

C O N S O L I D A T E D A N N U A L R E P O R T 2 0 0 7

CONTENTS

Chairman's statement	4
General Manager's review	5
Reporting period for which the report has been prepared	6
Main data about the Company	6
Major developments of the reporting period	6
Natural gas business environment	6
Main risk factors and unexpected events related to the Company's activities	8
Financial performance	9
Business plans and projections	14
Management of the Company	15
Transmission of natural gas	23
Distribution of natural gas	24
Supply of natural gas	25
Environment protection	28
Staff	29
Membership in associated structures and international cooperation	30
Sponsorship programs	30
Social responsibility	31
AB Lietuvos Dujos consolidated and the parent company's financial statements for the year ended 31 December 2007	35

Board of Directors

since 18 April 2007



Stephan Kamphues
Chairman, Member of the Executive Board of E.ON Ruhrgas International AG



Dr. Valery Golubev
Deputy Chairman, Deputy Chairman of the Management Committee, OAO Gazprom



Dr. Eike Benke
Chairman of the Board of Managing Directors, E.ON Ruhrgas E&P GmbH



Vladas Kazimieras Gagilas
Director of the Energy Resources Department, Ministry of Economy



Kirill Seleznev
Member of the Management Committee, OAO Gazprom; Head of the Department of Marketing, Processing of Gas and Liquid Hydrocarbons, OAO Gazprom



Dr. Achim Saul
*Chairman, Member of the Board of Management of E.ON Ruhrgas International AG**



Marcus A. Söhrich
*Member, Head of North / West European Shareholdings Department (incl. Baltic States, Scandinavia, Luxembourg and Romania) of E.ON Ruhrgas International AG**

Chief Executives



Viktoras Valentukevičius
General Manager



Dr. Joachim Hockertz
Deputy General Manager – Director of Commerce



Vladimir Obukhov
Deputy General Manager – Director for Gas Purchase



Jonas Janulionis
Deputy General Manager – Technical Director



Giedrė Glinskienė
Deputy General Manager – Chief Financial Officer

* Members of the Board of Directors instead of S. Kamphues and E. Benke (since 16 April 2008).



CHAIRMAN'S STATEMENT

In 2007, the Company operated successfully, which is reflected in the rise of both profit and in the number of consumers and also in the successful implementation of investment projects in a difficult business environment.

As in the years before, AB Lietuvos Dujos (hereinafter referred to as "LD") heavily invested in infrastructure. Since privatization LD increased annual investment in new infrastructure by a factor of 4 increasing capacities at the borders as well as connecting towns and new consumers at increasing rates. The biggest project finished in 2007 was the pipeline system Šakiai–Jurbarkas as the first step of the system Šakiai–Klaipėda, which will close the ring of the Lithuanian transmission system enhancing security of supply for the system as a whole and increasing capacity to the town of Klaipėda. Since October 2007 consumers in Jurbarkas use natural gas.

LD cooperates with partners in neighbouring states in order to realize synergies and in particular to optimise the use of the cross border infrastructure both commercially and for the sake of security of supply. For example, at the end of 2007, LD has stored an all time high amount of gas in the storage facility owned and operated by Latvijas Gaze A/S in Latvia. Nevertheless, as in the years before, it is both technically and legally safeguarded that any trader having gas at any border crossing can easily access any consumer connected to the network of LD. There has been no complaint regarding LD's third party access service, which was and is extensively used: in 2002 only 2% of the gas for eligible consumers was supplied by LD and until 2007, when all consumers became eligible, this figure increased to 38%.

After nearly four years of discussions, in December 2006 the Government, taking into account experts' recommendations, sent its final position on the Draft Law on Natural Gas to the Parliament. On March 20 the Parliament approved the law after massively changing key-provisions of the draft. These changes were approved against recommendations of the Government, the Ministry of Finance, the State Competition Authority, the Legal Department of the Parliament and independent organizations. On April 19, 2007, the law came into force, which was supposed to implement the European Union (EU) Gas Directive 2003/55/EC, but contradicts itself, the Directive and general EU principles. This law was highly detrimental to the implementation of the planned investment projects.

The project "Šakiai–Jurbarkas" LD commenced in 2005; even physical construction started long before the law came into force. However, in summer 2007, at the time LD constructed in a challenging operation a double line crossing 16 meter under the biggest Lithuanian river, the Nemunas, LD was forced by court to stop the nearly finished project and to initiate conservation works. The project had been stopped for nearly two months. The court decision was based on the new law. At any time LD had all necessary permits and approvals from state authorities. The municipality together with LD and supported by the new consumers in Jurbarkas, defended themselves and attained decision allowing LD to complete the project. Only due to extreme efforts the project was implemented prior to the heating season, so that no flat stayed cold in Jurbarkas. We fail to understand decisions of state regulatory institutions like for example the decision of the National Control Commission for Prices and Energy (hereinafter referred to as "NCCPE") took on May 30, 2007 – at a time much of the gasification of Jurbarkas was already physically realized – obliging LD to propose conditions to the another company for connection to the LD transmission system near Šakiai, so that this company may gasify the same Jurbarkas. The same NCCPE had approved the long-term investment plans of LD, which include the project "Šakiai–Jurbarkas" and in 2006 had approved LD's detailed investment project "Šakiai–Jurbarkas".

Based on the new law also other investment projects were damaged, and the gasification of the town of

Ignalina, which LD started back in 2004 and for which EU structural funds had been foreseen, was destructed, inflicting financial losses. Once again it revealed the legal chaos caused by the laxity of the new law and loose interpretation of different legal norms. We are faced with attempts to strip consumers from choice and to mislead the public.

