

Consolidated Annual Report 2009





CONTENTS

CHAIRMAN'S STATEMENT	4
GENERAL MANAGER'S STATEMENT.....	5
REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED	8
MAIN DATA ABOUT THE ISSUER	8
MAJOR DEVELOPMENTS OF THE REPORTING PERIOD	8
NATURAL GAS BUSINESS ENVIRONMENT.....	9
RISK MANAGEMENT.....	10
MAIN FEATURES OF THE GROUP'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO DRAWING UP CONSOLIDATED FINANCIAL STATEMENTS.....	11
FINANCIAL PERFORMANCE.....	14
RESEARCH AND DEVELOPMENT ACTIVITIES.....	17
BUSINESS PLANS AND FORECASTS	17
MANAGEMENT OF THE COMPANY.....	17
TRANSMISSION OF NATURAL GAS	25
DISTRIBUTION OF NATURAL GAS.....	26
SUPPLY OF NATURAL GAS.....	27
ENVIRONMENTAL PROTECTION.....	29
STAFF	30
MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION	31
SPONSORSHIP PROGRAMS.....	31
SOCIAL RESPONSIBILITY.....	32
AB LIETUVOS DUJOS CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009.....	37

Board of Directors

since 22 April, 2009



Dr Valery Golubev
Chairman

Deputy Chairman
of Management
Committee,
OAO Gazprom



Dr Achim Saul
Deputy Chairman

Member of the Board
of Management
of E.ON Ruhrgas
International AG
(member till
23 April, 2010)



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 till
23 April, 2010)



**Vladas Kazimieras
Gagilas**

Director of the Energy
Resources Department,
Ministry of Economy
(resigned since the 1st
of July, 2009)

since 23 April, 2010



**Dr Peter
Frankenberg**
Deputy Chairman

Senior Vice President
of E.ON Ruhrgas AG,
Managing Director
of E.ON Ruhrgas
International GmbH



Uwe Fip

Senior Vice President,
E.ON Ruhrgas AG,
Head of Gas Supply
Division East,
E.ON Ruhrgas AG



Romas Švedas

Vice-Minister of Energy
of the Republic
of Lithuania

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 Janiulionis
Deputy General
Manager – Technical
Director



Giedrė Glinskienė
Deputy General
Manager – Chief
Financial Officer

Note: since 2010, the legal form has changed from E.ON Ruhrgas International AG to E.ON Ruhrgas International GmbH.

CHAIRMAN'S STATEMENT



AB Lietuvos Dujos' 2009 annual investments in the infrastructure were the second largest in the Company's history in terms of invested assets. The reliability and flexibility of gas transportation and gas distribution systems of the Republic of Lithuania has been enhanced. The Company completed the project of modernization of the Šakiai cross-border GM-station and construction of the new section of the gas pipeline Minsk–Vilnius–Kaunas–Kaliningrad – from Šakiai GM-station to the border with Russia, further increasing cross-border gas transportation capacities and the security of gas supply. In addition to this, the Company continued the construction of the new gas compressor station close to Vilnius, which will both meet the needs of Lithuania and increase gas transit. Construction works were carried out in accordance with the schedule and without exceeding the budget. Since 2005, the gas transit amounts nearly doubled and will again double after commissioning of the new gas compressor station and will amount to 2.5 billion m³ per year.

Since privatisation, AB Lietuvos Dujos increased annual investments in the development of the new infrastructure more than four times. For the latest five years, approx. LTL 700 million has been invested in projects, inter alia the investments included in the National Energy Strategy of the Republic of Lithuania. However, due to the economic slowdown, competition with other fuels, and regulatory obstacles, the number of new consumers decreased from approx. 6 thousand p.a. during the peak of the economic boom to some 2 thousand p.a. in 2009. It seems, the number has already stabilized on this level. The Company currently focuses on attracting new consumers in areas already connected. So, AB Lietuvos Dujos takes all efforts to enhance the reliability and flexibility of the gas supply.

In summer 2009, in accordance with a governmental proposal, one more amendment to the Natural Gas Law came into force. This amendment limited the pre-tax profit rate of the natural gas infrastructure business to 5% p.a. This cap was approved for an unlimited period of time. Later on, in 2009, the National Control Commission for Prices and Energy amended the methodology for calculating the infrastructure tariffs, in which the principles on the inclusion of depreciation were changed as well. Such infrastructure regulation, in particular, negatively affected the economics of huge investments made by the Company for the latest few years and partly still under implementation, which were realized on request of the Government (in accordance with the National Energy Strategy and the rule of obligatory connection of new consumers) and were approved by the National Control Commission for Prices and Energy. This is not in line with the logics of international gas business and the EU Directive 2009/73/EC.

State end-user price regulation for natural gas continues to be in force and covers all gas consumers, including the biggest ones, whereas since the 1st of January 2010 the Lithuanian electricity market has been already partially opened, and electricity prices will not be regulated at all after some period of time. Electricity producers from different countries (LT, RU, BY, UK, LV, EE, and other countries) compete by using different kinds of fuel, out of which the Government of Lithuania regulates only the end-user price of natural gas, in such a way creating unequal conditions for competition.

The above mentioned factors form unfavourable conditions for investments and development of gas transportation and gas distribution systems and for investing in the development of the gas market. The Company's shareholders many times have drawn attention of authorities to these problems.

Despite this, in 2009, the Company successfully operated in the increasingly competitive energy market. In 2009, the Company partly recovered the heavy losses it suffered from the sale to household consumers in 2008, when the average gas import price was 23% higher than the average gas sales price fixed by the regulating authority.

Natural gas use significantly reduces greenhouse gases emissions and air pollutants. Natural gas emits far less CO₂ per unit of energy produced than any other fossil fuel. In the future, natural gas will remain to be the most attractive and efficient fuel for the production of electricity and heat as well as for heating individual houses.

In 2009, under challenging economic conditions, AB Lietuvos Dujos was successfully undertaking measures to further enhance productivity, the quality of service, loyalty and relationship with customers as well as to save costs. This is reflected in the financial result. On behalf of the shareholders and the Board of Directors I would like to thank the employees for their loyalty to the Company and consistent focusing to our consumers. I believe that common sense will prevail and the Government will allow the Company, along with other players in the energy market, to operate in accordance with market rules for the benefit of its consumers and shareholders.

Dr Valery Golubev
Chairman of the Board of Directors

GENERAL MANAGER'S STATEMENT



Despite the prevailing difficult macroeconomic situation, AB Lietuvos Dujos was proceeding with the implementation of the strategic goals, was improving its business organization model and was enhancing customers trust in the Company.

Due to the economic slump, part of the Company's customers temporarily limited their production outputs and development plans. Notwithstanding this, the natural gas market development did not stop. The exceptional ecological characteristics of the product offered by us, natural gas, the effectiveness and convenience of its use, created preconditions for constructing, in 2009, more than 70 km of new gas distribution pipelines and connecting to the natural gas grid of over 2 thousand of new gas customers. The public opinion survey of 2009 carried out by our partner the market analysis and survey group UAB RAIT revealed that natural gas retains its status of being one of the most attractive fuels. Heating by natural gas would be chosen by 58% of all respondents, and for us this rating is of great significance. The Company has successfully discharged all its contractual obligations to natural gas consumers, to other users of the gas pipeline system of AB Lietuvos Dujos, as well as the international contractual obligations regarding natural gas transit via the territory of Lithuania.

In pursuit of further cost minimization and operations efficiency enhancement we continued with the implementation of the structural work organization of individual subdivisions and operational process improvement projects. 2009 saw the completion of a significant stage of the integration of the Call Centre, during which the customer info centres of all the five Company's branches – Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys – were united into a common integrated Call Centre. This enabled us to save, firstly, our customers' time, secondly, the work time of individual units of AB Lietuvos Dujos, as the customers' queries are now being handled in a centralized and expeditious manner, thus markedly improving the quality of our customer service.

