LIETUVOS DUJOS

To: Lithuanian Securities Commission

2 April 2008

CONFIRMATION OF RESPONSIBLE PERSONS

Following Art. 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commision, we, Viktoras Valentukevičius, General Manager and Giedrė Glinskienė, Deputy General Manager-Chief Financial Officer of AB Lietuvos Dujos, hereby confirm that to the best of our knowledge, the attached AB Lietuvos Dujos Consolidated and Parent Company's Financial Statements for the Year Ended 31 December 2007 Prepared According to International Financial Reporting Standards as Adopted by European Union, give a true and fair view of the assets, liabilities, financial status and profit of AB Lietuvos Dujos and the Group; and the Consolidated Annual Report presents a true and fair review of the business development and business activities, AB Lietuvos Dujos Consolidated and Parent Company's status including the description of the key risks and uncertainties.

General Manager — Viktoras Valentukevičius

Deputy General Manager-Chief Financial Officer — Giedrė Glinskienė

AB LIETUVOS DUJOS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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Register of Legal Persons

Independent auditors' report to the shareholders of AB Lietuvos Dujos

Report on the Financial Statements

We have audited the accompanying 2007 financial statements of AB Lietuvos Dujos, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Lietuvos Dujos and subsidiary UAB Palangos Perlas (hereinafter the Group) which comprise the balance sheets as of 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Lietuvos Dujos and the Group as of 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

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

Jonas Akelis Auditor's licence No. 000003	Ramūnas Bartašius Auditor's licence No. 000362

The audit was completed on 3 March 2008.

Balance sheets

		Notes	Group As of 31 December 2007	Group As of 31 December 2006	Company As of 31 December 2007	Company As of 31 December 2006
	ASSETS					
A.	**Non-current assets**		**2,220,673**	**2,198,820**	**2,223,695**	**2,201,999**
I.	Intangible assets	4	3,487	2,845	3,482	2,844
II.	Property, plant and equipment	5	2,216,707	2,195,389	2,209,401	2,188,332
II.1.	Land		183	103	183	103
II.2.	Buildings and structures		2,059,625	2,047,655	2,052,776	2,041,035
II.2.1.	Buildings		82,542	82,213	75,693	75,593
II.2.2.	Transmission networks and related installations		1,313,874	1,332,781	1,313,874	1,332,781
II.2.3.	Distribution networks and related installations		654,101	623,673	654,101	623,673
II.2.4.	Other buildings and structures		9,108	8,988	9,108	8,988
II.3.	Machinery and equipment		84,839	78,976	84,839	78,976
II.4.	Vehicles		12,025	9,916	11,994	9,865
II.5.	Other equipment, tools and devices		31,123	32,024	30,754	31,688
II.6.	Other property, plant and equipment		3,995	3,446	3,995	3,446
II.7.	Construction in progress		24,917	23,269	24,860	23,219
III.	Non-current financial assets		75	86	10,812	10,823
III.1.	Investments into subsidiaries	6	-	-	10,737	10,737
III.2.	Non-current accounts receivable	7	75	81	75	81
III.3.	Other financial assets		-	5	-	5
IV.	Deferred tax asset	21	404	500	-	-
B.	**Current assets**		**238,283**	**104,269**	**234,231**	**100,017**
I.	Inventories and prepayments		109,388	25,416	109,370	25,391
I.1.	Inventories	8	109,064	25,257	109,048	25,237
I.1.1.	Raw materials, spare parts and other inventories		2,160	2,938	2,159	2,937
I.1.2.	Goods for resale (including natural gas)		106,904	22,319	106,889	22,300
I.2.	Prepayments		324	159	322	154
II.	Accounts receivable	9	91,579	51,608	91,524	51,502
II.1.	Trade receivables		88,380	50,966	88,382	50,954
II.2.	Other receivables		3,199	642	3,142	548
III.	Other current assets	10	3,722	3,686	-	-
IV.	Cash and cash equivalents	11	33,594	23,559	33,337	23,124
	Total assets		**2,458,956**	**2,303,089**	**2,457,926**	**2,302,016**

(cont'd on the next page)

The accompanying notes are an integral part of these financial statements.

Balance sheets (cont'd)

		Notes	Group		Company	
			As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
	EQUITY AND LIABILITIES					
C.	**Equity**		**1,929,787**	**1,855,809**	**1,928,825**	**1,855,059**
I.	Share capital	12	469,068	469,068	469,068	469,068
II.	Reserves	13	1,357,881	1,328,557	1,355,991	1,326,851
II.1.	Legal reserve		17,962	14,996	17,795	14,838
II.2.	Other reserves		1,339,919	1,313,561	1,338,196	1,312,013
III.	Retained earnings		102,838	58,184	103,766	59,140
D.	**Liabilities**		**529,169**	**447,280**	**529,101**	**446,957**
I.	Non-current liabilities		338,876	327,927	338,876	327,841
I.1.	Non-current borrowings	15	10,720	21,559	10,720	21,559
I.2.	Grants (deferred revenue)	14	137,231	111,101	137,231	111,101
I.3.	Deferred tax liability	21	190,925	195,267	190,925	195,181
II.	Current liabilities		190,293	119,353	190,225	119,116
II.1.	Current portion of non-current borrowings	15	10,839	14,570	10,839	14,570
II.2.	Trade payables	16	119,515	59,079	119,498	58,901
II.3.	Prepayments received		15,170	16,381	15,152	16,381
II.4.	Income tax payable		12,950	10,527	12,950	10,523
II.5.	Payroll related liabilities		6,555	4,656	6,524	4,603
II.6.	Other current liabilities		25,264	14,140	25,262	14,138
	Total equity and liabilities		**2,458,956**	**2,303,089**	**2,457,926**	**2,302,016**

The accompanying notes are an integral part of these financial statements.

General Manager	V. Valentukevičius	V.Valentukevičius	3 March 2008
Chief Accountant	Ž. Augutis		3 March 2008

Income statements

		Notes	Group		Company	
			2007	**2006**	**2007**	**2006**
I.	Sales		1,024,264	779,579	1,022,881	778,318
II.	Cost of sales	17	(675,569)	(495,481)	(675,348)	(495,263)
III	**Gross profit**		**348,695**	**284,098**	**347,533**	**283,055**
IV.	Operating expenses	18	(231,328)	(223,044)	(230,268)	(222,097)
V.	Other operating activities income (net)	19	7,280	10,181	7,281	10,181
VI.	**Profit from operations**		**124,647**	**71,235**	**124,546**	**71,139**
VII.	**Financial and investing activities**	20	**685**	**512**	**530**	**2,377**
VII.1.	Income		3,034	2,056	2,879	3,921
VII.2.	Expenses		(2,349)	(1,544)	(2,349)	(1,544)
VIII.	**Profit before tax**		**125,332**	**71,747**	**125,076**	**73,516**
IX.	**Income tax**	21	**(21,354)**	**(14,423)**	**(21,310)**	**(14,376)**
IX.1.	Current period income tax		(25,600)	(28,741)	(25,566)	(28,704)
IX.2.	Deferred income tax		4,246	14,318	4,256	14,328
X.	**Net profit**		**103,978**	**57,324**	**103,766**	**59,140**
	Basic and diluted earnings per share (LTL)	22	0.22	0.12	0.22	0.13

The accompanying notes are an integral part of these financial statements.

General Manager	V. Valentukevičius		3 March 2008
Chief Accountant	Ž. Augutis		3 March 2008

Statements of changes in equity

Group	Notes	Share capital	Legal reserve	Corporate business development reserve	Reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes	Retained earnings (deficit)	Total
Balance as of 1 January 2006		**469,068**	**12,528**	**72,149**	**3,500**	**1,271,240**	**1,828,485**
Transfer to legal reserve		-	2,468	-	-	(2,468)	-
Transfer from reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	(3,500)	3,500	-
Transfers to corporate business development reserve		-	-	1,241,412	-	(1,241,412)	-
Dividends declared	23	-	-	-	-	(30,000)	(30,000)
Net profit for the year		-	-	-	-	57,324	57,324
Balance as of 31 December 2006		**469,068**	**14,996**	**1,313,561**	**-**	**58,184**	**1,855,809**
Transfer to legal reserve		-	2,966	-	-	(2,966)	-
Transfers to corporate business development reserve		-	-	26,358	-	(26,358)	-
Dividends declared	23	-	-	-	-	(30,000)	(30,000)
Net profit for the year		-	-	-	-	103,978	103,978
Balance as of 31 December 2007		**469,068**	**17,962**	**1,339,919**	**-**	**102,838**	**1,929,787**

The accompanying notes are an integral part of these financial statements.

General Manager	V. Valentukevičius		3 March 2008
Chief Accountant	Ž. Augutis		3 March 2008

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Legal reserve	Corporate business development reserve	Reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes	Retained earnings (deficit)	Total
Balance as of 1 January 2006		**469,068**	**12,528**	**72,146**	**3,500**	**1,268,677**	**1,825,919**
Transfer to legal reserve		-	2,310	-	-	(2,310)	-
Transfer from reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	(3,500)	3,500	-
Transfers to corporate business development reserve		-	-	1,239,867	-	(1,239,867)	-
Dividends declared	23	-	-	-	-	(30,000)	(30,000)
Net profit for the year		-	-	-	-	59,140	59,140
Balance as of 31 December 2006		**469,068**	**14,838**	**1,312,013**	**-**	**59,140**	**1,855,059**
Transfer to legal reserve		-	2,957	-	-	(2,957)	-
Transfers to corporate business development reserve		-	-	26,183	-	(26,183)	-
Dividends declared	23	-	-	-	-	(30,000)	(30,000)
Net profit for the year		-	-	-	-	103,766	103,766
Balance as of 31 December 2007		**469,068**	**17,795**	**1,338,196**	**-**	**103,766**	**1,928,825**

The accompanying notes are an integral part of these financial statements.

General Manager	V. Valentukevičius		3 March 2008
Chief Accountant	Ž. Augutis		3 March 2008

Cash flows statements

		Group		Company	
		2007	**2006**	**2007**	**2006**
I.	**Cash flows from (to) operating activities**				
I.1.	Net profit	103,978	57,324	103,766	59,140
	Adjustments of non-cash items:				
I.2.	Depreciation and amortisation	94,503	94,676	94,269	94,467
I.3.	(Gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal	(1,832)	(3,219)	(1,832)	(3,220)
I.4.	(Reversal of) impairment for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories	(1,948)	(837)	(1,948)	(837)
I.5.	Income tax expenses	21,354	14,423	21,309	14,376
I.6.	Interest (income)	(2,688)	(698)	(2,533)	(563)
I.7.	Interest expenses	2,346	2,214	2,346	2,214
I.8.	Dividends (income)	-	-	-	(2,000)
I.9.	Loss (gain) on foreign currency exchange	1	(1,059)	1	(1,059)
I.10.	Elimination of other financial activity results	(577)	(3)	(577)	(3)
I.11.	Amortisation of the grants, deferred revenue and other non-cash items	(3,144)	(2,890)	(3,144)	(2,890)
		211,993	**159,931**	**211,657**	**159,625**
	Changes in working capital:				
I.12.	(Increase) in inventories	(83,480)	(15,175)	(83,485)	(15,175)
I.13.	(Increase) in trade accounts receivable	(35,227)	(5,271)	(35,242)	(5,295)
I.14.	(Increase) decrease in other accounts receivable and prepayments	(2,686)	195	(2,732)	282
I.15.	Increase in trade accounts payable	59,301	15,635	59,463	15,639
I.16.	Increase in other current liabilities	38,444	29,487	38,447	30,577
I.17.	Income tax (paid)	(23,184)	(20,876)	(23,139)	(20,747)
	Net cash flows from operating activities	**165,161**	**163,926**	**164,969**	**164,906**
II.	**Cash flows from (to) investing activities**				
II.1.	(Acquisitions) of property, plant and equipment and intangible assets	(117,288)	(122,841)	(116,799)	(122,173)
II.2.	Proceeds from sales of property, plant and equipment	3,428	9,972	3,427	9,972
II.3.	Recovery of non-current loans and accounts receivable	6	346	6	346
II.4.	Proceeds from sales of financial assets	5	5	5	5
II.5.	(Increase) in term deposits	(37)	(2,168)	-	-
II.6.	Dividends received	-	-	-	2,000
II.7.	Interest received	2,688	698	2,533	563
	Net cash flows (to) investing activities	**(111,198)**	**(113,988)**	**(110,828)**	**(109,287)**

(cont'd on the next page)

The accompanying notes are an integral part of these financial statements.

Cash flows statements (cont'd)

		Group		Company	
		2007	**2006**	**2007**	**2006**
III.	**Cash flows from (to) financing activities**				
III.1.	Dividends (paid)	(29,969)	(29,965)	(29,969)	(29,965)
III.2.	Loans received	186,451	158,122	186,451	158,122
III.3.	Loans (repaid)	(201,022)	(166,293)	(201,022)	(166,293)
III.4.	Grants received	3,004	1,360	3,004	1,360
III.5.	Cash flows from other financial activities	-	670	-	670
III.6.	Interest (paid)	(2,392)	(2,306)	(2,392)	(2,306)
	Net cash flows from (to) financing activities	**(43,928)**	(38,412)	**(43,928)**	**(38,412)**
IV.	**Impact of changes in currency exchange rates on cash balance**	**-**	**(135)**	**-**	**(135)**
V.	**Net increase in cash and cash equivalents**	**10,035**	**11,391**	**10,213**	**17,072**
VI.	**Cash and cash equivalents at the beginning of the year**	**23,559**	**12,168**	**23,124**	**6,052**
VII.	**Cash and cash equivalents at the end of the year**	**33,594**	**23,559**	**33,337**	**23,124**

The accompanying notes are an integral part of these financial statements.

General Manager	V. Valentukevičius		3 March 2008
Chief Accountant	Ž. Augutis		3 March 2008

Notes to the financial statements

1 General information

AB Lietuvos Dujos (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

Aguonų Str. 24,
Vilnius, LT- 03212,
Lithuania.

The Company is engaged in transmission, distribution and supply of natural gas. The Company was registered on 23 November 1990. The Company's shares are traded in the Vilnius Stock Exchange on the Secondary List. Starting 1 January 2008 the Company's shares are included into the Official list.
As of 31 December 2007 and 2006 the shareholders of the Company were as follows:

	Number of shares held	Percentage
E.ON Ruhrgas International AG	182,534,384	38.9
OAO Gazprom	173,847,696	37.1
State Property Fund	83,030,367	17.7
Other shareholders	29,655,807	6.3
	469,068,254	100.0

All the shares of the Company are ordinary registered shares with a par value of LTL 1 each and were fully paid as of 31 December 2007 and 2006. The Company did not hold its own shares.
The Company consists of the Centre of Administration and Gas Transmission and 5 branches.
The Group comprises AB Lietuvos Dujos and it's subsidiary UAB Palangos Perlas (hereinafter the Group). The information of UAB Palangos Perlas as of 31 December 2007 is as follows:

Company	Address of registered office	Part of shares controlled by the Group (%)	Share capital	Current period profit	Equity	Main activity
UAB Palangos Perlas	Gintaro Str. 36, Palanga	100	9,704	207	11,801	Restaurant and accommodation facilities

The average number of employees of the Group and the Company in 2007 was 1,813 and 1,783, respectively (1,827 and 1,797 in 2006, respectively).

Activities of AB Lietuvos Dujos are regulated by the Law on Natural Gas No. X-1054 as of 20 March 2007 of the Republic of Lithuania. This Law requires unbundling of the accounts among each of the Company's main activities: transmission, distribution and supply. The Company has unbundled the accounts by segments a few years ago and has reconsidered its segments as prescribed by the new Law from 1 January 2008.
Based on the provisions of the Natural Gas Law, the Company's activities are subject to licensing and regulating by the National Control Commission for Prices and Energy (hereinafter "the Commission"). On 18 December 2001 the Commission granted the Company Natural Gas Transmission and Distribution licenses and on 16 May 2002 the Commission granted a Natural Gas Supply license. The licenses have no expiration date, but are subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Government of the Republic of Lithuania by its Resolution No. 1304 as of 5 December 2007 has approved the new Regulations for Licencing the Transmission, Distribution, Storage, Liquefaction and Supply of Natural Gas (hereinafter the Regulations), which are implementing the provisions of the Law on Natural Gas. According to the Regulations the licences for the transmission, distribution and supply of gas earlier granted to the Company should be replaced by the Commission by 1 July 2008. The Commission also sets transmission, distribution and supply gas price caps.

1 General information (cont'd)

The management of the Company approved these financial statements on 3 March 2008. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2007 are as follows:

2.1. Basis of preparation

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

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures.* This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IFRIC 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".* This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.

IAS 1 *Presentation of Financial Statements.* This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are presented in Note 29.

IFRIC 8 *Scope of IFRS 2.* This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives.* IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 *Interim Financial Reporting and Impairment.* The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

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

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognised on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognised, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by the EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Group and the Company expects that the adoption of the pronouncements listed above will have no significant impact on the financial statements in the period of initial application, except for IFRS 8 Operating Segments and IAS 1 Presentation of Financial Statements – Revised.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group has preliminary assessed that the operating segments were the same as the business segments identified under IAS 14 *Segment Reporting*.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced. The Group is still estimating the impact of the adoption of this revision.

2.2. Measurement and presentation currency

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

Starting from 2 February 2002, Lithuanian Litas is pegged to EUR at the rate of 3.4528 Litas for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Principles of consolidation

The consolidated financial statements of the Group include AB Lietuvos Dujos and it's subsidiary. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The purchase method of accounting is used for acquired businesses. The Company accounts for the acquired identifiable assets and liabilities of another company at their fair value at acquisition date. Difference between the acquisition cost and the fair value of the net assets at the date of acquisition is considered to be goodwill (negative goodwill). The goodwill is presented in the financial statements at cost, less impairment losses. Negative goodwill is recognised as income in the income statement for the reporting period. In the consolidated financial statements goodwill related to the consolidated subsidiaries is presented under intangible assets caption.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

Companies acquired or sold during a year are included into the financial statements from the date of acquisition or until the date of sale.

Inter-company balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances.

In separate financial statements of the Company investments into subsidiaries and associated companies are accounted for applying the cost method.

2 Accounting principles (cont'd)

2.4. Intangible assets

Intangible assets of the Group and the Company are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably.

The useful lives of intangible assets are assessed to be either finite or indefinite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives (4 years). The useful lives, residual values and amortisation method are reviewed annually to ensure they are consistent with the expected pattern of economic benefits from items of non-current intangible assets. Intangible assets mainly consist of software and licences used in main activities of the Group and the Company.

The Group and the Company do not have any intangible assets with infinite useful live.

2.5. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection/maintenance is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	25 – 60 years
Transmission networks and related installations	30 – 55 years
Distribution networks and related installations	30 – 55 years
Machinery and equipment	5 – 18 years
Other buildings and structures	18 years
Vehicles	6 – 9 years
Other equipment, tools and devices	4 – 9 years
Other property, plant and equipment	6 – 9 years

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

The Group and the Company estimates the recoverable amount of an asset whenever there is an indication that the asset may be impaired. An impairment loss is recognised in the income statement, whenever estimated.

2 Accounting principles (cont'd)

2.6. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's and the Company's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus (except for the financial assets at fair value through profit or loss) transaction costs.

<u>Financial assets at fair value through profit or loss</u>

The category financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income statement.

<u>Held-to-maturity investments</u>

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

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivables are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (write-off) when they are assessed as uncollectible.

<u>Available-for-sale financial assets</u>

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

2.7. Derecognition of financial assets and liabilities

<u>Financial assets</u>

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 Accounting principles (cont'd)

2.7. Derecognition of financial assets and liabilities (cont'd)

Financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.8. Inventories

Inventories of the Group and the Company, mainly consisting of natural gas for sale that remained in the Company at the year-end and other inventories, are valued at the lower of cost or net realisable 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 (FIFO) method. Inventories that cannot be realised are written off.

2.9. Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank account as well as deposits in bank with original term of less than 3 months.

2.10. Borrowings

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings.

