CONSOLIDATED ANNUAL REPORT 2008

LIETUVOS DUJOS

LIETUVOS DUJOS

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Board of Directors

since 16 April 2008

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

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

Marcus A. Soehrich
since October 2008, Head of the Pricing Division of E.ON Gastransport GmbH, since 2005, Head of North / West European Shareholdings Department (incl. Baltic states, Scandinavia, Luxembourg and Romania) of E.ON Ruhrgas International AG

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

Joerg Tumat
*Member and Deputy Chairman of the Board of Directors, Latvijas Gaze A/S**

** Member of the Board of Directors instead of M. A. Soehrich (since 22 April, 2009).*

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

CHAIRMAN'S STATEMENT

Infrastructure

In 2008 the Company continued to invest on the high level of the last years and laid the basis for the biggest single investment in its history: a new compressor station near Vilnius designed both for national demand after the planned decommissioning of the Lithuanian nuclear power plant and for the increasing transit needs. Primarily due to this project, the Company plans for 2009 investments double the 2008 level. Already today, nearly one third of the Company's existing infrastructure was constructed since its privatization in 2002, implementing projects foreseen in the National Energy Strategy as the compressor station and projects triggered by new consumers. Simultaneously, the Company significantly improved its efficiency.

As in the last years, due to the adverse regulatory environment, in 2008, the net result of the natural gas distribution activity (after tax) was negative. That is a severe threat and concern of the Company. If such adverse regulatory conditions continue, the Company will have to restrict its investments in the infrastructure. Reduced investments will lead to a deterioration of our presently very reliable network. That is neither in the interest of our customers nor in the interest of the Company.

Sales to non-households

The prices at which the Company imports gas and at which it sells to non-household consumers are adjusted monthly according to the oil-prices. However, the gas-prices follow the oil-prices with a time lag and the peaks are less steep than in the oil business. In 2008 we experienced a historical record-peak in oil-product prices with a steep increase peaking in mid-summer and afterwards a steep fall. Because of the time-lag the gas price peaked only in the last quarter of the year and then started to decline.

Sales to households

For households, gas price changes are being adjusted once per year. End of 2007, when the consumer tariffs for 2008 were being set, the aforesaid gas imports price rise of 2008 was not taken into account by the National Control Commission for Prices and Energy. Therefore, the sales price did not cover the purchase cost. In the last 3 months of 2008, we had to buy the gas for a significantly higher price than we could invoice to our customers. The corresponding loss of the Company is ca. LTL 40 million. The Company hopes to retrieve these losses in 2009.

Outlook

2008 was a challenging year for Lietuvos Dujos. In the name of the shareholders and the Board of Directors I would like to thank the employees of Lietuvos Dujos for their dedicated and engaged work for the Company and our customers. I am sure, 2009 will be even more challenging. I am also sure that our team is able to manage these challenges and will satisfy our customers and stakeholders.

Dr Achim Saul
Chairman of the Board of Directors

GENERAL MANAGER'S STATEMENT

Lietuvos Dujos AB (hereinafter – LD) is the largest in the Baltic region operator of the gas transmission system. We are amongst the most important energy companies in the country both by the number of consumers approaching to 550 thou, and the length of gas pipelines – near 10 thou km, and the amount of gas transmitted to consumers – 3.2 billion m^3.

LD has been purposefully developing the gas transmission system and the market for over 45 years, which formed preconditions to maintain partnership relations with the very first consumers during these five decades and to increase the number of consumers in all sectors of national economy. The long-term gas import contract forms the firm foundation for the stable supply of gas to the national market and meets all the declared needs of consumers to be provided with ecologically clean, efficient, and attractive fuel.

The new management structure implemented since the beginning of 2008 enabled to ensure the inner functional separation of gas transportation (transmission and distribution) and gas supply businesses in compliance with EU directives. To encourage the loyalty of the LD customers, a new service, 'My Gas Accountancy' (since July, 2008) was introduced on www.dujos.lt. This enables customers easily to find necessary information about the history of gas consumption, payments and prices for gas, service rates, and other relevant announcements. For convenience of customers, the Call Centre providing the consumers of the Vilnius District with information has been established. The services provided by the Call Centre will be developed in 2009 by consolidating all LD consumers (in Kaunas, Klaipėda, Šiauliai, and Panevėžys Districts).

In the course of enhancing the transparency of business, the procedures of inner planning and implementation of control of costs and projects were improved. The purposes of the LD divisions and branches were revised, and the procedure for the evaluation of business indicators was amended. To enhance the business efficiency and productivity, the assessment of key personnel was performed and appropriate resolutions concerning motivation and encouraging by the results achieved were adopted.

We should acknowledge that Lithuania did not avoid the tendencies of the world market of energy resources. Unfortunately, instead of objective and business-like analysis by the regulatory authorities, LD was subjected to undeserved invectives, incompetent and politicized assessments, and absolutely wrong and populist resolutions. We are forced to regret that these rash decisions did not bring the results expected and even more confused the market and relationship with customers. All mentioned actions increased the isolation of the Lithuanian gas market and set the market apart declared liberalization.

We already wrote about this problem in the Consolidated Annual Report, 2007. However, today we again should mention that the Law on Natural Gas, which directly influences the LD business, was not amended in 2008 though, when signing this legal act in April, 2007, the President of the RL emphasized that this law is to be amended because it does not comply with Directive 2003/55/EC. On March 25, 2009, the Government of the RL adopted the package of amendments to the said law. Unfortunately, these partial amendments did not correct mistakes and increased the number of conflicting provisions in the law, which even without that was notable for provisions conflicting with each other.

Current regulation of gas prices does not comply with economic logics and the international practice of gas industry. First of all, LD competes for consumers of other fuel types the prices for which are not regulated by governmental institutions. Other provisions of the law prevent investments in the gas infrastructure. For this reason, we were forced to postpone even those projects which are included in the National Energy Strategy and the implementation of which was started well before the entry into force of the law. The problem of pricing for household consumers is still urgent.

To minimize negative external influence, the LD management closely cooperated with the LD Board of Directors and shareholders. Regular improvement of skills and professional training of personnel enabled to ensure safe gas supply, the reliable maintenance of the infrastructure, and implementation of programs for repair, innovation, and development of the system.

LD resolutions on enhancing the efficiency of business which were implemented since the privatization of LD, and in 2008, absolutely justified themselves. Even before recession, within the period of fast economic and consumption growth, the number of employees was reduced by 22%, the financial debt was reduced to a minimum, unnecessary structures with the total floor area about 30 thou m^2 were sold, and expenses were optimised whereas the length of gas pipelines, the number of gas consumers, and the amounts of transported and sold gas were increasing.

As for the LD plans for 2009, LD is going to continue to increase the business efficiency and to reduce expenses as well as to develop projects enhancing the customer service quality. Priority investment projects for 2009 substantially raising the safety of supply and reliability of the gas system: construction of a new gas compressor station in Jauniūnai (Širvintai District) and expansion of the gas main at the Šakiai–Kaliningrad section. One more important task for the future – verification of forecasted amounts of gas consumption and renewal of the gas supply contract with Gazprom OAO.

Viktoras Valentukevičius
General Manager

REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED – The Year 2008.

MAIN DATA ABOUT THE COMPANY

Name of the Issuer:	Lietuvos Dujos AB (hereinafter referred to as "the Company" or "LD")
Legal & 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

- From 1 January 2008, the Company's shares are admitted to the Main List of the stock exchange NASDAQ OMX Vilnius.

- On 1 January 2008, new natural gas tariffs for the Company's customers came into effect. The tariff increase was determined by the rise in the natural gas imports price and the flaws of the regulatory regime of the Natural Gas Sector.

- From 1 January 2008, the Company amended its Organization Chart in accordance with the applicable provisions of the European Union legislation regarding the functional separation of the Company's gas transmission, distribution and supply business activities.

- On 16 April 2008, a regular general meeting of shareholders of the Company took place at which the shareholders decided for the results achieved in the Financial Year 2007 to pay out dividends in amount of LTL 50 million, i. e. LTL 0.11 per share.

- On 16 April 2008, granting their respective resignation requests, Stephan Kamphues and Dr Eike Benke were recalled from the membership of the Board of Directors and new members Dr Achim Saul and Marcus A. Soehrich were elected instead. Dr Achim Saul was elected Chairman of the Board of Directors.

- On 16 June 2008, the General Manager of the Company Viktoras Valentukevičius was elected President of the Lithuanian Gas Association for a four-year term.

- In July, the Company launched a brand-new service for its household customers "My Gas Account". At the LD website www.dujos.lt the Company's household customers may access data on their current payment status (debts or overpayments) for the natural gas consumed and read relevant info notices.

- September marked the presentation of a newly released historic publication "The Guardians of the Sky-Blue Flame". It is a unique book in which the history of the Natural Gas Sector is illustrated not merely through the presentation of plain facts and documents, but also through the interviews with both former and current Natural Gas Sector employees.

- On 18 September 2008, a presentation of the completed Project "Developing a Greenfield Investment Infrastructure in Panevėžys District" was held in Ramygala (Panevėžys District). LD contributed to the Project implementation by laying a 9.3-km gas pipeline to the Greenfield Investment Zone.

- On 19 September 2008, Klaipėda marked the 40th anniversary of the introduction of natural gas supplies to this town. To celebrate the anniversary, a number of various events were arranged for the residents and guests of the town of Klaipėda: the planting of pine-trees at the Neringa National Park, the Day of Donor Grants-in-aid, the Children's Drawing Competition for pupils of elementary schools, the Nautical Mile Race for older pupils, the Concert for the Residents of Klaipėda.

- November marked the introduction of natural gas supplies to Rietavas. The project cost LTL 4.2 million. The Project was implemented in 2007-2008.

- On 24 November 2008, the Board of Directors of LD approved the new natural gas transmission and distribution service tariffs and natural gas tariffs for the household customers applicable in 2009.

- With a view to improving the LD customer services, on 1 December 2008, a Call Centre was opened at the Company, supplying information to customers of the Vilnius District. From 1 July 2009, the general Call Centre number 1894 will cover all the natural gas customers of entire Lithuania, providing natural gas-related information.

- On 29 December 2008, the National Control Commission for Prices and Energy (hereinafter referred to as "the NCCPE") unilaterally set the Company's natural gas transmission, distribution tariffs and gas tariffs for the household customers applicable from 1 January 2009. The NCCPE decision is having a negative impact on the financial results of LD. The Company has lodged a complaint against this decision of the NCCPE with the Court.

All important data related to the Company's activities and information about the time, date and venue of the general meeting of shareholders as well as other notices to the shareholders and other persons were published in the Lietuvos Rytas daily newspaper. Information on all material events of the Company was also submitted to the Securities Commission of the Republic of Lithuania, the stock exchange NASDAQ OMX Vilnius, the news agencies BNS, ELTA and REUTERS and posted on the central regulated information database administered by the stock exchange NASDAQ OMX Vilnius and the Company website www.dujos.lt.

NATURAL GAS BUSINESS ENVIRONMENT

The Law on Natural Gas

On 20 March 2007, the Seimas of the Republic of Lithuania passed the new Law on Natural Gas which came into effect on 19 April 2007.

The Law amendment was initiated with a view to transposing the EU directives provisions into the legal framework of Lithuania. Nevertheless, the new Law on Natural Gas distorted the basic EU Gas Directive principles beyond recognition, individual provisions of the Law contradict each other. Instead of the market liberalization and the creation of the preconditions for the common EU internal market, the new Law on Natural Gas prescribes absolute regulation of the national Natural Gas Sector and market isolation and imposes restrictions on the new suppliers entering the market. A number of provisions of the Law are discriminatory and contradict the international gas industry practices, imposing restrictions on the continuation of the national Natural Gas System development and stalling the implementation of the National Energy Strategy projects aimed at the enhancement of the security of natural gas supplies.

Even though almost two years have passed from the adoption of the Law on Natural Gas, Secondary Legislation has not been prepared as yet without which the practical application of the Law is impossible.

As the flaws of the Law on Natural Gas are obvious, in 2008, amendments of certain provisions of the Law on Natural gas were initiated, but the Seimas of the Republic of Lithuania has not even started debating them.

New initiatives by the EU

The main theme is the initiative by the European Commission (hereinafter referred to as "the EC") regarding the further Energy Sector reform (liberalization), the so-called "third energy package".

Given that Lithuania together with Finland, Estonia and Latvia are kind of "energy islands", the EC proposed to grant them an exemption with regard to any further unbundling of their activities, i. e. further separation of their companies, until alternative gas supplies are secured. In the absence of alternative gas supplies sources, such unbundling of gas companies makes no sense and would lead to a more complicated management of the Natural Gas Sector, to the deterioration in the gas supplies security and reliability situation and a considerable increase in the consumer tariffs.

Finland, Estonia and Latvia expressed a wish to make use of this offer by the EC, whereas the politicians of Lithuania demonstrated their determination to implement the directive without delay and in full scope.

Licensing

The Law on Natural Gas stipulates that the activities of natural gas transmission, distribution and supply are subject to licensing. The licences are issued and the supervision of the licensed activities is executed by the NCCPE. In 2001, the Company was granted by the NCCPE the licences for the activities of natural gas transmission and distribution and in 2002 the Company was granted the licence for the supply of natural gas.

The Government of the Republic of Lithuania by its Resolution of 5 December 2007 adopted the new Rules for Licensing Natural Gas Transmission, Distribution, Storage, Liquefaction and Supply, which revised the definitions of the licensed activities execution territories. In April of 2008, in accordance with the Rules, the NCCPE renewed the Company's gas transmission and distribution licences and in March of 2008, the NCCPE renewed the Company's gas supply licence.

LD was granted a licence to engage in the natural gas transmission activities in all the administrative units of Lithuania.

By the natural gas distribution licence the Company is granted the right to engage in the gas distribution activities in the territory of 41 municipalities.

The natural gas supply licence grants the Company the right to engage in the natural gas supply business in the territory of the Republic of Lithuania.

The pricing system and the natural gas tariffs

The Company imports natural gas from the Russian company Gazprom OAO. Natural gas import price depends on oil and gasoline prices in international market, the USD and EUR ratio fixed by the European Central Bank and actual natural gas calorific value. Due to the changes in the aforesaid factors, the natural gas import prices and the selling prices for the non-household customers are subject to monthly recalculations.

The specific natural gas tariffs for household customers, however not exceeding the price caps set by the NCCPE, are set for a one-year-term. Since 1 January 2008, according to the new version of The Rules for Natural Gas Transmission, Distribution, Storage and Supply, all household customers pay for natural gas according to a two-component tariff.

The NCCPE by its Resolution of 8 August 2008 adopted The Natural Gas Transmission and Distribution Price Cap Calculation Methodology and by its Resolution of 29 August 2008 it adopted The Natural Gas Supply Price Cap Calculation Methodology regulating the principles of the setting of the natural gas transmission and distribution price caps and gas supply price caps as well as the setting differentiation principles of concrete tariffs. According to the Methodologies, the NCCPE sets price caps for a five-year regulation period. The price caps are subject to annual adjustments depending on the changes in the indicators specified by the Methodologies.

Pursuant to provisions of the new Methodologies, the NCCPE calculated and by its Resolution of 31 October 2008 set the Company's natural gas transmission and distribution price caps for a five-year regulation period, i. e. from 1 January 2009 till 31 December 2013. By the NCCPE Resolution of 31 October 2008 an adjusted natural gas supply price cap was set for the year 2009.

On 24 November 2008, the Company's Board of Directors set the specific natural gas transmission and distribution service tariffs and natural gas tariffs for the household customers applicable in 2009. The NCCPE declined to approve the proposed tariffs, and, on 29 December 2008, unilaterally set LD natural gas transmission and distribution service tariffs and natural gas tariffs for the household customers applicable from 1 January 2009.

This decision by the NCCPE is having a negative impact on the Company's financial results of 2009.

In the opinion of LD, the NCCPE declined the LD request for the approval of the proposed tariffs set by the Board of Directors without furnishing any legally sound arguments. On 28 January 2009, the Company, in defense of its lawful interests, lodged a complaint with the Vilnius District Administrative Court requesting the annulment of the aforesaid Resolution of the NCCPE.

The main problem still remains the instability and the unpredictability of the regulation of the Sector.