The Company was proceeding with activities aimed at making the process of settlement for natural gas supplies simpler, more convenient and more flexible. Even though the settlement by direct debit is basically intended for customers effecting their payments on an invoice basis, in 2009, the Company adapted this settlement method also for household customers paying according to their separate Payment Books. By selecting the direct debit settlement method offered by the Company, our household customers may make the settlement process simpler and reduce the payment costs. So far, we co-operate with two banks operating in Lithuania AB SEB bankas and AB Swedbank. Given this payment method lives up to expectations, expansion is planned. For the sake of our customers' convenience, we have concluded natural gas payment collection agreements with 22 partners.

In 2009, the Company's non-household customers were offered the option of receiving electronic VAT-invoices. The key advantages of this settlement method consist in the reduction of the time and cost of the invoicing, due to the elimination of the services of the invoice printing, enveloping and mailing. Electronic invoices are easy to administrate (to save, to archive, to conduct a historical search). At present, electronic invoices are received by approx. 70% of the Company's non-household customers.

In 2009, the necessary steps were taken in the fields of personnel selection and training process organization, public and private interests' declaration by the Company's top officials and career and personnel reserve planning. These processes were implemented in co-operation with representatives of the Company's staff and its trade union leaders.

The high professionalism of our staff and the precision of the co-operation among our services enabled us to localize the gas pipeline accident of the autumn of 2009 with expedience and without any significant losses and to eliminate the effects of the accident within the shortest time possible.

As for our future activities, we have to focus on the infrastructure projects of strategic importance that have already been started and on the improvement of the internal work processes. We will not reduce attention to further improvement of customer relations, quality of services, and we will not reduce attention to securing a safe and reliable delivery of natural gas – the cleanest and the most effective fossil fuel – to our customers.

Viktoras Valentukevičius
General Manager



We
do not change
reality –
we just
make it
warmer.

Always with you!



REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED – The Year 2009.

MAIN DATA ABOUT THE ISSUER

Name of the Issuer:	AB Lietuvos Dujos (hereinafter referred to as “the Company” or “LD”)
Legal & organizational form:	public company
Date and place of registration:	23 November 1990, State Enterprise Centre of Registers
Company code:	120059523
Administrator of Register of Legal Persons:	State Enterprise Centre of Registers
Authorized capital:	LTL 469,068,254
Registered office:	Aguonų g. 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

The vision of the Company is to become the best company in the energy sector.

We are going to achieve it by:

- being a transparent, reliable and attractive to consumers, socially responsible Company;
- increasing the value of the Company;
- attracting, sustaining and training the best employees;
- optimizing costs, ensuring an appropriate return on investment;
- expanding our activities in new segments;
- expanding our infrastructure (gas systems);
- ensuring a high IT, technical and technological level.

MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

- On 1 January 2009, new natural gas tariffs unilaterally set by the National Control Commission for Prices and Energy (hereinafter referred to as “the NCCPE”) for the Company’s customers came into effect.
- On 22 April 2009, the Annual General Meeting of Shareholders of the Company took place at which the shareholders decided for the results achieved in the Financial Year 2008 to pay out dividends in amount of LTL 45 million, i.e. 9.6 Lithuanian cents per share.
- On 22 April 2009, granting the resignation request of the member of the Board of Directors Marcus A. Soehrich, he was recalled from the membership of the Board of Directors and a new member Joerg Tumat was elected instead. Dr Valery Golubev was elected Chairman of the Board of Directors.
- On 12 May 2009, the Board of Directors of AB Lietuvos Dujos approved new reduced

gas tariffs for household customers. The new tariffs came into effect on 1 July 2009.

- From 1 July 2009, the Call Centre of AB Lietuvos Dujos started providing information on gas-related issues by short number **1894** to the gas customers of the entire Republic of Lithuania.
- On 14 July 2009, the gas companies of Lithuania and Latvia AB Lietuvos Dujos and Latvijas Gaze A/S submitted a joint application to the European Commission seeking financial assistance for a joint project aimed at enhancing the capacity of the natural gas interconnection between the two states, at upgrading the integration of the natural gas systems of the Baltic states, at creating conditions for the formation of the common natural gas market of the Baltic states and for the preparation for the integration into the common natural gas market of the European Union.
- On 24 October 2009, there was an explosion of the Gas Transmission Pipeline in Irvintos District. The accident was localized expeditiously. There were no natural gas supplies limitations to customers in connection with the

accident. On 10 November, the restoration works on the Gas Transmission Pipeline Section damaged by the accident were fully completed.

- In November, AB Lietuvos Dujos in cooperation with OAO Gazprom, completed the construction of the Second Line of the Minsk-Vilnius-Kaunas-Kaliningrad Gas Transmission Pipeline, and reconstructed the Akiai Border Gas Metering Station, thus enhancing its capacity. The total cost of the Project works carried out amounted to LTL 36 million. It is yet another investment project aimed at enhancing safety and reliability of its natural gas supplies to customers of Lithuania and at increasing natural gas transit volumes.
- On 20 November 2009, the Board of Directors of LD approved the new natural gas transmission and distribution service tariffs applicable in 2010 and natural gas tariffs for the household customers applicable till 1 July 2010. On 26 November 2009, the tariffs were approved by the NCCPE.

After the end of the financial year, there were no major events.

All public notices that in accordance with the procedure set by law must be posted in a daily newspaper, are posted in the Lietuvos Rytas daily newspaper. Notices to convene the General Meeting of Shareholders are posted in the Lietuvos Rytas daily newspaper. Material events related to the Company's activities are submitted to the Securities Commission, the stock exchange NASDAQ OMX Vilnius, and are posted on the Central Database of Regulated Information www.crib.lt and the Company website www.dujos.lt.

NATURAL GAS BUSINESS ENVIRONMENT

The Law on Natural Gas

In July of 2009 the Law on Amending Articles 6, 7, 10, 14, 23 and 25 and the Annex of the Law on Natural Gas was adopted. The amended Law on Natural Gas establishes (for an unlimited time period) that in the gas transmission and distribution activity the pre-tax profit rate (calculated from the value of assets used in the licensed activity of the gas company) may not exceed 5 percent (previously, the pre-tax profit rate was equal to the Weighted Average Cost of Capital, the principles of the calculation of which used to be regulated by the Methodology approved by the NCCPE). Such a limitation is an unprecedented case in the practice of the regulation of the energy sectors of the developed countries, when the rate of return set for investments in energy infrastructure is not linked to any economic indicators whatsoever (be it rate of return of alternative investment, risk level, etc.) and is limited at a much lower level than the rate of return of the safest investments in the country, i.e. the yield of the Government securities.

This legal provision creates an unfavorable environment for investments in the gas sector development and in securing safety of natural gas supplies.

The Law on Natural Gas stipulates that gas undertakings shall set their specific gas tariffs to household customers for a period of six months. An analogous provision of the Methodology has

already been applied in the period before 2008.

Principles of Asset Valuation

Implementing the provisions of the amended Law on Natural Gas, on October 7, 2009, the Government of the Republic of Lithuania approved the Principles of Valuation of Assets Used in the Licensed Activities of the Natural Gas Transmission, Distribution, Liquefaction, and Storage Companies to be followed by NCCPE when setting the price caps for respective activities. The provision of the Law vesting the Government rather than an Independent Regulator with the right to adopt the Principles of Valuation of Assets of Natural Gas Companies does not meet the EU provisions supporting the independence of Regulators.

New initiatives by the EU

In July of 2009, the European Parliament and the Council adopted the following legal acts aimed at further liberalization of the European internal natural gas market: Directive 2009/73/EC concerning common rules for the internal market in natural gas and Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks.

Given that Lithuania together with Finland, Estonia and Latvia have been defined as "energy islands", the European Commission, when drafting these legal acts, proposed to grant these states an exemption with regard to any further unbundling of the activities, i.e. further separation of the companies, until preconditions for alternative gas supplies are created. In the absence of any possibilities of alternative supplies sources or interconnections, such further separation of energy companies would make absolutely no sense and would only lead to a more complicated management of the Sector and an unjustified growth of expenses to be borne by customers, which would overtly contradict the aims and objectives declared by the European Commission.

Lithuania still has a possibility to join the aforesaid EU member states and

make use of this exemption offer made by the European Commission. The provisions of the new natural gas Directive have to be transposed into the legal framework of Lithuania by 3 March 2011 and implemented by 3 March 2012.

