAS INTRODUCTION TO PANEVĖŽYS

40 years ago, on 29 December 1963, the first symbolic natural gas torch was lit in Panevėžys. At that time, it was the gas transported through gas transmission pipelines from the Ukrainian fields. Natural gas was introduced to Panevėžys after the construction of gas transmission pipeline Vilnius–Panevėžys was completed in 1963. After the symbolic torch was lit at the end of the year, gas was supplied to the first apartments in Panevėžys in January of the next year. Soon natural gas was supplied to meat factory and other industrial companies and utilities. Today the Panevėžys Branch supplies natural gas to Panevėžys and Utena counties: to consumers in Panevėžys, Pasvalys, Biržai, Utena, Anykščiai towns and regions.

On 29 December 2003, LD held an unconventional event to celebrate the 40th anniversary of natural gas introduction to Panevėžys. The Company organised a colourful show and broke a new Lithuanian record. It took about three hours for more than fifty students from Panevėžys school of fine arts to draw graffiti pictures of a record size. The sketch of Andrius Čiukšys, student of the Lithuanian Academy of Fine Arts, was used for the graffiti drawing painted on the 150-square-metre wall at the crossing of S. Kerbedžio and Senamiesčio Streets. The drawing was named "Celestial and Terrestrial Fires". The press conference was held on the same day to present the activities of LD Panevėžys Branch. This anniversary celebration was covered by the regional and national media.

POST BALANCE SHEET EVENTS

After the end of the accounting period, several events essential for further activities of LD took place in business environment during January–March 2004.

On January 1, LD successfully started working under the new organisational management structure. The principles of work organisation were harmonised in similar units of the Company. New management procedures were introduced for better control of operating costs.

On 23 January 2004, the state enterprise State Property Fund and OAO Gazprom signed the sale-purchase agreement for a 34% stake in LD. The deal was closed on 24 March 2004, together with the signing of the long-term natural gas supply agreement between OAO Gazprom and LD. Since this date, the state is no longer majority shareholder in LD, and LD now operates under conditions of private companies. The long-term gas supply agreement will allow LD to increase its sales market share.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Lietuvos dujos

We have audited the accompanying balance sheet of AB Lietuvos dujos (the Company) as of 31 December 2003, and the related statements of income, profit (loss) appropriation and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 and Lithuanian National Auditing Standards as set forth by the Lithuanian Chamber of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2003 and the results of its operations and its cash flows for the year then ended in conformity with Lithuanian accounting principles.

UAB Ernst & Young Baltic
Audit company's license No. 344

Per Moeller

Jonas Akelis
Auditor's license No. 000003

The audit was completed on 19 March 2004.

AB LIETUVOS DUJOS ANNUAL REPORT 2003

BALANCE SHEETS AS OF 31 DECEMBER 2003 AND 2002

No.	Assets	2003 (LTL)	2002 (LTL)
A.	**Non-current assets**	**590,740,927**	**604,972,166**
I.	**FORMATION COSTS**	**-**	**-**
I.1.	Cost of formation and capital increase	-	-
I.2.	Loan issue costs	-	-
I.3.	Other formation costs	-	-
I.4.	Reorganization costs	-	-
II.	**INTANGIBLE ASSETS**	**2,279,656**	**2,257,332**
II.1.	Research and development costs	393,533	511,395
II.2.	Rights obtained	1,886,123	1,745,937
II.3.	Goodwill	-	-
II.4.	Prepayments	-	-
III.	**FIXED ASSETS**	**580,558,109**	**587,079,967**
III.1.	Land	-	-
III.2.	Buildings	40,593,936	42,946,715
III.3.	Plant and machinery	320,980,341	318,299,904
III.4.	Transmission network and vehicles	182,231,493	192,535,384
III.5.	Other equipment	24,699,891	24,152,831
III.6.	Leasing and similar rights	-	-
III.7.	Other fixed assets	837,433	855,374
III.8.	Construction in progress and prepayments	11,215,015	8,289,759
IV.	**FINANCIAL ASSETS**	**6,427,288**	**10,359,553**
IV.1.	Enterprises in which participation interest is held	6,409,762	10,342,798
IV.1.1.	Investments	6,409,762	10,342,798
IV.1.2.	Accounts receivable	-	-
IV.2.	Other non-current financial assets	17,526	16,755
IV.2.1.	Treasury shares	-	-
IV.2.2.	Other investments	17,526	16,755
IV.2.3.	Other accounts receivable	-	-
V.	**ACCOUNTS RECEIVABLE AFTER ONE YEAR**	**1,475,874**	**5,275,314**
V.1.	Trade debtors	182,024	5,082,584
V.2.	Other accounts receivable	1,293,850	192,730

(Continued)