The new gas law provides not only for a regulation of the infrastructure, but also of the gas sales business – even for the biggest consumers. Here LD competes with other fuels, all of which are not regulated. LD, for example, is forced to publish all its prices or price-formula long before the consumers make their choice regarding the kind of fuel and for more than a year ahead, whereas suppliers of other fuels are free to adjust their prices at any time – in our view a violation of competition principles. Some big consumers can switch from gas to other fuels in a matter of a few hours.

Despite this full-scale commodity regulation, the gas law includes unbundling requirements, which are supposed to enhance competition, but in the Lithuanian context will just lower the efficiency of the Company and increase costs – at consumers' expense. Unbundling and full-scale regulation of sales are contradicting concepts referring to competitive and monopolistic markets, respectively. Also regarding other issues, the gas law runs into contradictions by requiring on the one hand detailed regulation and on the other hand competition.

The development of the Company heavily depends on the regulatory environment. When in April 2007 the President signed the new law, he stressed that the law is not in line with the Gas Directive 2003/55/EC of the EU – which the law was supposed to implement – and has to be amended. However, until editing of this consolidated annual report was finished, the law was not amended. Nevertheless, we hope that the law and regulation in general will improve and in particular that the Company's infrastructure business will be treated in a manner comparable to the treatment of other infrastructure businesses in Lithuania, for example electricity, and according to principles generally accepted in the EU.

Stephan Kamphus

Chairman of the Board of Directors



GENERAL MANAGER'S REVIEW

Business environment

As demand for natural gas is increasing, we need not only duly foresee its consumption but also pay necessary attention and make efforts to use this clean fuel as efficiently and economically as possible. Lithuanian economics continues to be dependable on natural gas import. Therefore we should by joint efforts to cover at least a portion of increasing natural gas consumption by applying the saving measures, in this ways approaching the international standards. This is particularly important under the situation of rapidly growing demand for natural gas in Europe and the efforts of other countries to ensure the supply of natural gas on the grounds of long-term contracts. This is not the news. However, Lithuanian authorities, communities, and consumers should not "limit" their discussions only to the theme of prices. Under the circumstances of approaching challenges, the public should assess the situation on the market of energy resources and increasing competition amongst countries in the sphere of energy supply. Therefore the encouragement of open discussion of these essential changes in energy sector would be a correct action, especially under the circumstances of early decommissioning of the Ignalina NPP.

However, AB Lietuvos Dujos (hereinafter referred to as "LD") is expected to ensure the continuous and reliable supply of natural gas both in the nearest future and for the long-term outlook. Both politicians and consumers start deeper understanding that security and reliability have their own price. In addition to investments into infrastructure amounting to hundred millions Euro and competent personnel, pragmatic legal regulation is necessary.

Unfortunately, the new Law on Natural Gas approved by the Seimas at the beginning of 2007 (approved after almost four years of vain discussions) has, beyond recognition, deteriorated the principles of the EU Gas Directive. Total regulation and absence of openness have been introduced instead of realizing the ideas of liberalization of the market, assumptions of the EU common market, and the "energy exchange" amongst the countries. This is an evident contradiction: the current edition of the available Law on Natural Gas fails to ensure the transparency declared, increase in security and reliability, the formation of essential investments for an alternative, and benefits for consumers. Quite the contrary, the provisions of the Law contradict the international practice in the sphere of gas industry, destroy the continuation of gasification in Lithuania, and even postpone the projects for increasing the gas supply reliability stipulated by the National Energy Strategy. Notwithstanding the declaration of encouragement of "competition" in the infrastructure, in some cities, consumers have to pay two times and more higher infrastructure tariffs compared to the consumers of LD. It does give the impression that the practical application of legal acts and a method depends on the company's capital structure and non-transparent coat-tails.

Business models for the supply of natural gas to the cities of Mažeikiai and Druskininkai are the unique examples of double standards. Though the Law on Natural Gas was approved one year ago, secondary legal acts without which the practical application of this Law is impossible have not been prepared yet.

Review of the Company's business activities

In 2007, the Company's Management regularly informed the Board of Directors about current affairs and the results of business activities. Verbal and written reports concerning the substantial issues of business activities were presented in compliance with the procedure established by laws and the operation regulation.

The preparation of the budget and discussions concerning the process of due ensuring of the investment programs, construction of new gas pipelines, and due supervision, renovation and modernization of available infrastructure were carried out under particularly active cooperation with the Board of Directors. As in 2006, there were no natural gas supply interruptions in the infrastructure operated by LD. In 2007, 5.9 thousand

new consumers have been connected to our networks.

After hearing and generalizing the analysis and suggestions of the working groups of professionals, the Company's Management presented the new organizational structure of LD to be adopted by the Board of Directors. Functions and responsibility concerning the Company's certain business activities have been appropriately modified and redistributed. Since January 1, 2008, the transmission system operator functions and commercial business activities and financial accountancy have been separated from each other in compliance with transparent and definite principles. Resolutions stabilizing the employee turnover and improving the Company's inner communication have been approved in accordance with the program for the motivation, training, and incentives of personnel prepared by the Company's Management.

The result of negotiations – the principles for setting prices for natural gas import have been adopted for three years and an appropriate agreement has been signed with OAO Gazprom by the end of 2007. This enables the Company and our customers to predict the dynamics of prices for natural gas and money flows for the next year more precisely, specifically, by taking into account the increased price for the import of natural gas.

As it was planned, the project for the implementation of the new procedure for paying for natural gas consumed by population was accomplished on July 1, 2007. For the time being, all the household consumers connected to the natural gas networks controlled by LD may choose the most acceptable for them way for paying for the gas consumed out of five suggested alternatives.

Easily understandable procedures and inner control measures have ensured the accomplishment of the major goals of the LD business activities set for 2007 without exceeding the fixed limits and the budget approved.

Encouraging social responsibility, the Company is supporting a large number of social-cultural initiatives and traditional events. The Company also makes substantial contributions in resolving the problems of environment protection and public health improvement in the community.