Licensing

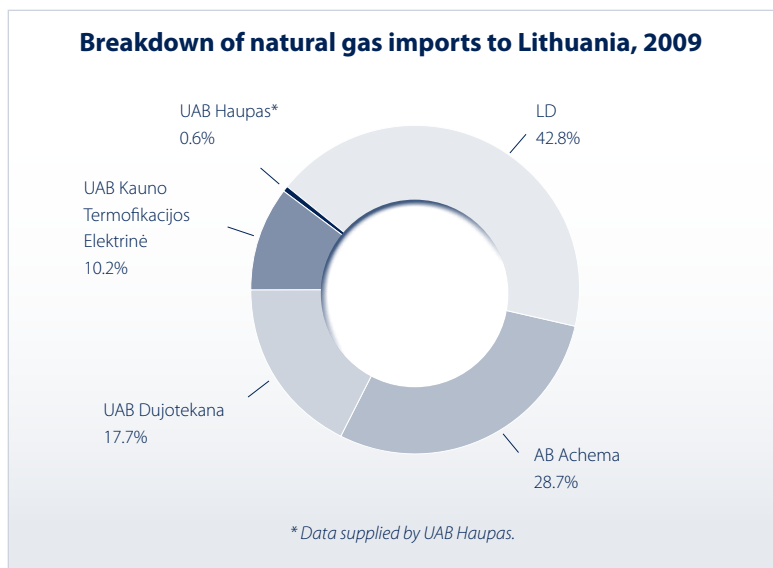
The Law on Natural Gas stipulates that the activities of natural gas transmission, distribution and supply are subject to licensing. The licences are issued and the supervision of the licensed activities is executed by the NCCPE. LD has been granted a licence to engage in the natural gas transmission 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 purchases natural gas from the Russian company OAO Gazprom. Natural gas import price depends on fuel oil and gasoil prices in international market, the EUR/USD exchange rate set by the European Central Bank and actual natural gas calorific value. Due to the changes in the aforesaid factors, the natural gas price for the non-household customers is subject to monthly recalculations.

The Law on Natural Gas establishes that gas companies will have to set specific natural gas tariffs for household customers for a six-month term.

Natural gas transmission and distribution service tariffs as well as natural gas supply tariffs for customers are subject to regulation. The price caps of the regulated prices are set by the NCCPE for a five-year regulation period and may be adjusted by the NCCPE, however not more than once per year and in cases provided for by the Law on Natural Gas.



On 20 November 2009, 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 from 1 January 2010. On 26 November 2009, the tariffs were approved by the NCCPE.

Information on natural gas tariffs is presented on LD website www.dujos.lt.

Market

In 2009, there were five companies importing natural gas into Lithuania: LD, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haupas. The total volume of natural gas imported into Lithuania in 2009 amounted to 2.7 billion m³. UAB Haupas did not use the Company's Natural Gas System for its imports of natural gas.

In 2009, the following companies supplied natural gas to household and non-household customers of Lithuania: LD, UAB Fortum Joniškio Energija, UAB Druskininkų Dujos, agro firm AB Josvainiai and UAB Intergas. UAB Dujotekana and UAB Haupas supplied gas only to non-household customers.

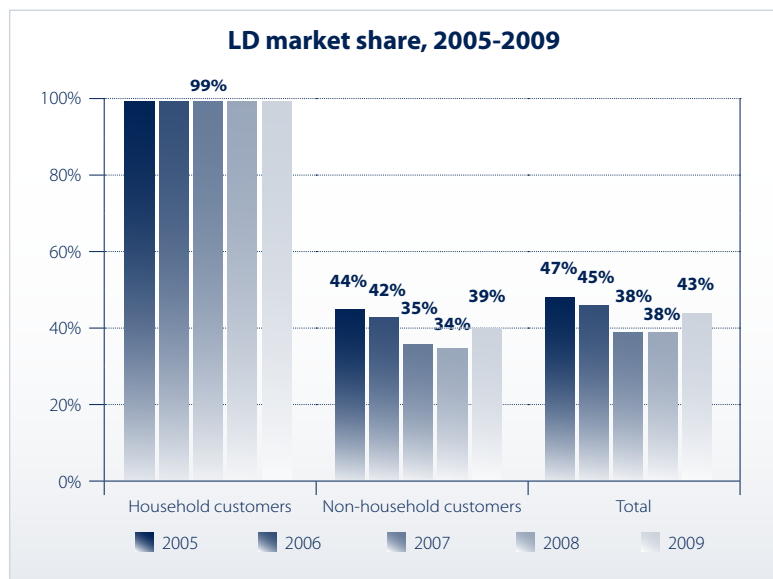
AB Achema and UAB Kauno Termofikacijos Elektrinė imported natural gas for their own needs.

On 13 October 2009, the NCCPE adopted the new versions of the Natural Gas Transmission and Distribution Price Cap Calculation Methodology and the Natural Gas Supply Price Cap Calculation Methodology repealing the old versions. The changes made in the Methodologies mostly consist in the transposition of the provisions of the Law on Natural Gas and the Principles of Valuation of Assets Used in the Licensed Activities of Natural Gas Transmission, Distribution, Liquefaction and Storage Companies (adopted by the Government), and in the introduction of other amendments, which essentially changes the key regulation principles.

With the coming into effect of the provisions of the Methodologies, the

principles of the household customers' differentiation into groups have been changed: from 2010, the annual consumption volume threshold of Subgroup 1 has been lowered from 800 to 500 m³.

In defiance of the fact that in accordance with the general international practice of the regulating authorities, the regulation principles should not be changed during the regulation period, the NCCPE followed the provisions of the changed Methodologies when making the calculations of the adjusted natural gas transmission and distribution price caps effective from 1 January 2010 and the adjusted natural gas supply price cap for the year 2010, which were set by the NCCPE decisions of 30 October 2009.



RISK MANAGEMENT

The Company has implemented a Risk Management System, which is a constituent part of LD activities. The risk management activities are aimed at maintaining an sufficient business process control level, at minimizing the probability of occurrence of events that may cause risks, at minimizing their possible negative effects, at ensuring that risks would not exceed the levels acceptable to LD and at implementing the Company's objectives.

The LD Risk Management Process comprises the following steps: risk identification; risk analysis, assessment and establishing the risk control measures; developing the

Risk Management Action Plan and implementation of measures of the Plan; monitoring and supervision of the Risk Management Process.

In pursuing its business activities, the Company is confronted with the following main risks: the legal regulation-related risk, the competition-related risk, the credit risk, the natural gas import price fluctuation risk, the technical-related risk and the macro-economic factors risk.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the AB Lietuvos Dujos Consolidated and Parent Company's Financial Statements for the year ended 31 December 2009.

The legal regulation-related risk

The legal regulation-related risk is linked to the unfavourable changes in the legal environment and the decisions of the Regulatory Authorities.

The core activities of the Company, i.e. the natural gas transmission, distribution and supply, are subject to licensing and regulation by the State. The frequent changing of the applicable legal provisions, especially with regard to pricing, create uncertainty of the business environment, thus aggravating the Company's relations with its customers and impeding its ability to plan for long-term.

After the adoption of the new natural gas-related Directive 2009/73/EC of the European Parliament and of the Council, the Natural Gas Industry and the state authorities will have to reach a mutual agreement regarding the method and time-schedule of the further liberalization of the Natural Gas Sector, taking into account the interests of customers.

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, and other energy companies operating in this Sector (the end consumers of heating except the ones using the district heating service, may choose among a variety of ways of heating and energy suppliers). A high percentage of major heat and power producing natural gas customers have dual-fuel systems and may use these alternative fuels replacing natural gas.

In order to retain and expand its market share, the Company continuously improves its sales and marketing strategies, carries out market research, upgrades its customer service and implements a consistent programme for business process optimization and cost-cutting, and in its business activities consistently follows the principles of transparency, impartiality and fairness.

The macro-economic factors risk

The economic recession in 2009 had a negative impact on the Company's sales: the gas transmission, distribution and sales volumes went down, and there was a significant decrease in the number of the newly connected customers, especially the major industrial ones. Applying the debt management measures implemented at the Company and due to the efficient work with the consumers the customer debt amount was maintained at a level acceptable to the Company.