New Secondary Legislation

On 28 June 2008, the Ministry of Economy of the Republic of Lithuania adopted The Rules for the Installation of New Natural Gas Systems in the Newly Connected Territories and for the Connection of New Customers' Systems to the Natural Gas Transmission and Distribution Systems. The Rules establish the procedure for the introduction of new natural gas supplies systems in the newly connected territories and for the connection of new customer gas systems to the gas transmission and distribution systems.

On 17 November 2008, the NCCPE adopted The Methodology for Calculating New Natural Gas Customers Connection Fees applicable for the calculation of fees of the new household and non-household customers' connection to the Natural Gas System (including the case when for the needs of a customer it is necessary to enhance the capacity through the Natural Gas System expansion).

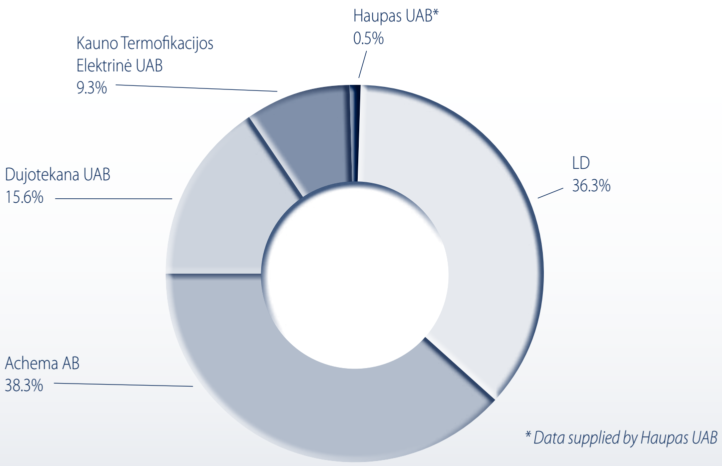
Market

In 2008, there were five companies importing natural gas into Lithuania: LD, Achema AB, Dujotekana UAB, Kauno Termofikacijos Elektrinė UAB and Haupas UAB. The total volume of natural gas imported into Lithuania in 2008 amounted to 3.1 billion m^3. Haupas UAB did not use the Company's Natural Gas System for its imports of natural gas.

In 2008, the following companies supplied natural gas to household and non-household customers of Lithuania: LD, Fortum Joniškio Energija UAB, Druskininkų Dujos UAB, agro firm Josvainiai AB and Intergas UAB. Dujotekana UAB and Haupas UAB supplied gas only to non-household customers.

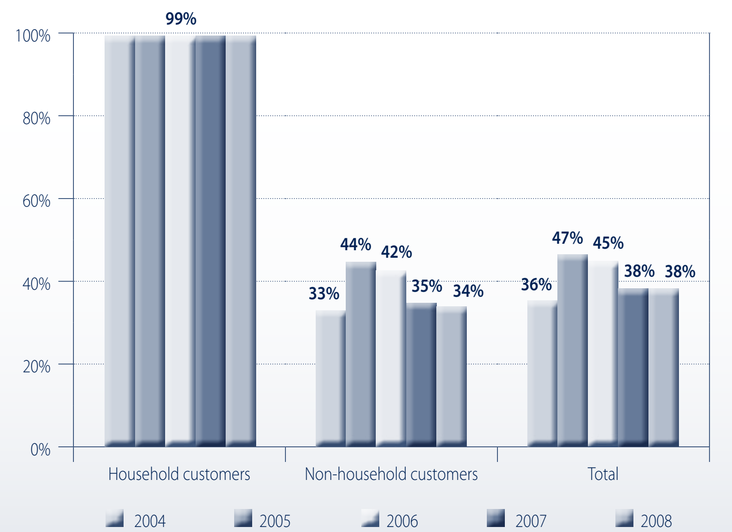
Achema AB and Kauno Termofikacijos Elektrinė UAB imported natural gas for its own needs.

Breakdown of natural gas imports to Lithuania, 2008



** Data supplied by Haupas UAB*

LD market share, 2004-2008



RISK MANAGEMENT AND DESCRIPTION OF THE MAIN RISK FACTORS

In the rapidly changing economic and legal regulation environment, the importance of risk management is growing. Risk management is a constituent part of LD economic activities. LD has implemented a Risk Management System. Risk factors are being identified, analyzed and evaluated as a constituent part of the Company's objectives, activities and environment analysis process. The LD Risk Management Process is implemented in accordance with the methodology that has been developed and comprises the following steps:

1. Identification of the risk factors, review of the main activity indicators and risk indicators;
2. Risk analysis, assessment and establishing the risk control measures;
3. Taking decisions regarding the risk levels and developing the Risk Management Action Plan;
4. Implementation of measures of the Risk Management Action Plan;
5. Monitoring and supervision of the Risk Management Process.

The main risks having the greatest impact to the Company's activities are as follows: the natural gas import price fluctuation risk, the credit risk, the legal regulation-related risk, the competition risk, the macro-economic factors risk, the risk of disruptions of gas import (supply) and the technical-related risks.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

The legal regulation-related risk

The core activities of the Company, i. e. the natural gas transmission, distribution and supply, are subject to licensing and regulation. The financial results and development prospects of LD are directly dependent on the NCCPE's decisions. The Company has lodged several complaints with the court of law regarding the NCCPE's decisions related to the setting of the regulated tariffs. Detailed information on the LD litigation with the NCCPE is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

The frequent changes in relevant legislation, the ill-timed adoption of the secondary legislation create uncertainty of the business environment, thus aggravating the Company's relations with its customers and impeding its ability to plan for long-term. A vivid example was the hasty adoption of the significant amendments to the tax-regulating legal acts at the end of 2008 which came into effect already from the beginning of 2009.

The Company spares no effort to maintain constructive relations with the regulatory authorities and to participate in the legal acts drafting process.

The competition-related risk

In its activities the Company faces competition both in the Natural Gas Sector, and in the Fuel (Energy) Sector. In the Natural Gas Supply Sector, the Company competes with other companies supplying natural gas. In the Fuel (Energy) Sector, LD competes with suppliers of alternative fuels (heavy fuel oil, orimulsion, bio fuel, solid fuel) as well as heat, power, etc. companies operating in this Sector (when the end consumers choose among a variety of heating systems). A high percentage of natural gas customers have dual-fuel systems and may use these alternative fuels replacing natural gas.

The macro-economic risk

The deteriorating macro-economic situation in Lithuania is determining the decrease in the sales volumes, the customers' settlement irregularities and, respectively, the worsening of the results of the activities of the Company.

The gas import (supply) disruption risk

All the natural gas supplies are imported into Lithuania via the territory of Belarus. The gas imports (supplies) disruption risk is possible due to actions of third parties (e. g., actions analogous to the Russian–Ukrainian gas conflict). However, probability of such disruptions is very low, since Gazprom OAO is a shareholder of Beltransgaz OAO (the Belarus Gas Transmission System Operator), moreover, gas is transmitted by transit to the Russian Federation Kaliningrad Region through the territory of Lithuania. In case of disruption of gas imports via Belarus, natural gas would be supplied to Lithuania via the territory of Latvia.

The technical-related risk

With a view to ensuring a reliable operation of its natural gas systems, the Company carries out periodic maintenance check-ups of the systems, and on the basis of the defects established during the routine maintenance procedures and taking into account the general Gas System condition, it drafts and implements the Company's annual gas systems repair and reconstruction programmes.

All potentially hazardous equipment and facilities are subject to additional inspections by respective Potentially Hazardous Equipment Maintenance Supervision authorities.

The Company's gas equipment maintenance staff is subject to periodic certification procedures, all gas works are performed exclusively by certified (attested) employees.

With a view to ensuring a timely response to any possible disruptions, emergencies or accidents, the Company has set up its 24-hour Emergency Services and has drawn up Emergency Liquidation Plans.

People need more energy, and nature needs less pollution. Natural gas is the basic fuel catering to both these needs, allowing us the time required for a sustainable transition to the future energy technologies and resources.

Prof. Dr Habil.
Vytautas Martinaitis

Head of the Department of Heating and Ventilation of Vilnius Gediminas Technical University

FINANCIAL PERFORMANCE

Group's key financial indicators

	2008	2007	2006
Financial results			
Sales, M LTL	1,555.4	1,024.3	779.6
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	162.0	219.2	167.7
Profit from operations, M LTL	67.6	124.6	71.2
Profit before taxes, M LTL	73.3	125.3	71.7
Net profit, M LTL	64.2	104.0	57.3
Investments, M LTL	123.3	118.4	122.8
Assets at the end of the year, M LTL	2,529.3	2,459.0	2,303.1
Equity at the end of the year, M LTL	1,882.3	1,929.8	1,855.8
Profitability ratios			
EBITDA margin, %	10.4	21.2	21.2
Profit from operations margin, %	4.3	12.1	9.0
Profit before tax margin, %	4.7	12.2	9.1
Net profit margin, %	4.1	10.1	7.3
Average return-on-assets ratio (ROA), %	2.6	4.4	2.5
Average return-on-equity ratio (ROE), %	3.4	5.5	3.1
Leverage			
Debt to equity ratio*, %	34.4	27.4	24.1
Debt ratio*, %	25.6	21.5	19.4
Market value ratios			
Price-earnings ratio (P/E)	9.21	16.05	31.75
Basic earnings per share, LTL	0.14	0.22	0.12
Dividends per share for the current year, LTL	0.10	0.11	0.06

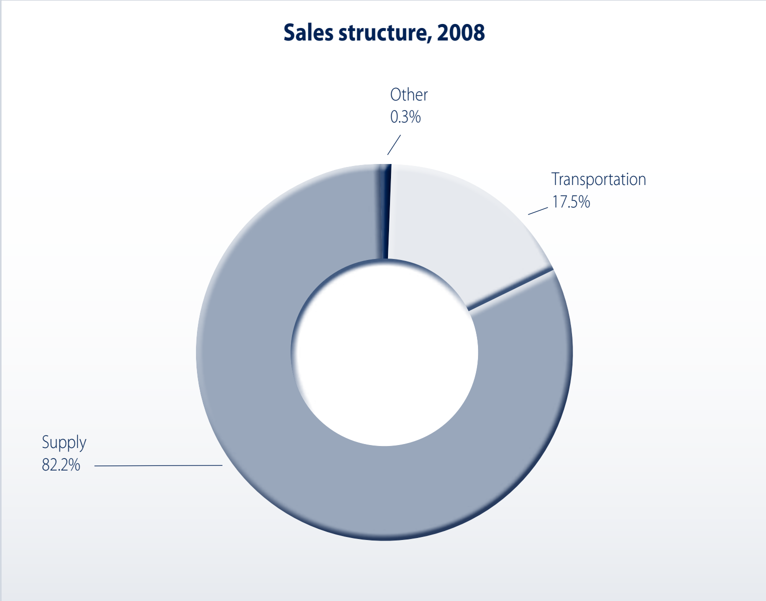
** The debt covers all non-current liabilities (including grants (deferred revenue) and the deferred income tax payable) as well as the current liabilities.*

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

Core activities

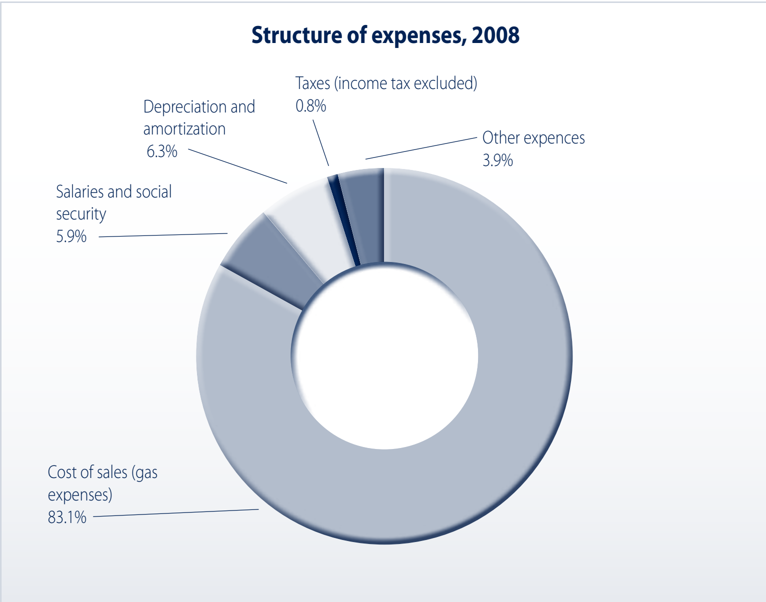
In 2008 the sales of the Group compared with 2007 increased significantly (51.9% y/y) and amounted to LTL 1,555.4 million. The basic part of the total sales (99.7%) composed of the revenue from the core activity (gas transmission, distribution and supply).

The change in the revenue was mostly impacted by the rise in the revenue from the supply activity, from LTL 777.8 million to LTL 1,278.9 million or by 64.4% y/y. This increase was mainly determined by the increase in the gas sales prices, which was impacted by the natural gas import price rise due to the oil and its products price growth on the global markets. The major part of the sales consisted of the supply activity revenue, 82.2%.



The revenue from the gas transportation activity, i. e. the gas transmission and distribution systems operator's activity, amounted to 17.5% and rose by 12.9% compared with 2007 (from LTL 240.8 million to LTL 271.9 million) as a result of the increase in the average gas transmission and distribution service tariffs.

In 2008 the Group's expenses (cost of sales and operating expenses) increased by 64.7% or by LTL 586.7 million compared with 2007 and amounted to LTL 1,493.6 million (LTL 906.9 million in 2007).



The significant growth in the expenses was mainly determined by the rise in the cost of sales which increased even by 83.7%, from LTL 675.6 million to LTL 1,240.9 million. The increase in the cost of sales was basically determined by the significant rise in the natural gas procurement cost, which composed 99.96% of the cost of sales. In 2008 the cost of sales composed 83.1% of all expenses structure.

In 2008 the operating expenses increased by 9.3% (LTL 21.4 million) and amounted to LTL 252.7 million (LTL 231.3 million in 2007). This change was mainly caused by the growth in the salaries including the social security contributions (LTL 12.4 million) due to the wages growth trends on the labor market, as well as the higher repairs and maintenance works expenses (LTL 4.2 million) due to the increase in the volume and cost of these works in 2008.

Other activities

In 2008 the other operating activities income (net) amounted to LTL 5.9 million (LTL 7.3 million in 2007). The result decreased by LTL 1.4 million (19.2%) 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.

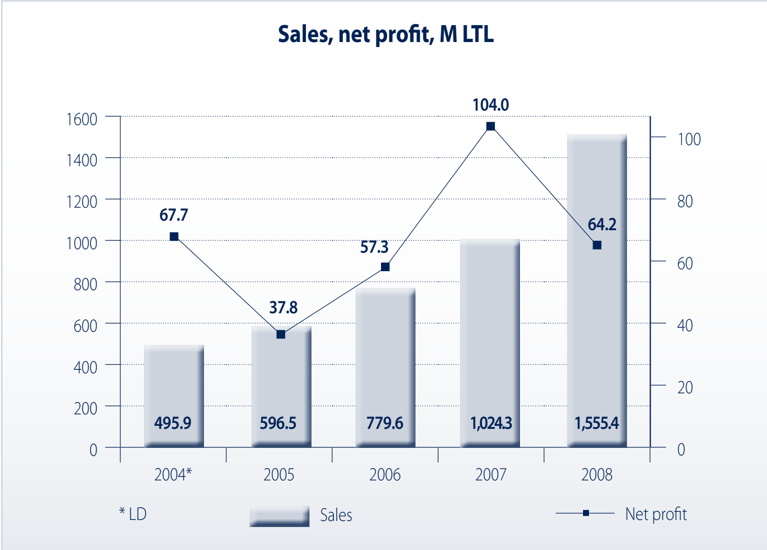
Financial and investing activities

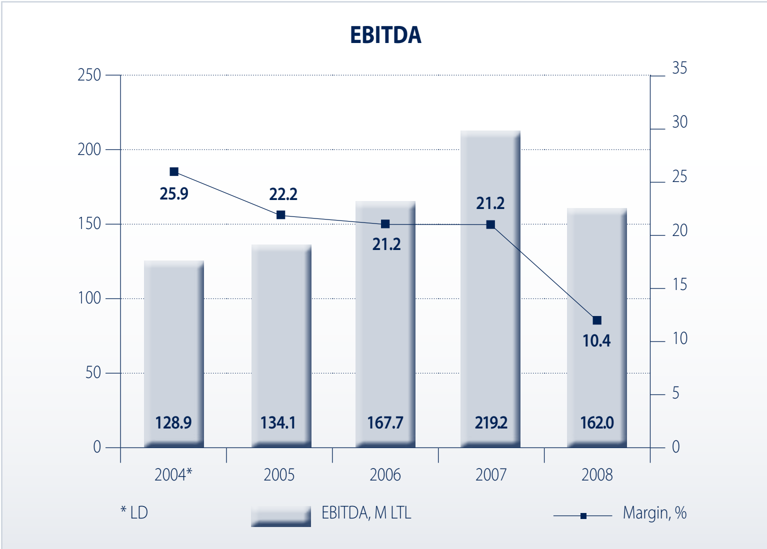
In 2008 the result from the financial and investing activities significantly increased – from LTL 0.7 million to LTL 5.7 million. The better result was determined by the effective short-term investing of funds and the smaller interest expenses.