Viktoras Valentukevičius

General Manager

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 m³ into two identical subgroups and which created exceptional conditions for the first subgroup of customers (household customers with annual consumption of up to 90 m³) 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 m³. UAB Haupas imports natural gas not through the network of the Company.

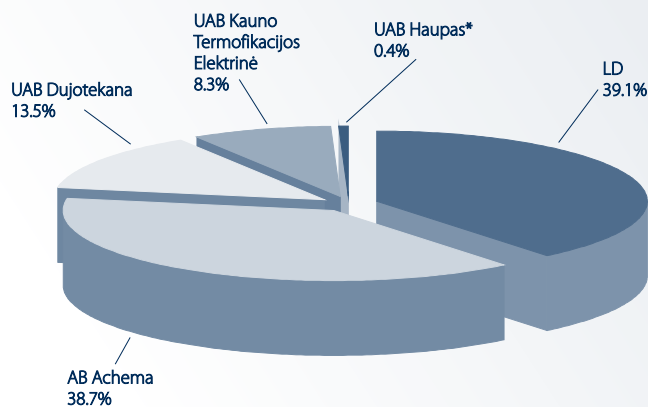
In 2007, there were eight companies supplying natural gas to customers of Lithuania. The Company, AB Joniškio Energija, UAB Druskininkų Dujos and AB Agrofirma Josvainiai supplied gas to both household and non-household customers, whereas UAB Dujotekana and UAB Haupas supplied gas only to non-household 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

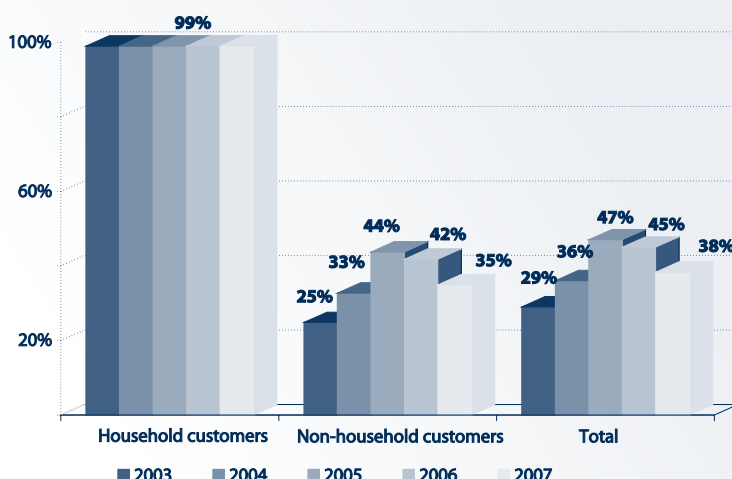
In its activities the Company faces competition both in the Natural Gas Sector, and in the Fuel

Breakdown of natural gas import to Lithuania in 2007



* Data supplied by UAB Haupas.

LD market share, 2003–2007



(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.

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.



Daiva Petrauskaitė, 31 years
Economist, Finance Department

*“Home is warmness, coziness and joy.
We have it in our minds first and foremost.”*



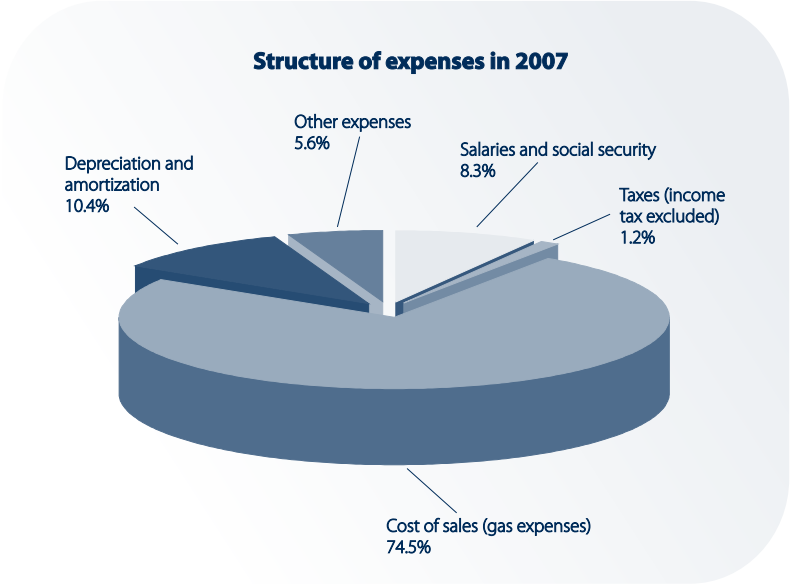
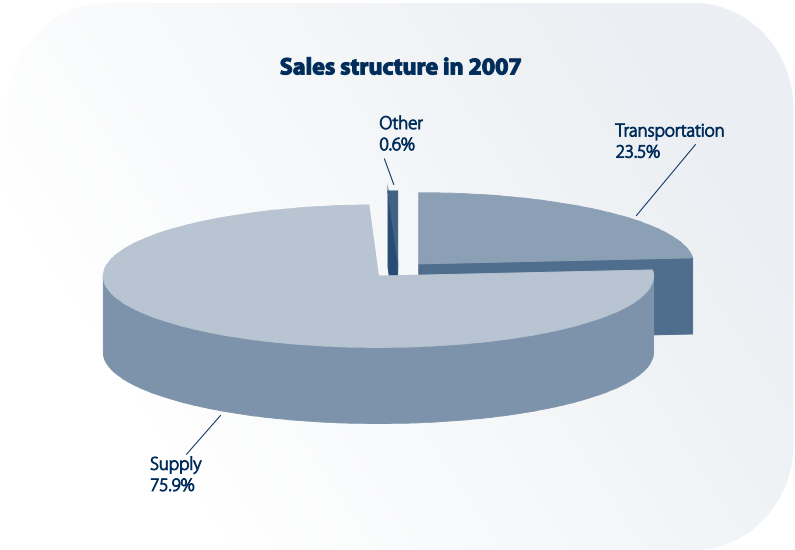
Core activities

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.