At this stage it is difficult to predict credibly the impact of the further macro-economic developments in Lithuania on the financial condition of the Company. The Management believes that given current circumstances all the necessary measures to ensure the stability and development of the Company are being applied.

The technical-related risk

One of the main objectives of the Company consists in ensuring the

safety and reliability of the Gas Systems. 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 and medium-term Gas Systems repair and reconstruction programmes;
- subjects its Natural Gas Systems Operation & Maintenance staff to periodic certification procedures;
- subjects its Natural Gas Systems Operation & Maintenance Procedures to periodic revisions and updating taking into account the international practice;
- invites technical supervision authorities to perform additional inspections of the potentially hazardous equipment and facilities.

With a view to ensuring a timely response to any possible disruptions, the Company has set up its 24-hour Emergency Services and has drawn up Preventive Measures Plans and Plans of Reaction to Emergency Situations.

MAIN FEATURES OF THE GROUP'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO DRAWING UP CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). To ensure that consolidated financial statements are prepared correctly and timely, AB Lietuvos Dujos has approved the Instruction for Accounting Procedures and Policies, which regulates the principles, methods, and rules of accounting and preparation and presentation of consolidated financial statements.

A scenic landscape featuring a dense forest of tall, thin trees on a green hillside. In the foreground, there are blue and yellow wildflowers. A calm lake reflects the sky, and a vibrant rainbow arches over the water on the right side. On the left, a white silhouette of a person is shown in profile, looking towards the landscape.

We
do not
change life –
we just
speed it up.

Always with you!



FINANCIAL PERFORMANCE

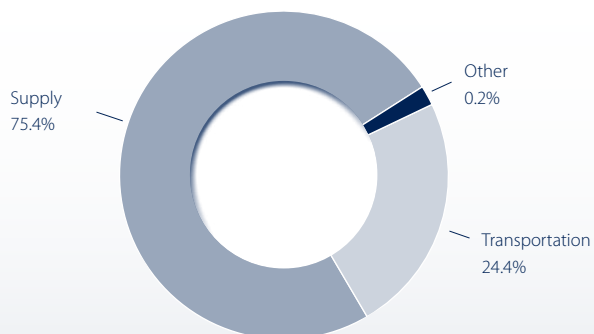
Group's key performance indicators

	2009	2008	2007
Performance indicators			
Volume of transmitted natural gas, M m ³	2,681.4	3,197.0	3,561.8
Volume of natural gas transit, M m ³	1,197.3	1,256.7	1,215.6
Volume of distributed natural gas, M m ³	1,030.9	1,082.7	1,142.2
Volume of natural gas sales, M m ³	1,150.9	1,223.3	1,364.1
Number of customers, that have concluded natural gas supply agreements as of the end of the year, thousand, pcs			
Household customers	544.2	541.6	537.2
Non-household customers	5.7	5.6	5.3
Length of operating gas pipelines, thousand, km			
Transmission pipelines	1.9	1.8	1.8
Distribution pipelines	8.1	7.9	7.5
Employees			
Average number of employees	1,787	1,821	1,813

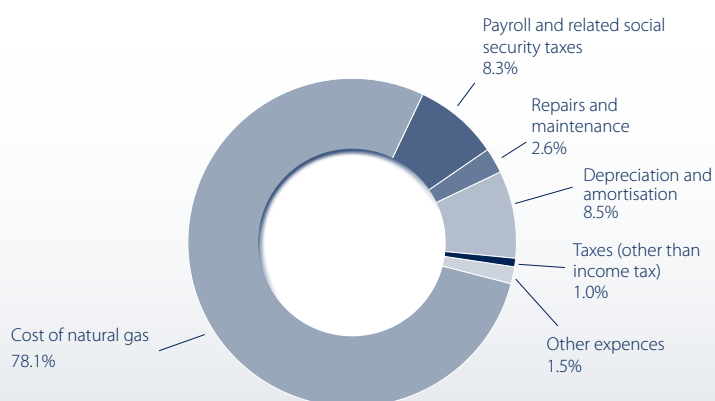
Group's key financial indicators

	2009	2008	2007
Financial results			
Sales, M LTL	1,264.3	1,555.4	1,024.3
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	214.8	162.0	219.2
Profit from operations, M LTL	117.1	67.6	124.6
Profit before tax, M LTL	120.1	73.3	125.3
Net profit, M LTL	94.8	64.2	104.0
Investments, M LTL	139.8	123.3	118.4
Assets at the end of the year, M LTL	2,551.2	2,529.3	2,459.0
Equity at the end of the year, M LTL	1,991.2	1,882.3	1,929.8
Profitability ratios			
EBITDA margin, %	16.9	10.4	21.2
Profit from operations margin, %	9.2	4.3	12.1
Profit before tax margin, %	9.5	4.7	12.2
Net profit margin, %	7.5	4.1	10.1
Average return-on-assets ratio (ROA), %	3.7	2.6	4.4
Average return-on-equity ratio (ROE), %	4.9	3.4	5.5
Liquidity			
Overall liquidity	1.3	1.2	1.3
Quick ratio	1.1	1.0	0.7
Leverage			
Debt to equity ratio, %	28.1	34.4	27.4
Debt ratio, %	22.0	25.6	21.5
Market value ratios			
Price-earnings ratio (P/E)	10.50	9.21	16.05
Dividend payment ratio, %	75.0	70.1	48.1
Basic earnings per share, LTL	0.20	0.14	0.22
Dividends per share for the current year, LTL	0.15	0.10	0.11

Sales structure, 2009



Structure of expenses, 2009



The consolidated financial statements for 2009 prepared by the Company also include the financial results of UAB Palangos Perlas. Financial results of AB Lietuvos Dujos Group (hereinafter referred to as "the Group") are reviewed below.

Revenue

In 2009 the revenue of the Group compared with 2008 decreased by 18.6% (LTL 291.2 million) and amounted to LTL 1,270.5 million. 99.5% of the revenue composed of the sales.

The negative change in the sales was influenced by the 25.5% drop in the supply activity revenue. The drop in the revenue from the supply activity was determined by sales price reduction due

to lower import price and decreased consumption of natural gas due to economic recession.

The revenue from the gas transportation activity, i.e. the gas transmission and distribution systems operator's activity, rose by 13.5% compared with 2008 due to increased prices of the transmission and distribution services.

Expenses

Compared with 2008, expenses decreased by 22.8% (LTL 340.7 million) and amounted to LTL 1,153.4 million. The basic part of the total expenses (78.1%) composed of the cost of natural gas. In comparison with 2008, these expenses decreased by LTL 341.1 million. The drop was

determined by lower natural gas import price and smaller gas sales volume.

The remaining part of the expenses composed of relatively fixed costs: gas network repairs and maintenance, payroll, etc. With the number of customers and length of operating gas pipelines increasing in 2009, these expenses, in the total amount, remained at the level of the previous year. Efficiency of operations was further increased in 2009: the organizational management structure was improved and cost optimization policy was consistently carried out.

Repairs and maintenance expenses decreased by 15.6%, other expenses decreased by 18.2%. Payroll and related social security taxes went up by 6.4% due to accounting assumptions, related to accumulation of non-current employee benefits. The average employees' salary remained on the level of 2008.

Financial activity

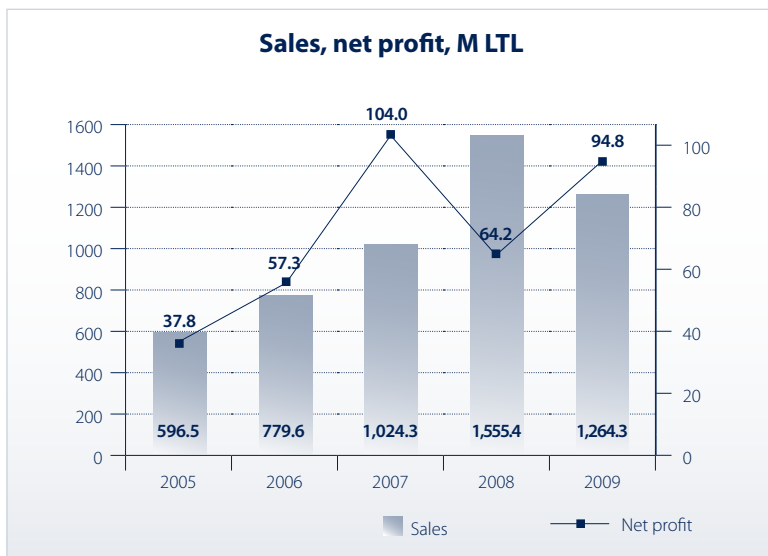
In comparison with 2008, the result from the financial activity decreased by 47.1% (LTL 2.7 million) in 2009 and amounted to LTL 3.0 million. Worse result in 2009 was mainly influenced by lower interest revenues from short-term investment of free funds.