No.	Assets	2003 (LTL)	2002 (LTL)
B.	**Current assets**	**51,848,940**	**107,715,608**
I.	**INVENTORY AND CONTRACTS IN PROGRESS**	**8,378,105**	**8,780,464**
I.1.	Inventory	8,378,105	8,780,464
I.1.1.	Raw materials and consumables	4,591,742	4,782,380
I.1.2.	Work in progress	-	-
I.1.3.	Finished goods	7,324	14,164
I.1.4.	Goods purchased for resale	3,724,438	3,858,480
I.1.5.	Non-current assets held for sale	-	-
I.1.6.	Prepayments	54,601	125,440
I.2.	Contracts in progress	-	-
II.	**ACCOUNTS RECEIVABLE WITHIN ONE YEAR**	**36,291,682**	**69,311,561**
II.1.	Trade debtors	34,743,729	67,725,438
II.2.	Other accounts receivable	1,547,953	1,586,123
II.2.1.	Called-up capital unpaid	-	-
II.2.2.	Other debtors	1,547,953	1,586,123
III.	**INVESTMENTS AND TERM DEPOSITS**	**-**	**16,797,266**
III.1.	Treasury shares	-	-
III.2.	Other investments and term deposits	-	16,797,266
IV.	**CASH AT BANK AND ON HAND**	**7,179,153**	**12,826,317**
C.	**Accrued income and prepaid expenses**	**207,016**	**174,603**
	TOTAL ASSETS	642,796,883	712,862,377

(Continued)

A B L I E T U V O S D U J O S A N N U A L R E P O R T 2 0 0 3

No.	Liabilities and Shareholders' Equity	2003 (LTL)	2002 (LTL)
A.	**Share capital and reserves**	**429,315,604**	**382,157,938**
I.	**SHARE CAPITAL**	**340,877,835**	**340,877,835**
I.1.	Subscribed share capital	340,877,835	340,877,835
I.2.	Uncalled share capital (-)	-	-
II.	**SHARE PREMIUM**	**-**	**-**
III.	**REVALUATION RESERVE**	**-**	**-**
IV.	**RESERVES**	**29,713,127**	**4,742,817**
IV.1.	Legal reserves	9,143,459	4,225,824
IV.2.	Reserves not available for distribution	17,552,675	-
IV.3.	Reserves available for distribution	3,016,993	516,993
V.	**PROFIT (LOSS) BROUGHT FORWARD**	**58,724,642**	**36,537,286**
V.1.	Current year profit (loss)	58,724,642	57,325,958
V.2.	Previous year profit (loss)	-	(20,788,672)
B.	**Financing (grants and subsidies)**	**670,777**	**920,167**
C.	**Provisions and deferred taxes**	**-**	**-**
I.	**PROVISIONS**	**-**	**-**
I.1.	For pensions and similar obligations	-	-
I.2.	For tax charges	-	-
I.2.1.	Unexpected	-	-
I.2.2.	Other	-	-
I.3.	Major repairs and large-scale maintenance	-	-
I.4.	Other provisions	-	-
II.	**POSTPONED TAXES**	**-**	**-**
II.1.	On subsidies in capital	-	-
II.2.	Other	-	-

(Continued)

No.	Liabilities and Shareholders' Equity	2003 (LTL)	2002 (LTL)
D.	**Accounts payable and liabilities**	**205,075,239**	**321,378,867**
I.	**ACCOUNTS PAYABLE AFTER ONE YEAR AND NON-CURRENT LIABILITIES**	**67,727,563**	**160,237,665**
I.1.	Financial debts	67,727,563	160,237,665
I.1.1.	Subordinated loans	-	-
I.1.2.	Unsubordinated loans	-	-
I.1.3.	Leasing and other similar obligations	-	-
I.1.4.	Credit institutions	67,727,563	160,237,665
I.1.5.	Other	-	-
I.2.	Trade creditors	-	-
I.2.1.	Suppliers	-	-
I.2.2.	Bills of exchange payable	-	-
I.3.	Advances received on contracts in progress	-	-
I.4.	Other accounts payable and non-current liabilities	-	-
II.	**ACCOUNTS PAYABLE WITHIN ONE YEAR AND CURRENT LIABILITIES**	**137,347,676**	**161,141,202**
II.1.	Current portion of non-current debts	75,521,582	112,611,769
II.2.	Financial debts	17,799,396	-
II.2.1.	Credit institutions	17,799,396	-
II.2.2.	Other	-	-
II.3.	Trade creditors	32,980,270	31,283,034
II.3.1.	Suppliers	32,980,270	31,283,034
II.3.2.	Bills of exchange payable	-	-
II.4.	Advances received on contracts in progress	6,139,042	3,258,823
II.5.	Taxes, remuneration and social security payable	4,856,590	13,829,610
II.5.1.	Taxes	3,779,784	10,787,036
II.5.2.	Remuneration	-	1,548,035
II.5.3.	Social security payable	1,076,806	1,494,539
II.6.	Other accounts payable and current liabilities	50,796	157,966
E.	**Accrued expenses and deferred income**	**7,735,263**	**8,405,405**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**642,796,883**	**712,862,377**