Activity results

In 2008 the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 26.1% compared with 2007 and amounted to LTL 162 million (LTL 219.2 million in 2007). The profit before tax amounted to LTL 73.3 million, which represents a decrease of LTL 52 million (41.5%) compared with 2007 (LTL 125.3 million). The net profit decreased by LTL 39.8 million (38.3%) and amounted to LTL 64.2 million (LTL 104 million in 2007). The main reason of the decreased profit was decrease in the result of the supply activity. In the activity of gas supply to the household customers the Company incurred a significant loss due to the approved import price, when calculating the gas supply price, much lower than the actual gas import price (the price the household customers were paying for the natural gas since April 2008 was much lower than the actual gas import price). The situation is determined by the current legal basis, in which, irrespectively of the actual gas import price fluctuations, gas price for household consumers remains stable for the whole year.

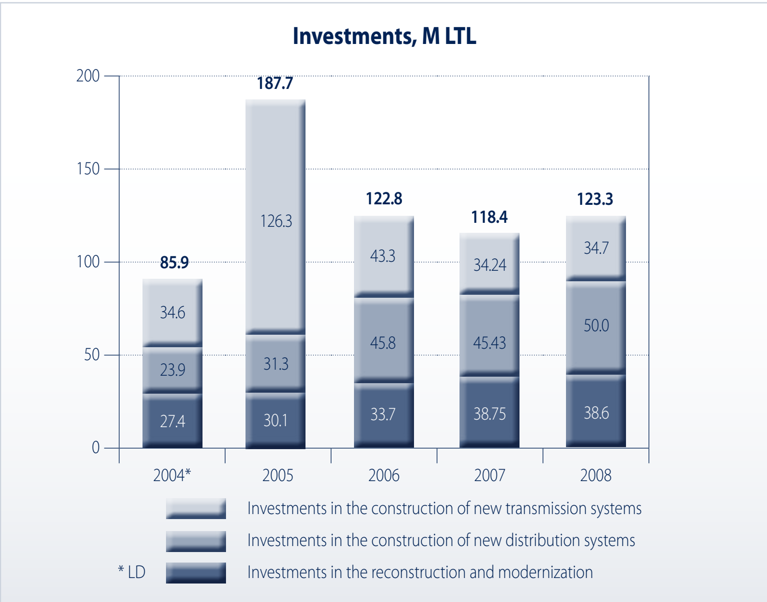
The low profitability ratios in 2008 were affected by the regulation of the Company's activities: the gas transportation and supply tariffs are regulated by the NCCPE.





Investments

In 2008 the Group's investments increased by LTL 4.9 million or by 4.1% compared with the previous year (from LTL 118.4 million to LTL 123.3 million).



Financial debt

During the year 2008 the financial debt of the Group decreased by LTL 10.9 million (50.5%) and at the end of the period amounted to LTL 10.7 million. The major part of investments is financed by the Company's own funds.

Balance structure

Assets

The value of the assets owned by the Group increased by LTL 70.3 million (2.9%), from LTL 2,459 million in 2007 to LTL 2,529.3 million in 2008.

During 2008 the non-current assets increased by LTL 28.4 million and at the end of the period amounted to LTL 2,249.1 million (88.9% of the total assets). The change was determined by the large investments into the gas transmission and distribution systems (the implementation of a number of major investment projects included into the National Energy Strategy was started). The major part of the non-current assets (87.1%) consisted of the gas transmission and distribution pipelines and related installations.

In 2008 the value of the current assets (LTL 280.2 million) was larger by LTL 41.9 million compared to 2007 due to the significant increase (by LTL 42.5 million) in the accounts receivable, which composed the major part of the current assets (46.7%). The increase in the accounts receivable was impacted by growth in the gas sales prices in 2008.

Equity and liabilities

During 2008 the Group's equity decreased by 2.5% (LTL 47.5 million), i. e. from LTL 1,929.8 million in 2007 to LTL 1,882.3 million in 2008.The key factor that impacted this decrease is as follows: after the change in the income tax rate, the loss due to the recalculation of the deferred income tax (-LTL 61.7 million) was accounted in the Retained Earnings Item in the balance sheet.

Accounts payable and liabilities increased by LTL 117.8 million and at the end of the year amounted to LTL 647 million. The main reasons of the accounts payables and liabilities increase are as follows: the increase in the current trade payables and the increase in the deferred tax liability due to the recalculation of deferred income tax, which composed the largest part (37.5%) of the liabilities structure in 2008.

Cash flows

During 2008 the Group's net cash flows from its operating activities increased by LTL 62.5 million (37.8%) and amounted to LTL 227.7 million (LTL 165.2 million in 2007). The main reason of the increase in the cash flows was the decrease in the natural gas store.

The detailed information on the financial performance of the Group is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

BUSINESS PLANS AND FORECASTS

Given the deteriorating economic situation in Lithuania and with a view to stabilize the growing gas transmission and distribution prices, in 2009 the Company's attention will be focused on raising efficiency of operations and cost saving.

It is forecasted that in 2009, compared to 2008, the natural gas volume transmission to the customers of Lithuania via the transmission system of LD will drop and will amount to approximately 3 billion m^3. The Company's natural gas sales volumes are projected at 1.2 billion m^3, i. e. at a similar level to the ones of 2008. In 2009, the Company plans to connect approximately 5.4 thousand new customers, but this number might be corrected by the developments in the economic situation of Lithuania. In 2009, the Company's investments into the construction of new gas systems are planned at a higher level compared to the ones of 2008.

2009 will see the continuation of the implementation of a number of major investment projects. We will proceed with the construction project of the new Jauniūnai Gas Compressor Station. The completion of the construction of the Gas Compressor Station, which will open up a possibility to raise the natural gas transmission capacity and enhance the safety and reliability of the natural gas supplies to customers, following the decommissioning of the Ignalina Nuclear Power Plant, as well as to secure the increase in gas transit to the Kaliningrad Region of the Russian Federation, is scheduled for 2010.

It is planned that 2009 will mark the completion of the construction of the Gas Transmission Pipeline Šakiai–Kaliningrad (the state border with the Russian Federation) and of the works for the enhancing of the capacity of the Šakiai Gas Metering Station.

We are continuing our activities directed towards the improvement of the customer relations, the upgrading of the settlement systems and the customer information. From the beginning of 2009 the Company's non-household customers were offered a new service of the e-billing and accounting via the Internet. From the beginning of 2009, our non-household customers with annual consumption up to 1 million m^3 have a possibility of e-declaring of consumed volumes. From 1 February 2009, all the household customers are offered a possibility to pay for gas supplies by Direct Debit.

MANAGEMENT OF THE COMPANY

Business vision

The vision of the Company is to become the best Energy Sector company.

We will achieve it by:

- Being a transparent, reliable, attractive to customer and socially responsible company;
- Raising corporate value;
- Attracting, retaining and training top employees;
- Optimizing costs, securing adequate return on investment;
- Expanding our activities to capture new segments;
- Developing our infrastructure (Natural Gas Systems);
- Securing a high IT, technical and technological level.

Information on the observance of the Code of Governance

The Company observes 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 2008, the par value of shares, the value of the authorized capital and the structure of shareholders did not change.

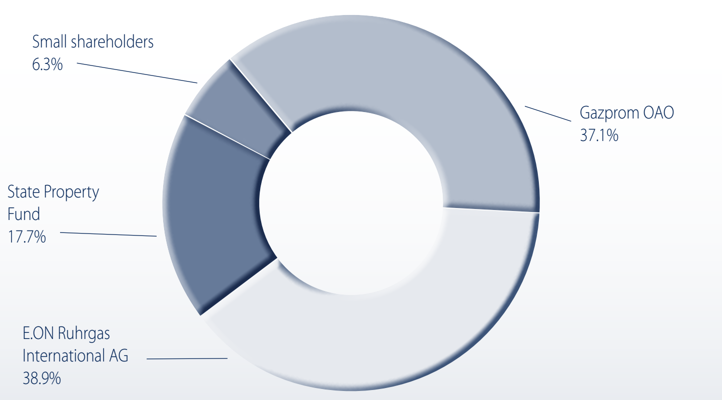
The Company has not acquired its own shares and in 2008 it did not make any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2008, LD was controlled by 2.373 shareholders holding its shares by the right of ownership.

The shareholders of the Company E.ON Ruhrgas International AG, Gazprom OAO and the state enterprise State Property Fund have the 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

Shareholder	Number of shares held, pcs / share in the authorized capital, LTL	Votes at the general meeting of shareholders, %
E.ON Ruhrgas International AG	182,534,384	38.9%
Gazprom OAO	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%**

Structure of LD shareholders as of 31 Dec 2008



the Company's activities, development of the facility and the market. The agreement is confidential.

The Company's shareholders E.ON Ruhrgas International AG, Gazprom OAO 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 gounds 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 agreement 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 stock exchange NASDAQ OMX Vilnius. On 1 January 2008 LD shares were transferred from the Secondary List into the Main List.

In 2008, the turnover of the trading in LD shares amounted to LTL 11.6 million (2007: LTL 29.2 million). Through the transactions concluded, 5,547,372 shares were disposed (2007: 7,754,250).

As of 31 December 2008, LD capitalization amounted to LTL 605.1 million (as of 31 December 2007: LTL 1,655.8 million).

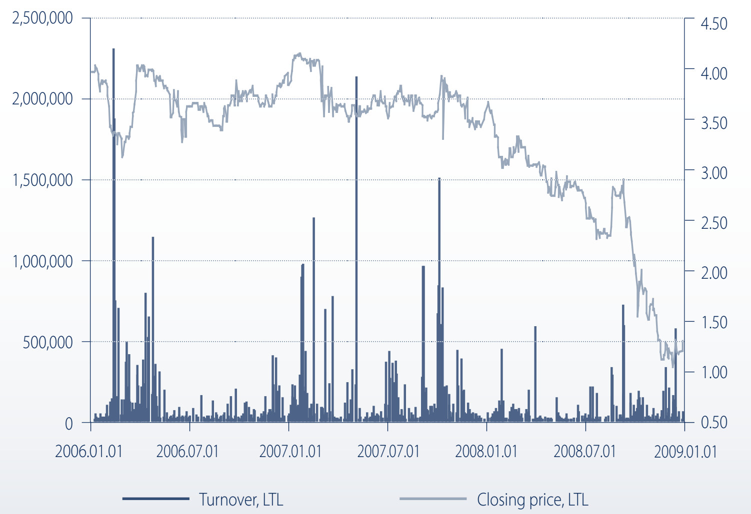
The securities markets of the Baltic States did not manage to escape intact the general downturn related to the global finance and securities market crisis. Over 2008, the capitalization of the companies quoted at the stock exchange NASDAQ OMX Vilnius decreased by 62.2%. The LD shares were no exception: they decreased in value by 63.5%.

Main data about LD shares	
ISIN code	LT0000116220
Abbreviation	LDJ1L
Number of shares (pcs)	469,068,254

Share price dynamics NASDAQ OMX Vilnius, 2006-2008

	Period		
	2006	2007	2008
Highest price per share	4.02	4.12	3.65
Lowest price per share	3.10	3.28	1.01
Weighted average price per share	3.58	3.76	2.08
Price per share as of end of the period	3.81	3.53	1.29

LD share price and turnover, 2006-2008



Value changes of LD share price and OMX Vilnius index, 2006-2008

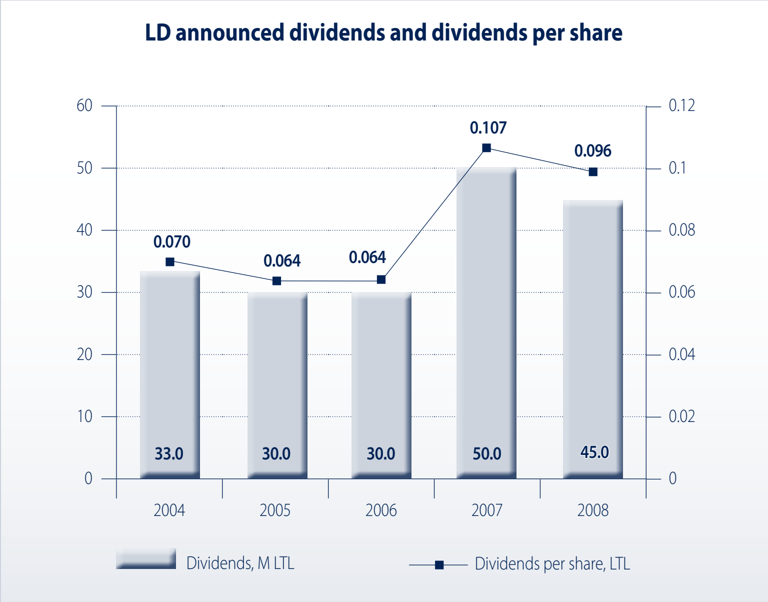
The activities of our company are directly linked to environmental protection, because in our production process we recycle the indirect materials, i.e. waste paper. Natural gas, being a clean and environment-friendly fuel is part of the process.

Gintautas Pangonis

Managing Director of
Grigiškės AB
(paper factory)

Dividends

The Company is consistently pursuing its dividend payout policy and every year it appropriates part of the profit to the payout of dividends. For 2008, it is proposed to appropriate to dividends a total amount of LTL 45.0 million, or 9.6 cents per share. (2007: LTL 50.0 million or 10.7 cents per share).



Agreements with intermediaries of public trading in securities

On 26 November 2003, the Company concluded an agreement with the financial brokerage company Finasta AB (address of the registered office Maironio str. 11, Vilnius, Company Code 122570630, License No A087) regarding the provision of services whereby the Company assigned the financial brokerage company Finasta AB the management of securities issued by the Company 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 applicable legal acts of the Republic of Lithuania.

On 1 January 2008, the Company changed its Organization Chart in accordance with the provisions of the applicable European Union legislation regarding the separation of the Company's gas transmission, distribution and supply activities. It was the last reorganization of the Company that was relatively low-cost. Any further separation would be associated with significant cost that ultimately will have to be paid by gas customers.

The Company has five natural gas distribution branches in different regions of Lithuania: Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys.