Activity results

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 32.6% and amounted to LTL 214.8 million. The profit before tax amounted to LTL 120.1 million, i.e. 63.8% higher than in 2008. The net profit increased by 47.7% and amounted to LTL 94.8 million. The profit growth was significantly influenced by received partial compensation for loss in 2008, which incurred in the supply to household customers activity due to discrepancy in the natural gas import price set by NCCPE and actual natural gas import price.

Investments

In 2009 the Group's investments increased by 13.4% or by LTL 16.5 million compared with the previous year (from LTL 123.3 million to LTL 139.8 million).



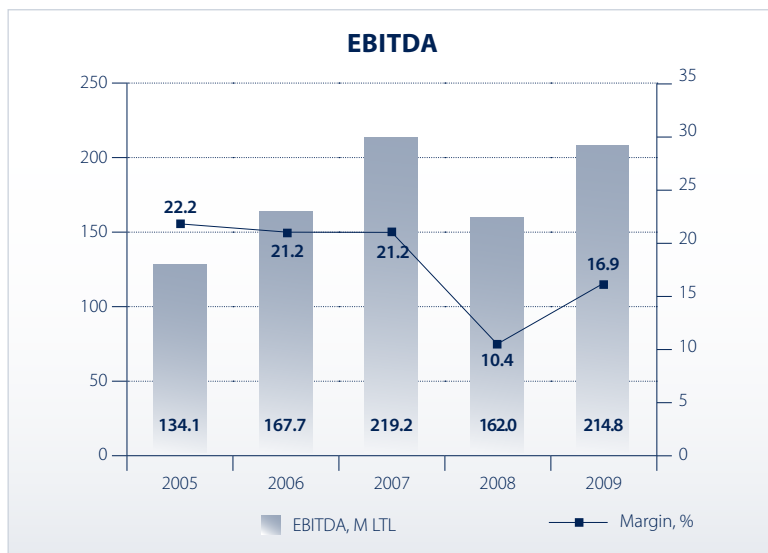
The major part of investments was financed by the Company's own funds.

Assets

The value of assets increased by 0.9% (LTL 21.9 million) during 2009 and amounted to LTL 2,551.2 million at the end of the year.

During 2009 the non-current assets increased by 1.9% (LTL 41.9 million) and amounted to LTL 2,291.0 million at the end of the year (89.8% of total assets). This change was determined by large-volume investments into gas system development and reconstruction of assets. The major part of non-current assets (85.1%) was comprised of transmission and distribution pipelines and related installations.

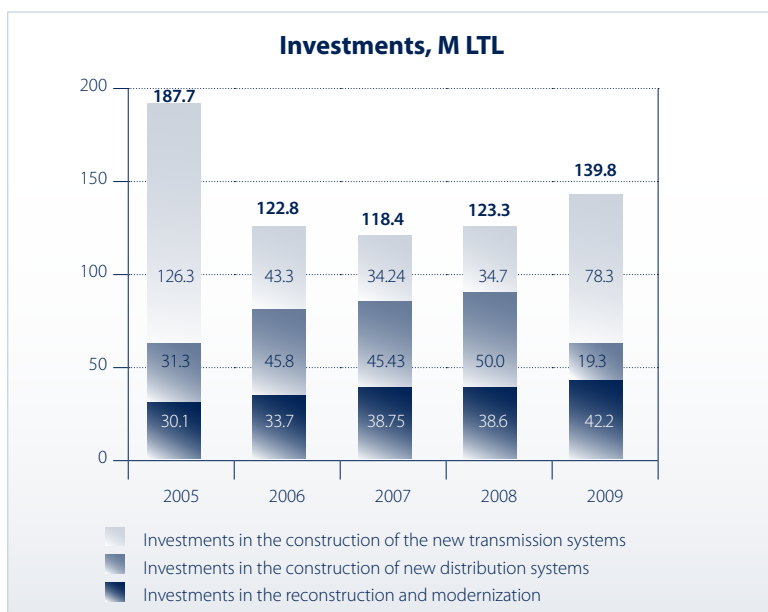
At the end of the year the value of current assets decreased by 7.1% (LTL 20.0 million) and amounted to LTL 260.2 million. The decrease in current assets was mainly influenced by drop in the natural gas inventories' value due to lower natural gas import price.



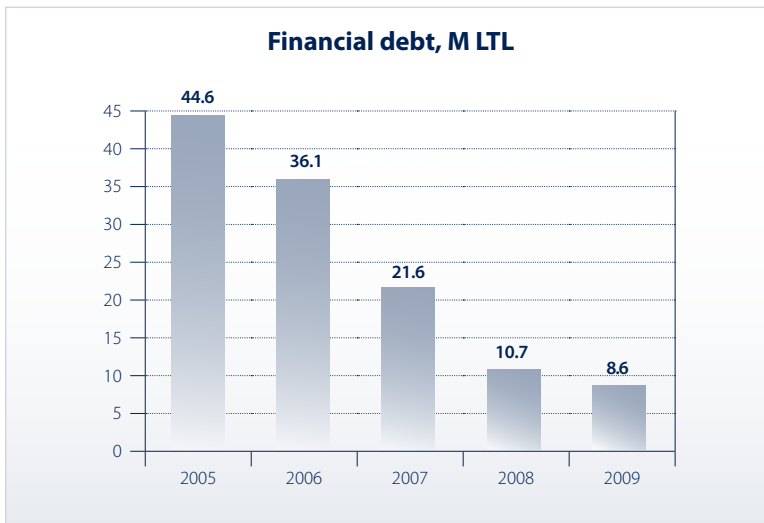
Equity and liabilities

Equity increased by 5.8% (LTL 108.9 million) and amounted to LTL 1,991.2 million at the end of 2009. The re-calculated deferred income tax (LTL 59.1 million) due to the changed income tax rate made significant influence upon the increase: deferred income tax liability decreased and equity (retained earnings) increased respectively.

Liabilities decreased by 13.4% (LTL 87.0 million) and at the end of the year amounted to LTL 560.0 million. In addition to the aforementioned influence of the deferred income tax, liabilities dropped significantly due to decreased trade payables which were determined by significant decrease of natural gas import price.



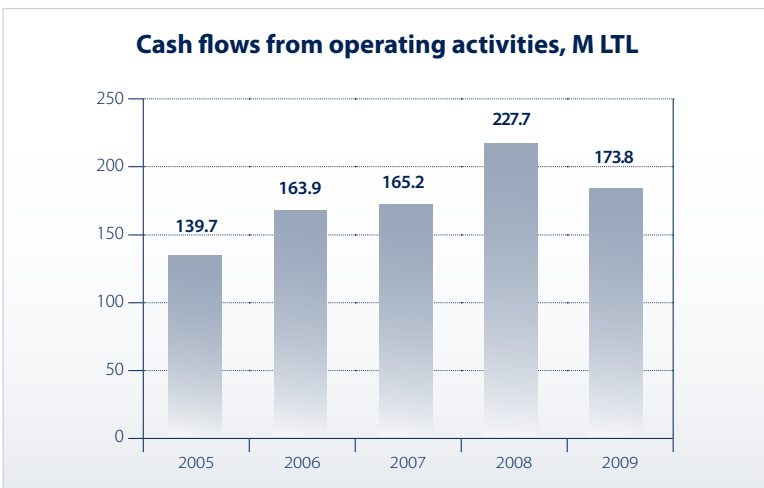
Financial debt of the Group decreased by 19.6% (LTL 2.1 million) during 2009 and amounted to LTL 8.6 million at the end of the period.



In 2010, the Company plans to connect approximately 2 thousand new customers, but this number might be corrected by the developments in the economic situation of Lithuania. In 2010, the Company's investments into the construction of new gas systems are planned at a higher level compared to the ones of 2009.