The borrowings are classified as non-current if the completion of a refinancing agreement before the balance sheet date provides evidence that the substance of the liability at the balance sheet date was long term.

2.11. Operating leases

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2 Accounting principles (cont'd)

2.12. Grants (deferred revenue)

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

Payments received from customers for the connection to the Company's gas system are accounted for as deferred revenue and recognised as income over the expected useful life of the related capitalised assets.

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

The balance of unutilised grants is shown under caption of "Grants (deferred revenue)" in the balance sheet.

2.13. Income tax

The Group companies are taxed individually, irrespective the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The standard income tax rate applied is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the income tax, for one financial year beginning on 1 January 2006, companies had to pay an additional 4% tax calculated based on the income tax principles and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

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

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

2.14. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the Company and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenues from transmission, distribution and supply for industrial and commercial customers are recognised monthly based on meter readings declared by the customer and checked by the Group and the Company (accrual basis). Revenues from household customers are recognised monthly based on their meter readings declared by the customers or based on the volume of gas supplied to customers but not yet declared, which approximates an accrual basis.

2 Accounting principles (cont'd)

2.15. 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 recognised in the income statement. Such balances are translated at period-end exchange rates.

2.16. Segment information

Business segments

The Group and the Company has three main operating segments – natural gas transmission, distribution and supply (which further divided into supply for regulated customers and supply for eligible customers in 2006) – and other activity business segment.

Financial information on business segments is presented in Note 3.

Geographical segments

All of the Group's and the Company's assets (except a part of natural gas inventories – see Note 8) are located and revenues are generated in the Republic of Lithuania, therefore geographical segments are not reported.

2.17. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement in the same caption, where the impairment losses have been recognised. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets of the Group and the Company are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased significantly. The reversal is accounted in the same caption of the income statement as the impairment loss.

2.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Group and the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation (Note 2.5 and Note 5) and impairment evaluation of deferred tax asset(Note 2.13 and Note 21), investments into subsidiaries – only the Company (Note 2.17), accounts receivable (Note 2.6, Note 7 and Note 9) and inventories (Note 2.8 and Note 8). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. The management of the Group and the Company do not expect any significant changes in respect of estimates and judgements used for the upcoming year.

2 Accounting principles (cont'd)

2.19. Contingencies

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

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.20. Subsequent events

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

2.21. Offsetting and comparative figures

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

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year. More detail split of Operating expenses is provided for the year 2007 and 2006, development costs are added to other intangible assets column in Note 4 as amount was immaterial for the year 2007 and 2006. In addition layout of Income statements have been changed by including Other operating activities income (net) line above Profit from operations line; presentation of Segment information (Note 3) was revised accordingly.

3 Segment information

Transmission of natural gas means the transportation of natural gas through the transmission pipeline. The transmission activity also includes transit of natural gas to the district of Kaliningrad of the Russian Federation.

Distribution of natural gas means the transportation of natural gas through the distribution gas pipeline.

Supply of natural gas means the natural gas sales to end users. Till 1 July 2007 supply activities were separated between regulated and eligible customers, after this date due to changes in legislation all customers became eligible, therefore free to chose supply company. The Group and the Company merged Supply for regulated customers and Supply for eligible customers segments into one segment – Total supply. Therefore the data for the year 2007 for this segment is presented in a different way.

Other – other non-main business related activities.

Segment information for the years ended 31 December 2007 and 2006 is presented below:

Group

2007	Transmission	Distribution	Supply for regulated customers	Supply for eligible customers	Total supply	Other	Total
Sales	106,670	134,187	-	-	777,811	5,596	1,024,264
Profit from operations	5,740	12,914	-	-	99,498	6,495	124,647
Assets	1,474,509	758,404	-	-	213,809	12,234	2,458,956
Liabilities	234,877	140,581	-	-	153,072	639	529,169
Other segment information							
Acquisition of assets	54,066	63,757	-	-	96	503	118,422
Depreciation and amortisation	60,987	32,121	-	-	990	406	94,504
Impairment of non-current assets	-	6	-	-	-	-	6
Average number of employees	353	1,207	-	-	200	53	1,813
2006							
Sales	99,807	126,647	*250,162*	*297,453*	547,615	5,510	779,579
Profit from operations	658	12,527	*17,809*	*30,064*	47,873	10,177	71,235
Assets	1,501,430	718,212	*52,938*	*17,592*	70,530	12,917	2,303,089
Liabilities	251,958	115,045	*75,226*	*2,139*	77,365	2,912	447,280
Other segment information							
Acquisition of assets	62,208	59,568	*147*	-	147	829	122,752
Depreciation and amortisation	61,790	31,417	*810*	*222*	1,032	437	94,676
Average number of employees	357	1,219	*186*	*11*	197	54	1,827

3 Segment information (cont'd)

Company

2007	Transmission	Distribution	Supply for regulated customers	Supply for eligible customers		Other	Total
Sales	106,670	134,187	-	-	777,811	4,213	1,022,881
Profit from operations	5,740	12,914	-	-	99,498	6,394	124,546
Assets	1,474,509	758,404	-	-	213,809	11,204	2,457,926
Liabilities	234,877	140,581	-	-	153,072	571	529,101
Other segment information							
Acquisition of assets	54,066	63,757	-	-	96	15	117,934
Depreciation and amortisation	60,987	32,121	-	-	990	171	94,269
Impairment of non-current assets	-	6	-	-	-	-	6
Average number of employees	353	1,207	-	-	200	23	1,783
2006							
Sales	99,807	126,647	*250,162*	*297,453*	547,615	4,249	778,318
Profit from operations	658	12,527	*17,809*	*30,064*	47,873	10,081	71,139
Assets	1,501,430	718,212	*52,938*	*17,592*	70,530	11,844	2,302,016
Liabilities	251,958	115,045	*75,226*	*2,139*	77,365	2,589	446,957
Other segment information							
Acquisition of assets	62,208	59,568	*147*	-	147	-	121,923
Depreciation and amortisation	61,790	31,417	*810*	*222*	1,032	228	94,467
Average number of employees	357	1,219	*186*	*11*	197	24	1,797

As discussed in Note 1, starting 1 January 2008 as required by the Natural Gas Law No. X-1054 the Group's and the Company's main operating segments will be: natural gas transmission, distribution, supply and other activity business segment.

4 Intangible assets

Movement of intangible assets for the current period:

Group	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as of 1 January 2006	1,375	4,720	2,680	8,775
Additions	302	754	18	1,074
Retirements	(167)	(961)	(987)	(2,115)
Balance as of 31 December 2006	1,510	4,513	1,711	7,734
Additions	747	1,110	8	1,865
Retirements	-	(125)	(36)	(161)
Balance as of 31 December 2007	2,257	5,498	1,683	9,438
Amortisation:				
Balance as of 1 January 2006	870	3,063	1,832	5,765
Charge for the year	201	676	337	1,214
Retirements	(167)	(961)	(962)	(2,090)
Balance as of 31 December 2006	904	2,778	1,207	4,889
Charge for the year	246	726	251	1,223
Retirements	-	(125)	(36)	(161)
Balance as of 31 December 2007	1,150	3,379	1,422	5,951
Net book value as of 31 December 2007	**1,107**	**2,119**	**261**	**3,487**
Net book value as of 31 December 2006	**606**	**1,735**	**504**	**2,845**

4 Intangible assets (cont'd)

Company	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as of 1 January 2006	1,375	4,717	2,680	8,772
Additions	302	754	18	1,074
Retirements	(167)	(961)	(987)	(2,115)
Balance as of 31 December 2006	1,510	4,510	1,711	7,731
Additions	747	1,105	8	1,860
Retirements	-	(125)	(36)	(161)
Balance as of 31 December 2007	2,257	5,490	1,683	9,430
Amortisation:				
Balance as of 1 January 2006	870	3,061	1,832	5,763
Charge for the year	201	676	337	1,214
Retirements	(167)	(961)	(962)	(2,090)
Balance as of 31 December 2006	904	2,776	1,207	4,887
Charge for the year	246	725	251	1,222
Retirements	-	(125)	(36)	(161)
Balance as of 31 December 2007	1,150	3,376	1,422	5,948
Net book value as of 31 December 2007	**1,107**	**2,114**	**261**	**3,482**
Net book value as of 31 December 2006	**606**	**1,734**	**504**	**2,844**

Amortisation expenses of intangible assets are included into operating expenses in the income statement.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 3,624 thousand as of 31 December 2007 (LTL 4,417 thousand as of 31 December 2006) was fully amortised, but still in use.

5 Property, plant and equipment

Movement of property, plant and equipment for the current and prior periods:

Group	Land	Buildings	Trans-mission networks and related installations	Distribution networks and related installations	Other buildings and structures	Machi-nery and equip-ment	Vehic-les	Other equip-ment, tools and devices	Other property, plant and equip-ment	Construc-tion in progress	Total
Cost:											
Balance as of 1 January 2006	103	92,682	1,382,845	614,585	9,294	86,501	26,534	81,031	7,075	25,439	2,326,089
Additions	-	210	-	463	61	606	3,372	1,916	827	114,223	121,678
Disposals and retirements	-	(3,635)	-	(682)	(113)	(283)	(2,000)	(3,233)	(616)	(2)	(10,564)
Reclassifications	-	3,399	38,914	53,409	1,108	13,942	-	5,396	218	(116,386)	-
Balance as of 31 December 2006	103	92,656	1,421,759	667,775	10,350	100,766	27,906	85,110	7,504	23,274	2,437,203
Additions	-	2	-	484	-	553	4,494	2,140	1,280	107,604	116,557
Disposals and retirements	-	(1,766)	(46)	(573)	(95)	(455)	(1,112)	(5,832)	(379)	-	(10,258)
Reclassifications	80	4,876	26,790	52,687	984	16,297	-	4,087	159	(105,960)	-
Balance as of 31 December 2007	183	95,768	1,448,503	720,373	11,239	117,161	31,288	85,505	8,564	24,918	2,543,502
Accumulated depreciation:											
Balance as of 1 January 2006	-	4,191	43,213	21,751	645	10,932	17,870	48,538	3,947	-	151,087
Charge for the year	-	2,873	45,765	22,485	731	11,110	2,113	7,682	703	-	93,462
Disposals and retirements	-	(136)	-	(138)	(14)	(252)	(1,993)	(3,130)	(592)	-	(6,255)
Reclassifications	-	-	-	4	-	-	-	(4)	-	-	-
Balance as of 31 December 2006	-	6,928	88,978	44,102	1,362	21,790	17,990	53,086	4,058	-	238,294
Charge for the year	-	2,937	45,696	22,594	783	10,956	2,382	7,058	875	-	93,281
Disposals and retirements	-	(154)	(45)	(426)	(14)	(422)	(1,109)	(5,765)	(371)	-	(8,306)
Reclassifications	-	-	-	2	-	(2)	-	-	-	-	-
Balance as of 31 December 2007	-	9,711	134,629	66,272	2,131	32,322	19,263	54,379	4,562	-	323,269
Impairment losses:											
Balance as of 1 January 2006	-	3,515	-	-	-	-	-	-	-	5	3,520
Charge for the year	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2006	-	3,515	-	-	-	-	-	-	-	5	3,520
Charge for the year	-	-	-	-	-	-	-	3	7	-	10
Reversal of impairment	-	-	-	-	-	-	-	-	-	(4)	(4)
Balance as of 31 December 2007	-	3,515	-	-	-	-	-	3	7	1	3,526
Net book value as of 31 December 2007	**183**	**82,542**	**1,313,874**	**654,101**	**9,108**	**84,839**	**12,025**	**31,123**	**3,995**	**24,917**	**2,216,707**
Net book value as of 31 December 2006	**103**	**82,213**	**1,332,781**	**623,673**	**8,988**	**78,976**	**9,916**	**32,024**	**3,446**	**23,269**	**2,195,389**

5 Property, plant and equipment (cont'd)

Company	Land	Buildings	Trans-mission networks and related installations	Distribution networks and related installations	Other buildings and struc-tures	Machi-nery and equip-ment	Vehic-les	Other equip-ment, tools and devices	Other property, plant and equipment	Construc-tion in progress	Total
Cost:											
Balance as of 1 January 2006	103	81,561	1,382,845	614,585	9,294	86,501	26,409	79,634	7,075	25,401	2,313,408
Additions	-	210	-	463	61	606	3,372	1,764	827	113,546	120,849
Disposals and retirements	-	(3,635)	-	(682)	(113)	(283)	(2,000)	(3,181)	(616)	(2)	(10,512)
Reclassifications	-	2,734	38,914	53,409	1,108	13,942	-	5,396	218	(115,721)	-
Balance as of 31 December 2006	103	80,870	1,421,759	667,775	10,350	100,766	27,781	83,613	7,504	23,224	2,423,745
Additions	-	2	-	484	-	553	4,494	2,027	1,280	107,234	116,074
Disposals and retirements	-	(1,766)	(46)	(573)	(95)	(455)	(1,112)	(5,579)	(379)	-	(10,005)
Reclassifications	80	4,513	26,790	52,687	984	16,297	-	4,087	159	(105,597)	-
Balance as of 31 December 2007	183	83,619	1,448,503	720,373	11,239	117,161	31,163	84,148	8,564	24,861	2,529,814
Accumulated depreciation:											
Balance as of 1 January 2006	-	2,668	43,213	21,751	645	10,932	17,816	47,386	3,947	-	148,358
Charge for the year	-	2,745	45,765	22,485	731	11,110	2,093	7,621	703	-	93,253
Disposals and retirements	-	(136)	-	(138)	(14)	(252)	(1,993)	(3,078)	(592)	-	(6,203)
Reclassifications	-	-	-	4	-	-	-	(4)	-	-	-
Balance as of 31 December 2006	-	5,277	88,978	44,102	1,362	21,790	17,916	51,925	4,058	-	235,408
Charge for the year	-	2,803	45,696	22,594	783	10,956	2,362	6,978	875	-	93,047
Disposals and retirements	-	(154)	(45)	(426)	(14)	(422)	(1,109)	(5,512)	(371)	-	(8,053)
Reclassifications	-	-	-	2	-	(2)	-	-	-	-	-
Balance as of 31 December 2007	-	7,926	134,629	66,272	2,131	32,322	19,169	53,391	4,562	-	320,402
Impairment losses:											
Balance as of 1 January 2006	-	-	-	-	-	-	-	-	-	5	5
Charge for the year	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2006	-	-	-	-	-	-	-	-	-	5	5
Charge for the year	-	-	-	-	-	-	-	3	7	-	10
Reversal of impairment	-	-	-	-	-	-	-	-	-	(4)	(4)
Balance as of 31 December 2007	-	-	-	-	-	-	-	3	7	1	11
Net book value as of 31 December 2007	**183**	**75,693**	**1,313,874**	**654,101**	**9,108**	**84,839**	**11,994**	**30,754**	**3,995**	**24,860**	**2,209,401**
Net book value as of 31 December 2006	**103**	**75,593**	**1,332,781**	**623,673**	**8,988**	**78,976**	**9,865**	**31,688**	**3,446**	**23,219**	**2,188,332**

5 Property, plant and equipment (cont'd)

The depreciation of the Group's and the Company's property, plant and equipment for 2007 amounts to LTL 93,281 thousand and LTL 93,047 thousand, respectively. The amounts of LTL 93,259 thousand and LTL 93,025 thousand are included into operating expenses, the remaining amounts are included into other operating activities income (net) in the Group's and the Company's income statements.

The depreciation of the Group's and the Company's property, plant and equipment for 2006 amounts to LTL 93,462 thousand and LTL 93,253 thousand, respectively. The amounts of LTL 93,442 thousand and LTL 93,232 thousand are included into operating expenses, the remaining amounts are included into other operating activities income (net) in the Group's and the Company's income statements.

Property, plant and equipment of the Group and the Company with the acquisition cost of LTL 47,357 thousand and LTL 46,611 thousand, respectively, were fully depreciated as of 31 December 2007 (LTL 53,096 thousand and LTL 52,215 thousand as of 31 December 2006, respectively), but were still in use.

As of 31 December 2007 and 2006 the Group and the Company had no property, plant and equipment, acquired according to financial lease agreements.

Major objects of construction in progress of the Group and the Company as of 31 December 2007 were as follows:

Object	**Group**	**Company**
Construction of MRS in Jauniūnai, Širvintos district	3,465	3,465
Construction of transmission pipeline Tauragė - Klaipėda branch	2,000	2,000
Construction of transmission pipeline Jurbarkas - Tauragė branch	1,667	1,667
Other (including UAB Palangos Perlas)	17,785	17,728
Net book value as of 31 December 2007	**24,917**	**24,860**

6 Investments into subsidiaries

As of 31 December 2007 and 2006 the Company's investment into subsidiaries consisted of the investment to UAB Palangos Perlas and amounted to LTL 10,737 thousand.

7 Non-current accounts receivable

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
AB Panevėžio Stiklas debt	6,373	6,373	6,373	6,373
Other non-current accounts receivable	75	81	75	81
	6,448	6,454	6,448	6,454
Less: allowance for non-current accounts receivable	(6,373)	(6,373)	(6,373)	(6,373)
	75	81	75	81

Receivable from AB Panevėžio stiklas is related to the mentioned entity debt for the supply of natural gas for the period 2000 - 2002. Due to solvency problems debts restructuring agreement was signed with AB Panevėžio Stiklas creditors on 30 August 2002, according to it debt to the Company in amount of LTL 6,373 thousand will be repaid during the years 2013 – 2024.

8 Inventories

	Group		Company	
	2007	**2006**	**2007**	**2006**
Raw materials, spare parts and other inventories	2,367	3,687	2,366	3,686
Goods for resale (including natural gas)	106,904	22,319	106,889	22,300
Inventories, gross	109,271	26,006	109,255	25,986
Less: allowance for inventories	(207)	(749)	(207)	(749)
	109,064	25,257	109,048	25,237

As of 31 December 2007 the Group's and the Company's balances of the goods for resale significantly increased due to purchases of natural gas in 2007 for storage in Latvia.

The cost of inventories accounted for at net realisable value amounted to LTL 1,422 thousand as of 31 December 2007 (LTL 2,556 thousand as of 31 December 2006). Changes in the allowance for inventories in 2007 and 2006 were included into operating expenses.

9 Accounts receivable

	Group		Company	
	2007	**2006**	**2007**	**2006**
Receivables for natural gas from industrial and commercial companies	88,759	52,688	88,759	52,691
Receivables for natural gas from residents	3,555	4,739	3,555	4,739
Other trade receivables	807	281	809	266
	93,121	57,708	93,123	57,696
Other accounts receivable	3,216	782	3,159	688
	96,337	58,490	96,282	58,384
Less: allowance for accounts receivable	(4,758)	(6,882)	(4,758)	(6,882)
	91,579	51,608	91,524	51,502

Trade receivables are non-interest bearing and are generally due in 30 days terms.

As of 31 December 2007 trade and other receivables with the nominal value of LTL 4,338 thousand (as of 31 December 2006 – LTL 3,682 thousand) were fully provided for.

Movements in the allowance for impairment of the Company's and the Group's receivables were as follows:

	Individually impaired	**Collectively impaired**	**Total**
Balance as of 31 December 2005	**4,780**	**2,325**	**7,105**
Charge for the year	5,724	497	6,221
Utilised	(1,994)	(238)	(2,232)
Unused amounts reversed	(3,779)	(433)	(4,212)
Balance as of 31 December 2006	**4,731**	**2,151**	**6,882**
Charge for the year	320	404	724
Utilised	-	(496)	(496)
Unused amounts reversed	(1,492)	(860)	(2,352)
Balance as of 31 December 2007	**3,559**	**1,199**	**4,758**

Changes in allowance for accounts receivable in 2007 and 2006 were included into operating expenses.