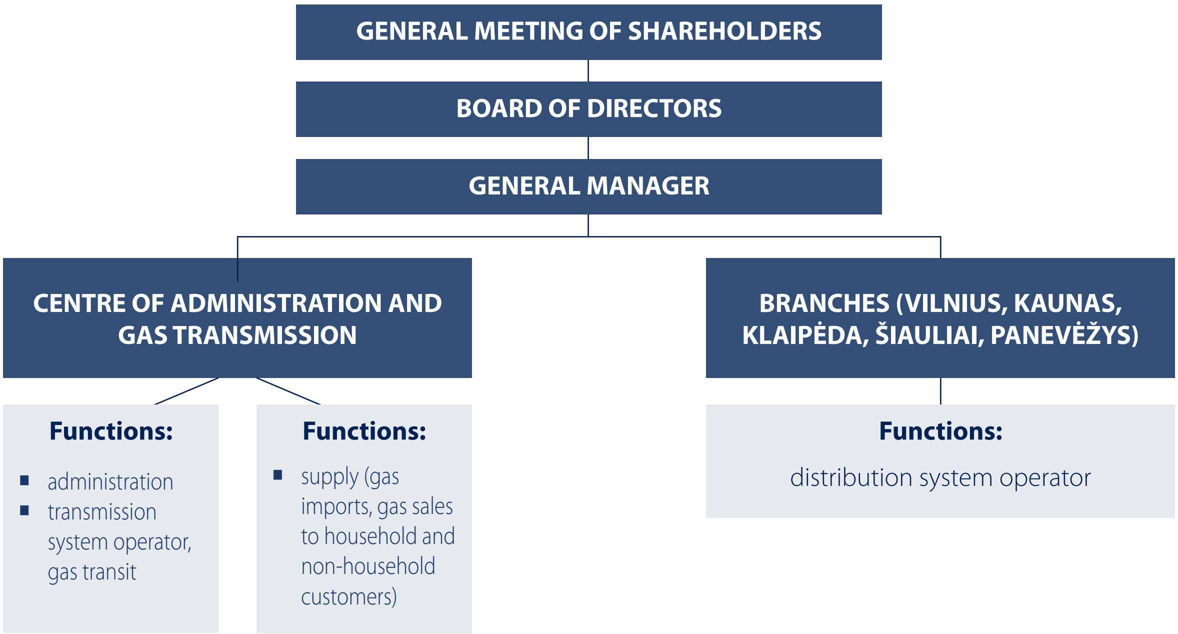
The Bylaws of the Company provide for a possibility of amending the Bylaws by a decision of a general meeting of shareholders taken by a majority vote that has to be no less than 2/3 of all the votes carried by the shares held by the shareholders attending the general meeting of shareholders.

According to the Company's Bylaws registered with the Register of Legal Persons on 14 May 2008 the Company has the following managing bodies:

- The Board of Directors,
- The Chief Executive Officer – General Manager.

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

Organizational management structure



Composition of the Board of Directors from 18 April 2007 to 16 April 2008:

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 – 16 April 2008
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 – 16 April 2008
4.	Vladas Kazimieras Gagilas	Member of the Board of Directors	18 April 2007 – 18 April 2010
5.	Kirill Seleznev	Member of the Board of Directors	18 April 2007 – 18 April 2010

Composition of the Board of Directors from 16 April 2008:

No.	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Achim Saul	Chairman of the Board of Directors	16 April 2008 – 18 April 2010
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors	18 April 2007 – 18 April 2010
3.	Vladas Kazimieras Gagilas	Member of the Board of Directors	18 April 2007 – 18 April 2010
4.	Kirill Seleznev	Member of the Board of Directors	18 April 2007 – 18 April 2010
5.	Marcus A. Soehrich	Member of the Board of Directors	16 April 2008 – 18 April 2010

In 2008, tantiemes totaling LTL 79 thousand were disbursed to the members of the Board of Directors, i. e. LTL 15.8 thousand per member of the Board of Directors on average. Other payouts to the members of the Board of Directors totaled LTL 326.9 thousand, i. e. LTL 65.4 thousand per member of the Board of Directors on average.

Information on the start and end of the term of executive directorship:

No.	Full name	Position title	Start and end of term
Executive directorship:			
1.	Viktoras Valentukevičius	General Manager	19 April 2007 – 18 April 2010
2.	Dr 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	Deputy General Manager – Chief Financial Officer (till 31 December 2007: Chief Financial Officer)	19 April 2007 – 18 April 2010

In 2008, payouts to the Executive directorship of the Company totaled LTL 2,018.1 thousand, i. e. LTL 403.6 thousand per director on average.

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

Full name	Position title	Participation in the capital of the Issuer	
		Share of the authorized capital held, %	Share of the voting rights held, %
Board of Directors (as of 31 Dec 2008):			
Dr Achim Saul	Chairman of the Board of Directors	–	–
Dr Valery Golubev	Vice Chairman of the Board of Directors	–	–
Vladas Kazimieras Gagilas	Member of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Marcus A. Soehrich	Member of the Board of Directors	–	–
Executive directorship (as of 31 Dec 2008):			
Viktoras Valentukevičius	CEO – General Manager	0.003	0.003
Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	0.006	0.006
Jonas Janulionis	Deputy General Manager – Technical Director	0.001	0.001
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

Subsidiary

LD has one subsidiary, Palangos Perlas UAB. 100% of Palangos Perlas UAB shares are held by LD.

Main data about Palangos Perlas UAB

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

In 2008, the authorized capital of Palangos Perlas UAB did not change. It is divided into 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. The main areas of the company activities: hotel and other board and lodging services, organization of seminars and conferences. In 2008, the average number of employees amounted to 29 (2007: 30 employees). In 2008, Palangos Perlas UAB earned a net profit of LTL 0.3 million (2007: LTL 0.2 million).

Transactions of associated parties

The information is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

The Company's Natural Gas Transmission and Distribution System

Gas transmission pipelines

Major gas distribution pipelines

Gas metering stations

Gas compressor station

Gas compressor station (projected)

Gas distribution stations

Major towns connected to the natural gas system

Towns connected to the natural gas system

Gas pipelines (projected)

Gas system controlled by other company

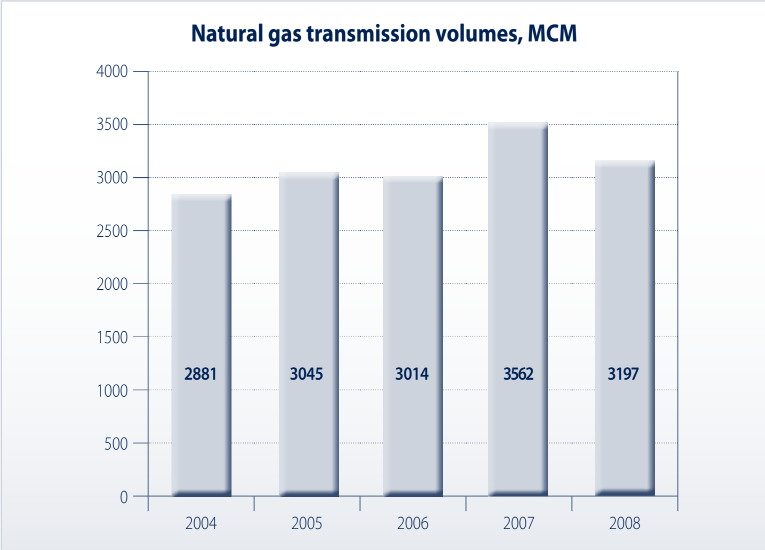
Core business activity of the Company:

- **Transmission:** transmission of natural gas via gas transmission system mostly comprised of high-pressure pipelines, except for the production process pipeline network and part of the high-pressure gas pipelines mainly used for the local distribution of natural gas, designed for the delivery of natural gas to consumers, except for gas supply.
- **Distribution:** distribution of natural gas via gas distribution pipelines except for the supply.
- **Supply:** gas selling and/or reselling to customers and gas delivery to the system.

Gas transmission pipelines	Gas distribution pipelines	Gas distribution stations	Gas metering stations	Gas compressor station
1.8 thou km	7.9 thou km	65	3	1

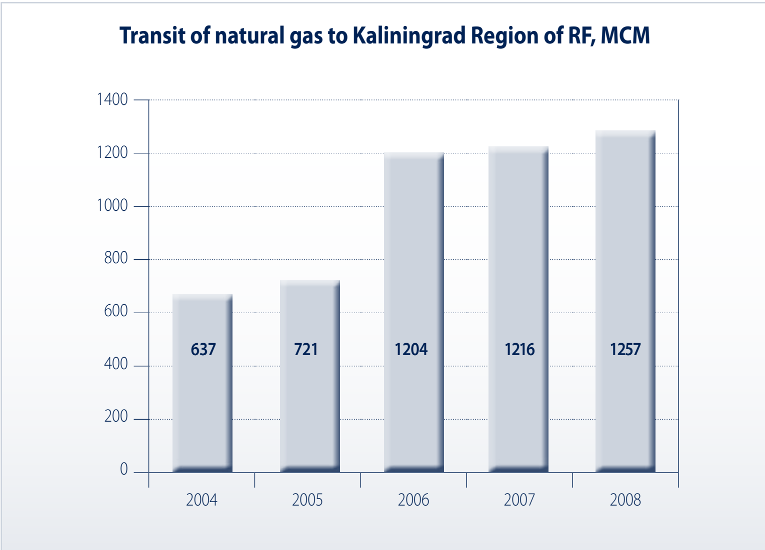
TRANSMISSION OF NATURAL GAS

In 2008, the volumes of natural gas transmitted via the transmission system totaled 3,197 million m^3. Of this total, 1,223.3 million m^3 were transmitted to the customers of LD and 1,973.7 million m^3 of natural gas were transmitted to customers purchasing gas not from LD, but from other suppliers. Compared to 2007, the natural gas transmission volumes decreased by 10.2%, mainly due to the decrease in the volumes transmitted for Achema AB and other large customers.



Transit

In 2008 the natural gas transit volumes to the Kaliningrad Region of Russian Federation totaled 1,256.7 million m^3, which represents an increase of 3.4% y/y.



Investments in the transmission system

In 2008, investments into the construction of new transmission systems totaled LTL 34.7 million. In 2007, investments into the construction of new transmission systems amounted to LTL 34.24 million. 2008 saw the implementation of the following major projects: the Engineering Design of a new Gas Compressor Station in Jauniūnai, Širvintos District, The Construction of a Transmission Pipeline Branch to the Town of Rietavas and the Construction of Rietavas Gas Distribution Station (LTL 1.8 million). Part of the investment funds were devoted to the construction of the transmission pipeline section from the akiai Gas Metering Station to the Kaliningrad Region of the Russian Federation and the akiai Gas Metering Station capacity expansion engineering design and preparatory works projects.

The investments in the reconstruction of the transmission system totaled LTL 14.5 million, the lion's share of these funds were spent on the reconstruction of the gas distribution stations (LTL 9 million). The remaining share of the funds was spent on the necessary works for the reconstruction of the linear part of the transmission pipelines, and on the renovation of the telemetry, the SCADA, the Gas Compressor Station equipment and the gas metering devices.

On order to enhance the safety and reliability of natural gas transmission via the transmission system, LD plans to test the internal part of the transmission pipelines using specialized intelligent pigging devices. In 2008, we installed the equipment necessary for the execution of these works.

Maintenance of the transmission system

In 2008, the maintenance of the transmission system was carried out in accordance with the provisions of the applicable legal acts, so we managed to avert accidents, major disruptions or malfunctions. With a view to enhancing the reliability, efficiency and safety of the transmission pipelines operations we executed all the gas repair and maintenance works that had been scheduled for the period.

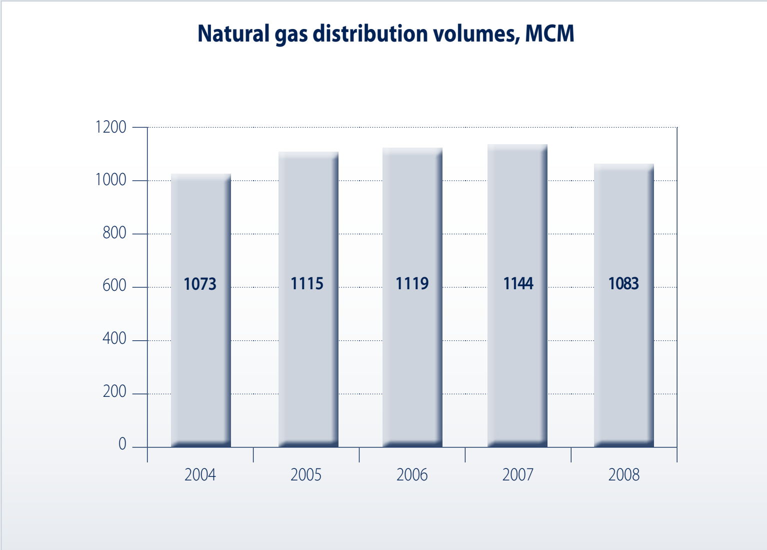
As regards the linear part of the transmission system, we carried out the repairs of a 50 km-long section of the Panevėžys–Šiauliai Gas Transmission Pipeline. As part of the repair works programme, we renovated two line block valves, we replaced 17 above-ground gas pipeline crossings with the underground ones, we carried out the pressure tests and the purging works.

We prepared the engineering design of the repairs and pressure tests of the linear part of the Ivacevičiai–Vilnius–Riga Gas Transmission Pipeline. On the linear part of the gas transmission pipeline, the line block valve units were either repaired or replaced.

The scheduled repairs of the technological equipment and the buildings and structures of the Panevežys Gas Compressor Station and the gas distribution stations were also successfully executed.

DISTRIBUTION OF NATURAL GAS

In 2008, the volumes of natural gas distributed via the gas distribution system by the Company totaled 1,082.7 million m^3, which represents a drop of 5.4% y/y.



Investments into the distribution system

In 2008, the investments into the construction of new gas distribution systems totaled LTL 50 million; 239 km of new distribution pipelines were constructed. In 2007, the investments totaled LTL 45.43 million.

The major projects implemented in 2008 were as follows: The Construction of the Gas Distribution Pipeline to the Town of Rietavas and in the Town of Rietavas (LTL 2 million) and The Construction of the Gas Distribution Pipeline to Connect Ramygala (also LTL 2 million). In all, 5.9 thousand new customers were connected to the gas system in 2008.

In 2008, the investments in the reconstruction of the distribution system totaled LTL 8.3 million. We invested into the renovation of the distribution pipelines and gas pressure regulation units.

Maintenance of the distribution system

The Company runs a gas distribution system consisting of 7.9 thousand km of gas distribution lines and, being the owner of the distribution system, is responsible for its reliable, efficient and safe operation. The Company spares no effort to ensure proper maintenance of the gas systems: the gas pipelines are subjected to leakage tests, the system is inspected and technical tests are performed on a regular basis. Any defects diagnosed when carrying out the routine technical maintenance tasks are either eliminated immediately or are included into the gas systems repair works programme or the reconstruction works programme on the basis of which the Company eliminates the defects so that the gas system is kept in good working order. In 2008, in accordance of the aforesaid programmes, we carried out works related to the repairs or reconstruction of the Company's gas pressure regulation units, pipelines, valves, service lines, etc.

The buy out of gas pipelines

In accordance with the Law on Natural Gas of the Republic of Lithuania and pursuant to the procedure approved by the order of the Ministry of Economy dated 20 June 2001, in 2002 the Company started the process of buying out natural gas supply systems of common use owned by other legal entities and natural persons. During 2002-2008 the Company has bought out 313 km pipelines for the total value of LTL 5 million. In accordance with the regulation of the Order, the owners of the natural gas common use systems could make the requests till 31 December 2007. As of 31 December 2008 the Company has unsatisfied requests to buy out 115 km pipelines with the estimated price of approximately LTL 1 million according to the Company's calculation.

Through the buy out of gas pipelines belonging to other owners the Company seeks to ensure the integrity of the gas system, to secure its safe and reliable operation as well as the possibly of its further development so that new customers can be connected to it.

Is ecology important to me? I suppose it is. It is good to know that I can create a healthy environment at my own home and that I can also contribute to the global processes. After all, working for a natural gas company, in a sense, I help create a cleaner environment of Lithuania.

Aira Peršakovaitė

Operation & Maintenance Engineer, Lietuvos Dujos AB

SUPPLY OF NATURAL GAS

In 2008, LD purchased natural gas from Gazprom OAO according to a long-term (until 2015) natural gas supply agreement.