AB LIETUVOS DUJOS ANNUAL REPORT 2003

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

No.	Items	2003 (LTL)	2002 (LTL)
I.	**SALES AND SERVICES**	**468,389,611**	**402,598,153**
II.	**COST OF GOODS SOLD AND SERVICES RENDERED**	**348,026,651**	**303,762,640**
III.	**GROSS PROFIT (LOSS)**	**120,362,960**	**98,835,513**
IV.	**OPERATING EXPENSES**	**26,812,741**	**27,513,375**
IV.1.	Selling expenses	-	-
IV.2.	General and administrative expenses	26,812,741	27,513,375
V.	**PROFIT (LOSS) FROM OPERATIONS**	**93,550,219**	**71,322,138**
VI.	**OTHER ACTIVITY**	**697,736**	**(529,326)**
VI.1.	Revenue	1,239,954	2,052,442
VI.2.	Expenses	542,218	2,581,768
VII.	**FINANCIAL AND INVESTING ACTIVITIES**	**(17,010,635)**	**(1,290,386)**
VII.1.	Revenue	17,615,811	27,744,960
VII.2.	Expenses	34,626,446	29,035,346
VIII.	**PROFIT (LOSS) FROM ORDINARY ACTIVITIES**	**77,237,320**	**69,502,426**
IX.	**EXTRAORDINARY GAIN**	**-**	**-**
X.	**EXTRAORDINARY LOSS**	**-**	**-**
XI.	**CURRENT YEAR PROFIT (LOSS) BEFORE TAXES**	**77,237,320**	**69,502,426**
XII.	**INCOME TAX**	**15,421,907**	**12,176,468**
XIII.	**NET PROFIT (LOSS)**	**61,815,413**	**57,325,958**

PROFIT (LOSS) APPROPRIATION STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

No.	Items	2003 (LTL)	2002 (LTL)
I.	Profit (loss) brought forward from previous years	-	(20,788,672)
II.	Current year profit (loss)	61,815,413	57,325,958
III.	Profit (loss) to be appropriated at the end of the year	61,815,413	36,537,286
IV.	Shareholders' contribution against losses	-	-
V.	Transfers from reserves	-	-
VI.	Profit (loss) to be appropriated	61,815,413	36,537,286
VII.	Appropriation of profit (loss):	-	-
VII.1.	To legal reserves	3,090,771	1,826,864
VII.2.	To other reserves	-	20,052,675
VII.3.	Dividends	-	14,657,747
VII.4.	Other	-	-
VIII.	**Profit (loss) to be carried forward at the end of the year**	**58,724,642**	**-**

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

No.	Items	2003 (LTL)	2002 (LTL)
I.	**Cash flow from operating activities**		
I.1.	Net profit (loss)	61,815,413	57,325,958
I.2.	Depreciation and amortization and other non-cash items	49,941,241	47,806,260
I.3.	Decrease (increase) in inventory	331,520	1,491,451
I.4.	Decrease (increase) in debtors	37,524,610	34,959,547
I.5.	Increase (decrease) in trade creditors	1,697,236	(19,470,073)
I.6.	Increase (decrease) in other liabilities	137,139	(995,434)
I.7.	Increase (decrease) in deferred taxes	-	-
I.8.	Increase (decrease) in payables to the State and authorities	(7,007,252)	(193,414)
1.9.	Decrease (increase) in prepayments	38,426	342,256
	Net cash flow from operating activities (+/-)	**144,478,333**	**121,266,551**
II.	**Cash flow from investing activities**		
II.1.	Sale (acquisition) of non-current assets	(40,464,894)	(47,671,415)
II.2.	Sale (acquisition) of investments	771	(14,563,474)
II.3.	Net cash outflow on reorganization	-	-
	Net cash flow from investing activities (+/-)	**(40,464,123)**	**(62,234,889)**
III.	**Cash flow from financing activities**		
III.1.	Issue of preferred and common shares	-	-
III.2.	Purchase of treasury shares (-)	-	-
III.3.	Issue of bonds	-	40,000,000
III.4	Repayment of finance lease liabilities (-)	-	-
III.5.	Increase (decrease) in financial debts	(111,800,893)	(122,328,481)
III.6.	Other cash inflow (outflow)	2,139,519	-
	Net cash flow from financing activities (+/-)	**(109,661,374)**	**(82,328,481)**
IV.	**Cash flow from extraordinary activities**		
IV.1.	Cash inflow (outflow) from extraordinary activities	-	-
	Net cash flow from extraordinary activities (+/-)	**-**	**-**
V.	**Increase (decrease) in net cash**	**(5,647,164)**	**(23,296,819)**
VI.	**Cash, beginning of the year**	**12,826,317**	**36,123,136**
VII.	**Cash, end of the year**	**7,179,153**	**12,826,317**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1. General information

Joint stock company AB Lietuvos dujos (the Company) was registered on 1 August 1995 following the restructuring of the State-owned company Lietuvos dujos. The main operations of the Company are transmission, distribution and supply of natural gas. The Company consists of the head office, a training branch, and 5 natural gas distribution and supply branches. The natural gas distribution and supply branches are further divided into a number of sub-branches. As a result of restructuring in 1997, the Company acquired a 100% interest in UAB Palangos perlas (the Subsidiary), located in Palanga, a seaside resort in Lithuania. The Subsidiary is engaged in running a restaurant and accommodation facilities. The Company is registered at Aguonų 24, Vilnius, Lithuania. The Company employed an average of 2,222 employees in 2003 (2,304 in 2002).