9 Accounts receivable (cont'd)

The ageing analysis of the Group's trade and other receivables as of 31 December is as follows:

	Receivables neither past due nor impaired	Receivables past due but not impaired					
		Less than 30 days	30 – 90 days	90 – 180 days	180 – 360 days	More than 360 days	Total
2006	48,658	1,576	823	207	105	127	51,496
2007	82,825	5,062	958	121	63	-	89,029

The ageing analysis of the Company's trade and other receivables as of 31 December is as follows:

	Receivables neither past due nor impaired	Receivables past due but not impaired					
		Less than 30 days	30 – 90 days	90 – 180 days	180 – 360 days	More than 360 days	Total
2006	48,649	1,572	823	207	105	127	51,483
2007	82,829	5,060	958	121	63	-	89,031

10 Other current assets

The Group's other current assets consists of short term deposits in the amount of LTL 3,722 thousand (LTL 3,686 thousand as of 31 December 2006). Weighted average annual interest rate of the term deposits was 4.91% as of 31 December 2007 (3.78% as of 31 December 2006). The maturity of term deposits is 3 – 6 months period.

11 Cash and cash equivalents

	Group		Company	
	2007	**2006**	**2007**	**2006**
Cash at bank, in transit and on hand	3,952	5,204	3,695	4,969
Frozen funds	6,137	6,137	6,137	6,137
Deposits with the term of less than three months	29,642	18,355	29,642	18,155
	39,731	29,696	39,474	29,261
Less: impairment	(6,137)	(6,137)	(6,137)	(6,137)
	33,594	23,559	33,337	23,124

Frozen funds mostly consist of the Group's and the Company's cash deposited at the bank AB Litimpeks Bankas. The bank went bankrupt in 1999 and it is now administrated by UAB Valeksa. A 100% allowance is recorded for this amount.

The original term of all deposits is less than three months, the weighted average annual interest rate as of 31 December 2007 was 3.70% (3.22% as of 31 December 2006).

11 Cash and cash equivalents (cont'd)

Cash at banks earns interest at floating or fixed rates based on daily bank deposit rates. Short-term deposits are made for one day period (overnights) and earn interest at the respective overnight deposit rates. The fair value of cash and short –term deposits as of 31 December 2007 of the Group and the Company is LTL 33,594 thousand and LTL 33,337 thousand respectively (LTL 23,559 thousand and LTL 23,124 thousand in 2006).

As of 31 December 2007 the Group and the Company had available LTL 20,000 thousand (LTL 20,000 thousand as of 31 December 2006) of unutilized credit limit facility in respect of which all conditions precedent had been met.

12 Share capital

There were no changes in share capital during 2007 and 2006, and as of 31 December 2007 and 2006 the share capital of the Company amounted to LTL 469,068 thousand.

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. At least an amount of LTL 5,188 thousand of the Company's net 2007 profit must be allocated for a transfer to the legal reserve for 2007. This amount may change depending on the final decision of the shareholders of the Company to be made after the issue of these financial statements.

Corporate business development reserve

The Group and the Company also forms reserves for corporate business development.

Profit distribution

The Company did not have a draft proposal of profit distribution for 2007 on the date of issue of these financial statements.

14 Grants (deferred revenue)

Group and Company	**2007**			**2006**		
	Deferred revenue	**Grants**	**Total**	**Deferred revenue**	**Grants**	**Total**
Balance at the beginning of the period	50,975	60,126	111,101	27,194	60,803	87,997
Additions per year	25,529	4,094	29,623	24,419	1,360	25,779
Grants receivable for compensation of expenses	-	227	227	-	198	198
Amortisation per year	(1,068)	(2,046)	(3,114)	(638)	(2,034)	(2,672)
Grants used for compensation of expenses	-	(606)	(606)	-	(201)	(201)
Balance at the end of the period	75,436	61,795	137,231	50,975	60,126	111,101

Increase in grants (deferred revenue) in 2007 is mainly influenced by the payments received for new connections of customers to the Group's and the Company's natural gas system.

Grants also include the corresponding fair value of property, plant and equipment received free of charge and charged to the income statement in portions on a straight-line basis over the assets' estimated useful life.

15 Borrowings

	Group		Company	
	As of 31 December 2007	**As of 31 December 2006**	**As of 31 December 2007**	**As of 31 December 2006**
Non-current borrowings				
Borrowings from Lithuanian credit institutions	10,720	21,559	10,720	21,559
Current borrowings				
Current portion of non-current borrowings	10,839	14,570	10,839	14,570
	21,559	36,129	21,559	36,129

The terms of repayment of non-current borrowings are as follows:

	As of 31 December 2007			As of 31 December 2006		
	Non-interest bearing loans	**Fixed interest bearing loans**	**Variable interest bearing loans**	**Non-interest bearing loans**	**Fixed interest bearing loans**	**Variable interest bearing loans**
2007	-	-	-	906	12,144	1,520
2008	-	9,644	1,195	-	9,644	1,195
2009	-	2,144	-	-	2,144	-
2010	-	2,144	-	-	2,144	-
2011	-	2,144	-	-	2,144	-
2012	-	2,144	-	-	2,144	-
2013	-	2,144	-	-	2,144	-
	-	20,364	1,195	906	32,508	2,715

Actual interest rates are close to effective interest rates. As of 31 December 2007 the weighted average annual interest rate of borrowings outstanding was 5.05% (4.63% as of 31 December 2006). In 2007 and 2006 the period of repricing variable interest rates on borrowings was 6 months.

Borrowings at the end of the year in national and foreign currencies expressed in LTL were as follows:

	Group		Company	
Borrowings denominated in:	**2007**	**2006**	**2007**	**2006**
EUR	20,364	33,414	20,364	33,414
LTL	1,195	2,715	1,195	2,715
	21,559	36,129	21,559	36,129

None of the Company's loans are secured by pledging assets owned by the Company or by third parties guarantees.

16 Trade payables

	Group		Company	
	2007	**2006**	**2007**	**2006**
Suppliers of natural gas	116,598	58,031	116,598	58,031
Other	2,917	1,048	2,900	870
	119,515	59,079	119,498	58,901

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 20 days terms.

Interest payables accounted under Other current liabilities caption (other than trade payables) in the Groups and the Company's balance sheet are settled as follows:

- Interest payable is normally settled quarterly or semi-annually throughout the financial year.

17 Cost of sales

The major part (99.9%) of the Group's and the Company's cost of sales consists of the cost of natural gas in 2007 and 2006.

18 Operating expenses

	Group		Company	
	2007	**2006**	**2007**	**2006**
Salaries and social security	75,358	65,675	74,758	65,150
Depreciation and amortisation	94,482	94,656	94,247	94,446
Repair and maintenance expenses	25,524	24,487	25,419	24,371
Taxes other than income tax	10,861	12,948	10,801	12,887
Impairment of assets	(1,948)	(167)	(1,948)	(167)
Meters	1,682	1,488	1,682	1,488
Fuel	2,413	2,533	2,403	2,522
Communication services	1,641	1,770	1,626	1,756
Other	21,315	19,654	21,280	19,644
	231,328	223,044	230,268	222,097

19 Other operating activities income (net)

The major part of the Group's and the Company's other operating activities income consists of grants (including deferred revenues) amortisation and gain on property, plant and equipment disposals in 2007 and 2006.

20 Financial and investing activities

	Group		Company	
	2007	**2006**	**2007**	**2006**
Foreign currency exchange gain	-	1,059	-	1,059
Interest income on deposits	2,688	698	2,533	563
Dividends income	-	-	-	2,000
Other income from financial and investing activities	346	299	346	299
Total income from financial and investing activities	3,034	2,056	2,879	3,921
Reversal of the impairment of current and non current financial assets	-	670	-	670
Interest expenses on borrowings	(2,346)	(2,214)	(2,346)	(2,214)
Other expenses from financial and investing activities	(3)	-	(3)	-
Total expenses from financial and investing activities	(2,349)	(1,544)	(2,349)	(1,544)
Gain from financial and investing activities, net	685	512	530	2,377

21 Income tax

On 18 April 2007 the Company obtained a letter from the State Tax Authorities stating that starting 1 January 2005 revenues, related to new customers connections to the Company's gas network, for the income tax calculation purpose may be recognised during the useful life of the asset capitalised/constructed in the process of connection. Based on this letter, the Group and the Company recalculated income tax for the years 2005 and 2006 and included the effect as the prior periods income tax adjustment in the 2007 income tax charge in the Company's and the Group's financial statements for the year 2007. As a result, current year income tax expenses in the Income statements and income tax payable amount in the balance sheets were reduced by the amount of LTL 6,412 thousand.

After correction of the income tax for the year 2005 and 2006 as described above, temporary differences previously recorded in relation to grants (deferred income) have been reversed. As a result current year deferred tax expenses in the Income statements were increased and related deferred tax asset amount in the Company's and the Group's balance sheets as of 31 December 2007 was decreased by the amount of LTL 5,470 thousand.

21 Income tax (cont'd)

	Group		Company	
	2007	**2006**	**2007**	**2006**
Income tax:				
Income for the year before income tax according to IFRS	125,332	71,747	125,076	73,516
Changes in temporary differences	50,513	76,263	50,574	76,310
Permanent differences	2,299	3,172	2,299	1,163
Taxable income for the year	178,144	151,182	177,949	150,989
Current income tax	32,065	28,725	32,031	28,688
Prior periods' income tax adjustment*	(6,465)	16	(6,465)	16
Change in deferred income tax*	(4,246)	(14,318)	(4,256)	(14,328)
Income tax expense charged to the income statement	21,354	14,423	21,310	14,376
Deferred tax asset:				
Impairment losses on property, plant and equipment, accounts receivable and inventories	3,884	6,264	3,480	5,764
Deferred revenue from connection fees	2,201	7,675	2,201	7,675
Other	604	712	599	712
Deferred tax asset before valuation allowance	**6,689**	**14,651**	**6,280**	**14,151**
Less: valuation allowance	(4,084)	(6,476)	(4,079)	(6,476)
Less: deferred tax asset netted with deferred tax liability	(2,201)	(7,675)	(2,201)	(7,675)
Deferred tax asset, net**	**404**	**500**	**-**	**-**
Deferred tax liability:				
Revaluation of property, plant and equipment	(193,126)	(202,942)	(193,126)	(202,856)
Deferred tax liability, net	**(190,925)**	**(195,267)**	**(190,925)**	**(195,181)**

* The amounts reported for 2007 include the reversal of temporary differences related to new customers connection revenues for the years 2005 and 2006 as described in the beginning of this Note.

** Represents deferred income tax asset from the revaluation of the property, plant and equipment of the subsidiary, the realisation term of which is different from the Company's deferred tax liability realisation terms. As the Company and the subsidiary are taxed individually this deferred tax asset was not set off against the remaining Group's deferred tax liability.

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. Deferred income tax asset and deferred income tax liability are netted off in the balance sheet of the Company, as they both are related to the same tax authority. In the Group's balance sheet the net deferred tax asset and liability position of the Company and it's subsidiary is netted to the extent they are realised simultaneously.

While assessing deferred income tax asset and liability components in 2006 and 2007 the Group and Company has used income tax rates of 18% for those items, which will be realised in 2007, and 15% rate was used for the items which will be realised in 2008 and later.

21 Income tax (cont'd)

The reported amount of income tax expenses for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 18% and 15% to pre-tax income:

	Group		Company	
	2007	**2006**	**2007**	**2006**
Profit before tax	125,332	71,747	125,076	73,516
Tax (expense) at the applicable standard tax rate	(22,560)	(13,632)	(22,514)	(13,968)
Non-deductible items	(414)	(603)	(414)	(221)
Change in deferred tax asset realisation allowance	2,392	(520)	2,395	(520)
Impact of changes in income tax rates	223	348	216	349
Effect of prior periods income tax adjustment	(995)	(16)	(995)	(16)
Income tax (expense)	(21,354)	(14,423)	(21,310)	(14,376)

22 Earnings per share

Basic earnings per share reflect the Group's and the Company's net income, divided by the weighted average number of shares. There are no diluting instruments, therefore basic and diluted earnings per share are equal. Calculations of the basic earnings per share are presented below:

	Group		Company	
	2007	**2006**	**2007**	**2006**
Net profit attributable to the shareholders (in LTL thousand)	103,978	57,324	103,766	59,140
Weighted average number of shares in thousand	469,068	469,068	469,068	469,068
Basic earnings per share (in LTL)	0.22	0.12	0.22	0.13

As there were no changes in the share capital of the Company during 2007 and 2006, therefore the weighted average number of shares equals to the total number of shares.

23 Dividends declared

	2007	**2006**
Approved dividends (in LTL thousand)*	30,000	30,000
Number of shares at the date when dividends were declared (in thousand)	469,068	469,068
Approved dividends per share (LTL)	0.06	0.06

* In the year when the dividends are approved.

24 Cash generated from investing activities

When calculating cash flows from investing activities, the change in accounts payable for non-current assets of the Group and the Company amounting to LTL 1,127 thousand and LTL 1,134 thousand, respectively (in 2006 LTL 89 thousand and LTL 250 thousand for the Company), was taken into account.

25 Capital commitments

In accordance with the Natural Gas Law of the Republic of Lithuania and pursuant to the procedure approved by the order No. 201 of the Ministry of Economy of the Republic of Lithuania dated 20 June 2001, in 2002 the Group and 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 973 km of such pipelines in Lithuania and the estimated buy-out price was in the range of approximately LTL 15,000 thousand to LTL 20,000 thousand. During 2002 - 2007 the Group and the Company has bought out pipelines for the total value of LTL 4,818 thousand.

As of 31 December 2007, the Group's and the Company's capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 9,828 thousand.

26 Financial assets and liabilities and risk management

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet their commitments at a given date.

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2007 based on contractual undiscounted payments (scheduled payments including interest).

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	3,461	11,651	19,502	4,591	39,205
Non interest bearing loan	-	453	453	-	-	906
Other current liabilities	-	530	-	-	-	530
Trade payables	-	59,079	-	-	-	59,079
Balance as of 31 December 2006	**-**	**63,523**	**12,104**	**19,502**	**4,591**	**99,720**
Interest bearing loans and borrowings	-	3,362	8,353	10,150	2,235	24,100
Other current liabilities	-	1,802	-	-	-	1,802
Trade payables	-	119,515	-	-	-	119,515
Balance as of 31 December 2007	**-**	**124,679**	**8,353**	**10,150**	**2,235**	**145,417**

26 Financial assets and liabilities and risk management (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2007 based on contractual undiscounted payments (scheduled payments including interests).

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	3,461	11,651	19,502	4,591	39,205
Non interest bearing loan	-	453	453	-	-	906
Other current liabilities	-	530	-	-	-	530
Trade payables	-	58,901	-	-	-	58,901
Balance as of 31 December 2006	**-**	**63,345**	**12,104**	**19,502**	**4,591**	**99,542**
Interest bearing loans and borrowings	-	3,362	8,353	10,150	2,235	24,100
Other current liabilities	-	1,802	-	-	-	1,802
Trade payables	-	119,498	-	-	-	119,498
Balance as of 31 December 2007	**-**	**124,662**	**8,353**	**10,150**	**2,235**	**145,400**

Credit risk

As the Group and the Company are working with big number of customers, they do not face a significant credit concentration risk.

The maximum exposure to credit risk is represented by the trade receivables amount, less recognised impairment losses at the date of the financial statements.

The Group and the Company does not guarantee obligations of other parties.

Foreign currency risk

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company is denominated in LTL and EUR. Therefore, the foreign currency risk is not incurred.

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2007 were as follows (stated in LTL):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	128,839	124,927	65,079	65,029
EUR	131	9	120,764	120,764
Total	128,970	124,936	185,843	185,793

26 Financial assets and liabilities and risk management (cont'd)

Interest rate risk

Part of the Group's and the Company's borrowings are with variable interest rates, related to VILIBOR, which creates an interest rate risk. However this part of financial borrowings is not significant and comprises 5.54% of the total financial borrowings of the Group and the Company as of 31 December 2007. Fixed interest rate is applicable to the remaining part of the financial borrowings. Fixed and variable interest rates are determined based on the situation in the market. The Group and the Company had no financial instruments to manage interest rate risk.

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

	Increase/decrease in basis points	Effect on profit before tax
2007		
LTL	+300	(36)
LTL	-300	36
2006		
LTL	+ 100	(27)
LTL	- 50	14

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade and other receivables, investment into subsidiary (in the Company), trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, and these parties intend to purchase (sell) assets or net off the liabilities. 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 and other accounts receivable, investments into subsidiary (in the Company), current accounts payable and short-term borrowings approximates fair value.
(b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

27 Commitments and contingencies

Legal disputes related to licence receipt / issue

AB Lietuvos Dujos is a party to a number of legal disputes related to the natural gas distribution licence including the following major ones:

1. UAB Intergas applied to the court with a request to annul the New Consumer Connection Agreement concluded between AB Lietuvos Dujos and UAB Girių Bizonas and to recognise the actions of AB Lietuvos Dujos in relation to the agreement conclusion as illicit. Also, UAB Intergas addressed Vilnius County Administrative Court for annulment of the Decree of the National Control Commission for Prices and Energy (hereinafter, the Commission) No 03-57 of 31 August 2006 on the amendment of the natural gas distribution licence for AB Lietuvos Dujos, according to which the license of natural gas distribution in the municipalities of Marijampolė, district municipalities of Šakiai, Vilkaviškis and Kazlų Rūda was issued to AB Lietuvos Dujos. Both cases mentioned above have been suspended.

27 Commitments and contingencies (cont'd)

Legal disputes related to licence receipt / issue (cont'd)

Furthermore, UAB Intergas applied to Vilnius Second District Court for recognition of the cancellation of Kazlų Rūda gas pipeline rent agreements between UAB Intergas and UAB Suskystintos Dujos as illegitimate and for obliging the defendant (UAB Suskystintos Dujos) to fulfil the above rent agreements. AB Lietuvos Dujos stands as a third party in this case, because on 13 April 2006 according to a sales-purchase agreement, it acquired the pipelines, the lease of which is under litigation, located in Kazlų Rūda from UAB Suskystintos Dujos. The claim has been rejected.

2. AB Lietuvos Dujos stands as a third party in the case where UAB Intergas contests the Commission Resolution No. O3-80 of 16 December 2005 and requests to obligate the Commission to issue a licence to UAB Intergas for gas distribution in the municipality of Kazlų Rūda and the district municipalities of Ignalina, Jurbarkas and Tauragė.

3. AB Lietuvos Dujos stands as a third party in the case where UAB Intergas requests annulment of the building permit for Šakiai-Jurbarkas pipeline. The defendant is Tauragė County Governor‘s Administration. Requirement security measures were applied in this case: validity of the contested building permit was temporarily suspended and Tauragė County Governor‘s Administration was forbidden to issue documents on the recognition of the transmission pipeline Šakiai – Jurbarkas as suitable for use during the building licence suspension. As AB Lietuvos Dujos appealed against this ruling, and on 10 September 2007 the court ruling on the requirement security measures was overruled. Currently, this case is suspended.

4. Lietuvos Dujos stands as a third party in the case where UAB Intergas requests annulment of a part of the Commission Regulation No. 03-53 of 24 July 2007 regarding a permit for AB Lietuvos Dujos to install a natural gas transmission system Šakiai-Tauragė with pipeline branches to Jurbarkas and Tauragė M&R Stations. Vilnius County Administrative Court dismissed the claim of UAB Intergas.

5. AB Lietuvos Dujos stands as a third party in the case where UAB Intergas lodged a preventive claim that the Commission and its members should be forbidden to issue a permit for the installation of natural gas transmission systems in Ignalina district and Rietavas.

6. AB Lietuvos Dujos together with Utena County Governor‘s Administration and Ignalina District Municipality participate in the case where UAB Intergas lodged a preventive claim that design and building work should be forbidden in Ignalina district.

7. Vilnius County Administrative Court has an open case based on an appeal of AB Lietuvos Dujos regarding partial annulment of the Commission Resolution of 7 February 2007, by which the Commission stated that AB Lietuvos Dujos must issue the terms for connection to AB Lietuvos Dujos gas system requested by UAB Intergas.

28 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions.

The related parties of the Group and the Company and related party transactions in 2007 and 2006 were as follows:

- E.ON Ruhrgas International AG (one of the major shareholders of the Company);
- OAO Gazprom (one of the major shareholders of the Company);
- State Property Fund (one of the major shareholders of the Company);
- UAB Palangos Perlas (subsidiary of the Company);
- AS Latvijas Gaze (sister company, same shareholders).