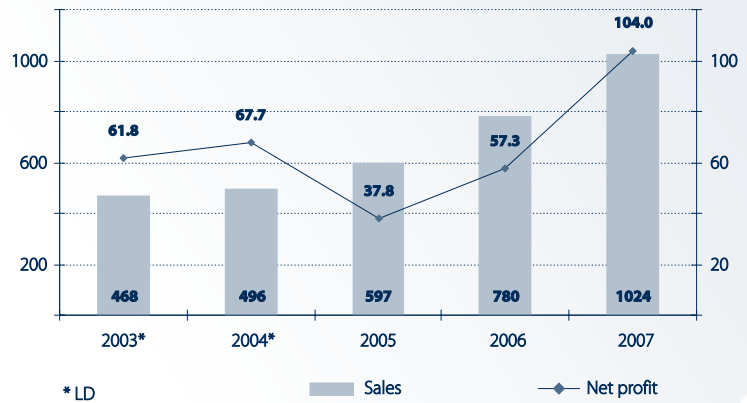
Investments

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.

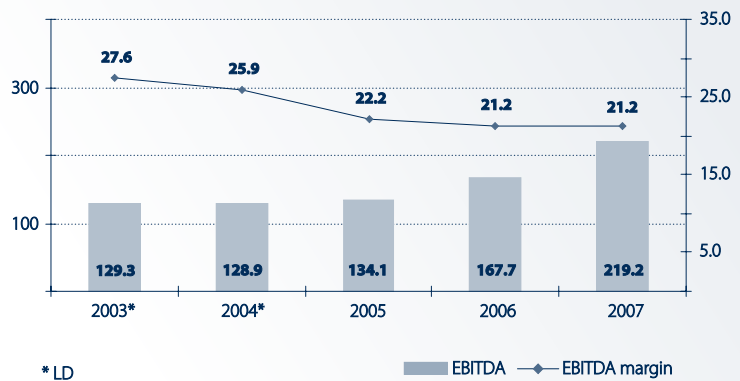
Investments in the construction of new gas systems totalled LTL 79.67 million (2006: LTL 89.1 million). Investments in the construction of new gas distribution systems were of similar level to those of the year 2006, whereas investments in new gas transmission systems were lower compared to those of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

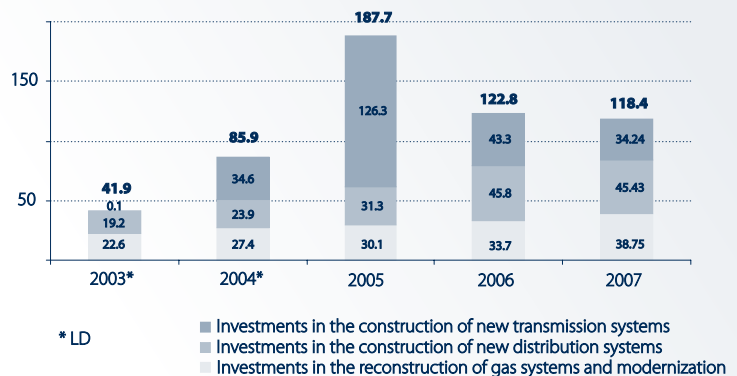
Sales, net profit, M LTL



EBITDA, M LTL



Investments, M LTL



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).

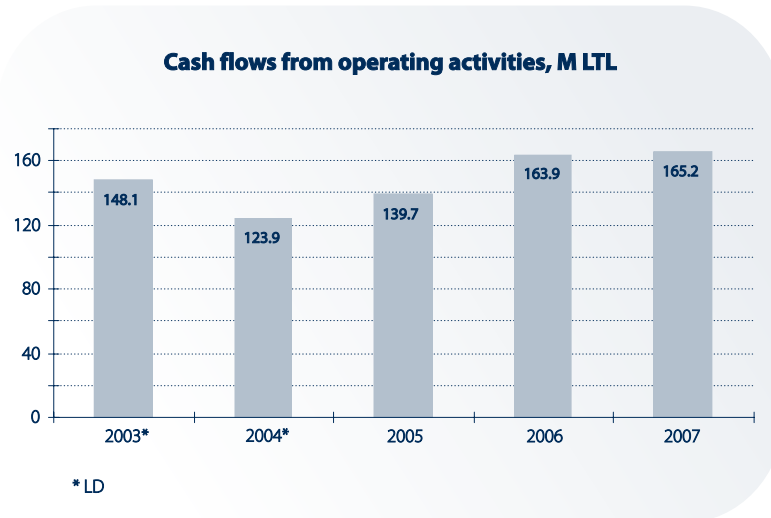
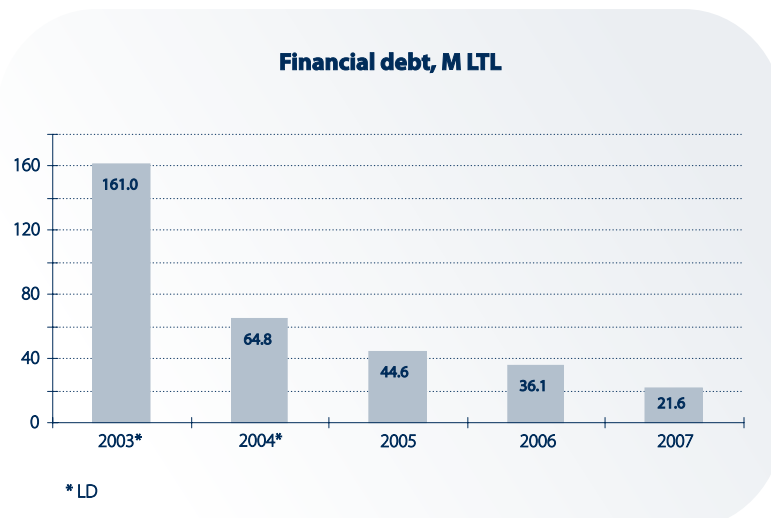
The non-current assets stood at LTL 2,220.7 million (90.3% of all assets) and over the year 2007 they grew in value by LTL 21.9 million. The increase was basically due to the sizeable investments. The major share of the non-current assets (88.6%) was represented by transmission and distribution pipelines 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: LTL 163.9 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 m³. The natural gas sales volumes to customers are projected to remain at the same level as in 2007, i.e. 1.3 billion m³. 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