In 2010 is forecast to fully complete the implementation of the Jauniūnai Gas Compressor Station Construction Project. The Jauniūnai Gas Compressor Station 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. The Project has been included into the Lithuania's National Energy Strategy plans.

The Company will continue the implementation of the projects started before the advent of the economic hard times directed towards raising the efficiency of operations. Organizational management structure is being further improved, taking into account the applicable provisions of the EU legislation, the cost optimization policy is being consistently implemented.



RESEARCH AND DEVELOPMENT ACTIVITIES

Due to the nature and specificity of the Company's business activities, large attention is paid to the research of diagnostics of natural gas pipelines, technical condition of the infrastructure, environment protection, market development, and other activities and processes carried out by the Company. The advices set forth in reports are assessed and analyzed, whereupon, in accordance

with the results of these assessments and analyses, the reconstruction and modernization of the Company's natural gas systems is performed and investment projects for market development are elaborated and implemented.

BUSINESS PLANS AND FORECASTS

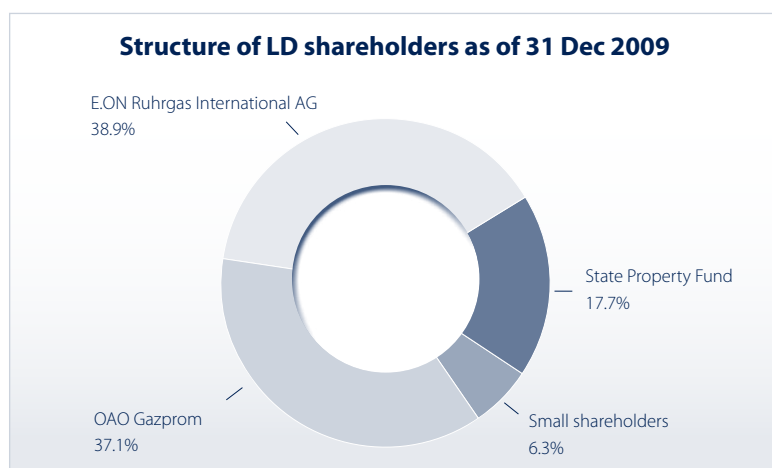
It is forecast that in 2010 the natural gas volume transmission to the customers of Lithuania via the Gas Transmission System of LD will amount to approximately 3 billion m³.

MANAGEMENT OF THE COMPANY

Information on the observance of the Code of Governance

The Company has disclosed the information regarding the observance of the provisions of the Code of Governance. All the information is available at the Company website www.dujos.lt and the Central Database of Regulated Information www.crib.lt.

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



Shareholders	Number of shareholders	Number of shares
Legal entities	60	457,234,687
Natural entities	2,357	11,833,567
Total:	2,417	469,068,254

Shareholders and shares

The authorized capital of the Company consists of 469,068,254 fully paid ordinary registered shares with par value of LTL 1 each. In 2009, the par value of shares, the value of the authorized capital and the structure of shareholders did not change.

AB Lietuvos Dujos shares entitle to equal property and non-property rights.

E.ON Ruhrgas International AG is a holding company which is a part of E.ON AG. E.ON AG is one of the world's largest electricity, gas, utility and renewable energy companies.

OAO Gazprom is a global energy company engaged in geological exploration, production, transmission, storage, processing and marketing of gas and other hydrocarbons, as well as production and supply of electricity and heat power. Gazprom possesses the world's largest confirmed natural gas reserves.

AB Lietuvos Dujos has not acquired its own shares and in 2009 it did not make any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2009, LD was controlled by 2,417 shareholders holding its shares by the right of ownership.

The shareholders of AB Lietuvos Dujos E.ON Ruhrgas International AG, OAO Gazprom 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 AB Lietuvos Dujos activities, development of the facility and the market. The agreement is confidential.

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

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

There exists one important agreement in which the Company is involved as a party and that would be changed or discontinued should there occur a change in the Company'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 on the Main List of the stock exchange NASDAQ OMX Vilnius.

In 2009, the turnover of the trading in LD shares amounted to LTL 12.5 million (2008: LTL 11.6 million). Through the transactions concluded, 8,091,695 shares were disposed (2008: 5,547,372).

After the slump of 2008, the Baltic states stock market recorded a rise. During the year 2009, the capitalization of the listed companies at the stock exchange NASDAQ OMX Vilnius increased by 23.5% and meanwhile the value of LD shares increased by 62.8%. As of 31 December 2009, LD capitalization amounted to 8.9% of the capitalization of the listed companies at the stock exchange NASDAQ OMX Vilnius.

Dividends

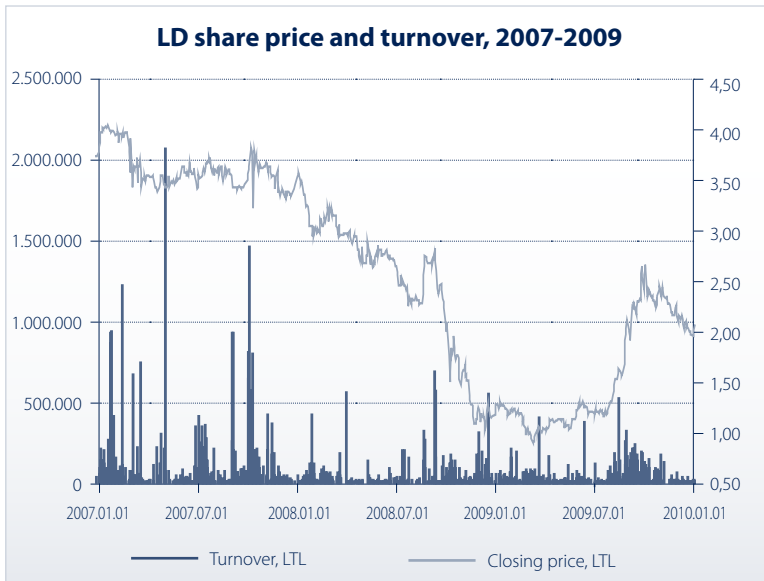
AB Lietuvos Dujos is consistently pursuing its dividend payout policy and every year it appropriates part of the profit to the payout of dividends. For the year 2009, it is appropriated for dividends LTL 71.1 million, or 15.2 Lithuanian cents per share (2008: LTL 45 million, or 9.6 cents per share).

Main data about LD shares

ISIN code	LT0000116220
Abbreviation	LDJ1L
Number of shares (pcs)	469,068,254

Share price dynamics at NASDAQ OMX Vilnius, 2007-2009

	2009	2008	2007
Highest price per share, LTL	2.77	3.65	4.12
Lowest price per share, LTL	0.89	1.01	3.28
Weighted average price per share, LTL	1.55	2.08	3.76
Price per share as of end of the period, LTL	2.10	1.29	3.53
Capitalization as of end of the period, M LTL	985.0	605.1	1,665.8



Agreements with intermediaries of public trading in securities

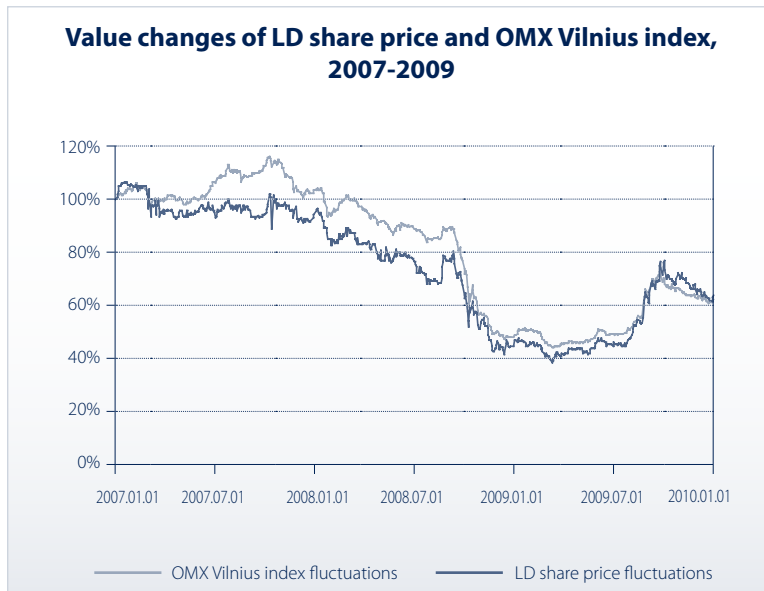
On 26 November 2003, AB Lietuvos Dujos concluded an agreement with the financial brokerage company AB Finasta regarding the accounting of securities issued by the Company and provision of services related to securities accounts.