2007	**Purchases**	**Sales**	**Accounts receivable**	**Accounts payable**
OAO Gazprom	746,676	10,218	-	100,393
UAB Palangos Perlas	106	36	7	-
AS Latvijas Gaze	3,782	-	-	7
	750,564	10,254	7	100,400

28 Related party transactions (cont'd)

2006	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	501,551	11,106	-	58,031
UAB Palangos Perlas	160	30	4	-
AS Latvijas Gaze	580	-	-	7
	502,291	11,136	4	58,038

Dividends to the shareholders have been paid in 2007 and 2006.

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash in 20 - 30 days term. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the amounts owed by related parties.

Remuneration of the management and other payments

The Group's and the Company's management and related persons' remuneration amounted to LTL 1,822 thousand and LTL 1,757 thousand in 2007, respectively (LTL 1,504 thousand and LTL 1,447 thousand in 2006, respectively). In 2007 and 2006 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

29 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years end 31 December 2007 and 31 December 2006.

The Group and the Company is obliged to upkeep its equity ratio not less than 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company.

The Group and the Company monitors capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as quite good performance indicators.

	Group		Company	
	2007	**2006**	**2007**	**2006**
Non-current liabilities (including deferred tax and grants)	338,876	327,927	338,876	327,841
Current liabilities	190,293	119,353	190,225	119,116
Liabilities	**529,169**	**447,280**	**529,101**	**446,957**
Equity	**1,929,787**	**1,855,809**	**1,928,825**	**1,855,059**
Debt* to equity ratio	**27.42%**	**24.10%**	**27.43%**	**24.09%**

* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities.

LIETUVOS DUJOS

CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2007

(PREPARED ACCORDING TO THE RULES ON THE PREPARATION AND SUBMISSION OF PERIODICAL AND ADDITIONAL INFORMATION AS ADOPTED BY THE LITHUANIAN SECURITIES COMMISSION)

Vilnius
2008

CONTENTS

REPORTING PERIOD FOR WHICH THE REPORT HAS BEEN PREPARED

The Year 2007.

MAIN DATA ABOUT THE COMPANY

Name of the Issuer:	AB Lietuvos Dujos (hereinafter referred to as "the Company" or "LD")
Legal and organizational form:	joint-stock company
Date and place of registration:	23 November 1990, Register of Legal Persons of the Republic of Lithuania
Company code:	120059523
Administrator of Register of Legal Persons:	State Enterprise Centre of Registers
Authorized capital:	LTL 469,068,254
Registered office:	Aguonų str. 24, LT-03212 Vilnius, Lithuania
Telephone number:	+370 5 2360210
Fax number:	+370 5 2360200
E-mail address:	ld@lietuvosdujos.lt
Website:	www.dujos.lt

MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

- On 18 April, a regular general meeting of shareholders of the Company took place at which the shareholders approved the proposal of the Board of Directors for the results achieved in Financial Year 2006 to pay out dividends in amount of LTL 30 million, i.e. LTL 0.06 per share.

- On 18 April, a new Board of Directors was elected.

- On 19 April, the controversial Law Amending the Law on Natural Gas (hereinafter referred to as "the new Law on Natural Gas") came into effect establishing the general principles for the Natural Gas Sector organization and operation; regulating activities of gas companies, their interrelations as well as their relations with customers in supplying, distributing, transmitting, liquefying and storing natural gas.

- By 30 June, on schedule, LD finalized the project introducing a new household customers settlement procedure for natural gas consumed. New separate Company's payment books were issued. New gas sales-purchase agreements with customers were concluded.

- August saw the completion of the reconstruction of M&R Station Kaunas-1 (hereinafter referred to as "M&R Station"), which was one of the major investment projects of the Company. The project implementation period: 2005–2007; the investments amounted to over LTL 11 million.

- October saw the completion of the construction of the Šakiai–Jurbarkas Gas Transmission Pipeline, an M&R Station and a gas distribution pipeline to the town of Jurbarkas. The project value: LTL 32.0 million. It is only a part of the long-term project for the construction of the gas pipeline connection between Šakiai and Klaipėda, enhancing the reliability of natural gas supply to the western part of Lithuania.

- In October, for the first time, the Company celebrated its professional holiday – the Gas Sector Employee's Day.

- Starting from 1 January 2008, the Company's shares were included in the Main List of Vilnius Stock Exchange (hereinafter referred to as "the VSE").

- On 1 January 2008, new natural gas tariffs for LD customers came into effect. The tariff increase was determined by the rise in the natural gas imports price and the unbalanced changes in the legal framework of the Natural Gas Sector.

- On 1 January 2008, the Company's organizational management structure was amended in accordance with the applicable provisions of the European Union legislation regarding the separation of the Company's gas transmission, distribution and supply activities.

All important data related to the Company's activities, information about the time, date and venue of the general meeting of shareholders as well as other notices to the shareholders and other persons are published in the Lietuvos Rytas daily newspaper. All material events of the Company are also submitted to the Lithuanian Securities Commission, the VSE, the news agencies BNS, ELTA and REUTERS and posted on the Company website **www.dujos.lt**.

NATURAL GAS BUSINESS ENVIRONMENT

Law on Natural Gas

The Law Amending the Law on Natural Gas was initiated as far back as 2004. The intent was to harmonize the national law with the applicable EU legislation, including the key legal act regulating the Natural Gas Sector, i.e. the Directive 2003/55/EC concerning common rules for the internal market in natural gas.

On 20 March 2007, the Seimas of the Republic of Lithuania adopted the new Law on Natural Gas. The President of the Republic of Lithuania, even though he acknowledged the numerous shortcomings and instances of unconformity to the applicable EU legislation, nevertheless signed the Law, simultaneously recommending to the Government of the Republic of Lithuania to initiate amendments to the respective provisions of the Law. The Law came into effect on 19 April 2007. The Draft Amendments to the Law have been once again returned for redrafting to the Government of the Republic of Lithuania, secondary legislation acts have not been adopted either.

Licensing

The Law on Natural Gas reads that the activities of natural gas transmission, distribution and supply shall be subject to licensing. The licences shall be issued and the supervision of the licensed activities shall be performed by the Lithuanian National Control Commission for Prices and Energy (hereinafter referred to as "the NCCPE"). On 18 December 2001, the Company was granted the licences for the activities of natural gas transmission and distribution and on 16 May 2002, the Company was granted the licence for the supply of natural gas. The licences are open-ended. On 5 December 2007, the Government of the Republic of Lithuania by its Resolution No. 1304 adopted new Natural Gas Transmission, Distribution, Storage, Liquefaction and Supply Regulations. The Regulations implement the provisions of the Law on Natural Gas and read that the licences for the activities of natural gas transmission, distribution and supply issued to the Company by the NCCPE earlier shall be subject to renewal by 1 July 2008. As of 31 December 2007, the Company had licences to transmit and distribute natural gas in 40 from out of 60 municipalities of the Republic of Lithuania.

Natural gas prices

The Company buys natural gas from the Russian-based company OAO Gazprom. The import price of natural gas depends on the price of heavy fuel oil on the international market, on the currencies exchange rate fluctuations and on the average net calorific value of gas. Due to these factors, natural gas prices are subject to monthly fluctuations. Following the amendment to the provisions of the gas sales and purchase agreement effected on 1 January 2007 the natural gas import price of 2007 was higher than that of 2006, but it was substantially lower than the prices to other EU member states.

Prior to the coming into effect of the new Law on Natural Gas, the NCCPE used to regulate the natural gas transmission and distribution service tariffs and the natural gas prices for the regulated customers through setting the price caps. The price caps used to be set for a three-year regulation term and adjusted on an annual basis according to the inflation, the efficiency rates set by the NCCPE, changes in the gas consumption volumes and any other factors beyond the Company's control. The natural gas price caps for the regulated customers used to be adjusted on a semi-annual basis in accordance with the natural gas import price fluctuations.

After the coming into effect of the new Law on Natural Gas, the natural gas transmission and distribution service prices as well as gas supply prices to the customers are subject to regulation. The price caps are set for a five-year regulation term and adjusted on an annual basis according to the changes in the inflation rate, taxes, gas volumes, legislation applicable or if gas companies exceed the indicators set for them.

After the coming into effect of the new Law on Natural Gas, all non-household natural gas customers became eligible customers. From 1 July 2007, all natural gas customers became eligible customers with the right to choose the supply company. From 1 July 2007, all non-household customers of the Company pay for natural gas supplied to them a negotiated price, which fluctuates every settlement period depending on the price of heavy fuel oil on the international market, on the currencies exchange rate fluctuations and on the average net calorific value of gas. Household consumers for the consumed natural gas pay according to the prices set by the Company and reviewed by the NCCPE.

The Company decided from 1 January 2007 not to increase the natural gas prices for the most socially vulnerable segment of its customers, i.e. the household customers. This decision was made following the successful achievement of a respective agreement with the supplier OAO Gazprom and based on the assumption that in 2007 there would not be any dramatic changes in the oil and gas markets.

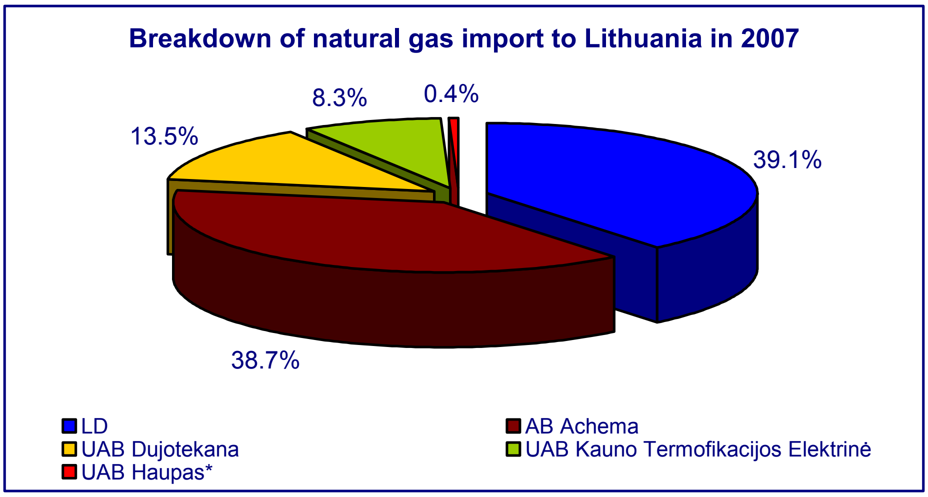
In 2007, there were no changes in the transmission or distribution service tariffs, either.

Grouping of household customers

Since pursuant to the Minister of Economy's Order No. 4-471 of 12 November 2007, an amendment was made to one Paragraph of the Natural Gas Transmission, Distribution, Storage, Liquefaction and Supply Regulations, whereby the Company was obligated to differentiate its household customers with annual consumption of up to 800 m^3 into two identical subgroups and which created exceptional conditions for the first subgroup of customers (household customers with annual consumption of up to 90 m^3) to pay for the natural gas consumed according to a one-component tariff. After the coming into effect of the new version of the Regulations, as of 1 January 2008, all household customers shall pay for the natural gas consumed according to a two-component tariff.

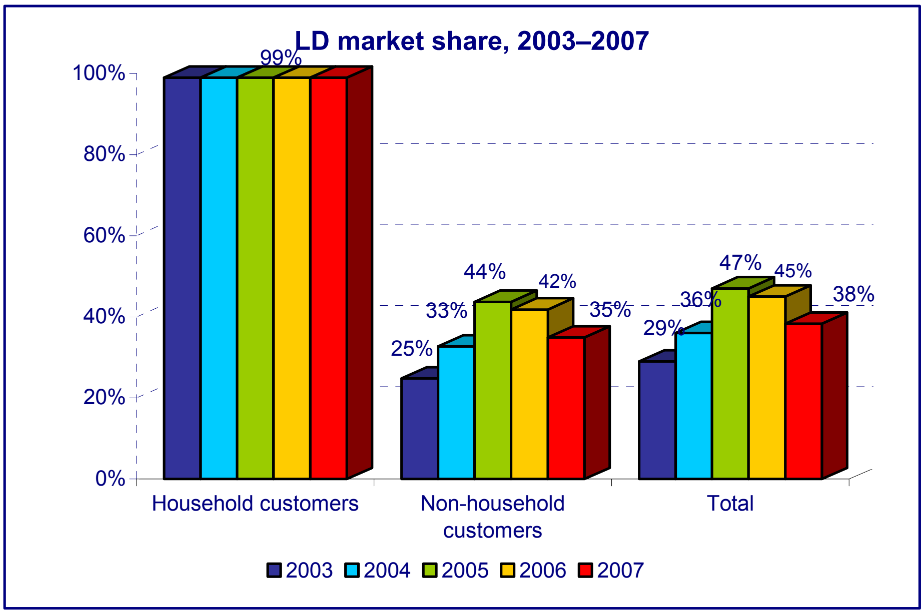
Market

In 2007, there were five companies importing natural gas to Lithuania: the Company, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haupas. The total volume of natural gas imported to Lithuania in 2007 made up 3.7 billion m^3. UAB Haupas imports natural gas not through the network of the Company.



*Data supplied by UAB Haupas.

In 2007, there were eight companies supplying natural gas to customers of Lithuania. The Company, AB Joniškio Energija, UAB Druskininkų Dujos and AB Agrofirma Josvainiai supplied gas to both household and non-household customers, whereas UAB Dujotekana and UAB Haupas supplied gas only to non-household customers. UAB Kauno Termofikacijos Elektrinė imported gas for own needs and AB Achema imported gas for own needs and to its group companies.



MAIN RISK FACTORS AND UNEXPECTED EVENTS RELATED TO THE COMPANY'S ACTIVITIES

Risk factors related to competition

In its activities the Company faces competition both in the Natural Gas Sector, and in the Fuel (Energy) Sector. In the Natural Gas Sector, the Company competes with other companies supplying natural gas. In the Fuel (Energy) Sector, LD competes with heat and power generating companies. The Company's business results are also impacted by the consumption of alternative fuels (heavy fuel oil, orimulsion, bio fuel, solid fuel, etc.) as well as power energy. A high percentage of natural gas customers have dual-fuel systems and have a possibility to use these alternative fuels replacing natural gas.

Risk factors related to regulation

On 5 March 2007, the Supreme Administrative Court of the Republic of Lithuania repealed Paragraphs 3 and 4 of the Natural Gas Price Cap Calculation Methodology, thus interdicting to the NCCPE to adjust natural gas price caps. The NCCPE, by adopting the provisions of the Natural Gas Price Cap Calculation Methodology, allowing it to adjust natural gas price caps, contravened the provisions of the Law on Natural Gas that were in effect at that time.

Legislation

The legal framework, the legal provisions that are being either frequently amended or newly adopted, create uncertainty of the business environment, thus aggravating the Company's relations with its customers as well its ability of long-term planning. The Company operates in accordance with its Bylaws, the Company Law, the Law on Energy, the Law on Natural Gas as well as other applicable laws and secondary legislation of the Republic of Lithuania. Also, the Company follows the directly applicable norms of the EU law.

With the coming into effect of the new Law on Natural Gas, the terms and conditions of new territories connection to the natural gas grid have undergone a radical change. For the time until the secondary legislation setting out in detail the terms of new territories connection to the natural gas grid is in place, our planned investment projects may be postponed for an indefinite time.

Financial risk factors

The information is presented in Consolidated and the Parent Company's Financial Statements for the year ended 31 December 2007.

Litigation and arbitration

The information is presented in Consolidated and the Parent Company's Financial Statements for the year ended 31 December 2007.

FINANCIAL PERFORMANCE

Group's key financial indicators

	2007	2006	Change, %
Financial results			
Sales, M LTL	**1,024.3**	**779.6**	**31.4**
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	**219.2**	**167.7**	**30.7**
Profit from operations, M LTL	**124.6**	**71.2**	**75.0**
Profit before taxes, M LTL	**125.3**	**71.7**	**74.8**
Net profit, M LTL	**104.0**	**57.3**	**81.5**
Investments, M LTL	**118.4**	**122.8**	**-3.6**
Assets at the end of the year, M LTL	**2,459.0**	**2,303.1**	**6.8**
Equity at the end of the year, M LTL	**1,929.8**	**1,855.8**	**4.0**
Profitability ratios			
EBITDA margin, %	**21.2**	**21.2**	
Profit from operations margin, %	**12.1**	**9.0**	
Profit before tax margin, %	**12.2**	**9.1**	
Net profit margin, %	**10.1**	**7.3**	
Average return-on-assets ratio (ROA), %	**4.4**	**2.5**	
Average return-on-equity ratio (ROE), %	**5.5**	**3.1**	
Leverage			
Debt to equity ratio*, %	**27.4**	**24.1**	

Debt ratio*, %	**21.5**	**19.4**	
Market ratios			
Price-earnings ratio (P/E)	**16.05**	**31.75**	
Basic earnings per share, LTL	**0.22**	**0.12**	**83.3**
Dividends per share for the current year, LTL	**0.11****	**0.06**	**83.3**

*The debt covers all non-current liabilities (including grants (deferred revenue) and the deferred income tax payable) as well as the current liabilities.

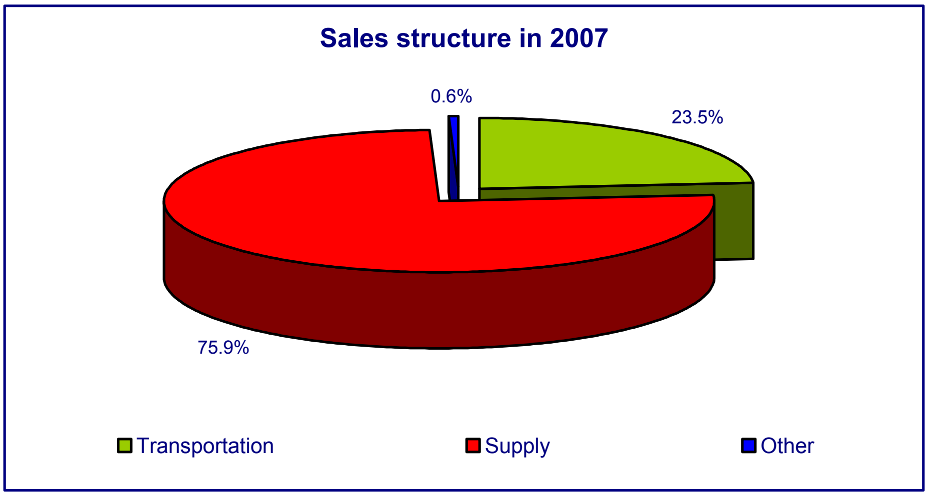
**Proposed for approval by the general meeting of shareholders.

The consolidated financial statements prepared by the Company reflect the financial results of AB Lietuvos Dujos Group (hereinafter referred to as “the Group”) comprised of AB Lietuvos Dujos and UAB Palangos Perlas.

Core activities

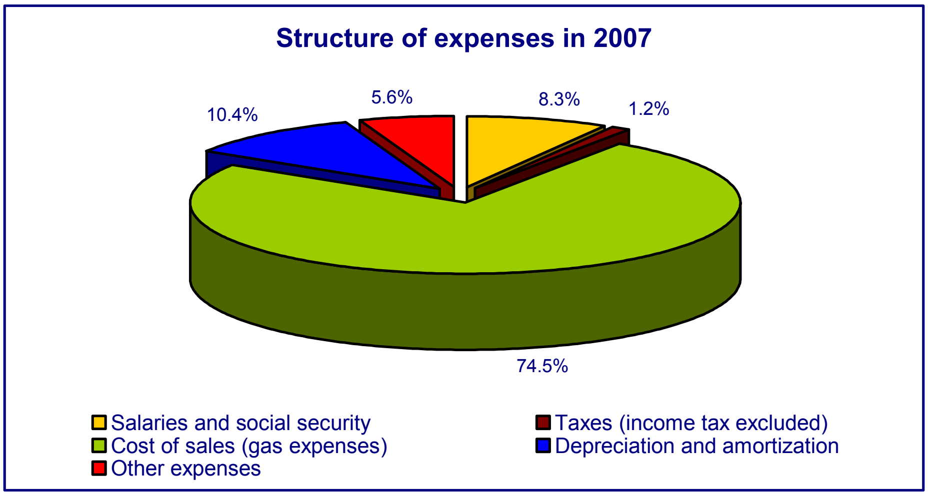
In 2007, sales of the Group overshot the mark of a billion and amounted to LTL 1,024.3 million (a rise of 31.4% y/y).