Based on the provisions of the Law on Natural Gas, the Company's activities are subject to licensing and regulating by the National Control Commission for Prices and Energy (the Commission). On 18 December 2001 the Commission issued to the Company Natural Gas Transmission and Distribution licenses and on 16 May 2002 the Commission issued a Natural Gas Supply license. The licenses have no expiration date, but subject to meeting certain criteria may be revoked based on the respective decision of the Commission. The Commission also regulates transmission and distribution tariffs as well as tariffs charged by the Company to its regulated customers.

In 2001 the Government of Lithuania decided to privatize the Company by offering a total of 68% of the State holding in the Company in two stages and to two different investors, one of which would be a strategic western investor and the other would be a natural gas supplier. The sale of 34% of the State holding to a strategic western investor, Ruhrgas AG and E.ON Energie AG consortium, was agreed by the parties on 17 May 2002, and the sale of additional 34% of the State holding in the Company to a natural gas supplier, Gazprom is being finalized presently (Note 15).

Following the approval of the Government received on 12 December 2003, E.ON Energie AG transferred its holding in the Company to Ruhrgas Energie Beteiligungs AG on 18 December 2003. As of 31 December 2003 AB Lietuvos dujos shareholders were as follows:

	Par value, LTL	Holding, %
State Property Fund	198,928,831	58.4
Ruhrgas Energie Beteiligungs AG	121,689,589	35.7
Other shareholders (legal entities and private persons)	20,259,415	5.9
Total	**340,877,835**	**100.0**

The nominal value of one share is LTL 1. All shares are authorized, issued and fully paid registered ordinary shares. All shares of the Company are listed in the current list of the National Stock Exchange of Lithuania.

2. Accounting policies

The financial statements have been prepared in accordance with Lithuanian accounting principles under the historical cost convention, except for accounting of property, plant and equipment, as disclosed in the accounting policies hereinafter. The amounts shown in these financial statements are measured and presented in the local currency, the Litas or LTL.

Consolidation
These financial statements do not include the financial statements figures of the Subsidiary UAB Palangos perlas, 100% owned by the Company. If the Subsidiary was consolidated, the Company's total assets and total liabilities as of 31 December 2003 would each increase by LTL'000 9, whereas 2003 sales and cost of sales would increase respectively by LTL'000 1,114 and LTL'000 916.

Intangible assets
Intangible assets are measured initially at cost. Intangible assets are recognized if its acquisition cost exceeds LTL'000 2 and it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the assets can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight – line basis over the best estimate of their useful lives, which range from 1 to 4 years.

Property, plant and equipment
Property, plant and equipment are stated at indexed cost less indexed accumulated depreciation and impairment losses through 31 December 1995, and at cost less accumulated depreciation and impairment losses after that date.

The property, plant and equipment items in excess of LTL'000 2 and which are expected to be in use for more than 1 year are capitalized. The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

When assets are sold or retired, their cost and accumulated depreciation and any impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

Straight-line depreciation is provided over the following estimated useful lives of the assets once put in operational use:

	Years	Average
Buildings	16 – 85	60
Gas pipelines	26 – 42	30
Plant, machinery and equipment	6 – 35	20
Vehicles and other assets	4 – 19	10

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from property, plant and equipment items.

Construction-in-progress represents property, plant and other assets under construction and is stated at cost. It includes the cost of construction, equipment and other direct costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operational use.

Financial assets
Long-term investments in other companies are measured at cost, less all but temporary impairments that are recognized when investment value exceeds its estimated selling price.

Inventories
Inventories, mainly including natural gas for sale that remained in the Company's pipelines at the year-end and spare parts, are stated at the lower of cost and net realizable value. Cost of natural gas is determined on the basis of weighted average

cost, and the cost of the remaining inventories is determined on the basis of the first-in, first-out method. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Accounts receivable
Accounts receivable initially are stated at the fair value of the consideration given and are subsequently carried at amortized cost, after the provision for impairment. The Company provides for potential losses based on accounts receivable ageing and an individual evaluation of the accounts.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and on-call deposits in banks and highly liquid investments.

Impairment of assets
Financial instruments – Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all the amounts due according to the contractual terms of loans or receivables, impairment is recognised in the statement of income.

Other assets – Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. The recoverable amount is the higher of an asset's net selling price and value in use. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exists or have decreased. The reversal is recorded in the statement of income.

Derivative financial instruments
Derivative financial instruments including foreign exchange contracts, forward rate agreements and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value with changes in fair value included in net profit or loss. Fair values are obtained from quoted market prices. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Revenue recognition
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts.

Revenues from industrial customers are recognized monthly based on meter measurements done by the customer and checked by the Company (accrual basis). Revenues from residential customers are recognized monthly based on cash payments from and meter measurements done by the customers, which approximates the accrual basis. If material, a revenue accrual is recorded for the amounts of gas provided but not yet reported by the customers.

Income tax
Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation. Starting from 1 January 2002 the standard rate is set at 15 percent.

Deferred taxes are calculated using the balance sheet liability method. Deferred income tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax

AB LIETUVOS DUJOS ANNUAL REPORT 2003

rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets.

Foreign currencies
Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the statement of income. Such balances are translated at year-end exchange rates.