Management structure

The Company is a vertically integrated enterprise. The Company acts pursuant to the Law on Companies 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. The competence of the General Meeting of Shareholders of the Company, the shareholders rights and their implementation procedure are prescribed by the Law on Companies and the Bylaws of the Company.

From 1 January 2008, the Company implemented the functional separation of the gas transportation and supply activities.

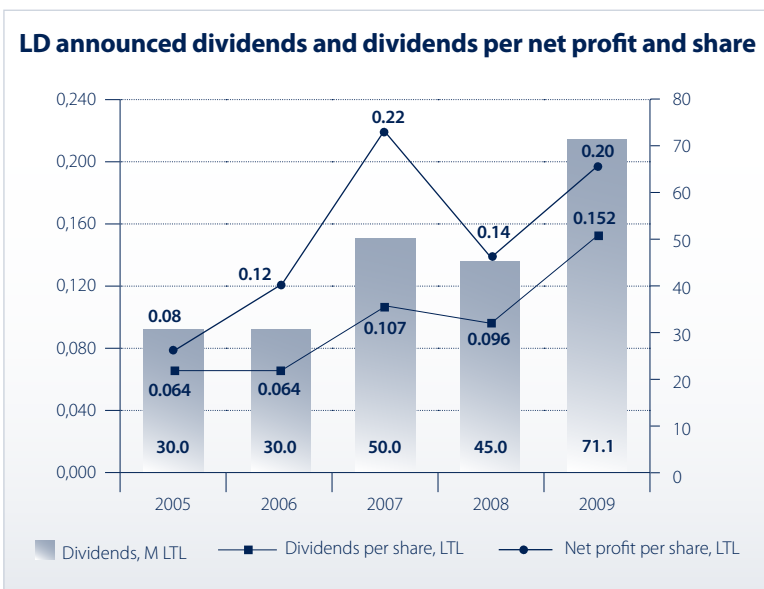
The Company has five natural gas distribution branches in different regions of Lithuania: Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys. With a view to raising the Company's resource management efficiency, in 2009 we optimized the organization chart of the branches of the Company through centralizing the management at the branches and leaving only four town divisions belonging to the branches.



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 6 May 2009 the Company has the following governing bodies:

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



A person is sitting on a roof, looking out over a landscape. The background is a bright, glowing yellow sphere, possibly a sun or a light source, which illuminates the scene. The foreground shows a large, dark green tree and a grassy area. The overall mood is serene and protective.

We
do not
change life –
we just make
it more
secure.

Always with you!



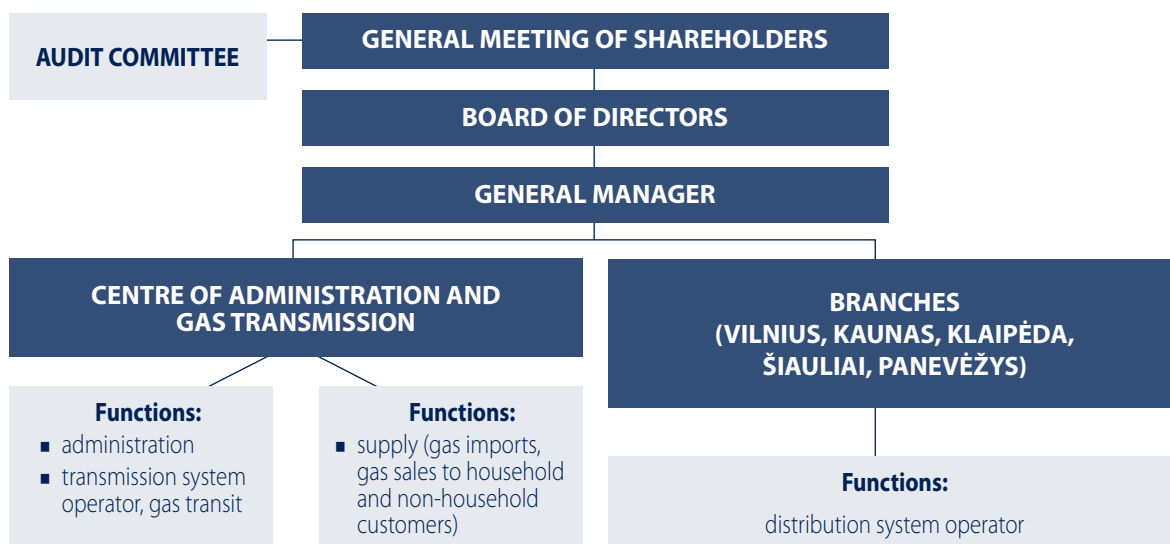
Particulars of the financial brokerage company AB Finasta	
Company code	122570630
Financial broker's licence No	A087 (issued by Securities Commission of the Republic of Lithuania)
Registered office	Maironio g. 11, Vilnius, Lithuania
Telephone No	+370 5 2786833, +370 5 2786844
E-mail	info@finasta.lt
Website	www.finasta.lt

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 Law on Companies 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. The powers of the Members of the Board of Directors and the fields of activity of the Chief Executive Officer of the Company are prescribed by the Law on Companies and the Bylaws of the Company.

In 2009, by the General Meeting of Shareholders' decision a new supervisory body of the Company – the Audit Committee was formed. By the nomination of the Board of Directors one independent member and one employee of the Company were elected to the Audit Committee for the period coinciding with the term in office of the Board of Directors. The main functions of the Audit Committee consist in the analysis of the correctness of the accounting methods applied by the Company, in monitoring the independence of the external audit company and the audit process, in the analysis of the efficiency of the internal control, the internal audit and the risk management systems.

Organization Chart



Composition of the Board of Directors from 16 April 2008 to 22 April 2009:

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	April 2008–April 2010
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors	April 2007–April 2010
3.	Vladas Kazimieras Gagilas*	Member of the Board of Directors	April 2007–April 2010
4.	Kirill Seleznev	Member of the Board of Directors	April 2007–April 2010
5.	Marcus A. Soehrich	Member of the Board of Directors	April 2008–April 2009

* Resigned since the 1st of July, 2009.

Composition of the Board of Directors from 22 April 2009:

No	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Valery Golubev	Chairman of the Board of Directors	April 2007–April 2010
2.	Dr Achim Saul	Deputy Chairman of the Board of Directors	April 2008–April 2010
3.	Vladas Kazimieras Gagilas*	Member of the Board of Directors	April 2007–April 2010
4.	Kirill Seleznev	Member of the Board of Directors	April 2007–April 2010
5.	Joerg Tumat	Member of the Board of Directors	April 2009–April 2010

* Resigned since the 1st of July, 2009.

In 2009, tantiemes totaling LTL 94.0 thousand were disbursed to the members of the Board of Directors, i.e. LTL 18.8 thousand per member of the Board of Directors on average. Other payouts to the members of the Board of Directors totaled LTL 112.0 thousand, i.e. LTL 22.4 thousand per member of the Board of Directors on average.

Information on the start and end of the term of the Executive Directors:

No	Full name	Position title	Start and end of term
Executive Directors:			
1.	Viktoras Valentukevičius	General Manager	April 2007–April 2010
2.	Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	From 1 July 2002
3.	Jonas Janiulionis	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)	April 2007–April 2010

In 2009, payouts to the Executive Directors of the Company totaled LTL 2,264.7 thousand, i.e. LTL 452.9 thousand per Executive 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 2009)			
Dr Valery Golubev	Chairman of the Board of Directors	–	–
Dr Achim Saul	Deputy Chairman of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Joerg Tumat	Member of the Board of Directors	–	–
Executive Directors (as of 31 Dec 2009)			
Viktoras Valentukevičius	Chief Executive Officer – General Manager	0.013	0.013
Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	–	–
Jonas Janiulionis	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

AB Lietuvos Dujos has one subsidiary, UAB Palangos Perlas. 100% of UAB Palangos Perlas shares are held by AB Lietuvos Dujos. The main areas of UAB Palangos Perlas activities: hotel and other board and lodging services, organization of seminars and conferences.