The revenue from the core activity (gas transmission, distribution and supply) represented the lion’s share of the total sales (99.4%). Most of all increased the revenue from the supply activity: from LTL 547.7 million to LTL 777.8 million, or by 42.0%. The revenue from the supply activity accounted for 75.9% of the total sales. The increase in the revenue from the gas supply activity was mainly determined by the rise in gas sales prices due to the natural gas import price increase. The revenue from the gas transmission and distribution services went up by 6.4%, i.e. from LTL 226.4 million to LTL 240.8 million.



Of late years, there has been a significant rise in the cost of sales. In 2007, the cost went up by 36.3% y/y (from LTL 495.5 million to LTL 675.6 million). The lion’s share of the cost of sales (99.9%) was represented by the cost of the procurement of natural gas. In 2007, in the breakdown of the total expenses, the cost of procurement of natural gas accounted for 74.5%.

In 2007, due to the efficient management of expenses, the operating expenses growth rate was lower compared to the respective indicator of 2006, and amounted to 3.7%. In 2007, the operating expenses, compared to the respective indicator of 2006, went up by LTL 8.3 million and amounted to LTL 231.3 million (cf., LTL 223.0 million in 2006). The major shares of operating expenses (40.8% and 32.6% respectively) were represented by the depreciation and remuneration (including social insurance) expenses.



Other activities

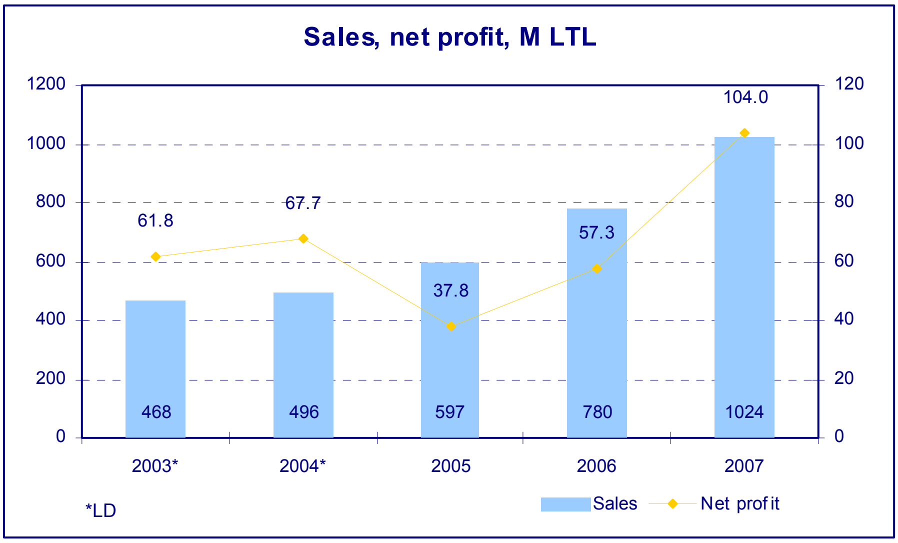
In 2007, other operating activities income (net) went down by LTL 2.9 million and amounted to LTL 7.3 million (2006: LTL 10.2 million). The result was worse mainly due to the fact that a lower profit was received from the disposal of the non-current tangible assets unused in the activities of the Group.

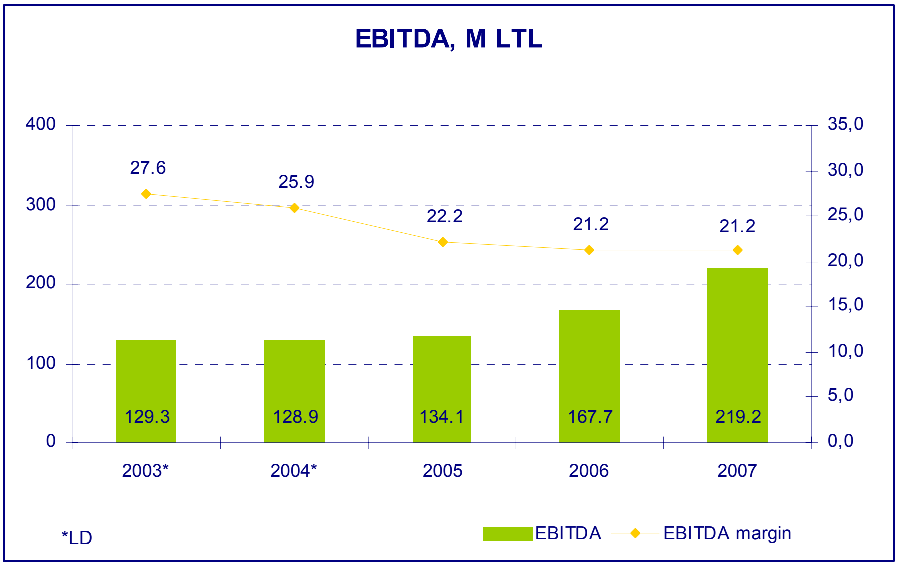
Financial and investment activities

In 2007, the result of the financial and investment activities improved insignificantly, from LTL 0.5 million to LTL 0.7 million.

Activity results

2007 saw a significant improvement in the results of the activities of the Group in comparison with 2006. Earnings before interest, taxes, depreciation and amortization (EBITDA), compared to 2006, went up by LTL 51.5 million (30.7%) and amounted to LTL 219.2 million. Profit before tax went up by 74.8% and stood at LTL 125.3 million (2006: LTL 71.7 million). Net profit increased by LTL 46.7 million (81.5%) and amounted to LTL 104.0 million (2006: LTL 57.3 million). The increase in the profit amount was due to the better results of the supply activity in the first quarter of 2007, because the Company succeeded in negotiating on an exceptional gas import price for this period.



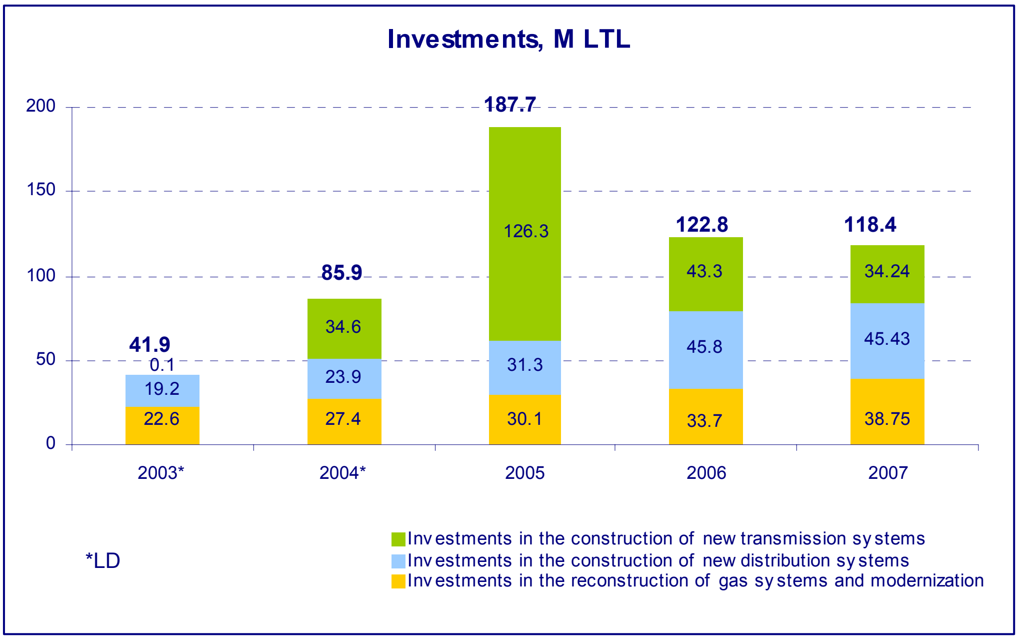


Investments

In 2007, investments in the development of gas systems as well as the reconstruction and modernization of non-current assets amounted to LTL 118.4 million (2006: LTL 122.8 million), which represents a decrease of 3.6% y/y.

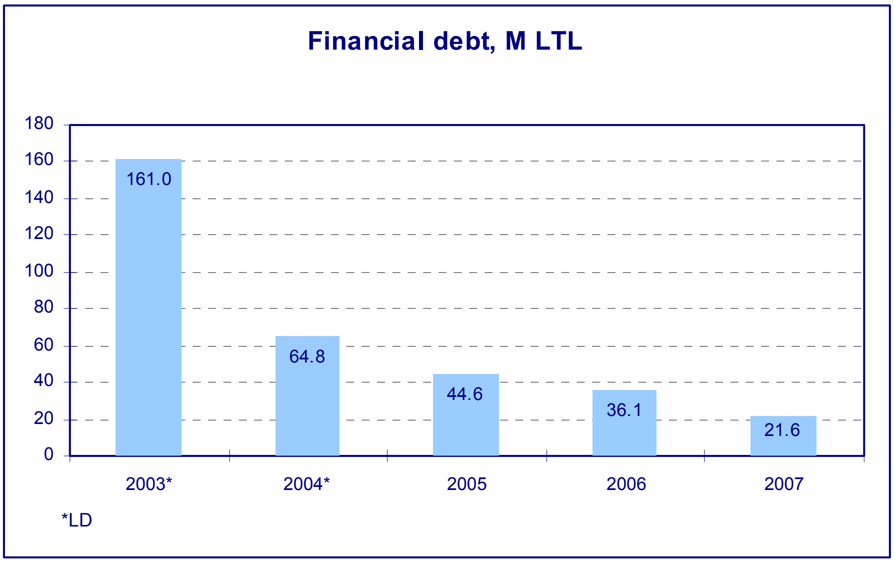
Investments in the construction of new gas systems totalled LTL 79.67 million (2006: LTL 89.1 million). Investments in the construction of new gas distribution systems were of similar level to those of the year 2006, whereas investments in new gas transmission systems were lower compared to those of previous year.

The Group's investments in the reconstruction and modernisation of the non-current assets amounted to LTL 38.75 million (2006: LTL 33.7 million). The increase was mainly due to the higher investments in the reconstruction of gas distribution pipelines.



Financial debt

Over the year 2007, the financial debt of the Group decreased by LTL 14.5 million (40.2%) and as of 31 December 2007 stood at LTL 21.6 million.



Balance structure

Assets

Over the year 2007, the value of the assets owned by the Group increased by LTL 155.9 million (6.8%) and as of end of the year 2007 amounted to LTL 2,459.0 million (as of end of the year 2006: LTL 2,303.1 million).

The non-current assets stood at LTL 2,220.7 million (90.3% of all assets) and over the year 2007 they grew in value by LTL 21.9 million. The increase was basically due to the sizeable investments. The major share of the non-current assets (88.6%) was represented by transmission and distribution pipelines and related installations.

Over the year 2007, the current assets increased by LTL 134 million and as of end of the year 2007 amounted to LTL 238.3 million. The major share of the current assets (44.9%) was represented by the natural gas inventories whose value due to the increase in gas volumes and the price went up by LTL 84.6 million. Also, a significant share of the current assets (37.1%) was represented by trade receivables.

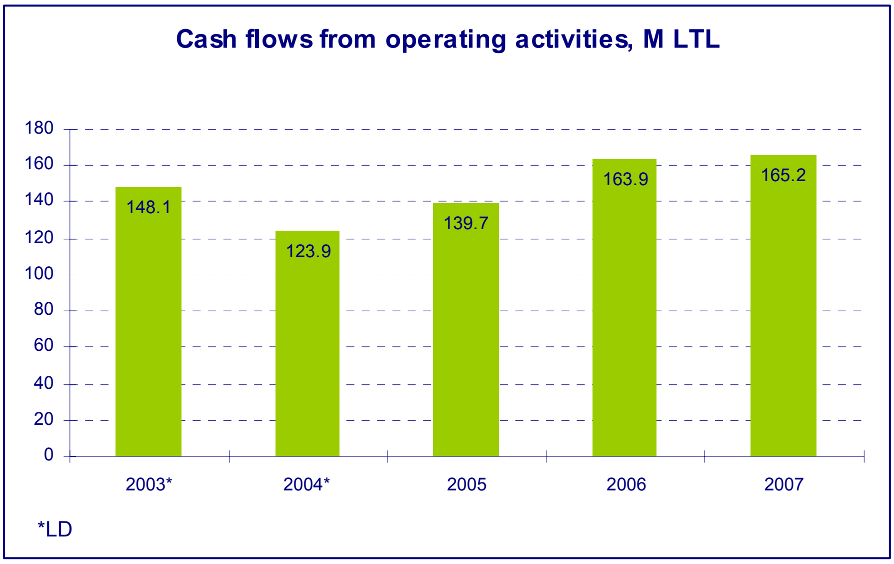
Equity and liabilities

Over the year 2007, the value of the Group equity increased by LTL 74.0 million (4.0%), i.e. from LTL 1,855.8 million to LTL 1,929.8 million.

The liabilities went up by LTL 81.9 million and as of end of the year amounted to LTL 529.2 million. The increase of the liabilities was mainly due to the increase in the trade payables. The major share of the liabilities was represented by deferred taxes (36.1%) and grants (deferred revenue) (25.9%).

Cash flows

Over the year 2007, the cash flows of the Group from its operating activities increased by LTL 1.3 million (0.8%), and made up LTL 165.2 million (2006: LTL163.9 million).



BUSINESS PLANS AND PROJECTIONS

The priorities of the Company's business activities are focused on a continuous expansion of the natural gas market, a sustainable development of the natural gas infrastructure, a stable and safe supply of gas to customers, strengthening of customer and public relations, an efficient management of the Company, a rational use of resources and ensuring the professional performance and the quality of works carried out.

It is projected that in 2008, compared to 2007, the natural gas volumes transmitted to customers of Lithuania via the transmission system of the Company will amount to approximately 3.6 billion m^3. The natural gas sales volumes to customers are projected to remain at the same level as in 2007, i.e. 1.3 billion m^3. In 2008, the Company plans to connect to the natural gas grid approximately 5 thousand new customers.

Every year the Company invests significant amounts in the construction of new systems for the connection of new customers and in the technological renovation of the gas pipeline system. In 2008, the Company plans to invest more than LTL 200 million (2007: LTL 118.4 million).

In 2008, there are plans to proceed with the implementation of the measures of the National Strategy of Energy through further construction of the gas transmission pipeline Šakiai–Klaipėda. This gas pipeline is necessary in order to enhance the reliability of natural gas supply to the western part of Lithuania. It will also create preconditions for the introduction of natural gas to Tauragė, Šilutė, Šilalė, Pagėgiai and Priekulė. The project implementation will directly depend on the allocation of the EU structural funds.

In 2008, the Company plans to start the construction of the Jauniūnai Gas Compressor Station, which will create a possibility to transport additional natural gas volumes to customers and thus will enhance the safety and reliability of natural gas supply after the decommissioning of the Ignalina Nuclear Power Plant. Also, it will enhance the capacity of natural gas transmission in transit to the Kaliningrad Region. The end of the construction of the Jauniūnai Gas Compressor Station is scheduled for 2010.

MANAGEMENT OF THE COMPANY

Business vision and objectives

LD activities are focused on a sustainable development of the natural gas infrastructure and the gas market expansion.

The Company will seek to maintain its leadership in the fields of natural gas transmission and distribution. The Company will develop its natural gas system, paying a special attention to the reliability of the system and the environment protection. A fair amount of attention will be paid to the safeguarding of the property interests of the shareholders through the rational use of LD assets with a view to profitable operations of the Company.

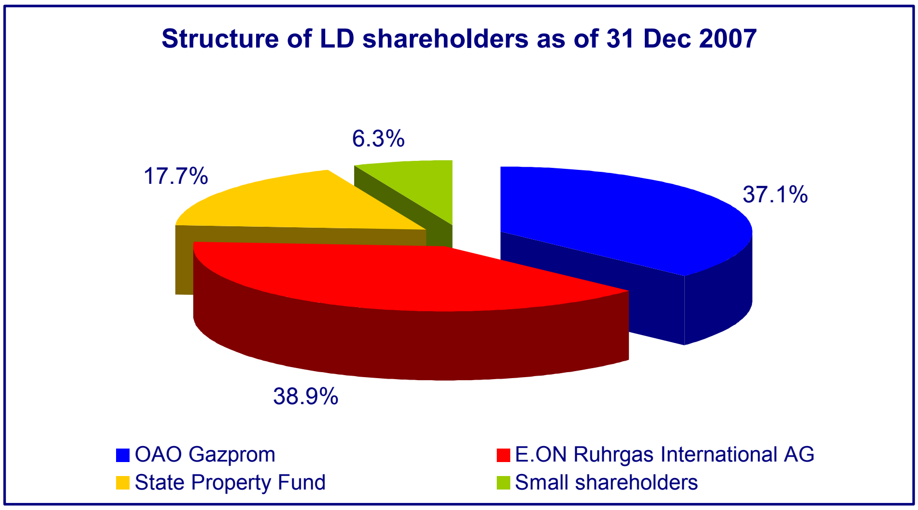
LD will further improve its relations with its customers and with the public. The Company will seek high professional standards of its services and works and will pursue a socially responsible business policy.

Information on the observance of the Code of Governance

The Company is observing the provisions of the Code of Governance.

Shareholders and shares

The authorized capital of the Company is divided into 469,068,254 fully paid ordinary registered shares with par value of LTL 1 (one) each. In 2007, the par value of one share, the value of the authorized capital and the structure of shareholders did not change.



Shareholder	Number of shares held, pcs / share in the authorized capital, LTL	Votes at the meeting of shareholders, %
E.ON Ruhrgas International AG	182,534,384	38.9%
OAO Gazprom	173,847,696	37.1%
State Enterprise State Property Fund	83,030,367	17.7%
Small shareholders	29,655,807	6.3%
Total:	**469,068,254**	**100.0%**

The Company has not acquired its own shares and in 2007 has not made any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2007, LD was controlled by 2,059 shareholders holding its shares by the right of ownership.

The shareholders of the Company E.ON Ruhrgas International AG, OAO Gazprom and the state enterprise State Property Fund have a controlling interest and have a casting vote when taking decisions at the general meeting of shareholders. The aforesaid major shareholders have concluded a shareholders' agreement setting out the shareholders' common aims related to the Company's activities, development of the facility and the market. The agreement is confidential.

The Company's shareholders E.ON Ruhrgas International AG, OAO Gazprom and the state enterprise State Property Fund are not subject to any securities disposal restrictions except the ones provided for in the shares purchase–sale (privatization) agreements.

As far as the Company knows, there exist no shareholders arrangements that might serve as grounds for the securities disposal restrictions and/or voting right restrictions except the arrangements made in the shares purchase–sale (privatization) agreements and the shareholders' agreement.

There exists one important arrangement in which the Issuer is involved as a party and that would be changed or discontinued should there occur a change in the Issuer's control. The agreement is confidential.