Use of estimates
The preparation of the financial statements in accordance with Lithuanian accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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

Corresponding figures
Where necessary, the corresponding figures have been adjusted to conform to changes in presentation in the current year.

3. Intangible assets

The Company does not have internally generated intangible assets. Amortization of intangible assets is included within operating expenses in the income statement.

4. Tangible assets

Fully depreciated property plant and equipment
Certain property, plant and equipment items with gross carrying amounts of LTL'000 39,078 are fully depreciated as of 31 December 2003, but are still in active use.

Property, plant and equipment held for disposal
The carrying amount of property, plant and equipment retired from active use and held for disposal amounted to LTL'000 5,950 as of 31 December 2003.

5. Accounts receivable within one year

	2003 (LTL)	2002 (LTL)
Trade receivables	42,065,850	73,728,023
Other receivables	8,528,386	10,591,383
Subtotal	50,594,236	84,319,406
Less impairment of accounts receivable	(14,302,554)	(15,007,845)
Total	**36,291,682**	**69,311,561**

A decrease in the trade receivables balance is mostly caused by collection of significant amounts due from AB Kauno energija.

The major part of other receivables, amounting to LTL'000 6,704 as of 31 December 2003 (LTL'000 8,634 as of 31 December 2002), represents a legal claim of the Company related to the cash frozen at AB Litimpeks bankas, which went bankrupt in 1999 and currently is administered by UAB Valeksa. During 2003 the Company managed to recover a portion of this claim amounting to LTL'000 1,930 whereas the outstanding balance remains fully provided.

6. Legal reserve

As mandated by the Law on Stock Companies the Company allocates not less than 5 percent of the net income as presented in the Lithuanian Statutory Accounts to the legal reserve. These transfers are made annually until the legal reserve reaches 10 percent of the share capital. The appropriation of this reserve is restricted to the reduction of the accumulated losses. As of 31 December 2003 an amount of at least LTL'000 3,091 of net income should be transferred to the legal reserve. The mentioned amount is subject to variation based on the final approval by the shareholders subsequent to issuing these financial statements.

7. Borrowings

Borrowings of LTL'000 53,695 were arranged at floating interest rates averaging between 3.79% and 5.46% (LTL'000 167,762: 3.79%-8.97% in 2002).

Borrowings of LTL'000 78,685 were arranged at fixed interest rates averaging between 4.09 and 6.00% (LTL'000 91,567: 4.09-6.00% in 2002).

Other borrowings of LTL'000 10,869 were arranged at subsidized, i.e. zero rates (LTL'000 13,521 in 2002).

As of 31 December 2003 borrowings in the amount of LTL'000 61,434 (LTL'000 158,112 as of 31 December 2002) represent bonds issued and the remaining portion in the amount of LTL'000 81,815 (LTL'000 114,738 as of 31 December 2002) represent bank borrowings.

The long-term loan agreement with Kuwait Fund for Arab Economic Development includes a number of financial and other covenants. As of 31 December 2003 the Company did not comply with covenants related to billing automation to reduce the period of billing to 30 days, the current and quick ratios (requirement – 1.5 and 1.0, respectively). In its reply, dated 11 July 2000, to the inquiry made by the management of the Company, Kuwait Fund for Arab Economic Development does not object to the Company's temporary incompliance with the above covenants during the period ending 31 December 2003. Accordingly, no reclassifications have been made in these financial statements in relation to this issue.

As of 31 December 2003 the Company's current liabilities exceeded its current assets. That was mostly caused by a significant portion of borrowings repayments falling due in 2004. As the back-up facilities the Company has arranged a bond issue program in the total amount of LTL'000 100,000 with a two-year maturity. As of 31 December 2003, the Company has LTL'000 20,000 of bonds outstanding issued within the framework of the aforementioned bond issue program and the remaining LTL'000 80,000 of bonds could be issued once approved by the Board of Directors. Furthermore, the Company as of 31 December 2003 has non-drawn overdraft facilities of LTL'000 17,201 (amount of drawn overdraft facilities constitute LTL'000 17,799). Also, the projected 2004 operating cash flows of the Company are significantly positive to cover part of the borrowings. Therefore, as a result of the above the Company is confident that it will face no liquidity issues in 2004.

8. Cost of sales (LTL)

	2003
Natural gas	221,640,440
Direct salaries and social insurance costs	46,214,837
Depreciation	40,799,100
Repairs	12,426,041
Taxes except for income tax	11,524,170
Other	15,422,063
Total	**348,026,651**

9. Operating expenses (LTL)

	2003
Salaries and social insurance cost	14,306,559
Depreciation	2,472,692
Repairs	1,029,379
Taxes except for income tax	1,576,214
Other	7,427,897
Total	**26,812,741**

10. Income tax (LTL)

	2003
Income tax:	
Income for the year before income tax according to IFRS	77,237,320
Changes in temporary differences	19,369,487
Items that are not taxable in determining taxable income	4,919,796
Taxable income for the year	101,526,603
Current income tax	15,228,991
Prior periods income tax adjustment	192,916
Income tax expense charged to the income statement	**15,421,907**

The Company also estimated deferred income tax, which reflects the net tax effects of temporary differences between the results for financial reporting and for income tax purposes. On 31 December 2003 the deferred income tax asset constituted LTL'000 7,152. However, the management has also recorded a valuation allowance in the amount it believes is necessary to reduce the deferred tax asset to the amount that will most likely be realized. On 31 December 2003 the valuation allowance constituted LTL'000 7,152.