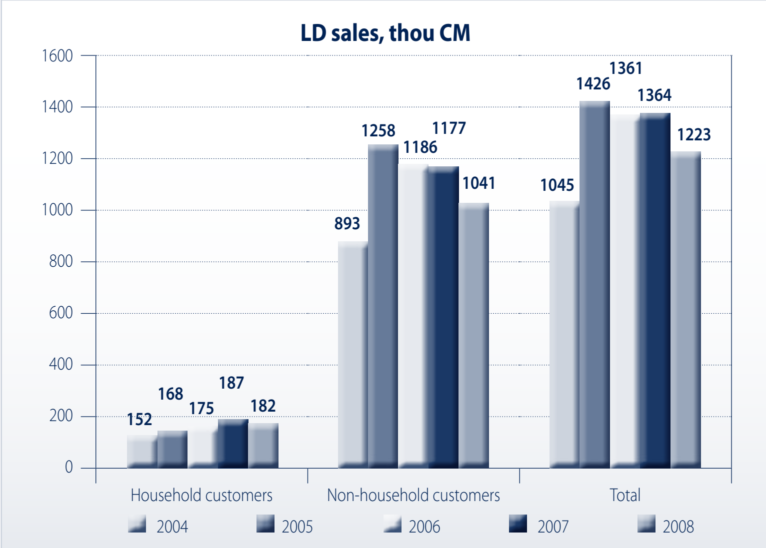
Pursuant to the National Energy Strategy and in order to secure safe and uninterrupted supplies of natural gas to customers, the Company has been accumulating contingency gas reserves in the Incukalns (the Republic of Latvia) Underground Gas Storage Facility. For detailed information on the contingency gas reserve volumes and the accumulation schedule see the Resolution of the Government of the Republic of Lithuania of 26 February 2008 "On approval of the list of measures that guarantee security of natural gas supplies".

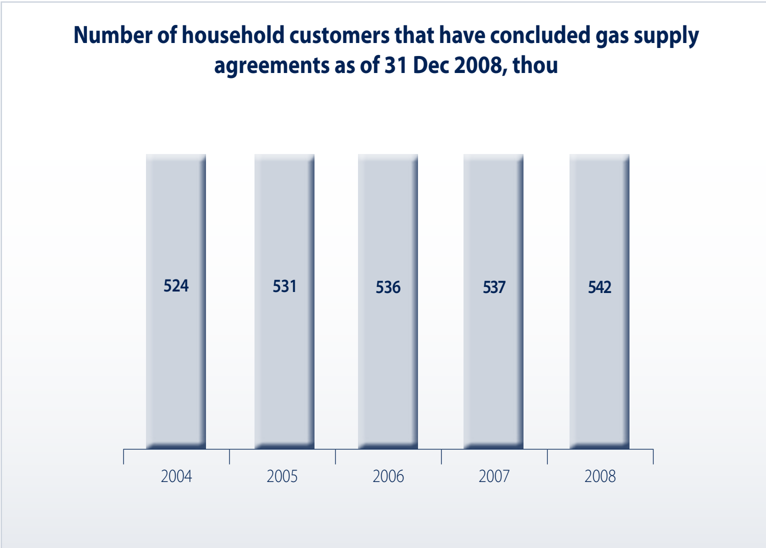
Customers

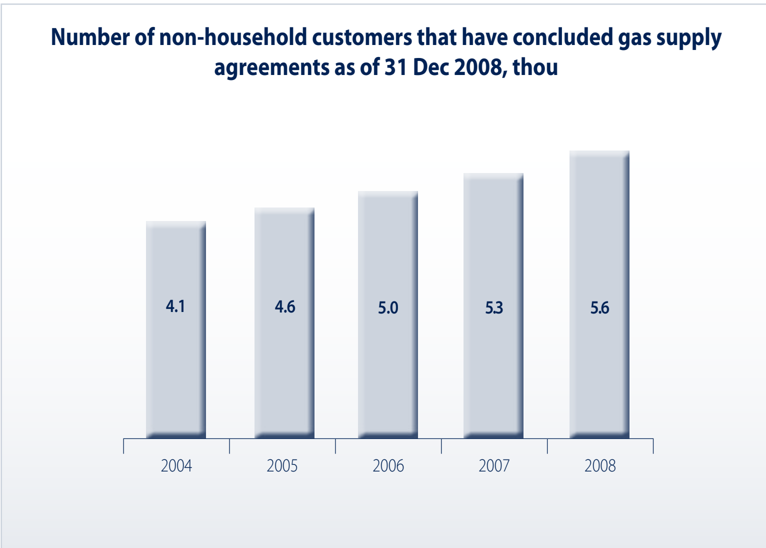
All natural gas customers are divided into the household customers (natural persons buying gas for their private needs, for their family or household needs) and the non-household customers. Already from 1 July 2007, all non-household customers became eligible customers and are free to choose their gas suppliers at their own discretion. However, almost 100% of the household customers still choose LD as their favorite supplier, thus demonstrating their loyalty to the Company. On the non-household customers' market, the share of LD is 34%.

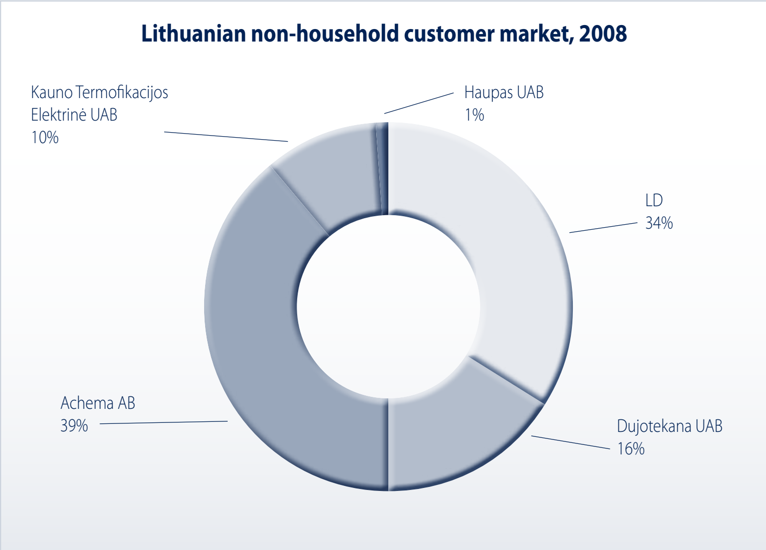
In 2008, LD supplied to its customers 1,223.3 million m^3 of natural gas: the volume of natural gas supplied to the non-household customers amounted to 1,041 million m^3 and the volume of natural gas supplied to the household customers amounted to 182.3 million m^3. In 2007, the gas volume supplies totaled 1,364.1 million m^3, i. e. they were by 10.3% higher.

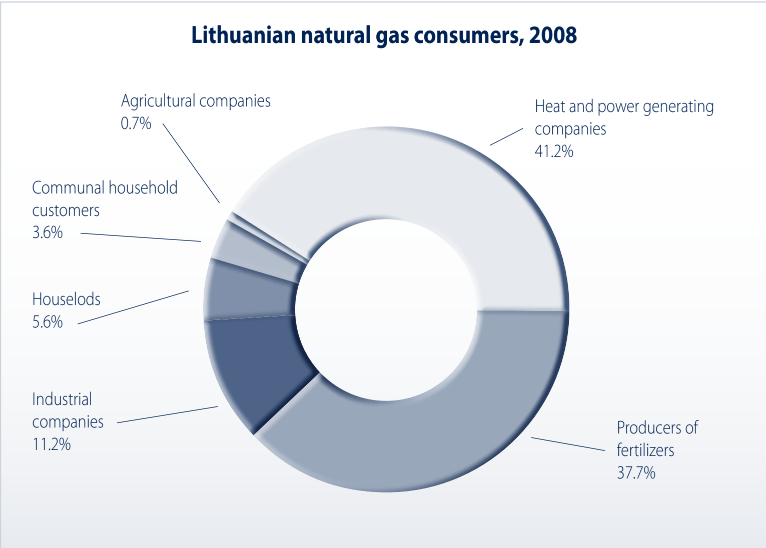
In 2008, Lithuania's natural gas transportation and sell volumes, compared to 2007, decreased. The decrease was mainly determined by the slowdown of the national economic growth, the natural gas imports price rise in the second half of 2008 and the warmer weather temperatures during the heating season.

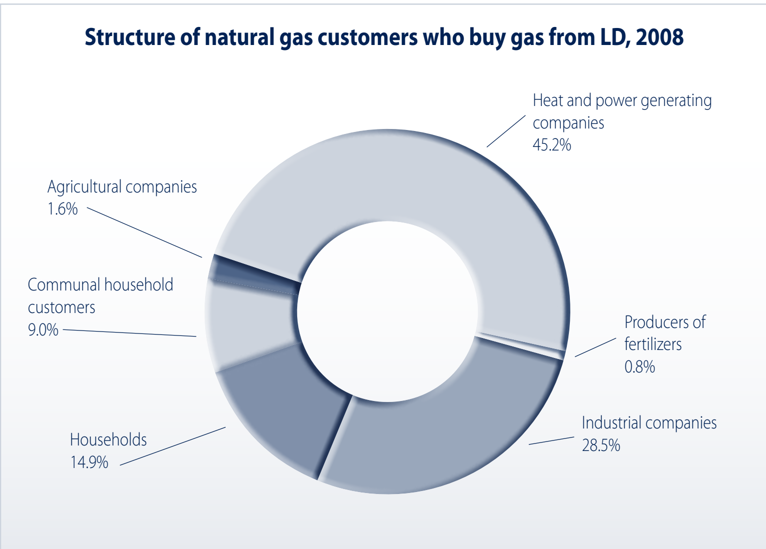












ENVIRONMENTAL PROTECTION

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

The priority areas of the environmental protection activities remain unchanged and are as follows:

- *protection of the natural environment at the 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 the 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 fair amount of attention is devoted to the ecological education.

With the help of the measures implemented by the Company the environmental safety situation is improving and the environmental pollution is being reduced. In 2008, LD started the drafting and in 2009 is planning to implement the Environmental Management System in accordance with the ISO 14000 standard requirements.

In order to reduce the environmental pollution, the Company has been systematically modernizing its gas distribution stations. In 2008, the new Jauniūnai Gas Compressor Station engineering design was started. The new Gas Compressor Station will be much more advanced, economical and environment-friendly than the Panevėžys Gas Compressor Station which has been in operation since 1974.

Of all the activities pursued by LD, the facility giving highest pollutant emissions is the Panevėžys Gas Compressor Station. The pollution levels depend on the operation-use time of the Compressor units, their load factors, the number of their start-ups, etc. In 2008, the operation-use time of the Gas Compressor Station was two times longer than in 2007, which resulted in almost two times higher pollutant emissions (CO and NO_x).

Pollutant (tons)	2008	2007
CO	29	17.6
NO_X	13.8	7.9

Recorded emissions of natural gas (MCM)	
2008	2007
13.2	15.1

Due to the very nature of the natural gas operation maintenance system and due to the occupational safety system requirements, a small proportion of gas volumes are emitted form the gas pipeline system into the atmosphere. In its business activities, the Company implements measures to minimize the emissions.

In the future, through the modernization of its gas systems and planning the procurement of new equipment and new construction, LD will follow the aforesaid strategic environmental protection guidelines.

STAFF

Average number of Group employees on the roll

The turnover of employees made up 8.7% (2007: 9.5%).

Workers (blue-collar) made up 39.4% of all Group employees on the roll (2007: 40.7%). Managing staff, specialists and white-collar office employees comprised 60.6% of the staff (2007: 59.3%). In 2008, 66% of the Group employees were male and 34% of the Group employees were female.

The average age of the Group employees was 45.2 years (2007: 46.5 years) and the average work experience was 12.2 years (2007: 15.3 years). The number of employees with university education increased by 6%.

Great attention was devoted to the training of the Company employees and the improvement of their qualifications. The resources of the European Union Structural Funds allocated for the training of the professional competences and the general skills of the middle level managers and specialists and their reserve have been successfully invested.

As a result of the general trainings arranged by the Company, LD employees improved their leadership/management skills, project management skills, and other general skills, deepened their understanding of the legal, accountancy-related matters, improved their foreign language and computer skills, etc. LD employees also participated in professional trainings.

With the aim of raising the efficiency of the implementation of the Company strategy and its main goals, the employee motivation system and improving the career planning, in 2008, Human Resource Management System was implemented at the Company. The Company updated its Human Resources Management

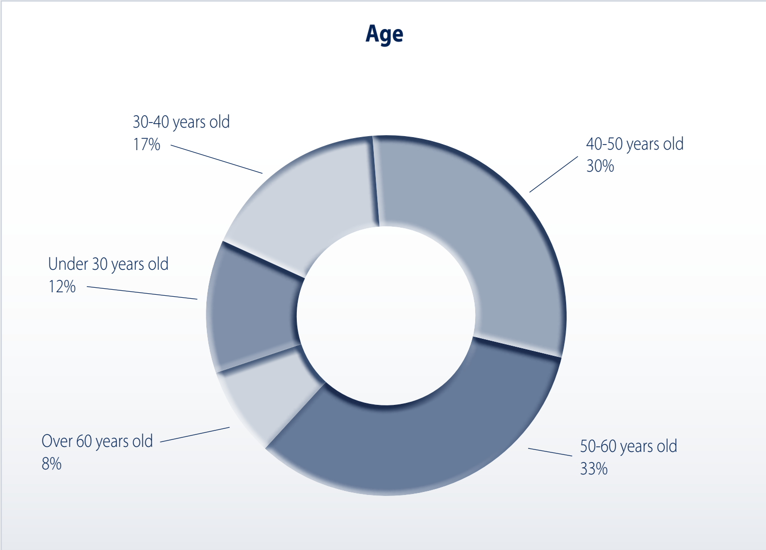
Average number of Group employees on the roll

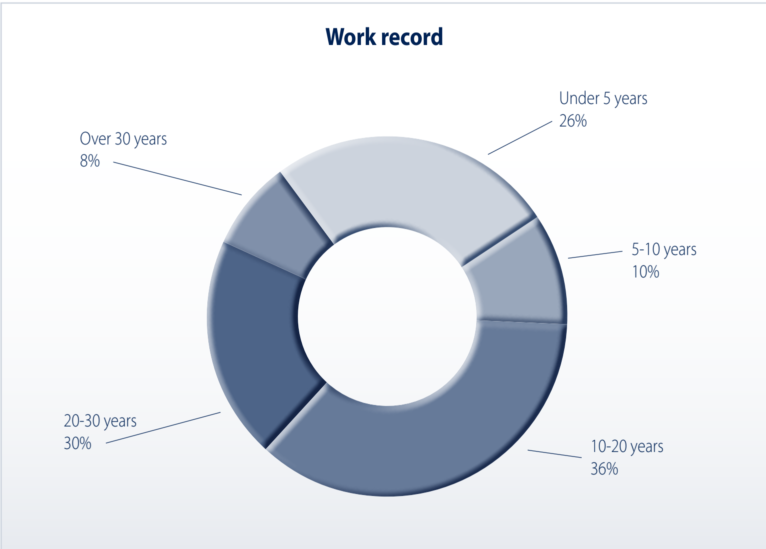
Year	Average number of employees on the roll	Change compared to previous year
2007	1.813	-0,8%*
2008	1.821	+0,4%**

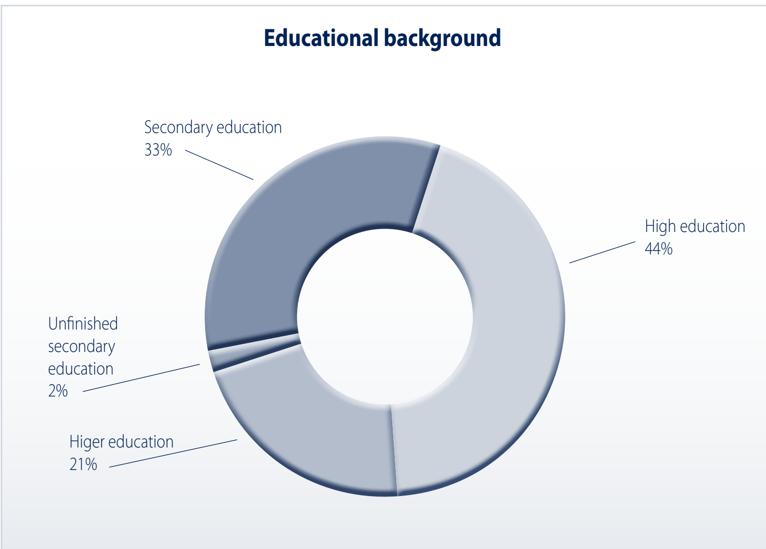
** compared to 2006* *** compared to 2007*

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

Employees	Average number of employees on the roll in 2007	Average monthly salary, LTL
Managing staff, specialists and white-collar employees	1,076	3,027
Workers	737	1,934
Total:	1,813	2,582
Employees	**Average number of employees on the roll in 2008**	**Average monthly salary, LTL**
Managing staff, specialists and white-collar employees	1,104	3,469
Workers	717	2,243
Total:	1,821	2,986







Policies description aimed at establishing a uniform human resources management system and uniform human resources management principles.