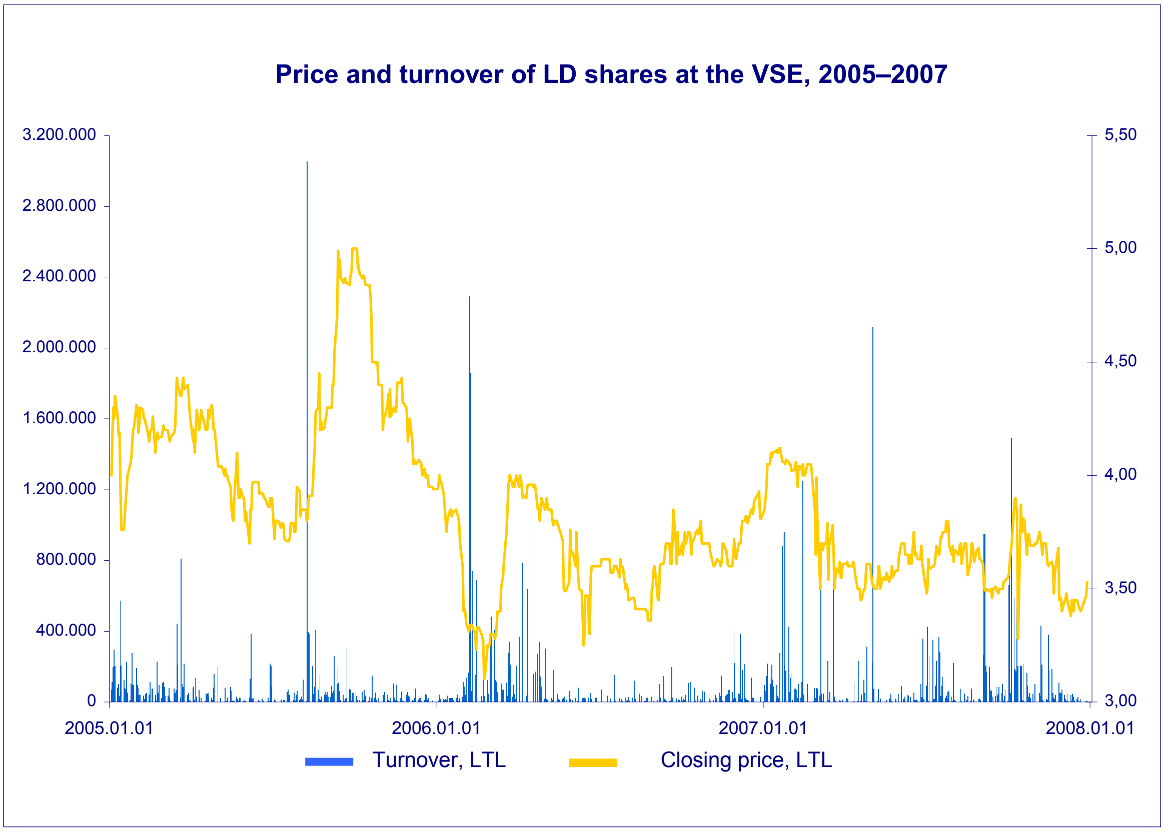
Data about trading in the Issuer's securities on the regulated markets

The Company's shares are traded on the regulated market, they are quoted at the VSE which belongs to the largest stock exchange operator in Northern Europe OMX. In 2007, the shares were quoted on the Secondary List. Starting from 1 January 2008 LD shares have been included into the Main List of the VSE.

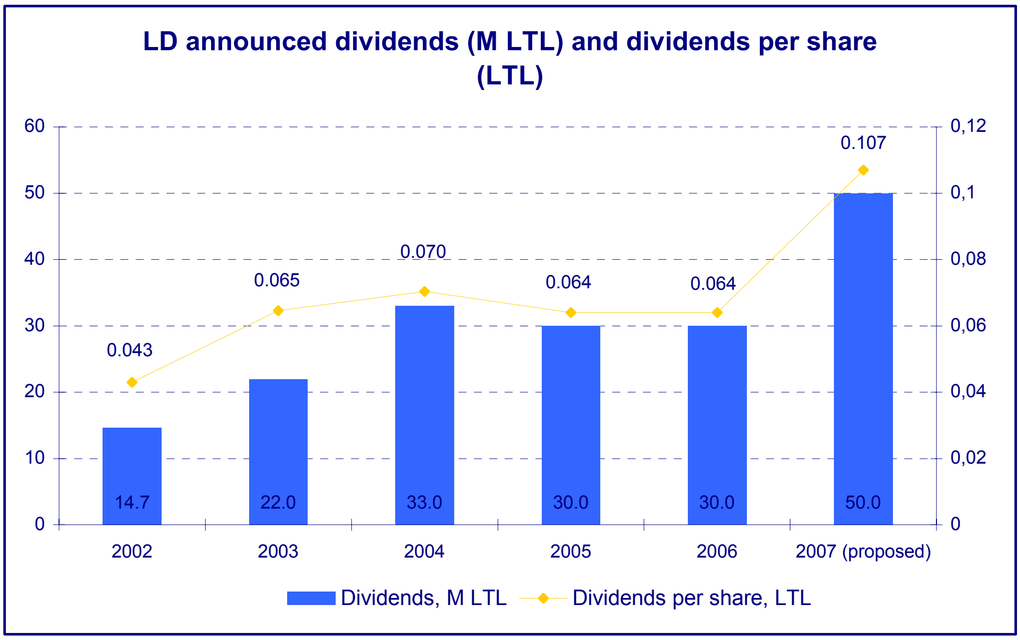
Number of shares at the VSE as of 31 Dec 2007	469,068,254 pcs
Abbreviation of the share at VSE	LDJ1L
ISIN code	LT0000116220

As of 31 December 2007, LD capitalization amounted to LTL 1,655.81 million (as of 31 December 2006: LTL 1,787.15 million). Over 2007, the turnover of the trading in LD shares at the VSE went up by 36.5% and amounted to LTL 29.18 million. Through the transactions concluded, 7,754,250 shares were disposed (2006: 5,964,387).

Share price dynamics at the VSE in 2005–2007					
Price per share end 2004	LTL 3.97	Price per share end 2005	LTL 3.94	Price per share end 2006	LTL 3.81
Highest price per share in 2005	LTL 5.02	Highest price per share in 2006	LTL 4.02	Highest price per share in 2007	LTL 4.12
Lowest price per share in 2005	LTL 3.60	Lowest price per share in 2006	LTL 3.10	Lowest price per share in 2007.	LTL 3.28
Weighted average price per share in 2005	LTL 4.11	Weighted average price per share in 2006	LTL 3.58	Weighted average price per share in 2007	LTL 3.76
Price per share end 2005	LTL 3.94	Price per share end 2006	LTL 3.81	Price per share end 2007	LTL 3.53



Starting form 2002, each year, the shareholders of the Company have been appropriating part of the profit earned to the payout of dividends. In 2007, dividends totalling LTL 30 million were paid out, which amounted to 50.7% of the total net profit earned in 2006. In 2008, it's proposed to pay in dividends a total amount of LTL 50 million, i.e. 48.1% of the total net profit earned in 2007.



Agreements with intermediaries of public trading in securities

On 26 November 2003, the Company concluded an agreement with the financial brokerage company AB Finasta (address of the registered office: Konstitucijos ave. 23, Vilnius, Company Code 122570630, License No. A087) regarding the provision of services whereby the Company assigned the financial brokerage company AB Finasta the accounting of securities issued by it as well as the administration of personal securities accounts.

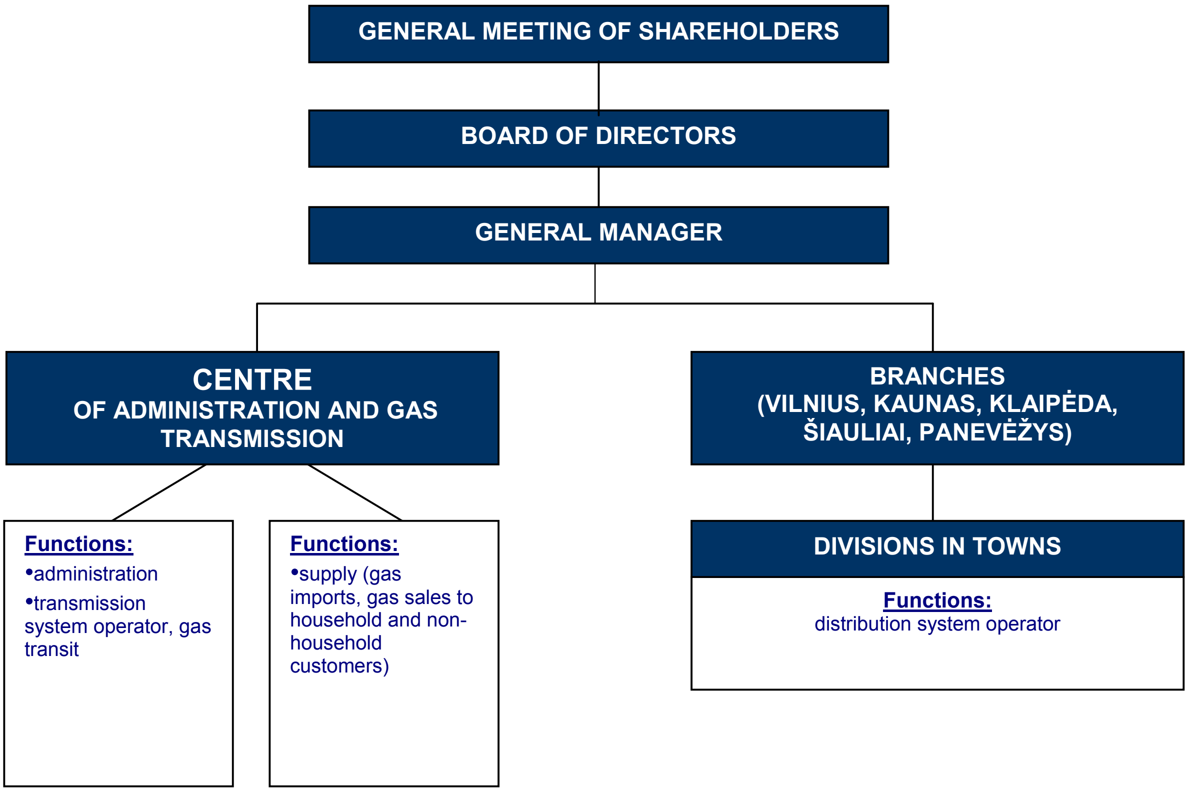
Management of the Company

The Company is a vertically integrated enterprise. The Company acts pursuant to the Company Law of the Republic of Lithuania, the Law on Securities of the Republic of Lithuania, the Bylaws of the Company as well as other legal acts of the Republic of Lithuania.

From 1 January 2008, the Company changed its organizational management structure in accordance with the provisions of the applicable European Union legislation regarding the separation of the Company's transmission, distribution and supply activities.

The Company has five natural gas distribution branches in different regions of Lithuania: Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys that have their respective local divisions in smaller towns.

Organizational management structure
(from 1 January 2008)



The Bylaws of the Company provide for a possibility of amending them by a decision of a general meeting of shareholders taken by a majority vote that shall be not less than 2/3 of all the votes carried by the shares held by the shareholders attending the general meeting of shareholders.

The Company's Bylaws registered with the Register of Legal Persons on 18 May 2006 provide for the following managing bodies of the Company:
- The Board of Directors,
- The Chief Executive Officer – General Manager.

According to the Bylaws, the Company's Board of Directors shall consist of 5 (five) members elected for the period of three years under the provisions of the Company Law of the Republic of Lithuania. Members of the Board of Directors shall elect the Chairman of the Board of Directors. The Chairman of the Board of Directors and his Deputy shall be elected for the period of two years by rotation. Members of the Board of Directors may be re-elected for another term.

Composition of the Board of Directors from 29 April 2005 to 18 April 2007:

No.	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Alexander Ryazanov	Chairman of the Board of Directors	28 April 2004 – 18 April 2007
2.	Dr. Eike Benke	Deputy Chairman of the Board of Directors	28 April 2004 – 18 April 2007
3.	Vladas Kazimieras Gagilas	Member of the Board of Directors	28 April 2004 – 18 April 2007
4.	Stephan Kamphues	"	29 April 2005 – 18 April 2007
5.	Kirill Seleznev	"	28 April 2004 – 18 April 2007

Composition of the Board of Directors from 18 April 2007:

No.	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Stephan Kamphues	Chairman of the Board of Directors	18 April 2007 – 18 April 2010
2.	Dr. Valery Golubev	Deputy Chairman of the Board of Directors	18 April 2007 – 18 April 2010
3.	Dr. Eike Benke	Member of the Board of Directors	18 April 2007 – 18 April 2010
4.	Vladas Kazimieras Gagilas	"	18 April 2007 – 18 April 2010
5.	Kirill Seleznev	"	18 April 2007 – 18 April 2010

No tantiemes were disbursed to the members of the Board of Directors in 2007. Compensation to the members of the Board of Directors for fulfilling their functions totaled LTL 259.3 thousand, i.e. LTL 51.9 thousand per member of the Board of Directors on average.

Information on the start and end of the term of administration members:

No.	Full name	Position title	Start and end of term
Administration			
1.	Viktoras Valentukevičius	General Manager	29 April 2004 – 19 April 2007
			19 April 2007 – 18 April 2010
2.	Joachim Hockertz	Deputy General Manager – Director of Commerce	From 1 July 2002
3.	Jonas Janulionis	Deputy General Manager – Technical Director	From 13 September 2002
4.	Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	From 3 May 2004
5.	Giedrė Glinskienė	Chief Financial Officer (from 1 January 2008: Deputy General Manager – Chief Financial Officer)	29 April 2004 – 19 April 2007
			19 April 2007 – 18 April 2010

In 2007, payouts related to employment relations and payouts from the profit to the members of the Administration of the Company totaled LTL 1.74 million, i.e. LTL 348.0 thousand per employee of the Administration on average.

Participation of the members of the governing bodies in the authorized capital:

Full name	Position title	Participation in the Issuer's capital	
		Share of the authorized capital held, %	Share of votes , %
Board of Directors (as of 31 December 2007)			
Stephan Kamphues	Chairman of the Board of Directors	-	-
Dr. Valery Golubev	Deputy Chairman of the Board of Directors	-	-
Dr. Eike Benke	Member of the Board of Directors	-	-
Vladas Kazimieras Gagilas	"	-	-
Kirill Seleznev	"	-	-
Administration (as of 31 December 2007)			
Viktoras Valentukevičius	CEO – General Manager	0.00005	0.00005
Joachim Hockertz	Deputy General Manager – Director of Commerce	-	-
Jonas Janulionis	Deputy General Manager – Technical Director	0.00115	0.00115
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	-	-
Giedrė Glinskienė	Chief Financial Officer	-	-

Subsidiary

As of 31 December 2007, LD had one subsidiary, UAB Palangos Perlas.

Main data about UAB Palangos Perlas

Date and place of registration:	19 January 1998, Register of Legal Persons of the Republic of Lithuania
Company code:	152681177
Registered office:	Gintaro str. 36, LT-00133 Palanga, Lithuania
Telephone number:	+370 460 52441
E-mail address:	zydroji_liepsna@is.lt
Website:	www.zydrojiliepsna.lt

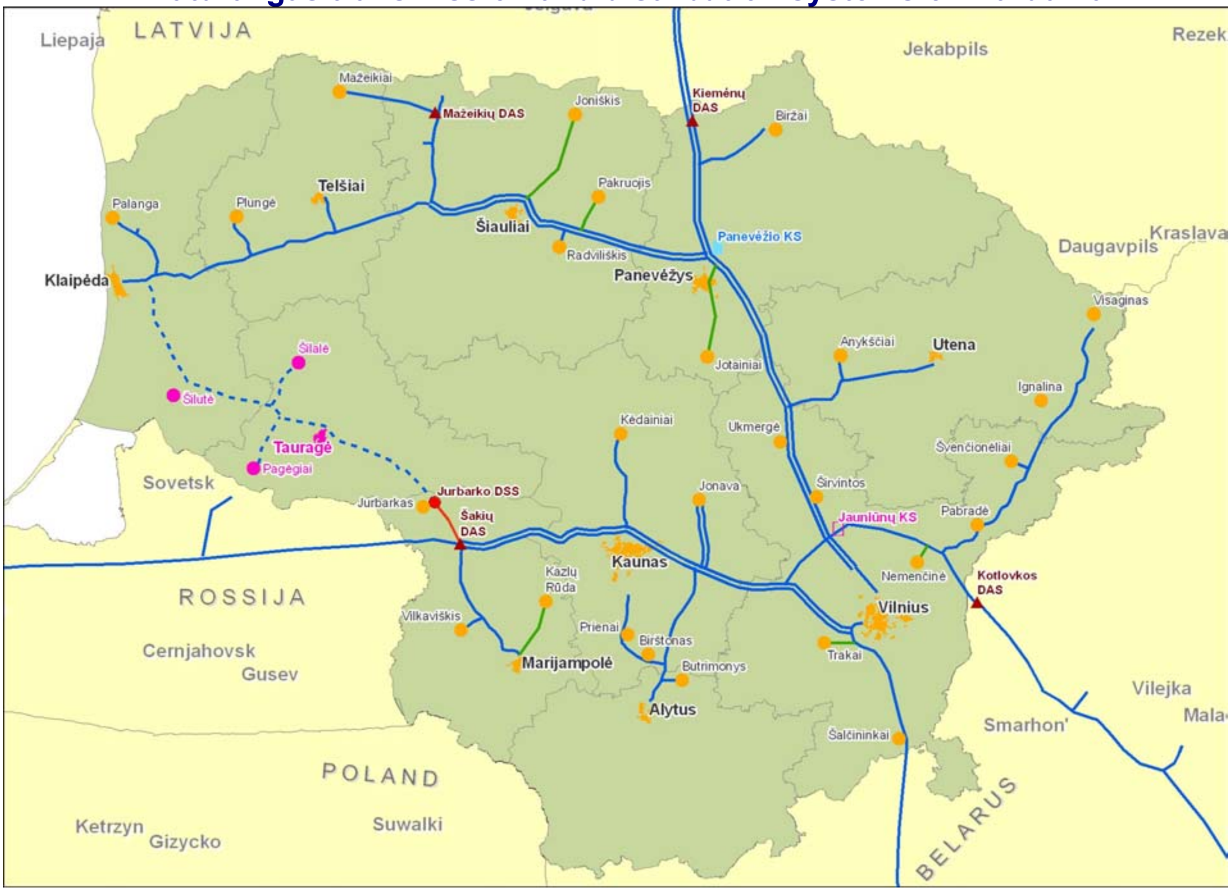
100% of UAB Palangos Perlas shares are held by LD. The authorized capital of UAB Palangos Perlas is divided into 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. This subsidiary owns the Žydroji Liepsna hotel in Palanga, the rest house Vilnis in Pervalka and the resort complex Žydroji Liepsna in Šventoji. The main areas of the company activities: hotel and other board and lodging services, organization of seminars and conferences. The company employs 30 persons.

In 2007, UAB Palangos Perlas earned a net profit of LTL 0.2 million (2006: LTL 0.2 million).

Transactions of associated parties

The information is presented in Consolidated and the Parent Company's Financial Statements for the year ended 31 December 2007.

Natural gas transmission and distribution systems of Lithuania



- Gas transmission pipelines
- Largest gas distribution pipelines
- Compressor Station
- Gas metering stations
- Gas distribution station constructed in 2007
- Gas transmission pipelines and largest gas distribution pipelines constructed in 2007
- Gas transmission pipelines planned to be constructed in 2008–2010
- Towns connected to natural gas system
- Towns planned to be connected to natural gas system in 2008–2010
- Compressor Station planned to be constructed

Core business activity of the Company:
- **transmission:** transmission of natural gas via gas transmission pipelines (the Company is the operator of the natural gas transmission system of Lithuania responsible for the safe operation of the system and its development);
- **distribution:** distribution of natural gas via gas distribution pipelines;
- **supply:** gas imports and sales to customers.