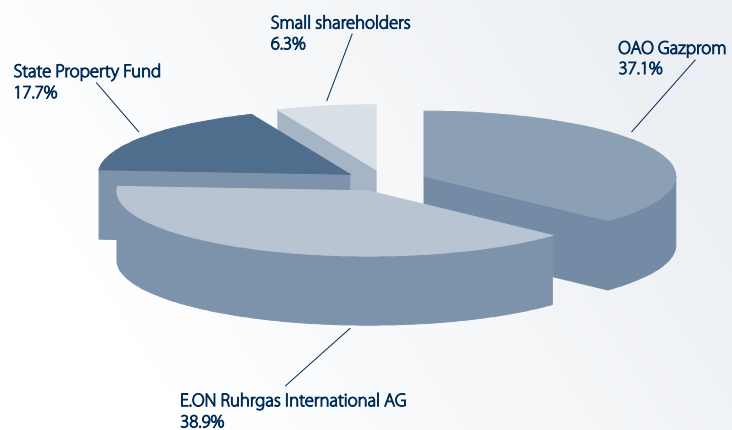
The authorized capital of the Company is divided into 469,068,254 fully paid ordinary registered shares with par value of LTL 1 (one) each. In 2007, the par value of one share, the value of the authorized capital and the structure of shareholders did not change.

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

Structure of LD shareholders as of 31 Dec 2007



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%

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

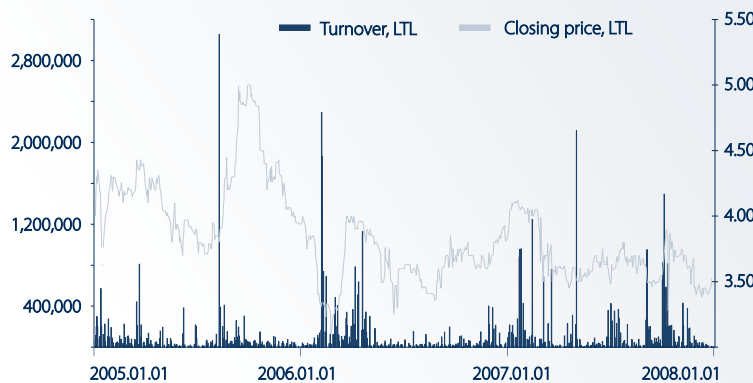
The Company's shares are traded on the regulated market, they are quoted at the VSE which belongs to the largest stock exchange operator in Northern Europe OMX. In 2007, the shares were quoted on the Secondary List. Starting from 1 January 2008 LD shares have been included into the Main List of the VSE.

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

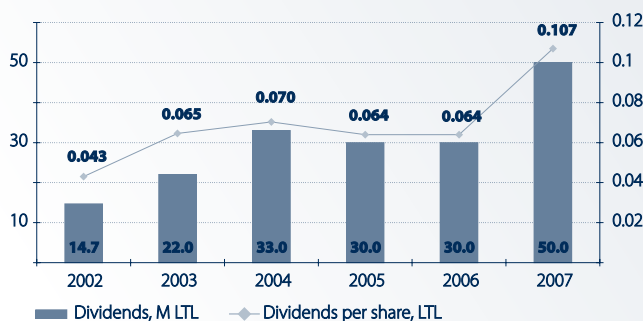
Number of shares at the VSE as of 31 Dec 2007	469,068,254 pcs
Abbreviation of the share at VSE	LDJ1L
ISIN code	LT0000116220

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

Price and turnover of LD shares at the VSE, 2005–2007



LD announced dividends (M LTL) and dividends per share (LTL)



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).

Starting from 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 was allocated 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.

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.