At LD branches there were 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 cooperated in handling the employees' social, cultural, health, etc. issues and held joint meetings on a regular basis.

The Company's Collective Bargaining Agreement, signed on 6 December 2006, remains in effect 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.

Even though the work of LD employees often involves dangerous and complicated operations, as a result of the ongoing implementation of preventive measures, in 2008, LD succeeded in averting severe industrial injuries.

MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- The Lithuanian Gas Association. The General Manager of LD Viktoras Valentukevičius is the President of this Association from 16 June 2008. Website: www.dua.lt.
- The Association "Eurogas". It is a non profit organization uniting the European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions with respect to natural gas business as well as participating in the public opinion formation process. LD is its full member from 1 January 2009. Website: www.eurogas.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 a representative in the Board of this association. "Baltic Gas" is an association 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 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 association "Baltic Gas" and The Chamber of Commerce of Germany and the Baltic countries E.ON Ruhrgas International AG and the member of the association "Baltic Gas" OAO Gazprom each hold over 5% of shares of the Company.

2008 saw the continuation of the tradition of holding meetings of the managers and specialists the gas companies of the three Baltic States (LD, Latvijas Gaze A/S and Eesti Gaas AS) aimed at resolving common issues with respect to securing safe and reliable natural gas supplies in the Baltic States Region.

SPONSORSHIP PROGRAMS

With a view to promoting social development and welfare, every year LD supports a vast number of social welfare projects, including the ones of social patronage and care, health protection, preservation of cultural heritage, art and sport, education and science. In 2008, LD rendered support to more than 50 institutions, organizations or supported their projects. The most significant ones are as follows:

- support to the institutions and organizations of disabled children: Public Body "Mažoji Guboja", Lithuanian Welfare Society for Persons with Mental Disability "Viltis", Vilnius J. Laužikas General Education Consultation Centre, Kaunas Caritative Society for Blind & Partially Sighted Children "Akių Šviesa", Sport Club "Draugystė";
- support to Vilnius University Hospital Santariškės Clinic and Vilnius Maternity Hospital;
- support to the Direction of the Kuršių Nerija National. Not only did LD render material assistance for the replanting of the pine trees following the forest fire in Smiltynė, but also arranged a voluntary reforestation work action for 400 of its employees including their family members. On 12 April 2008, the LD employees planted 32 thousand saplings;
- support to Lithuanian Institute, the Lithuanian Art Museum and the Lithuanian Artists' Union in organizing various cultural events;
- support in organizing the XIII Pažaislis Music Festival that has already become traditional, the festival that is famous not merely for being the longest, the largest and the most popular with the public, but also the most democratic one, for its programmes represent a cross-section of genres of music and cater to diverse tastes. Support to Public Body Science Research Institute, Public Body J. Ivanauskaitė Literary & Artisitc Heritage Centre to erect a memorial to the Lithuanian writer Jurga Ivanauskaitė;
- support to V. Alekna's Club for the organization of the international sports festival at Kaunas Darius & Girėnas Stadium; support to the Association of Lithuanian Women and the Lithuanian Sports Society "Žalgiris";
- support to Vilnius Gediminas Technical University and Kaunas University of Technology in organizing their Student Career Days. Support to Vilnius University for the procurement of equipment for the German Philology Studies Auditorium;
- support for projects aimed at reducing business restrictions, bureaucracy and corruption and for building civil society.

SOCIAL RESPONSIBILITY

Almost 100% of the total gas volumes demanded by Lithuania's customers is supplied through the Natural Gas 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 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.

The Company through its trade in the cleanest fossil fuel, natural gas, and through the natural gas transmission and distribution activities is contributing to a cleaner environment of Lithuania. The Company supplies, transmits and distributes an environmentally friendly fuel, the promotion of which reduces the environmental pollution. At the same time the Company promotes economical and rational use of this non renewable natural resource.

In pursuing socially responsible business practices, the Company lays a stress on the environmental protection, human rights and the Company's employees' rights, promotion of economic development and active participation in social life. Primarily focusing on the environmental protection and the Company's human resources management policies, in 2008, LD launched two major projects: started the implementation of a new environmental standard solution and initiated the formation of new updated Human Resourse Policies.

Seeking to continue its pursuit of the socially responsible business practices, the Company is focusing on the review of its routine processes and the audit of specific areas of activity of the Company. In this way, LD is directing its activities towards the socially responsible business practices.

Investments into the energy production and supply modernization are expected to give the quickest possible returns. The aim of the investments is not merely to maximize the profits and minimize the consumers' energy expenses. By using natural gas we protect the environment and save our customers' resources.

Česlovas Kasputis

Managing Director of Šiaulių Energija AB (combined heat and power plant)

ERNST & YOUNG

Independent auditor's report to the shareholders of AB Lietuvos Dujos

Report on the Financial Statements

We have audited the accompanying 2008 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 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Lietuvos Dujos and the Group as of 31 December 2008, 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 2008 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

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

Jonas Akelis
Auditor's licence
No. 000003
President

The audit was completed on 3 March 2009.

(all amounts are in LTL thousand unless otherwise stated)

Balance sheets

		Notes	Group		Company	
			As of 31 December 2008	**As of 31 December 2007**	**As of 31 December 2008**	**As of 31 December 2007**
	ASSETS					
A.	**Non-current assets**		**2,249,069**	**2,220,673**	**2,252,636**	**2,223,695**
I.	Intangible assets	4	3,765	3,487	3,738	3,482
II.	Property, plant and equipment	5	2,245,239	2,216,707	2,238,096	2,209,401
II.1.	Land		183	183	183	183
II.2.	Buildings and structures		2,050,832	2,059,625	2,044,127	2,052,776
II.2.1.	Buildings		82,994	82,542	76,289	75,693
II.2.2.	Transmission networks and related installations		1,268,382	1,313,874	1,268,382	1,313,874
II.2.3.	Distribution networks and related installations		689,942	654,101	689,942	654,101
II.2.4.	Other buildings and structures		9,514	9,108	9,514	9,108
II.3.	Machinery and equipment		84,814	84,839	84,814	84,839
II.4.	Vehicles		13,596	12,025	13,577	11,994
II.5.	Other equipment, tools and devices		32,897	31,123	32,584	30,754
II.6.	Other property, plant and equipment		4,316	3,995	4,316	3,995
II.7.	Construction in progress		58,601	24,917	58,495	24,860
III.	Non-current financial assets		65	75	10,802	10,812
III.1.	Investments into subsidiaries	6	–	–	10,737	10,737
III.2.	Non–current accounts receivable	7	65	75	65	75
IV.	Deferred tax asset	21	–	404	–	–
B.	**Current assets**		**280,197**	**238,283**	**275,840**	**234,231**
I.	Inventories and prepayments		58,660	109,388	58,638	109,370
I.1.	Inventories	8	58,174	109,064	58,159	109,048
I.1.1.	Raw materials, spare parts and other inventories		2,992	2,160	2,991	2,159
I.1.2.	Goods for resale (including natural gas)		55,182	106,904	55,168	106,889
I.2.	Prepayments		486	324	479	322
II.	Accounts receivable	9	133,212	91,579	133,207	91,524
II.1.	Trade receivables		130,878	88,380	130,882	88,382
II.2.	Prepaid income tax		1,852	–	1,844	–
II.3.	Other receivables		482	3,199	481	3,142
III.	Other current assets	10	4,099	3,722	–	–
IV.	Cash and cash equivalents	11	84,226	33,594	83,995	33,337
	Total assets		**2,529,266**	**2,458,956**	**2,528,476**	**2,457,926**

(cont'd on the next page)

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

(all amounts are in LTL thousand unless otherwise stated)

Balance sheets (cont'd)

		Notes	Group As of 31 December 2008	Group As of 31 December 2007	Company As of 31 December 2008	Company As of 31 December 2007
	EQUITY AND LIABILITIES					
C.	**Equity**		**1,882,305**	**1,929,787**	**1,881,045**	**1,928,825**
I.	Share capital	12	469,068	469,068	469,068	469,068
II.	Reserves	13	1,411,775	1,357,881	1,409,678	1,355,991
II.1.	Legal reserve		23,160	17,962	22,983	17,795
II.2.	Other reserves		1,388,615	1,339,919	1,386,695	1,338,196
III.	Retained earnings	21	1,462	102,838	2,299	103,766
D.	**Liabilities**		**646,961**	**529,169**	**647,431**	**529,101**
I.	Non-current liabilities		415,223	338,876	415,750	338,876
I.1.	Non-current borrowings	15	8,576	10,720	8,576	10,720
I.2.	Grants (deferred revenue)	14	164,212	137,231	164,212	137,231
I.3.	Deferred tax liability	21	242,435	190,925	242,962	190,925
II.	Current liabilities		231,738	190,293	231,681	190,225
II.1.	Current portion of non-current borrowings	15	2,144	10,839	2,144	10,839
II.2.	Trade payables	16	180,951	119,515	180,941	119,498
II.3.	Prepayments received		10,536	15,170	10,529	15,152
II.4.	Income tax payable		–	12,950	–	12,950
II.5.	Payroll related liabilities		7,901	6,555	7,861	6,524
II.6.	Other current liabilities		30,206	25,264	30,206	25,262
	Total equity and liabilities		**2,529,266**	**2,458,956**	**2,528,476**	**2,457,926**

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

(all amounts are in LTL thousand unless otherwise stated)

Income statements

		Notes	Group 2008	Group 2007	Company 2008	Company 2007
I.	Sales		1,555,366	1,024,264	1,554,061	1,022,881
II.	Cost of sales	17	(1,240,900)	(675,569)	(1,240,679)	(675,348)
III.	**Gross profit**		**314,466**	**348,695**	**313,382**	**347,533**
IV.	Operating expenses	18	(252,736)	(231,328)	(251,616)	(230,268)
V.	Other operating activities income (net)	19	5,869	7,280	5,869	7,281
VI.	**Profit from operations**		**67,599**	**124,647**	**67,635**	**124,546**
VII.	**Financial and investing activities**	20	**5,674**	**685**	**5,443**	**530**
VII.1.	Income		6,537	3,034	6,306	2,879
VII.2.	Expenses		(863)	(2,349)	(863)	(2,349)
VIII.	**Profit before tax**		**73,273**	**125,332**	**73,078**	**125,076**
IX.	**Income tax**	21	**(9,038)**	**(21,354)**	**(9,141)**	**(21,310)**
IX.1.	Current period income tax		(18,841)	(25,600)	(18,820)	(25,566)
IX.2.	Deferred income tax		9,803	4,246	9,679	4,256
X.	**Net profit**		**64,235**	**103,978**	**63,937**	**103,766**
	Basic and diluted earnings per share (LTL)	22	0.14	0.22	0.14	0.22

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of changes in equity

Group	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2007		**469,068**	**14,996**	**1,313,561**	**58,184**	**1,855,809**
Transfer to legal reserve		–	2,966	–	(2,966)	–
Transfer to other reserves		–	–	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**
Transfer to legal reserve		–	5,198	–	(5,198)	–
Transfer to other reserves		–	–	48,696	(48,696)	–
Dividends declared	23	–	–	–	(50,000)	(50,000)
Net profit for the year		–	–	–	64,235	64,235
Revaluation of deferred income tax due to change of income tax rate	21	–	–	–	(61,717)	(61,717)
Balance as of 31 December 2008		**469,068**	**23,160**	**1,388,615**	**1,462**	**1,882,305**

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

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Legal reserve	Otherreserves	Retained earnings	Total
Balance as of 1 January 2007		**469,068**	**14,838**	**1,312,013**	**59,140**	**1,855,059**
Transfer to legal reserve		–	2,957	–	(2,957)	–
Transfer to other reserves		–	–	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**
Transfer to legal reserve		–	5,188	–	(5,188)	–
Transfer to other reserves		–	–	48,499	(48,499)	–
Dividends declared	23	–	–	–	(50,000)	(50,000)
Net profit for the year		–	–	–	63,937	63,937
Revaluation of deferred income tax due to change of income tax rate	21	–	–	–	(61,717)	(61,717)
Balance as of 31 December 2008		**469,068**	**22,983**	**1,386,695**	**2,299**	**1,881,045**

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

(all amounts are in LTL thousand unless otherwise stated)

Cash flows statements

		Group		Company	
		2008	**2007**	**2008**	**2007**
I.	**Cash flows from (to) operating activities**				
I.1.	Net profit	64,235	103,978	63,937	103,766
	Adjustments of non-cash items:				
I.2.	Depreciation and amortisation	94,358	94,503	94,111	94,269
I.3.	(Gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal	(161)	(1,832)	(161)	(1,832)
I.4.	(Reversal of) impairment for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories	1,448	(1,948)	1,448	(1,948)
I.5.	Income tax expenses	9,038	21,354	9,141	21,310
I.6.	Interest (income)	(5,099)	(2,688)	(4,868)	(2,533)
I.7.	Interest expenses	862	2,346	862	2,346
I.8.	Loss on foreign currency exchange	1	1	1	1
I.9.	Elimination of other financial activity results	(122)	(577)	(122)	(577)
I.10.	Amortisation of the grants, deferred revenue and other adjustments of non-cash items	(3,738)	(3,144)	(3,738)	(3,145)
		160,822	**211,993**	**160,611**	**211,657**
	Changes in working capital:				
I.11.	Decrease (increase) in inventories	51,028	(83,480)	51,028	(83,485)
I.12.	(Increase) in trade accounts receivable	(43,020)	(35,227)	(43,022)	(35,242)
I.13.	Decrease (increase) in other accounts receivable and prepayments	2,332	(2,686)	2,288	(2,732)
I.14.	Increase in trade accounts payable	61,015	59,301	61,021	59,463
I.15.	Increase in other accounts payable and other current liabilities	29,203	38,444	29,206	38,447
I.16.	Income tax (paid)	(33,636)	(23,184)	(33,614)	(23,139)
	Net cash flows from operating activities	**227,744**	**165,161**	**227,518**	**164,969**
II.	**Cash flows from (to) investing activities**				
II.1.	(Acquisitions) of property, plant and equipment and intangible assets	(122,861)	(117,288)	(122,754)	(116,799)
II.2.	Proceeds from sales of property, plant and equipment	633	3,428	633	3,427
II.3.	Recovery of non-current loans and accounts receivable	10	6	10	6
II.4.	Proceeds from sales of financial assets	–	5	–	5
II.5.	(Increase) in term deposits	(376)	(37)	–	–
II.6.	Interest received	5,099	2,688	4,868	2,533
	Net cash flows (to) investing activities	**(117,495)**	**(111,198)**	**(117,243)**	**(110,828)**

(cont'd on the next page)

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

(all amounts are in LTL thousand unless otherwise stated)

Cash flows statements (cont'd)

		Group		Company	
		2008	2007	2008	2007
III.	**Cash flows from (to) financing activities**				
III.1.	Dividends (paid)	(50,052)	(29,969)	(50,052)	(29,969)
III.2.	Loans received	–	186,451	–	186,451
III.3.	Loans (repaid)	(10,839)	(201,022)	(10,839)	(201,022)
III.4.	Grants received	2,185	3,004	2,185	3,004
III.5.	Interest (paid)	(911)	(2,392)	(911)	(2,392)
	Net cash flows (to) financing activities	**(59,617)**	**(43,928)**	**(59,617)**	**(43,928)**
IV.	**Net increase in cash and cash equivalents**	**50,632**	**10,035**	**50,658**	**10,213**
V.	**Cash and cash equivalents at the beginning of the year**	**33,594**	**23,559**	**33,337**	**23,124**
VI.	**Cash and cash equivalents at the end of the year**	**84,226**	**33,594**	**83,995**	**33,337**

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

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 on the NASDAQ OMX Vilnius Stock Exchange on the Main trade list.