A B L I E T U V O S D U J O S A N N U A L R E P O R T 2 0 0 3

11. Basic earnings per share (LTL)

Basic earnings per share reflect the Company's net income, divided by the weighted average number of shares. There are no diluting instruments. As there were no changes in the share capital of the Company during 2003, the weighted average number of shares equals to the total number of shares. Calculations of the basic earnings per share is presented below:

	2003
Net income attributable to the shareholders (LTL'000)	61,815
Weighted average number of shares ('000)	340,878
Basic earnings per share (LTL)	**0.18**

12. Financial instruments

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

The maximum exposure to credit risk is represented by the carrying amount of trade receivables and other current assets. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of impairment losses recognized at the balance sheet date.

Interest rate risk
The Company is exposed to the interest rate risk on outstanding balances of its borrowings. So far the major part of interest rate risk was managed by the Company through interest rate swaps for its interest payable pursuant to EUR denominated bonds agreements. On 11 June 2002 the Company and Westdeutsche Landesbank Girozentrale concluded interest swaps transactions agreements, enabling the Company to fix the interest rate of the respective borrowings during 2002, 2003 and 2004.

Liquidity risk
The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities.

Foreign exchange risk
Major currency risks of the Company occur due to the fact that the Company borrows foreign currency denominated funds as well as is being involved in imports of natural gas payable in USD. So far the currency risks were partly managed by the Company through the currency forwards for its imports of natural gas and choosing same currency for the majority of its borrowings as the LTL basis currency, being USD until 1 February 2002 and EUR thereafter.

13. Fair value of financial instruments

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

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

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

a) The carrying amount of current trade accounts receivable, current accounts payable and short-term borrowings approximates fair value.

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

14. Contingencies

Capital commitments
In accordance with the Natural Gas Law of the Republic of Lithuania and pursuant to the procedure approved by the orders No. 201 and No. 194 of the Ministry of Economy of the Republic of Lithuania dated 20 June 2001 and 3 June 2002, respectively, in 2002 the Company started the process of buying out natural gas supply systems of common use owned by other legal entities and natural persons. Before this process has been launched, there were approx. 973 km of such pipelines in Lithuania and the estimated buy-out price was in the range of approximately LTL'000 15,000 to LTL'000 20,000. During 2002 and 2003 the Company has bought out 104.6 km for the total value of LTL'000 1,500.

Grant receivable
The Ignalina Nuclear Power Plant reactors No. I and II are scheduled to be shut down until 2005 and in 2009, respectively. It is expected that as a part of the decommissioning of Ignalina Nuclear Power Plant the construction of a new natural gas transmission pipeline system from Pabrade to Visaginas and a gas distribution pipeline system from Visaginas to the new heat boiler station will be carried out. Since the construction of the new pipeline connection is not economically feasible due to low forecasted natural gas consumption volumes, the project is financed through a combination of commercial and grant funding. Consequently, the Company has been designated as a recipient of two grants. First grant in the amount of EUR'000 12,950 (LTL'000 44,714) is to be provided by the Ignalina International Decommissioning Support Fund, which is administered by the European Bank for Reconstruction and Development, in 2004 and 2005. The second grant in the amount of LTL'000 20,000 is to be provided by the Ignalina Nuclear Power Plant Decommissioning Fund in 2004. The estimated capital expenditure portion to be covered by the Company in relation to this project is LTL'000 8,839.

Litigation with AB Kauno Energija
The Company, as a plaintiff, is engaged in legal proceedings with AB Kauno Energija (defendant) in respect of late payment fines charged by the Company to the defendant for late settlement of debts for delivered natural gas and gas transportation services during the period from October of 1999 through February of 2001. The total amount of late payment fines claimed is LTL'000 20,165. The defendant appealed the amount of the fines. At the time of issuance of these financial statements, the outcome of the aforementioned case is uncertain and no amounts in relation to the case have been recognized in these financial statements.

15. Subsequent events

On 23 January 2004 State Property Fund of Lithuania and Gazprom representatives signed the agreement on the sale of 34% of the State holding in the Company to Gazprom for LTL'000 100,000. Thereby, the 2nd stage of the Company's privatization process foreseeing a sale of the State holding in the Company to a natural gas supplier is being finalized. The transaction is going to be completed upon Gazprom paying for the acquired shares as well as the parties signing the shares transfer and acceptance statement, which is in turn dependent upon the Company and Gazprom signing of the long-term gas purchase agreement. The completion of the transaction is expected on 24 March 2004.