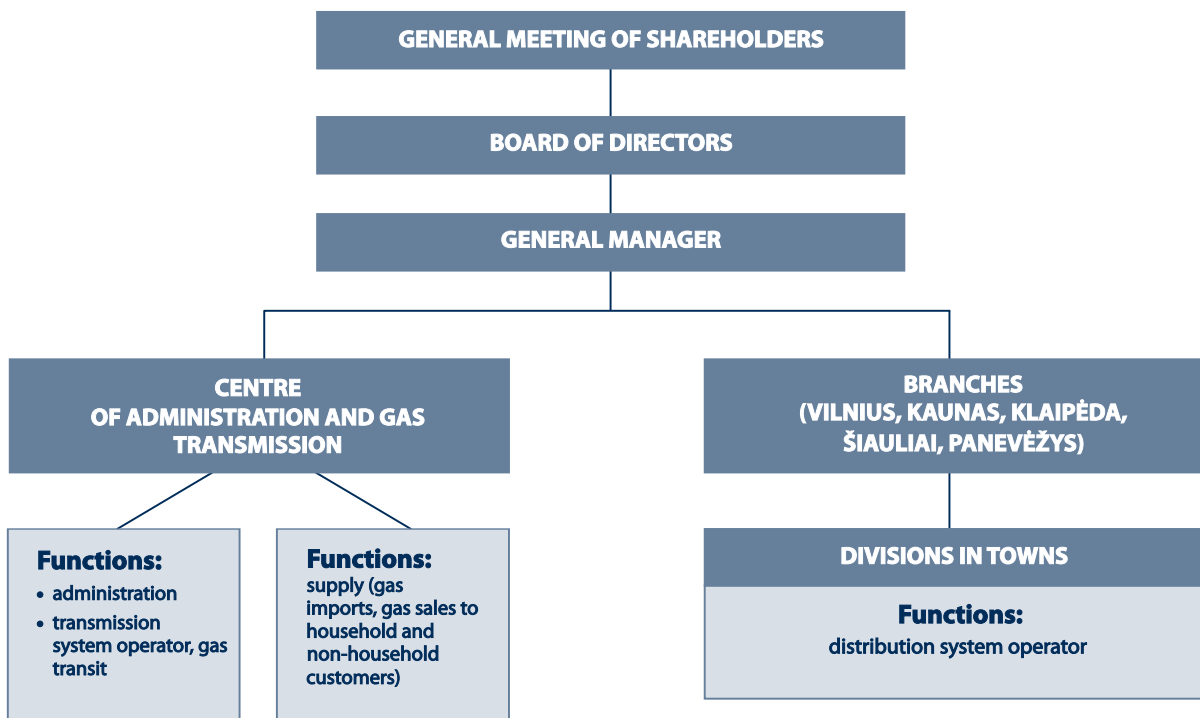
The Company's Bylaws registered with the Register of Legal Persons on 18 May 2006 provide for the following managing bodies of the Company:

- 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.

Organizational management structure

(from 1 January 2008)





Aliutė Pankevičienė, 52 years
Economist, Gas Transmission Pipelines Department

*“It is important for us that families and the little ones feel safe.
We work every day to make this happen.”*



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 and 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

TRANSMISSION OF NATURAL GAS

In 2007, the volumes of natural gas transmitted via the transmission system totalled 3,561.8 million m³. Out of this amount, 2,197.7 million m³ 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

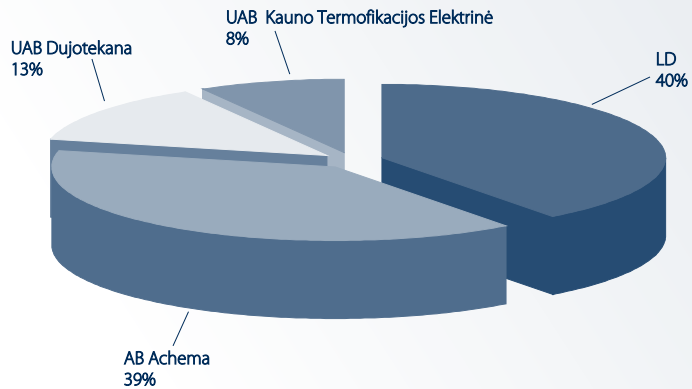
In 2007, the natural gas transit volume to the Kaliningrad Region totalled 1,215.6 million m³. In comparison with 2006, the transit volumes increased by 1.0%.

Investments in the transmission system

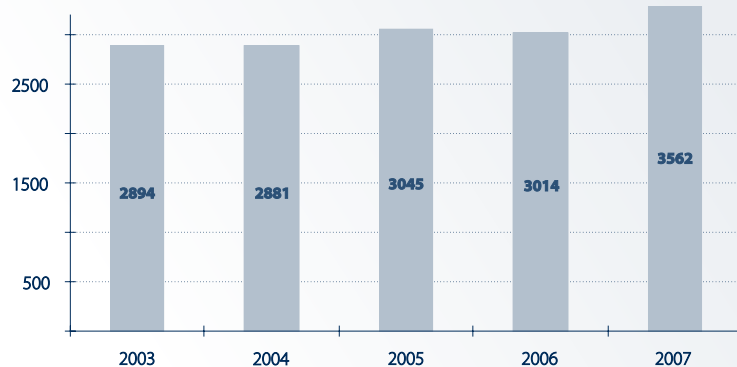
In 2007, investments in the construction of new gas transmission systems amounted to LTL 34.24 million; 28.6 km of gas transmission pipeline, and one gas distribution station were constructed. As part of implementation of the National Energy Strategy, the transmission pipeline section Šakiai–Jurbarkas 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

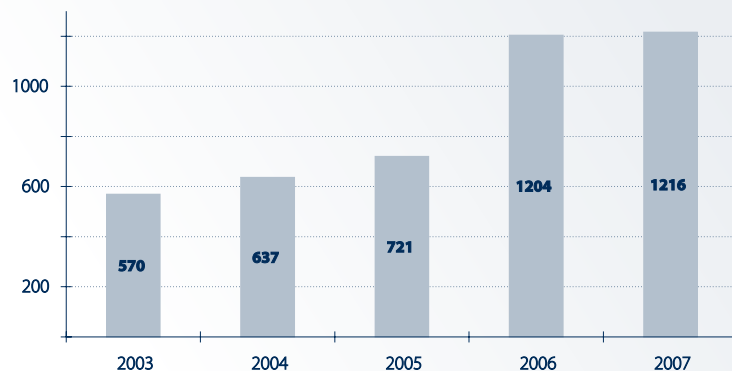
Breakdown of gas volumes transmitted via LD system in 2007



Natural gas transmission volumes, MCM



Transit of natural gas to Kaliningrad Region, MCM



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 works 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 m³, 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.