As of 31 December 2008 and 2007 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 2008 and 2007. 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 2008 is as follows:

Company	Address of registered office	Part of shares controlled by the Group (%)	Share capital	Current year profit	Equity	Main activity
UAB Palangos Perlas	Gintaro Str. 36, Palanga	100	9,704	296	12,097	Restaurant and accommodation facilities

The average number of employees of the Group and the Company in 2008 was 1,821 and 1,792, respectively (1,813 and 1,783 in 2007, respectively).

Activities of AB Lietuvos Dujos are regulated by the Law on Natural Gas No. X-1054 (hereinafter – the Law) 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 keeps accounts based on the Law requirements. The Company's activity segments are transmission, distribution and supply and other activity.

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 Licensing 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 have been renewed by the Commission in 2008. The Commission also sets transmission, distribution and supply gas price caps.

The management of the Company approved these financial statements on 3 March 2009. 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 2008 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 the EU).

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group and the Company has adopted the following new and amended IFRS and International Financial Report Interpretation Committee (hereinafter IFRIC) interpretations during the year:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments International Accounting Standards Board (hereinafter IASB) implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group and the Company did not have financial instruments caught by these amendments.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

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. The Group and the Company has not issued instruments caught by this interpretation.

Standards issued but not yet effective:

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

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has already adopted IFRS.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company does not have share-based payments.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group and the Company will adopt them as a prospective change, if have business combination transactions in the future. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 8 *Operating Segments* (effective for financial years 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 replaces IAS 14 *Segment Reporting*. The Group and the Company expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a 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 when they are restated retrospectively. As of the date of release of these financial statements the Group and the Company was not decided whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009).

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 and the Company will adopt this as a prospective change. Accordingly, borrowing costs suitable to be capitalised, according to the requirements of the standard, incurred after 1 January 2009 will be added to 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.

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not issued such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not entered into any such hedges.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group and the Company anticipates that these amendments to standards will have no material effect on the financial statements.

- *IFRS 7 Financial Instruments: Disclosures*. Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements*. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- *IAS 10 Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment*. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- *IAS 18 Revenue*. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits*. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs*. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements*. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates*. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies*. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venture and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting*. Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets*. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 *Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement*. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property*. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture*. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

IFRIC 12 *Service Concession Arrangements* (effective once adopted by the EU).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group and the Company is an operator and, therefore, this interpretation has no impact on the Group and the Company.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008).

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. The Group and the Company does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group and the Company.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2009).

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group and the Company does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group and the Company.

IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group and the Company does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).

The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Company does not have hedges of net investments.

IFRIC 17 *Distributions of Non-cash Assets to Owners (*effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group and the Company does not distribute non-cash assets to owners.

IFRIC 18 *Transfers of Assets from Customers* (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).

The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). As of the date of release of these financial statements, the management of the Group and the Company tentatively maintains, that above mentioned amendment will have no impact on the financial position or performance of the Group and the Company.

All the above mentioned new IFRSs and IFRICs and their amendments will be adopted on the date they become effective and adopted by the EU.

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.

2 Accounting principles (cont'd)

2.3. Principles of consolidation (cont'd)

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 these 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.

2.4. 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 licenses 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.

Financial assets at fair value through profit or loss

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.

Held-to-maturity investments

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.

Loans and receivables

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 and accounts receivable are derecognised (write-off) when they are assessed as uncollectible.

Available-for-sale financial assets

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

Financial assets

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, consisting of natural gas in pipelines held for technical needs and natural gas for sale 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 systems 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 in Lithuania was 15% in 2008. In 2007 along with the 15% income tax companies had to pay an additional 3% social tax calculated based on the income tax accounting principles. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 20% income tax rate has been established for indefinite period starting 1 January 2009.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and 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.

On transition to IFRS, the Group and the Company treated revalued amounts of property, plant and equipment as a deemed cost. As the tax base of the asset carried at deemed cost on transition to IFRS remains at original cost (or an amount based on original cost), the pre-transition revaluation gave rise to a temporary difference associated with the asset and deferred tax liability has been accounted for. If, after transition, the deferred tax is required to be remeasured (e.g. because of a change in tax rate, or a re-basing of the asset for tax purposes), the Group and the Company accounts for it directly under the caption of retained earnings of the balance sheets. Results of remeasurement for deferred tax components other than plant, property or equipment revalued as a deemed cost, are accounted for in the income statement.

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 – 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 accepted decisions and estimates related to the Group's and the Company's activity for the upcoming year.

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 Accounting principles (cont'd)

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. For the years 2008 and 2007 development costs are added to other intangible assets column in Note 4 as the amount was immaterial.

3 Segment information

Transmission of natural gas means the transportation of natural gas through the transmission pipelines. 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 pipelines.

Supply of natural gas means the natural gas sales to end users.

Other – other activity not related to main business.

Segment information for the years ended 2008 and 2007 is presented below:

Group

2008	Transmission	Distribution	Supply	Other	Total
Sales	134,103	137,794	1,278,872	4,597	1,555,366
Profit from operations	23,212	(8,748)	49,227	3,908	67,599
Assets	1,473,084	784,411	259,327	12,444	2,529,266
Liabilities	262,676	174,470	210,223	(408)	646,961
Other segment information					
Acquisition of assets	57,045	65,751	375	111	123,282
Depreciation and amortisation	59,052	33,929	946	431	94,358
Average number of employees	347	1,270	154	50	1,821

2007	Transmission	Distribution	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
Average number of employees	353	1,207	200	53	1,813

(all amounts are in LTL thousand unless otherwise stated)

3 Segment information (cont'd)

Company

2008	Transmission	Distribution	Supply	Other	Total
Sales	134,103	137,794	1,278,872	3,292	1,554,061
Profit from operations	23,212	(8,748)	49,227	3,944	67,635
Assets	1,473,084	784,411	259,327	11,654	2,528,476
Liabilities	262,676	174,470	210,223	62	647,431
Other segment information					
Acquisition of assets	57,045	65,751	375	3	123,174
Depreciation and amortisation	59,052	33,929	946	183	94,110
Average number of employees	347	1,270	154	21	1,792
2007					
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
Average number of employees	353	1,207	200	23	1,783

(all amounts are in LTL thousand unless otherwise stated)

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 2007	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
Additions	946	702	14	1,662
Retirements	(113)	(131)	(136)	(380)
Balance as of 31 December 2008	3,090	6,069	1,561	10,720
Amortisation:				
Balance as of 1 January 2007	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
Charge for the year	396	833	155	1,384
Retirements	(113)	(131)	(136)	(380)
Balance as of 31 December 2008	1,433	4,081	1,441	6,955
Net book value as of 31 December 2008	**1,657**	**1,988**	**120**	**3,765**
Net book value as of 31 December 2007	**1,107**	**2,119**	**261**	**3,487**

4 Intangible assets (cont'd)

Company	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as of 1 January 2007	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
Additions	946	678	14	1,638
Retirements	(113)	(130)	(136)	(379)
Balance as of 31 December 2008	3,090	6,038	1,561	10,689
Amortisation:				
Balance as of 1 January 2007	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
Charge for the year	396	831	155	1,382
Retirements	(113)	(130)	(136)	(379)
Balance as of 31 December 2008	1,433	4,077	1,441	6,951
Net book value as of 31 December 2008	**1,657**	**1,961**	**120**	**3,738**
Net book value as of 31 December 2007	**1,107**	**2,114**	**261**	**3,482**

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 4,744 thousand as of 31 December 2008 (LTL 3,624 thousand as of 31 December 2007) was fully amortised, but still in use.

(all amounts are in LTL thousand unless otherwise stated)

5 Property, plant and equipment

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

Group	Land	Buildings	Transmission networks and related installations	Distribution networks and related installations	Other buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Other property, plant and equipment	Construction in progress	Total
Cost:											
Balance as of 1 January 2007	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
Additions	–	2	–	356	–	483	4,566	4,079	1,047	111,087	121,620
Disposals and retirements	–	(56)	–	(228)	(15)	(322)	(3,902)	(1,877)	(361)	(1)	(6,762)
Reclassifications	–	3,528	645	58,778	987	7,424	48	5,605	388	(77,403)	–
Balance as of 31 December 2008	183	99,242	1,449,148	779,279	12,211	124,746	32,000	93,312	9,638	58,601	2,658,360
Accumulated depreciation:											
Balance as of 1 January 2007	–	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
Charge for the year	–	3,051	46,137	23,230	588	7,925	3,042	7,905	1,096	–	92,974
Disposals and retirements	–	(37)	–	(165)	(14)	(315)	(3,901)	(1,869)	(336)	–	(6,637)
Reclassifications	–	8	–	–	(8)	–	–	–	–	–	–
Balance as of 31 December 2008	–	12,733	180,766	89,337	2,697	39,932	18,404	60,415	5,322	–	409,606
Impairment losses:											
Balance as of 1 January 2007	–	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
Reversal of impairment	–	–	–	–	–	–	–	(3)	(7)	(1)	(11)
Balance as of 31 December 2008	–	3,515	–	–	–	–	–	–	–	–	3,515
Net book value as of 31 December 2008	**183**	**82,994**	**1,268,382**	**689,942**	**9,514**	**84,814**	**13,596**	**32,897**	**4,316**	**58,601**	**2,245,239**
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**

5 Property, plant and equipment (cont'd)

Company	Land	Buildings	Transmission networks and related installations	Distribution networks and related installations	Other buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Other property, plant and equipment	Construction in progress	Total
Cost:											
Balance as of 1 January 2007	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
Additions	–	2	–	356	–	483	4,566	4,044	1,047	111,038	121,536
Disposals and retirements	–	(56)	–	(228)	(15)	(322)	(3,902)	(1,861)	(361)	(1)	(6,746)
Reclassifications	–	3,528	645	58,778	987	7,424	48	5,605	388	(77,403)	–
Balance as of 31 December 2008	183	87,093	1,449,148	779,279	12,211	124,746	31,875	91,936	9,638	58,495	2,644,604
Accumulated depreciation:											
Balance as of 1 January 2007	–	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
Charge for the year	–	2,907	46,137	23,230	588	7,925	3,030	7,815	1,096	–	92,728
Disposals and retirements	–	(37)	–	(165)	(14)	(315)	(3,901)	(1,854)	(336)	–	(6,622)
Reclassifications	–	8	–	–	(8)	–	–	–	–	–	–
Balance as of 31 December 2008	–	10,804	180,766	89,337	2,697	39,932	18,298	59,352	5,322	–	406,508
Impairment losses:											
Balance as of 1 January 2007	–	–	–	–	–	–	–	–	–	5	5
Charge for the year	–	–	–	–	–	–	–	3	7	–	10
Reversal of impairment	–	–	–	–	–	–	–	–	–	(4)	(4)
Balance as of 31 December 2007	–	–	–	–	–	–	–	3	7	1	11
Reversal of impairment	–	–	–	–	–	–	–	(3)	(7)	(1)	(11)
Balance as of 31 December 2008	–	–	–	–	–	–	–	–	–	–	–
Net book value as of 31 December 2008	**183**	**76,289**	**1,268,382**	**689,942**	**9,514**	**84,814**	**13,577**	**32,584**	**4,316**	**58,495**	**2,238,096**
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**

(all amounts are in LTL thousand unless otherwise stated)

5 Property, plant and equipment (cont'd)

The depreciation of the Group's and the Company's property, plant and equipment for 2008 amounts to LTL 92,974 thousand and LTL 92,728 thousand, respectively. The amounts of LTL 92,951 thousand and LTL 92,705 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 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.

Property, plant and equipment of the Group and the Company with the acquisition cost of LTL 44,959 thousand and LTL 44,146 thousand, respectively, were fully depreciated as of 31 December 2008 (LTL 47,357 thousand and LTL 46,611 thousand as of 31 December 2007, respectively), but were still in use.

As of 31 December 2008 and 2007 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 2008 were as follows:

Object	**Group**	**Company**
Construction of MRS in Jauniūnai, Širvintos district	31,781	31,781
Construction of transmission pipeline Jurbarkas - Šilalė branch	3,354	3,354
Construction of transmission pipeline Šilalė - Klaipėda branch	3,987	3,987
Other (including UAB Palangos Perlas)	19,479	19,373
Net book value as of 31 December 2008	**58,601**	**58,495**

6 Investments into subsidiaries

As of 31 December 2008 and 2007 the Company's investment into subsidiaries consisted of the investment into UAB Palangos Perlas and amounted to LTL 10,737 thousand.

7 Non-current accounts receivable

	Group		**Company**	
	2008	**2007**	**2008**	**2007**
AB Panevėžio Stiklas debt	6,373	6,373	6,373	6,373
Other non-current accounts receivable	65	75	65	75
	6,438	6,448	6,438	6,448
Less: allowance for non-current accounts receivable	(6,373)	(6,373)	(6,373)	(6,373)
	65	75	65	75

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 the debt to the Company in the amount of LTL 6,373 thousand should be repaid during the years 2013 – 2024.

(all amounts are in LTL thousand unless otherwise stated)

8 Inventories

	Group		Company	
	2008	2007	2008	2007
Raw materials, spare parts and other inventories	3,058	2,367	3,057	2,366
Goods for resale (including natural gas)	55,182	106,904	55,168	106,889
Inventories, gross	58,240	109,271	58,225	109,255
Less: allowance for inventories	(66)	(207)	(66)	(207)
	58,174	109,064	58,159	109,048

As of 31 December 2008 the Group's and the Company's balances of the goods for resale significantly decreased due to lower quantity of natural gas stored in Latvia gas storage at the year end.

The cost of inventories accounted for at net realisable value amounted to LTL 1,160 thousand as of 31 December 2008 (LTL 1,422 thousand as of 31 December 2007). Changes in the allowance for inventories in 2008 and 2007 were included into operating expenses.

9 Accounts receivable

	Group		Company	
	2008	2008	2008	2007
Receivables for natural gas, transmission and distribution of natural gas from non-household customers	130,899	88,759	130,910	88,759
Receivables for natural gas, transmission and distribution of natural gas from household customers	4,500	3,555	4,500	3,555
Other trade receivables	1,764	807	1,757	809
	137,163	93,121	137,167	93,123
Prepaid income tax	1.852	–	1.844	–
Other accounts receivable	498	3,216	497	3,159
	139,513	96,337	139,508	96,282
Less: allowance for accounts receivable	(6,301)	(4,758)	(6,301)	(4,758)
	133,212	91,579	133,207	91,524

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

As of 31 December 2008 trade and other receivables with the nominal value of LTL 1,386 thousand (as of 31 December 2007 – LTL 4,338 thousand) were fully provided for.

As of 31 December 2008 the Group's and the Company's trade receivables increased significantly due to the increase in natural gas sales price for customers.

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

	Individually impaired	Collectively impaired	Total
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**
Charge for the year	4,951	781	5,732
Utilised	–	(56)	(56)
Unused amounts reversed	(3,605)	(528)	(4,133)
Balance as of 31 December 2008	**4,905**	**1,396**	**6,301**

Changes in allowance for accounts receivable in 2008 and 2007 were included into operating expenses.

(all amounts are in LTL thousand unless otherwise stated)

9 Accounts receivable (cont'd)

The ageing analysis of the Group's trade and other receivables as of 31 December 2008 and 2007 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
2007	82,825	5,062	958	121	63	–	89,029
2008	113,473	14,090	3,491	191	111	–	131,356

The ageing analysis of the Company's trade and other receivables as of 31 December 2008 and 2007 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
2007	82,829	5,060	958	121	63	–	89,031
2008	113,472	14,090	3,487	190	111	–	131,350

10 Other current assets

The Group's other current assets consists of short term deposits in the amount of LTL 4,099 thousand as of 31 December 2008 (LTL 3,722 thousand as of 31 December 2007). Weighted average annual interest rate of the term deposits was 6.42% as of 31 December 2008 (4.91% as of 31 December 2007). The maturity of term deposits is 3 - 6 months period.

11 Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
Cash at bank, in transit and on hand	3,984	3,952	3,853	3,695
Frozen funds	6,137	6,137	6,137	6,137
Deposits with the term of less than three months	80,242	29,642	80,142	29,642
	90,363	39,731	90,132	39,474
Less: impairment	(6,137)	(6,137)	(6,137)	(6,137)
	84,226	33,594	83,995	33,337

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 2008 was 2.54% (3.7% as of 31 December 2007).