Intangible assets (LTL)

Items	Research and development costs	Rights obtained	Goodwill	Prepayments
a) HISTORICAL COSTS				
31 December 2002	**770,724**	**5,813,180**	**-**	**-**
Changes during 2003:				
- acquisition (including assets under production)	91,801	966,708	-	-
- disposals (-)	-	(82,995)	-	-
- transfers +/(-)	-	-	-	-
31 December 2003	**862,525**	**6,696,893**	**-**	**-**
b) AMOUNTS WRITTEN-OFF AND AMORTIZATION (-)				
31 December 2002	**259,329**	**4,067,243**	**-**	**-**
Changes during 2003:				
- charge for the year	209,663	823,122	-	-
- reversals (-)	-	-	-	-
- disposals (-)	-	-	-	-
- write-offs (-)	-	(79,595)	-	-
- transfers +/(-)	-	-	-	-
31 December 2003	**468,992**	**4,810,770**	**-**	**-**
c) NET BOOK VALUE 31 DECEMBER 2003 (a) - (b)	**393,533**	**1,886,123**	**-**	**-**

AB LIETUVOS DUJOS ANNUAL REPORT 2003

Tangible assets (LTL)

Items	Land and buildings	Machinery and equipment	Transmission network and vehicles	Other equipment	Leasing and similar rights	Other fixed assets	Construction in progress and prepayments
a) MODIFIED HISTORICAL COST 31 December 2002	**64,761,848**	**484,658,676**	**345,749,287**	**46,337,524**	**-**	**2,606,611**	**15,170,735**
Changes during 2003:							
- acquisition	-	1,888,861	2,262,517	2,641,114	-	162,113	32,451,780
- disposals (-)	(572,493)	(776,177)	(877,907)	(1,446,148)	-	(219,621)	(55,300)
- transfers +/(-)	1,346,936	22,961,356	1,836,789	3,249,338	-	54,090	(29,448,509)
31 December 2003	**65,536,291**	**508,732,716**	**348,970,686**	**50,781,828**	**-**	**2,603,193**	**18,118,706**
b) REVALUATION 31 December 2002	**-**	**-**	**-**	**-**	**-**	**-**	**6,880,976**
Changes during 2003:							
- increase in value	-	-	-	-	-	-	76,486
- disposals (-)	-	-	-	-	-	-	-
- write-offs (-)	-	-	-	-	-	-	(53,771)
- transfers +/(-)	-	-	-	-	-	-	-
31 December 2003	**-**	**-**	**-**	**-**	**-**	**-**	**6,903,691**
c) AMOUNTS WRITTEN-OFF AND DEPRECIATION (-) 31 December 2002	**21,815,133**	**166,358,772**	**153,213,903**	**22,184,693**	**-**	**1,751,237**	**-**
Changes during 2003:							
- charge for the year	1,077,318	21,686,490	14,397,722	5,218,880	-	219,299	-
- reversals (-)	-	-	-	-	-	-	-
- disposals (-)	(87,298)	(125,753)	(495,126)	(170,555)	-	-	-
- write-offs (-)	(18,150)	(448,039)	(374,835)	(1,152,586)	-	(204,776)	-
- impairment loss (reversal)	2,155,352	244,619	33,815	1,505	-	-	-
- transfers +/(-)	-	36,286	(36,286)	-	-	-	-
31 December 2003	**24,942,355**	**187,752,375**	**166,739,193**	**26,081,937**	**-**	**1,765,760**	**-**
d) NET BOOK VALUE 31 DECEMBER 2003 (a) + (b) - (c)	**40,593,936**	**320,980,341**	**182,231,493**	**24,699,891**	**-**	**837,433**	**11,215,015**

Financial assets (LTL)

Items	Investments	
	Main investments	Other investments
a) HISTORICAL COST		
31 December 2002	**10,342,798**	**16,755**
Changes during 2003:		
- acquisition	-	3,582
- disposals (-)	-	(2,811)
- transfers +/(-)	-	-
31 December 2003	**10,342,798**	**17,526**
b) REVALUATION		
31 December 2002	**-**	**-**
Changes during 2003:		
- increase in value	-	-
- disposals (-)	-	-
- transfers +/(-)	-	-
31 December 2003	**-**	**-**
c) AMORTIZATION (-)		
31 December 2002	**-**	**-**
Changes during 2003:		
- decrease in value	3,933,036	-
- reversals (-)	-	-
- disposals (-)	-	-
- transfers +/(-)	-	-
31 December 2003	**-**	**-**
d) UNCALLED AMOUNTS (-)		
31 December 2002	**-**	**-**
Changes during 2003:	-	-
31 December 2003	**-**	**-**
NET BOOK VALUE 31 DECEMBER 2003 (a)+(b)-(c)-(d)	**6,409,762**	**17,526**

Status of share capital (LTL)

Items	Amount (LTL)	Number of shares
A. Registered share capital		
1. Subscribed share capital		
- 31 December 2002	**340,877,835**	**340,877,835**
- Changes during 2003:		
- increases	-	-
- decreases	-	-
31 December 2003	**340,877,835**	**340,877,835**
2. Structure of share capital		
2.1. Categories of shares	340,877,835	340,877,835
2.1.1. Common shares	340,877,835	340,877,835
2.1.2. Preferred shares	-	-
2.2. State owned share capital	198,928,831	198,928,831
B. Uncalled and called but unpaid share capital	**Uncalled share capital**	**Called but unpaid share capital**
Shareholders – debtors	(LTL)	
TOTAL:	**340,877,835**	**340,877,835**
	Amount of share capital held	Corresponding number of shares
C. Treasury shares	**-**	**-**