Gas transmission pipelines	Gas distribution pipelines	Gas distribution stations	Gas metering stations	Gas Compressor Station
1.8 thousand km	**7.5 thousand km**	**64**	**3**	**1**

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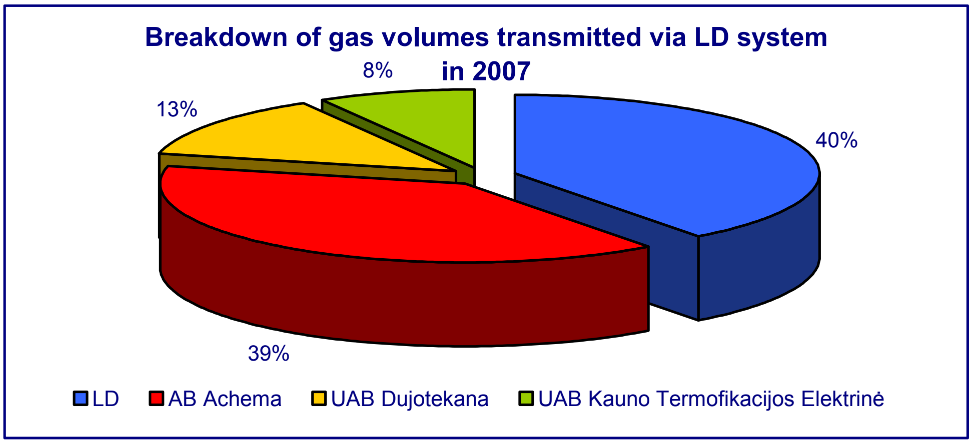
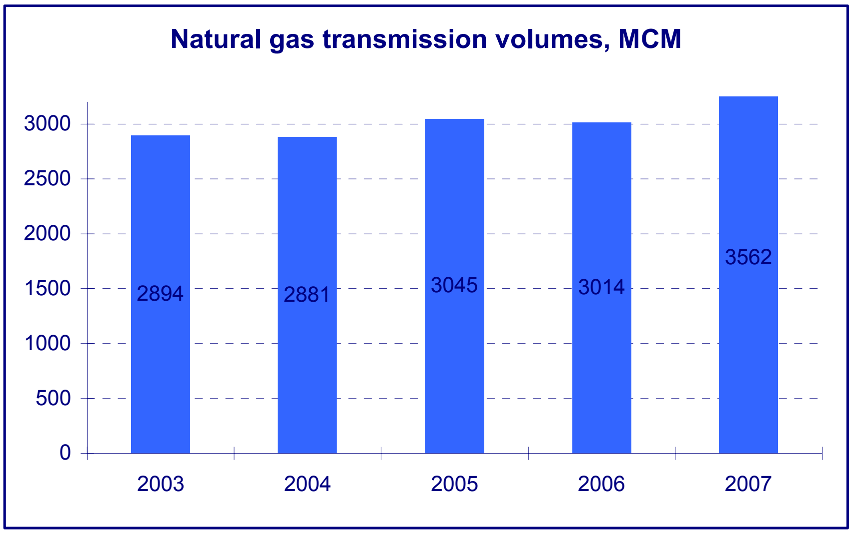
TRANSMISSION OF NATURAL GAS

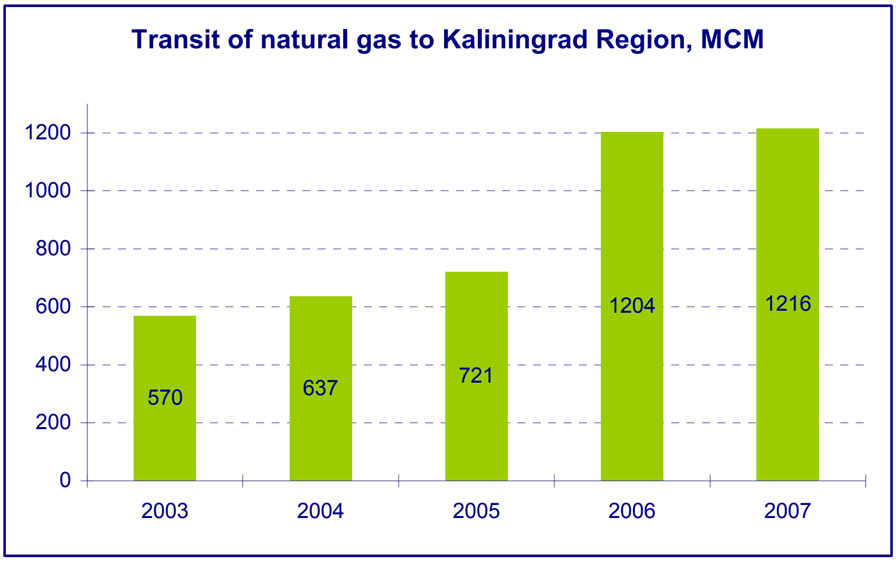
In 2007, the volumes of natural gas transmitted via the transmission system totalled 3,561.8 million m^3. Out of this amount, 2,197.7 million m^3 of natural gas were transmitted to customers buying gas from other suppliers than LD. As compared to 2006, the natural gas transmission volumes increased by 18.2%, mainly due to the change in volumes transmitted for AB Achema.





Transit

In 2007, the natural gas transit volume to the Kaliningrad Region totalled 1,215.6 million m^3. In comparison with 2006, the transit volumes increased by 1.0%.



Investments in the transmission system

In 2007, investments in the construction of new gas transmission systems amounted to LTL 34.24 million; 28.6 km of gas transmission pipeline, and one gas distribution station were constructed. As part of implementation of the National Energy Strategy, the transmission pipeline section Šakiai–Jurbarkas was constructed. This investment is the first stage of the construction of the strategically important Šakiai–Klaipėda Gas Transmission Pipeline. Jurbarkas M&R station, necessary for the supply of natural gas to the town of Jurbarkas, was also constructed.

Investments in the reconstruction of the transmission system totalled LTL 13.3 million. Of this total, LTL 10.7 million were spent on the reconstruction of eight M&R stations and LTL 1.1 million on the reconstruction of the linear part of gas transmission pipelines. Five container gas distribution stations have been procured with which worn out stations will be replaced next year. With the view to the enhancing of reliability and safety of the linear part of the transmission pipelines, LD plans to test the internal part of the gas pipelines using specialized intelligent pigging devices. As part of the preparation of the gas pipelines for the aforesaid tests, the equipment for the camera from which the intelligent pigging device will be launched to the Vilnius–Panevėžys–Riga Gas Transmission Pipeline was procured and the engineering design of the camera for the launching and trapping of the control device on the transmission pipeline to Kaliningrad was made.

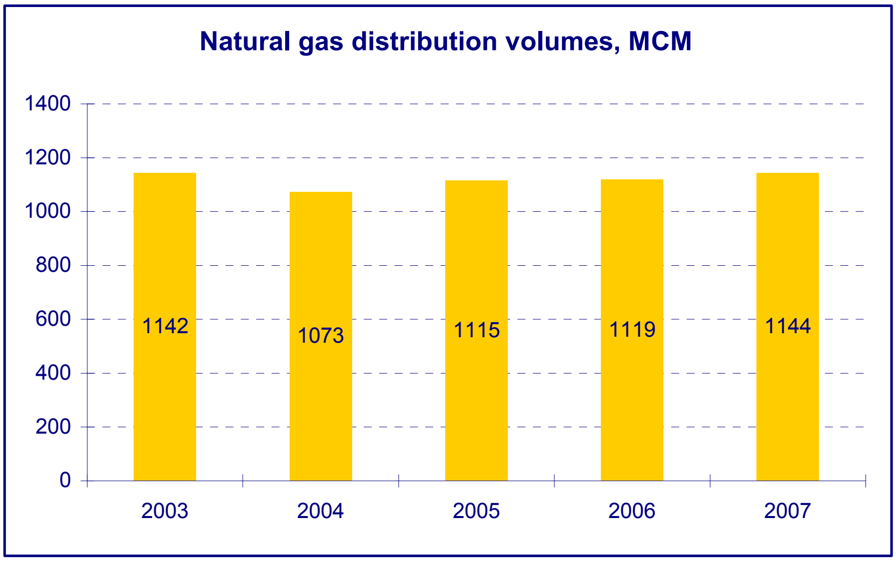
Maintenance of the transmission system

In 2007, with a view to enhancing reliability, a technical project of repairs and pressure tests of a 74-km long section of the Panevėžys–Šiauliai Gas Transmission Pipeline was prepared, the implementation whereof will ensure the reliability of gas transmission via the gas pipelines that are 30-40 years old. Last year such woks were carried out on a 25 km-long section of this pipeline.

On the linear part of the transmission pipelines, the worn out valves and valve units as well as the bypass pipelines of the valve units were repaired or replaced. In all, the valves in 9 valve units were either repaired or replaced.

DISTRIBUTION OF NATURAL GAS

In 2007, the volumes of natural gas distributed by the Company totalled 1,144.2 million m^3, a rise of 2.3% y/y.



Investments in the distribution system

In 2007, the investments in the construction of new gas distribution systems totalled LTL 45.43 million; 266.4 km of new distribution pipelines were constructed and 5.9 thousand new customers were connected to the gas grid.

With the view of connecting the town of Jurbarkas to the gas grid, 11 km of gas distribution pipeline were constructed. The implementation of the investment project in the settlement of Kulautuva, Kaunas District was started, and a 9.8-km-long distribution pipeline was constructed.

In 2007, the investments in the reconstruction of gas distribution system totalled LTL 11.1 million. Of this total, investments in the renovation of distribution pipelines amounted to LTL 7.3 million, and investments in gas pressure regulation units made up LTL 1.7 million. 26 km of gas distribution pipelines were reconstructed by inserting PE pipes into the existing worn out steel pipelines. The worn out equipment of the gas pressure regulation units was replaced with new one.

Maintenance of the distribution system

In order to enhance the reliability and safety of gas distribution pipelines and related equipment, the routine yearly maintenance of the gas system was performed, same as it is done every year, i.e. the gas pipelines were subjected to leakage tests with the help of high sensitivity gas detectors and special devices enabling the identification of insulation defects on pipelines, the system was inspected and technical tests were performed. The defects diagnosed when carrying out the routine technical maintenance tasks are usually eliminated by performing repair works that are included in the repair works programme. In 2007, the main works of this kind were related to the repairs or replacement of gas pipeline insulation, cathodic protection systems, service lines, gas pressure regulation units, valves, shut-off devices and other unreliable equipment.

The buy back of gas pipelines

Pursuant to the Minister of Economy's Order No. 201 of 20 June 2001, in 2007, the Company continued the buying back of the natural gas systems of common use belonging to other legal and natural persons at prices reviewed by the NCCPE. In 2007, 36 systems of common use were bought back (total length 35.9 km). Since the very start of the process of buying back the systems, LD has already received and registered 372 requests regarding the buy-back of the common use systems (total length 422.8 km). In all, 299.9 km of gas pipelines have already been bought back.

Through the buy back of gas pipelines the Company seeks to ensure the integrity of the gas system, its safe and reliable operation and further development by connecting new customers.

SUPPLY OF NATURAL GAS

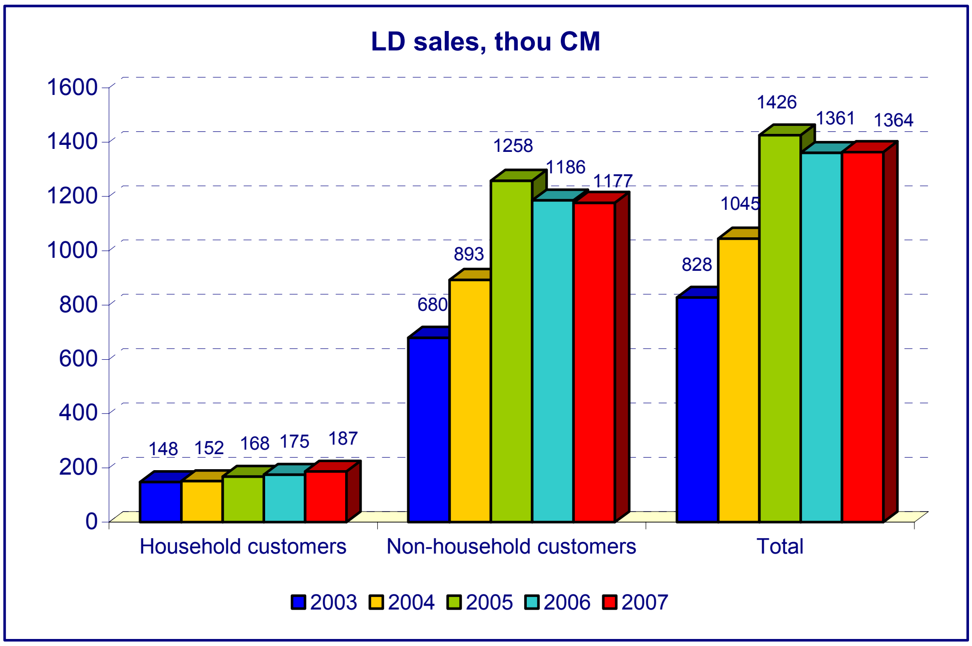
In 2007, LD purchased natural gas from OAO Gazprom according to a long-term natural gas supply agreement.

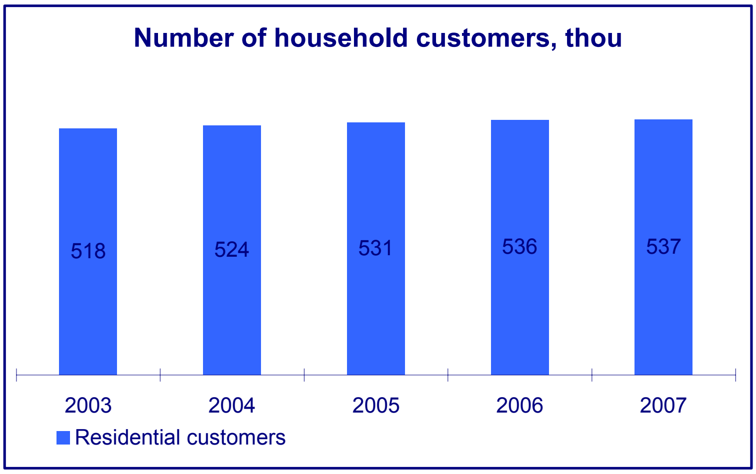
Pursuant to the National Strategy of Energy, seeking to ensure safe and uninterrupted supply of natural gas to customers, the Company accumulated contingency gas reserves in the Incukalns (the Republic of Latvia) Underground Gas Storage Facility.

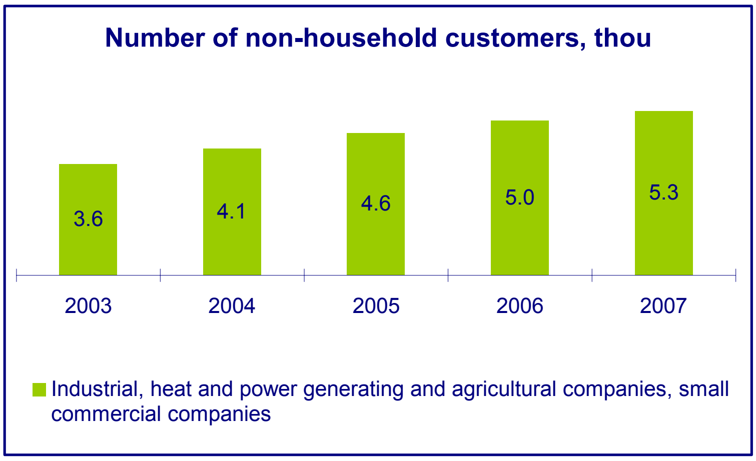
Customers

All natural gas consumers are divided into household consumers and non-household consumers. Following the coming into effect of the new Law on Natural Gas, all non-household consumers became eligible customers and from 1 July 2007 all natural gas consumers became eligible customers and are free to choose their gas suppliers at their own discretion.

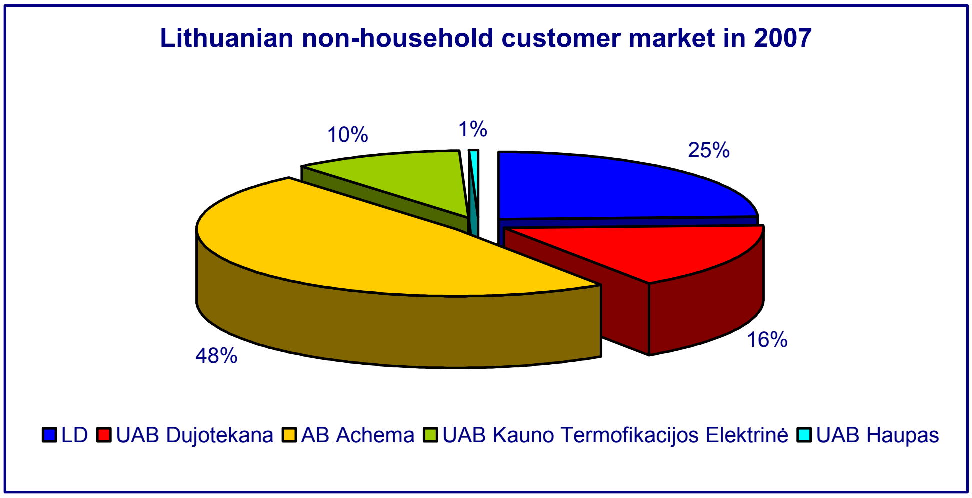
In 2007, the volume of natural gas supplied by LD totalled 1,364.1 million m^3: the volume of natural gas supplied to non-household customers amounted to 1,177.2 million m^3 and the volume of natural gas supplied to household customers amounted to 186.9 million m^3. In comparison with 2006, practically speaking, gas supply volumes did not change.

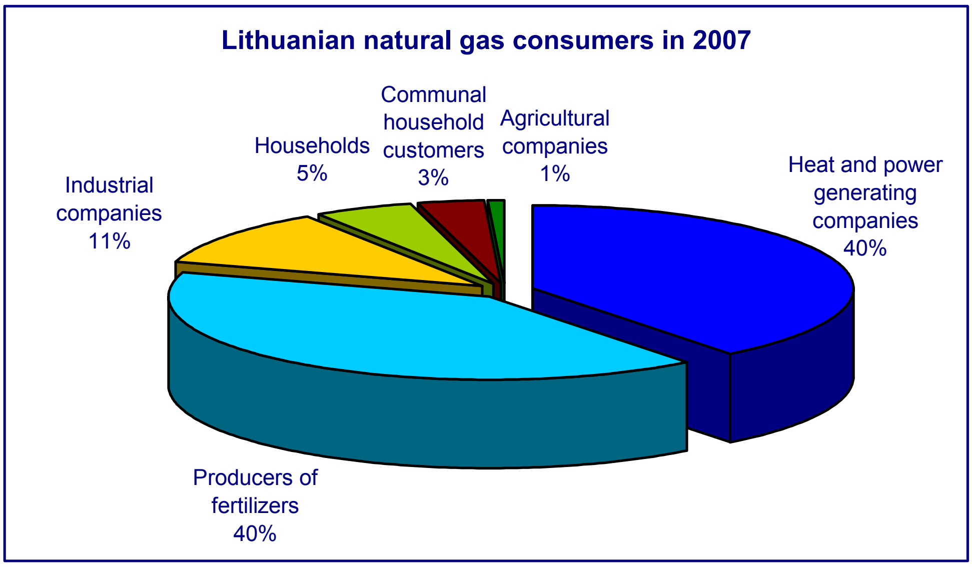


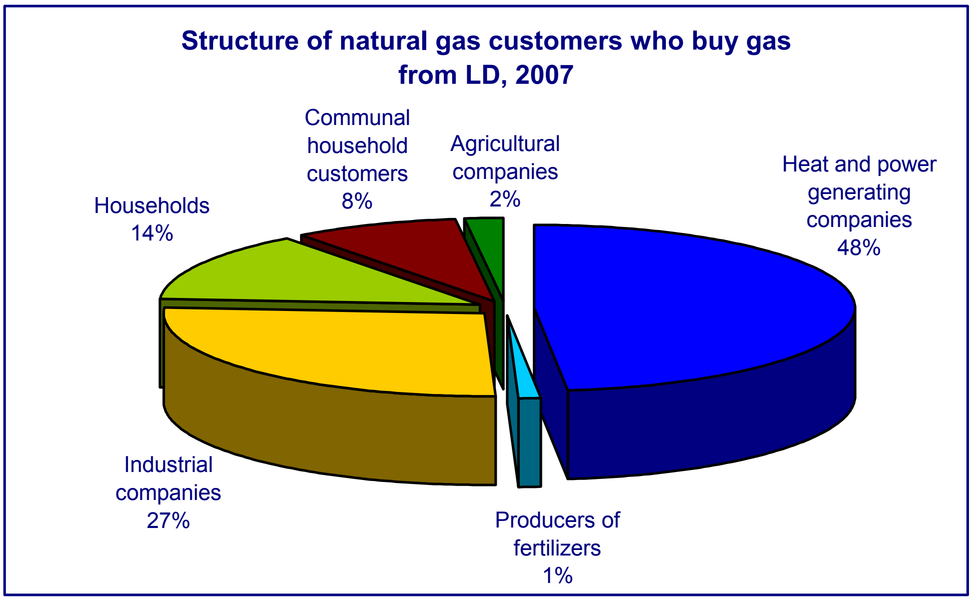




In 2007, the following two companies were engaged in the sales of natural gas to the non-household customers: UAB Dujotekana and UAB Haupas. Two eligible customers, AB Achema and UAB Kauno Termofikacijos Elektrinė purchased natural gas on the basis of long-term agreements directly from OAO Gazprom.