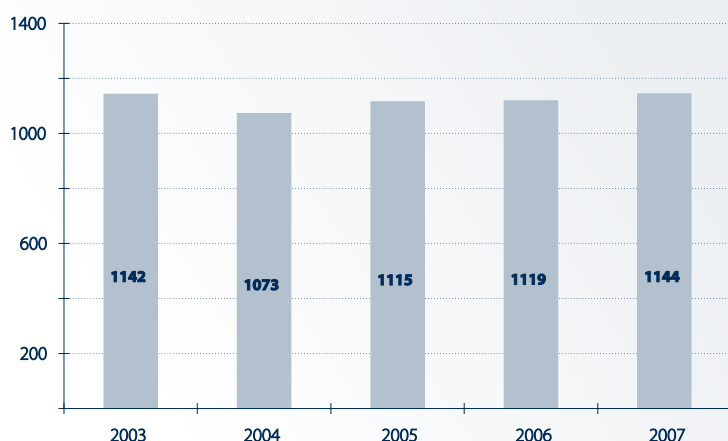
Maintenance of the distribution system

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

Natural gas distribution volumes, MCM



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.

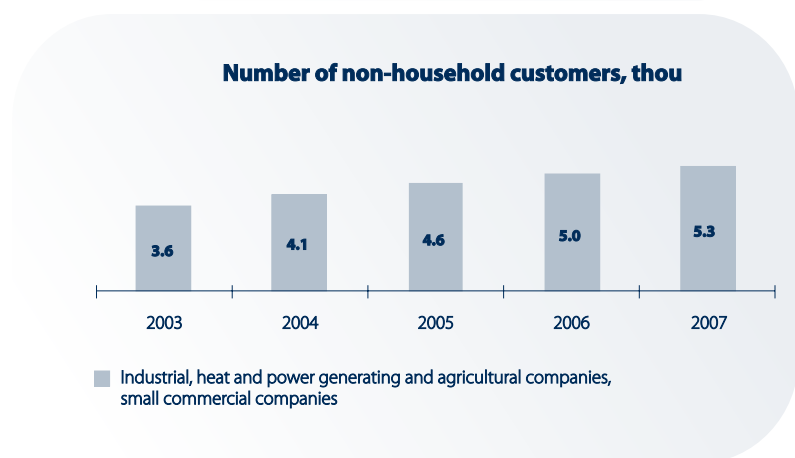
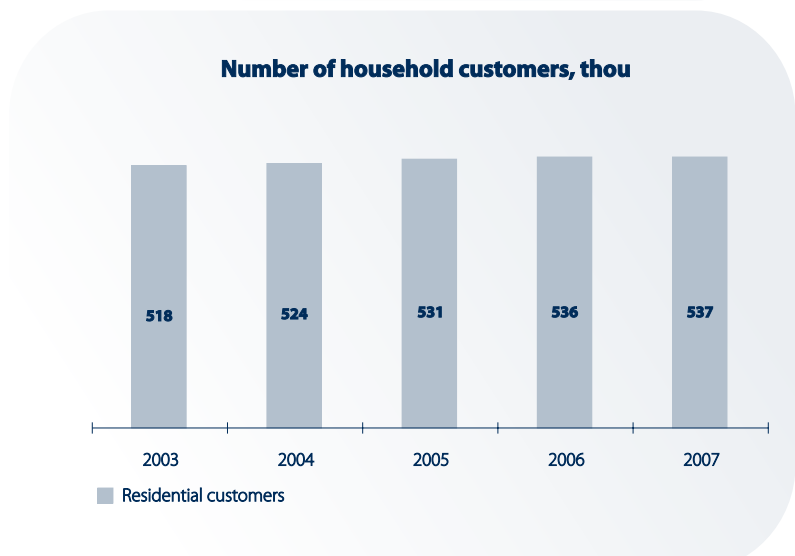
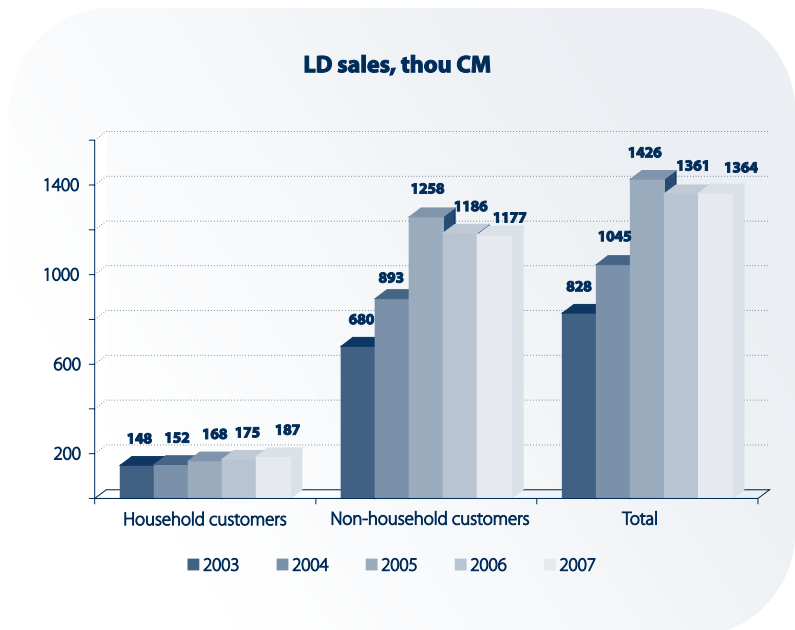
Pursuant to the National Strategy of Energy, seeking to ensure safe and uninterrupted supply of natural gas to customers, the Company accumulated contingency gas reserves in the Incukalns (the Republic of Latvia) Underground Gas Storage Facility.

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 m³: the volume of natural gas supplied to non-household customers amounted to 1,177.2 million m³ and the volume of natural gas supplied to household customers amounted to 186.9 million m³. 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.