AB LIETUVOS DUJOS ANNUAL REPORT 2003

Status of the Company's liabilities (LTL)

Items	Debts or portions thereof to be paid		
A. Structure of debts	**Within one year**	**1-5 years**	**Thereafter**
Financial debts:			
1. Subordinated loans	-	-	-
2. Unsubordinated loans	-	-	-
3. Leasing and similar obligations	-	-	-
4. Credit institutions	42,643,208	7,417,173	-
5. Loans of foreign credit institutions	50,677,770	28,155,603	32,154,787
6. Other debts	-	-	-
Trade debts:			
1. Suppliers	32,980,270	-	-
2. Bills of exchange payable	-	-	-
Advances received on contracts in progress	6,139,042	-	-
Taxes, remuneration and social security payable			
1. Taxes	3,779,784	-	-
2. Remuneration and social security payable	1,076,806	-	-
Other liabilities	50,796	-	-
TOTAL:	**137,347,676**	**35,572,776**	**32,154,787**

	Debts under guarantee of	
B. Guarantee liabilities	**Government**	**The Company itself by collaterized assets**
Financial debts:		
1. Subordinated loans	-	-
2. Unsubordinated loans	-	-
3. Leasing and similar obligations	-	-
4. Credit institutions	-	-
5. Loans of foreign credit institutions	-	-
6. Other debts	-	-
Trade debts:		
1. Suppliers	-	-
2. Bills of exchange payable	-	-
Advences received on contracts in progress	**-**	**-**
Other liabilities	**-**	**-**
TOTAL:	**-**	**-**

Accrued expenses (LTL)

Accrued expenses accounts	Accrued expenses to be payable		
	Within one year	1-2 years	Thereafter
Accrued interest	2,024,506	-	-
Derivative financial instrument	3,633,755	-	-
Vacation reserve and social security	2,007,414	-	-
Other	69,588	-	-
Total accrued expenses	**7,735,263**	**-**	**-**

Prepaid expenses (LTL)

Prepaid expenses accounts	Prepaid expenses to be recognized		
	Within one year	1-2 years	Thereafter
Subscription	83,072	-	-
Salaries and social security	30,009	-	-
Insurance	23,296	-	-
Other	70,639	-	-
Total prepaid expenses	**207,016**	**-**	**-**

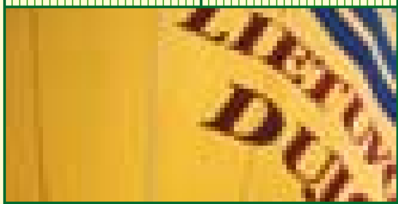
Financial relations with the Company's management (LTL)

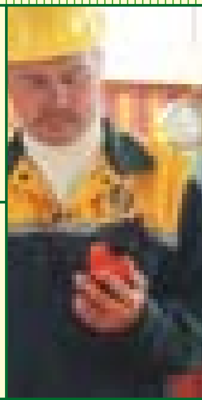
Items	2003	2002
A. Management remuneration	493,869	516,868
B. Company's loans to its management	-	-
C. Non rechargeable assets and gifts granted to them	-	-
D. Guarantees on behalf of the Company granted to them	-	-
E. Other significant amounts computed to the managers within the year	-	-
F. Significant liabilities of the managers to the Company	-	-
Average number of managers per year	3	3

Result of financial and investing activities (LTL)

Items	2003	2002
a) TOTAL REVENUE FROM FINANCIAL AND INVESTING ACTIVITIES	**17,615,811**	**27,744,960**
Positive foreign currency exchange rate changes	14,846,131	20,118,848
Overdue fines received	1,755,090	3,443,719
Interest from customers received	609,047	2,781,302
Bank interest	184,146	572,160
Other revenue	221,397	828,931
b) TOTAL EXPENSES OF FINANCIAL AND INVESTING ACTIVITIES (less capitalized expenses)	**34,626,446**	**29,035,346**
Forward transactions expenses	11,938,320	-
Interest expenses	11,022,154	18,275,724
Impairment loss, net	6,123,105	7,584,794
Negative foreign currency exchange rate changes	5,427,858	2,415,661
Other expenses	115,009	759,167
c) CAPITALIZED EXPENSES OF FINANCIAL AND INVESTING ACTIVITIES	**-**	**-**
d) RESULT OF FINANCIAL AND INVESTING ACTIVITIES (a – b)	**(17,010,635)**	**(1,290,386)**

Prepared by Centre of Administration and Gas Transmission of AB Lietuvos Dujos
Editorial work was completed on April 28, 2004
Photos: Gintaras Janavičius, Vladas Bukėnas
Design: Gitana Jurkienė. Printing: S.Jokužys Publishing – Printing House





AB Lietuvos Dujos

Aguonų g. 24
LT-03212 Vilnius, Lithuania
Tel. + 370 5 236 02 10
Fax + 370 5 236 02 00
E-mail: ld@lietuvosdujos.lt
www.dujos.lt

Vilnius, 2004