ENVIRONMENT PROTECTION

Being a socially responsible company, LD spares no efforts to minimize the negative impact of its activities upon the environment.

The priority areas of the environment protection activities are as follows:

- *protection of natural environment at gas facility sites:* industrial facilities and gas supplied to customers are heated using state of the art appliances with minimum environment pollution effect;

- *ensuring industrial and ecological safety during the construction and maintenance of gas facilities:* every endeavor is made to minimize the negative impact of these activities on the environment;

- *ensuring industrial and ecological safety at gas facility sites:* gas system repairs and tests are carried out employing state of the art technologies with the view of minimizing the pollutant emissions into the environment. The Company has implemented a programme of measures to collect and utilize the materials that were used in the operation, waste, scrap and effluent. In the staff training process, a lot of attention is devoted to the ecological education.

With the help of the measures implemented by the Company the environment safety situation is improving and the environmental pollution is being reduced. In 2007, we went on with the upgrading of the equipment of the Gas Compressor Station. New state of the art odorizing systems were installed at M&R stations (Vilnius, Paneriai-2, Kaunas-1).

Pursuant to the applicable laws of the Republic of Lithuania, the Company monitors, keeps record of and declares its pollutant emissions (see Table below). These pollutant emissions do not exceed the permissible norms set by the permit issued by the Integrated Prevention and Control of Pollution authority.

Pollutant (tons)	2007	2006
CO	17.6	23.7
NO_X	7.9	12.3

Due to the very nature of the natural gas operation&maintenance system and thanks to the occupational safety system implementation, only a small proportion of gas volumes is emitted form the gas pipeline system into the atmosphere. Since the scope of repair works in 2007 increased in comparison with 2006, the emissions of natural gas into the atmosphere were also slightly higher (see Table below). In its business activities, the Company implements measures to minimize the emissions.

Emissions (natural gas) recorded, MCM	
2007	2006
15.1	14.2

In the future, when modernizing its gas systems and planning the procurement of new equipment and starting new construction, LD is going to follow the aforesaid strategic environment protection guidelines, too.

STAFF

In 2007, the average number of the Group employees on the roll was 1,813 (2006: 1,827). The decrease is associated with the further improvement of the Company's management structure.

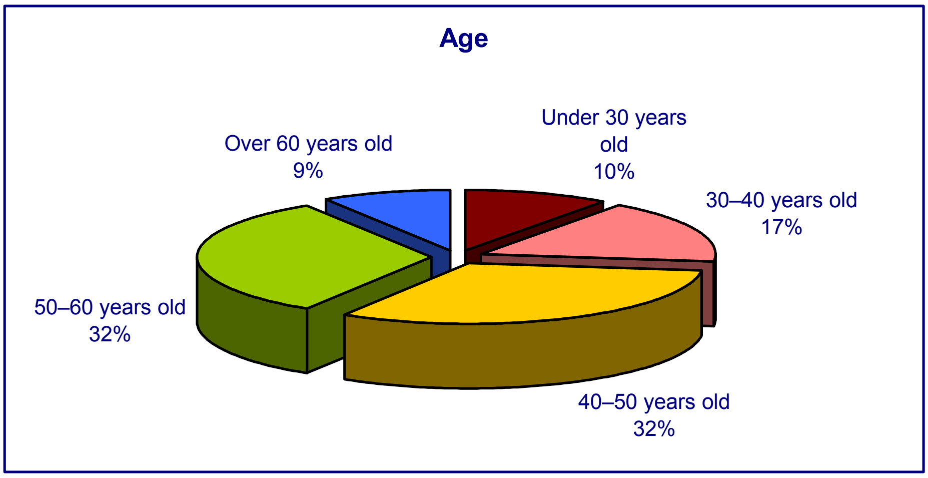
Workers (blue-collar) made up 39% of all Group employees on the roll (2006: 40%). Managing staff, specialists and white-collar office employees comprised 61% of staff (2006: 60%). In 2007, 66% of the Group employees were male (2006: 67%) and 34% of the Group employees were female (2006: 33%).

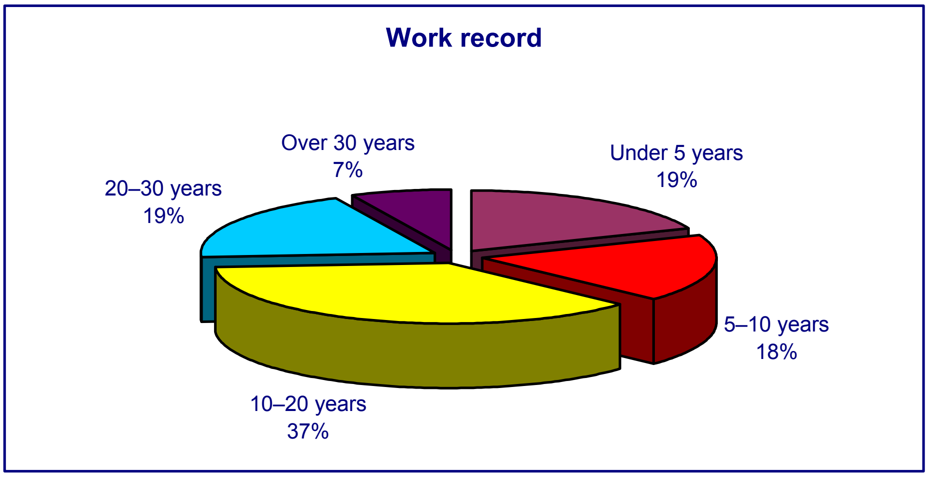
The average age of the Group employees was 46.5 years (2006: 45 years) and the average work experience was 15.3 years (2006: 14 years). The number of employees with university education increased by 3.7%.

Average number of Group employees on the roll

Year	Average number of employees on the roll	Change compared to previous year
2006	1,827	-8%*
2007	1,813	-1%**

*compared to 2005
**compared to 2006





Breakdown of Group employees by educational background

Average number of employees on the roll in 2006	Of this total, educational background:			
	University	College	Secondary	Unfinished secondary
1,827	657	488	627	55
100%	36.0%	26.7%	34.3%	3.0%
Average number of employees on the roll in 2007	Of this total, educational background:			
	University	College	Secondary	Unfinished secondary
1,813	695	467	600	51
100%	38.3%	25.8%	33.1%	2.8%

Group's average monthly salary by employee categories, in LTL

Employees	Average number of employees on the roll in 2006	Average monthly salary, LTL
Managing staff and specialists	1,036	2,700
Workers	791	1,670
Total:	1,827	2,252
Employees	Average number of employees on the roll in 2007	Average monthly salary, LTL
Managing staff and specialists	1,076	3,027
Workers	737	1,934
Total:	1,813	2,582

With a view to enhancing efficiency of the implementation of the Company strategy and its main objectives, in 2007, the Company started the implementation of the staff performance management system.

Much attention was paid to training activities and improvement of employee qualifications. The training of professional competences and general skills of middle level managers and specialists was in part financed by the European Union Structural Funds. Training was provided to over 1.1 thousand employees, or 61% of the total staff.

At LD branches there are local units of trade unions united into the Lithuanian Association of Gas Industry Trade Unions. The Company Management and representatives of the trade unions closely cooperate in handling the employees' social, cultural, health, etc. issues and hold joint meetings on a regular basis.

On 6 December 2006, a new Company's Collective Bargaining Agreement was signed for the term until 20 May 2010.

Neither the labor contracts, nor the Collective Bargaining Agreement provide for any extraordinary Company employees rights or duties. The rights and duties usually applied in general practice have been established.

Though the work of LD employees often involves dangerous and complicated operations, thanks to the continuous implementation of preventive measures, in 2007, LD succeeded in averting industrial injuries.

MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- The Lithuanian Gas Association. Website: www.dua.lt.
- The association of companies of European countries operating transmission pipelines “Gas Infrastructure Europe (GIE)”. Website: www.gie.waxinteractive3.com.
- The association of transmission pipeline companies of the Baltic Sea Region “Baltic Gas”. Website: www.balticgas.org. Membership of LD in this association dates back to 1999. From 2006, LD has been represented in the Board of this association. “Baltic Gas” is an association of transmission pipeline companies of the Baltic Sea Region promoting use of natural gas in the Baltic Sea Region, development of an integrated natural gas consumer market, seeking to eliminate or reduce the non-commercial obstacles in the way of natural gas business, e.g. related to tax policy, etc.
- The Chamber of Commerce of Germany and the Baltic countries (“AHK”) in Estonia, Latvia and Lithuania. Website: www.ahk-balt.org.
- The association of the largest and most active investors in the economy of Lithuania “Investors’ Forum”. Website: www.investorsforum.lt.

The Company does not participate in the capital of any of the aforesaid associated structures.

The member of the associations GIE, “Baltic Gas” and The Chamber of Commerce of Germany and the Baltic countries (“AHK”) E.ON Ruhrgas International AG and the member of the association “Baltic Gas” OAO Gazprom each hold over 5% of shares of the Company.

The year 2007 saw the continuation of the tradition of holding meetings resolving common issues related to safe and reliable gas supply in the Baltic States and attended by the management and specialists of the gas companies of the three Baltic States LD, Latvijas Gaze A/S and Eesti Gaas AS.

SPONSORSHIP PROGRAMS

With a view to contributing to the welfare of the society, every year LD supports a lot of socially welfare projects. In 2007, the Company took an active part in the sponsorship of various projects, including the ones of social patronage and care, health protection, preservation of cultural heritage, art and sport. In 2007, LD rendered support to more than 40 institutions, organizations or supported projects thereof. The most significant ones are as follows:

- support to the institutions and organizations of disabled children: “Mažoji Guboja”, Vilnius Jonas Laužikas General Education Consultation Centre, Kaunas Caritative Society for Blind & Partially Sighted Children “Akių Šviesa”, Kaunas Kindergarten&School for Deaf Children, Telšiai District Centre for Disabled Children;
- support to Vilnius University Hospital Santariškės Clinic and Vilnius Maternity Hospital;
- support to the Lithuanian Art Museum in organizing the gala event in Juodkrantė to mark the re-opening of the Museum of Miniatures, in publishing the study by the art critic Dr. Rasa Andriušytė – Žukienė “Confrontations: Painter Vytautas Kazimieras Jonynas on the Roads of World Art”, in restoring the piece of art of the Church Palanga the Baroque Madonna from the Grand Altar; support to the Klaipėda Municipality Museum of History of Lithuania Minor in organizing the project “A Visit to a Medieval Town” in Klaipėda mound;
- support to a group of the young generation Lithuanian opera singers invited by the team of the director Dalia Ibelhauptaitė, conductor Gintaras Rinkevičius, and costume designer Juozas Statkevičius to participate in the production of W.A. Mozart’s opera “The Magic Flute”;
- support in organizing the XII Pažaislis Music Festival that has already become traditional;

- support to V. Alekna's Club for the organization of the international sports festival "EAA PERMIT MEETING Kaunas 2007" held in the Kaunas Darius&Girėnas Stadium; support to the activities carried out by the Association of Lithuanian Women and the Lithuanian Sports Society "Žalgiris".

SOCIAL RESPONSIBILITY

An ever increasing number of Lithuania's companies voluntarily undertake the implementation of the socially responsible business principles. In the short run, the Company is planning to enter into Global Compact presented by the UNO. LD has already gone a long way with regard to the responsible and fair development of its business. When implementing the responsible business policies, the Company emphasizes environment protection, human rights and the Company's employees' rights, promotion of economic development and active participation in social life.

The Company develops natural gas systems in a sustainable way. Almost 100% of total gas volumes necessary to Lithuania are supplied through the natural gas supply system operated by the Company. Natural gas has already reached more than one remote corner of Lithuania, an ever increasing number of enterprises and social institutions start using natural gas. Natural gas, being an environmentally friendly fuel, contributes to business development in the provincial towns and settlements of Lithuania. The Company is consistently increasing its investments in order to minimize the number of towns and settlements that are still not connected to the natural gas grid.

On an ongoing basis, the Company keeps its business and household customers informed about LD development plans, activities, tariff changes. The customer information campaign launched in 2007 was exceptionally extensive. The growth of the consumption of natural gas as an environmentally friendly fuel that has great future reduces social exclusion, environment pollution and promotes investments in the region.

The Company pays a lot of attention to environment protection. Gas pipelines and other facilities construction works are carried out employing state of the art equipment and technologies. Every year, the Company allocates sizeable amounts for the renovation of the existing gas system.

At the Company, exceptional attention is being paid to the employee training and the improvement of the motivation (incentive) system. At the Company, human rights and every employee's rights are respected, and every employee is perceived as an asset directly contributing to the successful performance of the Company. The Collective Bargaining Agreement that has been concluded gives the Company's employees wider guarantees than the ones that are provided for in the national labour legislation.

The Company not just merely speaks up for transparent, non-discriminatory provisions of legislation acts regulating natural gas business, the Company is also fully awake to the fact that it is extremely important that all the processes taking place in the society are also transparent and non-discriminatory. The Company is also seeking to directly contribute to the welfare of the community in which it is operating. Every year, LD takes an active part in supporting all kinds of social welfare projects related to patronage and care, health protection, preservation of cultural heritage, art and sport.

Disclosure form concerning the compliance with the Governance Code for the stock company,,Lietuvos dujos" listed on the regulated market

The stock company *„Lietuvos dujos"*, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The strategy of development and objectives of Joint-Stock Company 'Lietuvos dujos' are set forth in internal documentation and are described as individual business activities and objectives. The Company is updating its development plans dependent on the situation in the market and amendments to the regulating environment.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	This recommendation is implemented by the Board of Directors and the Manager. The Supervisory Board is not formed to make cooperation between the Board of Directors and the Manager tighter, to make the governance of the Company more efficient, to quicken the implementation of the resolutions adopted and to realize direct responsibility.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	
Principle II: The corporate governance framework		

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company's managing bodies are the Board of Directors, and the Manager. A Supervisory Board is not formed in the Company. In opinion of the Company's shareholders, this is sufficient and effective means for the supervision of the functions performed by the Manager. Allotment of competences and responsibility to the Company's managing bodies is set forth in the Company's Articles of Association, regulations of the managing bodies, and the employment contract of the Manager.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	With regard to the supervisory body, please refer to our comments under item 2.1.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Yes	Please refer to our comments under 2.1
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	With regard to the supervisory body, please refer to our comments under item 2.1.

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

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	With regard to the supervisory body, please refer to our comments under item 2.1.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	No	Please refer to our comments under item 2.1.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[3]		

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

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

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders’ meeting (hereinafter in this Principle referred to as the ‘collegial body’) should ensure objective and fair monitoring of the company’s management bodies as well as representation of minority shareholders.	Yes	
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders’ meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate’s independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company’s annual report.	Yes	
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate’s particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member’s competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company’s structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	Yes	In compliance with the Shareholders' Agreement as of March 24, 2004, concluded amongst the State-owned State Property Fund, the Russian Public Company 'Gazprom', and the German Company 'Ruhrgas AG' (renamed as E.ON Ruhrgas International AG since July 1. 2004), 'Gazprom' and 'Ruhrgas AG' nominate to the Bard of Directors 2 candidates each and the State Property Fund nominates one candidate. Four members of the Company's Board of Directors meet one to two independence criteria indicated in the Code.

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

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

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

defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to		Please refer to our comments under item 3.6.

determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be	No	The Company has not yet applied the practise of announcing the independence criteria indicated in the Code (See item 3.6).

independent.		
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	Please refer to our comments under item 3.6.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		

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

[7] See Footnote 3.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to information available to the Company, all the members of the Board of Directors act in their good will as regards the Company and carry out their activities in compliance with the Company's interests, not with their own interests or the interests of third persons, exerting every effort to preserve their independence while adopting the resolutions.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	

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

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

4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	

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

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	Committees are not formed. However, some functions of these committees are being performed by the Board of Directors. These functions include the evaluation of skills, competence, and experience of certain directors; consideration of the general policy for the application of incentive systems; monitoring of consistency of financial information presented by the Company paying special attention to the suitability and transparency of accounting methods applied by the Company and its group.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	Please refer to our comments under item 4.7.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial	No	Please refer to our comments under item 4.7.

body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	Please refer to our comments under item 4.9.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	Please refer to our comments under item 4.9.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	The Company does not form a nomination committee. The Company's shareholders have entered into a Shareholders' Agreement, and nomination to the Company's managing bodies is being carried out in compliance with this Agreement.

4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the	No	The Company does not form a remuneration committee. The Company's shareholders have entered into a Shareholders' Agreement, and resolutions concerning remuneration for the members of managing bodies are being adopted on the basis of this Agreement.

company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;	No	The Company does not form an auditing committee. The Company's shareholders have entered into a Shareholders' Agreement, and functions applicable to the auditing committee are ensured on the basis of this Agreement and by means of inner legal acts.

• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal		

contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor’s work program, and should be furnished with internal audit’s reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body’s structure, work organization and ability to act as a group, evaluation of each of the collegial body member’s and committee’s competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Company’s internal documentation does not stipulate the individual evaluation of the activities of the Board of Directors, as this has not been required by Lithuanian law. Resolutions concerning the Company’s business activities are adopted by the Board of Directors, which is accountable to the shareholders’ general meeting.
Principle V: The working procedure of the company’s collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company’s bodies.**		

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[11].	Yes	
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	

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

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Not applicable	No Supervisory Board has been formed in the Company.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[12] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	In accordance with the Lithuanian Company Law and the Articles of Association of the Company, important transactions are approved by the Board of Directors.

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

6.4. Procedures of convening and conducting a general shareholders’ meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders’ meeting should not hinder wide attendance of the shareholders. Prior to the shareholders’ meeting, the company’s supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders’ meeting and receive answers to them.	Yes	
6.5. It is recommended that documents on the course of the general shareholders’ meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[13]. It is recommended that the minutes of the general shareholders’ meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company’s commercial secrets are not revealed.	Yes	
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders’ meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	

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

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Taking into consideration the governance framework of Company's shareholders and available regulations for organizing the shareholders' general meeting, there is no necessity to additionally expensive IT systems.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	

7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	This accounting year, the Company did not publicly announce its remuneration policy, as this is not stipulated by Lithuanian law. The Company's remuneration policy is fixed by taking into account the results of analyzing the situation in the local labour market.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Please refer to our comments under item 8.1.

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

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

• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	The Company currently does not have any such remuneration scheme.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		The issues mentioned have not been discussed at the shareholders' annual general meeting; the Company's Articles of Association also do not stipulate such a procedure.

8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		The issues mentioned have not been discussed at the shareholders' annual general meeting; the Company's Articles of Association do not stipulate such a procedure.
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		Please refer to our comments under item 8.8.
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	Compliance with this recommendation is ensured by the precise supervision and control of the Company's business activities by the state-owned institutions and associated consumer organizations. The publicity of the Company's business activities creates conditions for stakeholders to participate in the governance of the Company in compliance with the procedure established by law as well as in compliance with the Company's Articles of Association and Inner Regulations. Managing bodies are consulting with employees on the issues of governance of the Company and other substantial issues; the participation of employees in the Company's share capital is not limited.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified	Yes	

in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	

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