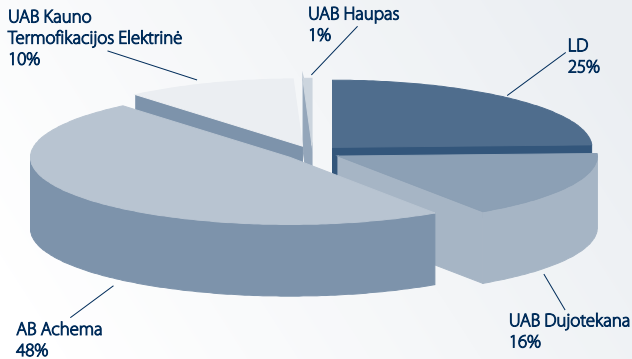




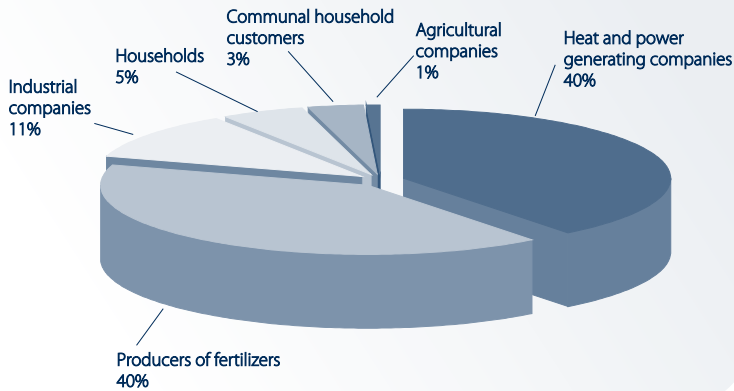
Vytautas Ruolia, 27 years
Head of Planning Division, Marketing Department

*“Every day we think about the future.
Life is a continual movement forward.”*

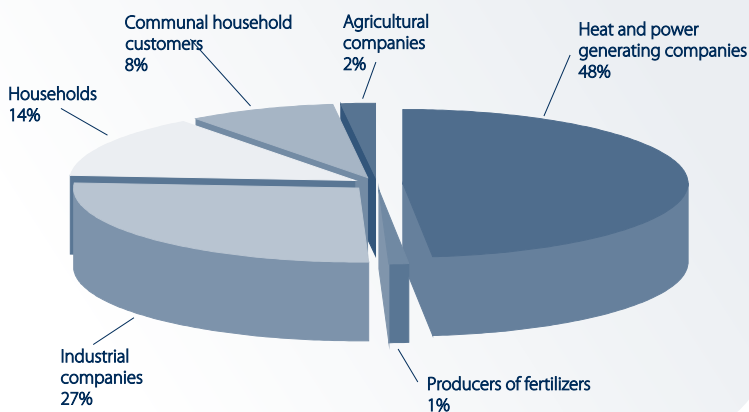
Lithuanian non-household customer market in 2007



Lithuanian natural gas consumers in 2007



Structure of natural gas customers who buy gas from LD, 2007



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 from 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

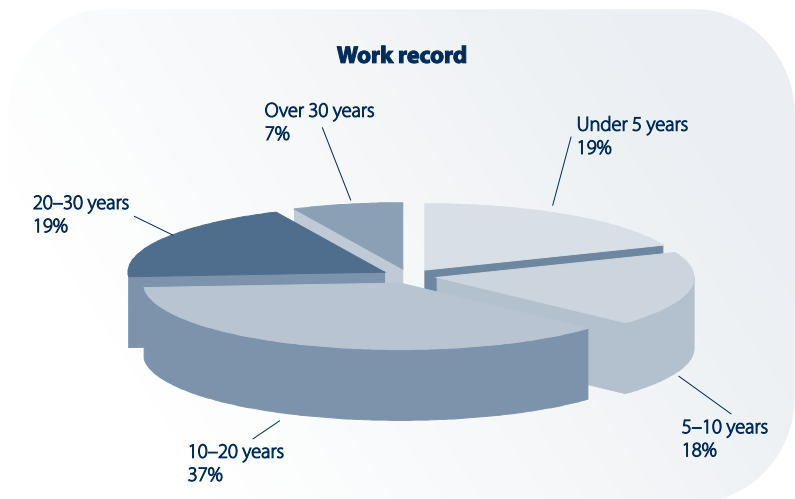
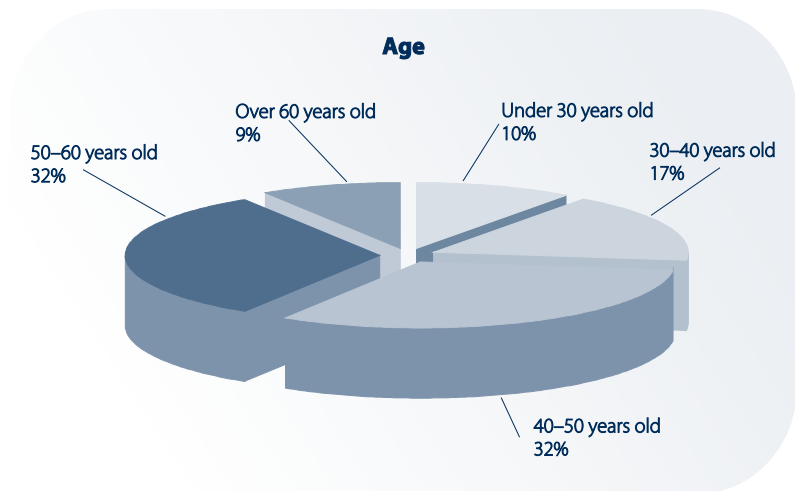
In the future, when modernizing its gas systems and planning the procurement of new equipment and starting new construction, LD is going to follow the aforesaid strategic environment protection guidelines, too.

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.



Valdas Aladaitis, 44 years
Head of Dispatch Centre

*“Together we are ready to accept
and to overcome even the biggest challenges.”*