Cash at banks is invested into short-term deposits, the interest rate depending on the time limit may be fixed or floating. Overnight deposits are with floating interest rate, which depends on daily published interbank interest rates. The other deposits with the term less than three months are with fixed interest rate. The fair value of cash and current deposits of the Group and the Company as of 31 December 2008 was LTL 84,226 thousand and LTL 83,995 thousand, respectively (LTL 33,594 thousand and LTL 33,337 thousand as of 31 December 2007).

12 Share capital

There were no changes in share capital during 2008 and 2007, and as of 31 December 2008 and 2007 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 3,197 thousand of the Company's net 2008 profit must be allocated for a transfer to the legal reserve for 2008. 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.

Other reserves

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 2008 on the date of issue of these financial statements.

14 Grants (deferred revenue)

Group and Company	**2008**			**2007**		
	Deferred revenue	**Grants**	**Total**	**Deferred revenue**	**Grants**	**Total**
Balance at the beginning of the period	75,436	61,795	137,231	50,975	60,126	111,101
Additions per year	28,831	2,010	30,841	25,529	4,094	29,623
Grants receivable for compensation of expenses	–	–	–	–	227	227
Amortisation per year	(1,574)	(2,044)	(3,618)	(1,068)	(2,046)	(3,114)
Grants used for compensation of expenses	–	(242)	(242)	–	(606)	(606)
Balance at the end of the period	102,693	61,519	164,212	75,436	61,795	137,231

Increase in grants (deferred revenue) in 2008 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 2008	**As of 31 December 2007**	**As of 31 December 2008**	**As of 31 December 2007**
Non-current borrowings				
Borrowings from Lithuanian credit institutions	8,576	10,720	8,576	10,720
Current borrowings				
Current portion of non-current borrowings	2,144	10,839	2,144	10,839
	10,720	21,559	10,720	21,559

(all amounts are in LTL thousand unless otherwise stated)

15 Borrowings (cont'd)

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

	As of 31 December 2008		As of 31 December 2007	
	Fixed interest bearing loans	**Floating interest bearing loans**	**Fixed interest bearing loans**	**Floating interest bearing loans**
2008	–	–	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	–
	10,720	–	20,364	1,195

Actual interest rates are close to effective interest rates. As of 31 December 2008 the weighted average annual interest rate of borrowings outstanding was 5.65% (5.05% as of 31 December 2007). In 2008 and 2007 the period of repricing floating 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:	**2008**	**2007**	**2008**	**2007**
EUR	10,720	20,364	10,720	20,364
LTL	–	1,195	–	1,195
	10,720	21,559	10,720	21,559

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

As of 31 December 2008 the Group and the Company had available LTL 6,900 thousand (LTL 20,000 thousand as of 31 December 2007) of unutilized credit limit facility in respect of which all conditions precedent had been met.

16 Trade payables

	Group		Company	
	2008	**2007**	**2008**	**2007**
Suppliers of natural gas	177,729	116,598	177,729	116,598
Other	3,222	2,917	3,212	2,900
	180,951	119,515	180,941	119,498

As of 31 December 2008 the Group's and the Company's trade payables significantly increased due to the significant increase in import price of natural gas.

Terms and conditions of the above financial liabilities:

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

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

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

17 Cost of sales

In 2008 the major part of the Group's and the Company's cost of sales consists of the cost of natural gas – 99.96% and 99.98%, respectively (99.90% and 99.93%, respectively, in 2007).

18 Operating expenses

	Group		Company	
	2008	2007	2008	2007
Depreciation and amortisation	94,335	94,482	94,087	94,247
Salaries and social security	87,747	75,358	87,122	74,758
Repair and maintenance expenses	29,727	25,524	29,619	25,419
Taxes other than income tax	11,319	10,861	11,245	10,801
Fuel	2,892	2,413	2,880	2,403
Communication services	1,872	1,641	1,860	1,626
Meters	1,608	1,682	1,608	1,682
Impairment of assets	982	(1,948)	982	(1,948)
Other	22,254	21,315	22,213	21,280
	252,736	231,328	251,616	230,268

19 Other operating activities income (net)

In 2008 the major part of the Group's and the Company's other operating activities income consists of grants (including deferred revenues) amortisation amounting to LTL 3,618 thousand, in 2007 it included also amortisation of grants amounting to LTL 3,114 thousand and the gain on property, plant and equipment disposals for the amount of LTL 2,144 thousand.

20 Financial and investing activities

	Group		Company	
	2008	2007	2008	2007
Interest income on deposits	5,099	2,688	4,868	2,533
Other income from financial and investing activities	1,438	346	1,438	346
Total income from financial and investing activities	6,537	3,034	6,306	2,879
Interest expenses on borrowings	(862)	(2,346)	(862)	(2,346)
Other expenses from financial and investing activities	(1)	(3)	(1)	(3)
Total expenses from financial and investing activities	(863)	(2,349)	(863)	(2,349)
Gain from financial and investing activities, net	5,674	685	5,443	530

(all amounts are in LTL thousand unless otherwise stated)

21 Income tax

	Group		Company	
	2008	2007	2008	2007
Income tax:				
Income for the year before income tax according to IFRS	73,273	125,332	73,078	125,076
Changes in temporary differences	52,837	50,513	52,893	50,574
Permanent differences	921	2,299	919	2,299
Taxable income for the year	127,031	178,144	126,890	177,949
Current income tax	19,055	32,065	19,035	32,031
Prior periods' income tax adjustment	(214)	(6,465)*	(214)	(6,465)*
Change in deferred income tax	51,914	(4,246)	52,037	(4,256)
Impact on change in income tax rate recorded directly under the caption of retained earnings in the balance sheet**	(61,717)	–	(61,717)	–
Income tax expense charged to the income statement	9,038	21,354	9,141	21,310
Deferred tax asset:				
Impairment losses on property, plant and equipment, accounts receivable and inventories	6,224	3,884	5,582	3,480
Deferred revenue from connection fees	2,877	2,201	2,877	2,201
Other	–	604	–	599
Deferred tax asset before valuation allowance	**9,101**	**6,689**	**8,459**	**6,280**
Less: valuation allowance	(4,559)	(4,084)	(4,555)	(4,079)
Less: deferred tax asset netted with deferred tax liability	(4,542)	(2,201)	(3,904)	(2,201)
Deferred tax asset, net	**–**	**404*** **	**–**	**–**
Deferred tax liability:				
Revaluation of property, plant and equipment	(246,977)	(193,126)	(246,866)	(193,126)
Deferred tax liability, net	**(242,453)**	**(190,925)**	**(242,962)**	**(190,925)**

* These amounts include the income tax and deferred tax recalculated for the years 2005 and 2006, recognised in the financial statements for the year 2007, when the State Tax Inspectorate of the Ministry of Finance Ministry recognised that the revenue from connection to the Company's gas system of new users on income tax purposes may be recognised during the capitalised assets useful lives.

** Due to application of 20% income tax rate starting from 1 January 2009, the Group and the Company performed the recalculation of deferred income tax assets and liabilities. Based on the Group's and the Company's choice the effect of change in income tax rate for the deferred income tax liability component was recognised under the retained earnings caption in the balance sheet.

*** Represents deferred income tax asset from the revaluation of the property, plant and equipment of the subsidiary, the realisation term of which was 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 deferred tax asset and deferred tax liability of the Company and it's subsidiary is netted to the extent they are realised simultaneously.

21 Income tax (cont'd)

While assessing deferred income tax asset and liability components in 2008 the Group and the Company has used 20% income tax rate. While assessing deferred income tax asset and liability components in 2007 the Group and the Company has used income tax rate of 15%, as future change of tax rate was unknown as of the release date of financial statements for the year 2007.

The reported amount of income tax expense for the year can be reconciled to the amount of income tax expense that would result from applying the statutory income tax rate of 15% and 20% to pre-tax income:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Profit before tax	73,273	125,332	73,078	125,076
Tax (expense) at the applicable standard tax rate	(10,991)	(22,560)	(10,962)	(22,514)
Non-deductible items	138	(414)	138	(414)
Change in deferred tax asset realisation allowance	475	2,392	476	2,395
Impact of changes in income tax rates	1,554	223	1,421	218
Effect of prior periods income tax adjustment	(214)	(995)	(214)	(995)
Income tax (expense)	**(9,038)**	**(21,354)**	**(9,141)**	**(21,310)**

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	
	2008	**2007**	**2008**	**2007**
Net profit attributable to the shareholders (in LTL thousand)	64,235	103,978	63,937	103,766
Weighted average number of shares in thousand	469,068	469,068	469,068	469,068
Basic earnings per share (in LTL)	0.14	0.22	0.14	0.22

As there were no changes in the share capital of the Company during 2008 and 2007, therefore the weighted average number of shares equals to the total number of shares.

23 Dividends declared

	2008	**2007**
Approved dividends (in LTL thousand)*	50,000	30,000
Number of shares at the date when dividends were declared (in thousand)	469,068	469,068
Approved dividends per share (LTL)	0.11	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 421 thousand (in 2007 LTL 1,127 thousand and LTL 1,134 thousand, respectively), 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 (hereinafter the Order), 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. During 2002 - 2008 the Group and the Company has bought out 313 km pipelines for the total value of LTL 5,021 thousand. In accordance with the regulation of the Order, the owners of the natural gas common use systems could make the requests till 31 December 2007. As of 31 December 2008 the Group and the Company has unsatisfied requests to buy out 115 km pipelines with the estimated price of approximately LTL 1 million according to the Group's and the Company's calculation.

As of 31 December 2008, the Group and the Company had the contracts for non-current assets acquisition, which are not recognised in these financial statements and amount to LTL 78,225 thousand.

26 Financial assets and liabilities and risk management

Liquidity risk

The Group's and the Company's policy is to maintain sufficient amount of 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. Liquidity risk is managed by constantly forecasting the current and non-current cash flows of the Group and the Company.

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2008 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	–	3,362	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**
Interest bearing loans and borrowings	–	–	2,719	9,666	–	12,385
Other current liabilities	–	593	–	–	–	593
Trade payables	–	180,899	52	–	–	180,951
Balance as of 31 December 2008	**–**	**181,492**	**2,771**	**9,666**	**–**	**193,929**

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2008 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	–	3,362	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**
Interest bearing loans and borrowings	–	–	2,719	9,666	–	12,385
Other current liabilities	–	593	–	–	–	593
Trade payables	–	180,889	52	–	–	180,941
Balance as of 31 December 2008	**–**	**181,482**	**2,771**	**9,666**	**–**	**193,919**

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

Credit risk

The Group's and the Company's management believes that the maximum credit risk is equal to the trade receivables, cash and deposits less impairment losses recognised at the balance sheet date. As the Group and the Company are working with big number of costumers, they do not face a significant credit concentration risk. Credit risk is managed through regular monitoring procedures (individual debtors' supervision, monitoring and analysis of major customers, seeking to anticipate the potential solvency problems in the future and other) and the use of appropriate credit conditions. Every month there are valued debts of the individual customers and their groups and in accordance with procedures of the Company there is accepted the decision for the formation of allowance for accounts receivable.

The risk of the keeping the Group's and the Company's unused funds in bank accounts or keeping as current deposits is not significant, because only the banks with the highest credit ratings are selected as the partners.

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

Foreign currency risk

In order to manage foreign currency risk, the purchases and sales transactions of the Group and the Company are mainly denominated in LTL and EUR., litas is pegged to the euro, therefore, the foreign currency risk is not significant.

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2008 were as follows (stated in LTL):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	219,328	215,217	41,277	41,227
EUR	2,274	2,050	188,501	188,501
Total	221,602	217,267	229,778	229,728

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

Interest rate risk

As of 31 December 2008 all the Group's and the Company's borrowings are with fixed interest rates. The Group and the Company does not use any financial instruments designated to manage the fluctuation in interest rates.

During the year 2008 the Company has fully repaid the borrowing with the floating interest rate and this amount was not significant.

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.

The sensitivity analysis was performed only for the Group's and the Company's borrowings with a floating interest rate held as of 31 December 2007.

	Increase/decrease in basis points	Effect on profit before tax
2007		
LTL	+300	(36)
LTL	–300	36

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

Gas import price fluctuation risk

Natural gas import price depends on oil and gasoline prices in international market, the USD and EUR ratio fixed by the European Central Bank and actual natural gas calorific value. This risk is managed respectively: for non-household customers - by setting the gas price depending on the same variable component values, for household customers – through the regulated price-setting mechanism.

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

1. On 29 December 2008 the National Control Commission for Prices and Energy (hereinafter the Commission) adopted the Resolution No O3-219 "On the Public Limited Company Lietuvos Dujos Natural Gas Transmission and Distribution Prices and Natural Gas Prices for Household Customers" (hereinafter the Resolution), with which the Commission unilaterally set natural gas transmission and distribution prices and natural gas prices for household customers to be applied from 1 January 2009. On 28 January 2009 AB Lietuvos Dujos applied to Vilnius County Administrative Court for annulment off the above Resolution of the Commission.

2. AB Lietuvos Dujos is taking part as third interested party in the case in Vilnius County Administrative Court according to the complaint of 29 December 2008 of the National Gas, Electricity and Heat Consumer Protection League regarding the Commission's Resolution No O3-219 "On the Public Limited Company Lietuvos Dujos' Natural Gas Transmission and Distribution Prices and Natural Gas Prices for Household Customers".

3. AB Lietuvos Dujos has also lodged complaints against previous activities of the Commission. These complaints are currently in progress. AB Lietuvos Dujos lodged a complaint to Vilnius County Administrative Court against the Commission's Resolution No O3-18 of 29 April 2005 "On AB Lietuvos Dujos' Price Caps of Natural Gas Transmission and Distribution and Price Caps of Natural Gas for the Regulated Customers", the Commission's Resolution No O3-30 of 30 May 2005 "On AB Lietuvos Dujos' Prices of Natural Gas Transmission and Distribution and Prices of Natural Gas for Regulated Customers", the Commission's Resolution No O3-36 of 30 June 2005 "On AB Lietuvos Dujos' Prices of Natural Gas Transmission and Distribution and Prices of Natural Gas for Regulated Customers", and the Commission's Resolution No O3-20 of 27 April 2006 "On the Adjustment of AB Lietuvos Dujos' Price Caps of Natural Gas Transmission and Distribution and Price Caps of Natural Gas for Regulated Customers". With the decision of 13 March 2007 Vilnius County Administrative Court rejected the complaint of AB Lietuvos Dujos. AB Lietuvos Dujos took an appeal to the Supreme Administrative Court of Lithuania (hereinafter SACL). In its judgement passed on 27 December 2007, SACL proposed that the case should be heard by an extended judicial collegium.

The outcome of above mentioned claims is uncertain and can not be estimated with reasonable efforts. In addition, based on the management estimates, there is no need to accrue any amounts for any potential future losses in relation to the above – mentioned cases. As at the time the Company is applying tariffs, which have been approved by the Commission.

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, transaction amounts and debts as of 31 December 2008 and 2007 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 (the same shareholders);
- E.ON IS GmbH (same ultimate shareholder).

2008	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	1,190,474	10,017	1,130	177,729
UAB Palangos Perlas	95	53	11	–
AS Latvijas Gaze	4,585	–	–	12
E.ON IS GmbH	198	–	–	40
	1,195,352	10,070	1,141	177,781

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

Dividends to the shareholders have been paid in 2008 and 2007.

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.

Payments for management

The Group's and the Company's payments to the administration management and the Board members amounted to LTL 2,416 thousand and LTL 2,345 thousand in 2008, respectively (LTL 1,822 thousand and LTL 1,757 thousand in 2007, respectively). The bonuses paid for the Company's Board members amounted to LTL 79 thousand in 2008 (nil in 2007). In 2008 and 2007 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

(all amounts are in LTL thousand unless otherwise stated)

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 2008 and 2007.

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. As of 31 December 2008 and 2007 the Group and the Company has been in compliance with this requirement.

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	
	2008	**2007**	**2008**	**2007**
Non-current liabilities (including deferred tax and grants)	415,223	338,876	415,750	338,876
Current liabilities	231,738	190,293	231,681	190,225
Liabilities	**646,961**	**529,169**	**647,431**	**529,101**
Equity	**1,882,305**	**1,929,787**	**1,881,045**	**1,928,825**
Debt to equity ratio	**34.37%**	**27.42%**	**34.42%**	**27.43%**