In 2009, the authorized capital of UAB Palangos Perlas did not change and amounted to 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. In 2009, UAB Palangos

Perlas incurred a loss of LTL 0.1 million (2008: net profit of LTL 0.3 million). In 2009, the average number of employees amounted to 26 (2008: 29 employees).

Transactions of associated parties

The information is presented in the AB Lietuvos Dujos Consolidated and Parent Company's Financial Statements for the year ended 31 December 2009.

Main data about UAB Palangos Perlas	
Date and place of registration	19 January 1998, State Enterprise Centre of Registers
Company code	152681177
Registered office	Gintaro g. 36, Palanga, Lithuania
Telephone number	+370 460 52441
E-mail address	info@zydrojiliepsna.lt
Website	www.zydrojiliepsna.lt

The Company's Natural Gas Transmission and Distribution System



- Gas transmission pipelines
- Major gas distribution pipelines
- M Gas metering stations
- C Gas compressor station
- C Gas compressor station (under construction)
- Gas distribution stations
- Gas distribution stations (projected)
- Major towns connected to the natural gas system
- Towns connected to the natural gas system
- Towns not 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
1.9 thou km	8.1 thou km	65	3	1

TRANSMISSION OF NATURAL GAS

In 2009, the volumes of natural gas transmitted via the transmission system totalled 2,681.4 million m³. Compared to 2008, the natural gas transmission volumes decreased by 16.1%, mainly due to the decrease in the volumes transmitted for AB Achema and other industrial and agricultural customers.

Transit

In 2009, the natural gas transit volumes to the Kaliningrad Region of Russian Federation totalled 1,197.3 million m³, which represents a decrease of 4.7% y/y.

Investments in the transmission system

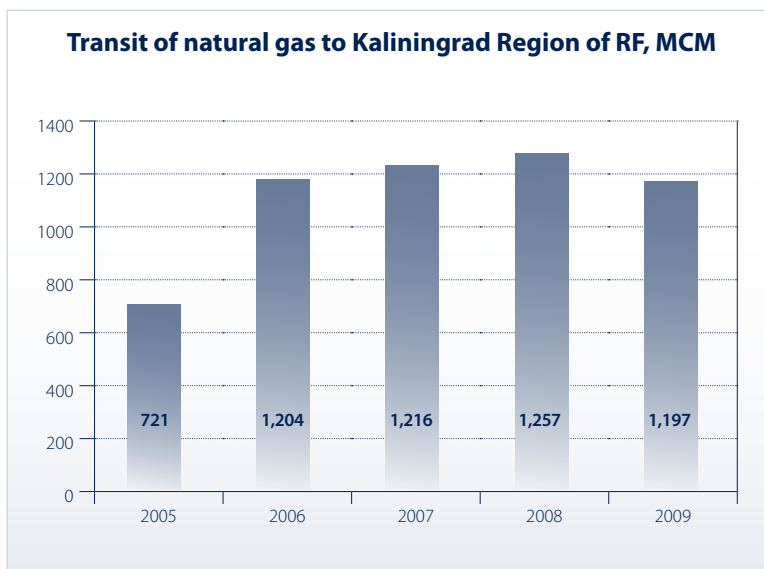
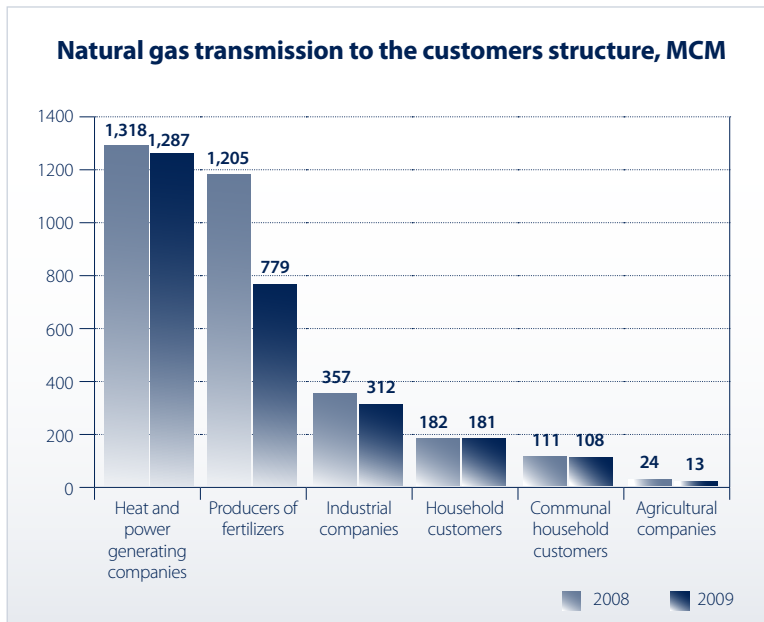
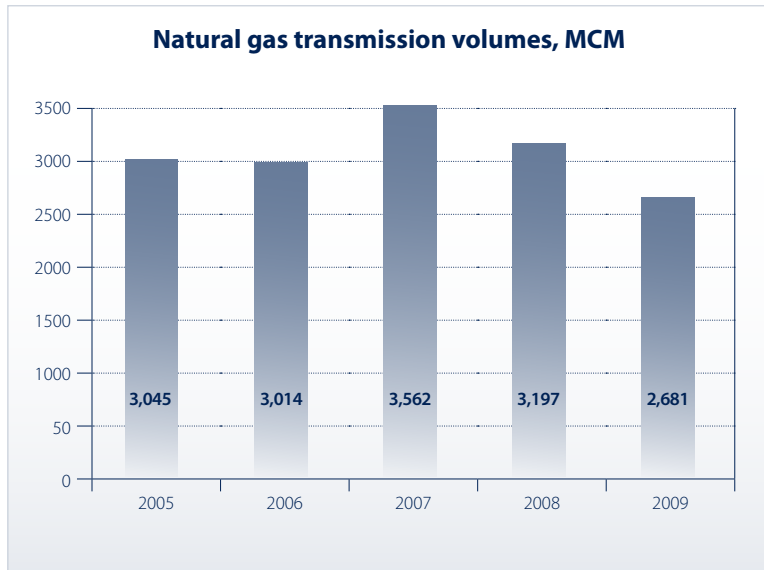
In 2009, investments into the construction of new transmission systems and pipeline system development totalled LTL 78.3 million. In 2008, these investments amounted to LTL 34.7 million.

One of the major investment projects was the construction of a new Gas Compressor Station in Jauniūnai, Širvintos District. In the second half of 2009, the lion's share of the technological equipment was delivered to the storage site, the access road construction works, the construction site preparation works, and the communications equipment works were started. The Jauniūnai Gas Compressor Station Construction Project is scheduled for completion in 2010. This Project has already cost the Company LTL 74.8 million (2009: LTL 43 million).

In 2009, one more project of no less importance was implemented: capacity of the akiiai Gas Metering Station was expanded; second line of the transmission gas pipeline from the akiiai Gas Metering Station to the state boarder with the Kaliningrad Region of the Russian Federation was constructed. The goal of the project: to secure safe and reliable supply of natural gas to the gas consumers in Lithuania and to increase natural gas transit volumes.

These major Projects are included in the National Energy Strategy of Lithuania.

In 2009, the investments in the reconstruction of the transmission



system totalled LTL 19.4 million (in 2008: LTL 14.5 million). In furtherance of the gas distribution stations renovation programme, which was started in 1998, the lion's share of these funds were spent on the reconstruction of these objects (LTL 12.4 million). The programme is planned to be completed in the nearest few years. Presently, around 85% of all the gas distribution stations answer the latter-day technical and environmental control requirements. In 2009, six gas distribution stations were reconstructed. A major Rudamina gas distribution station reconstruction project: was commenced. Station capacity will be expanded several times and will run into 105 thousand m³/hour. The works will be finished in 2010. As a result, Vilnius distribution pipelines will be looped and gas supply reliability will be increased.

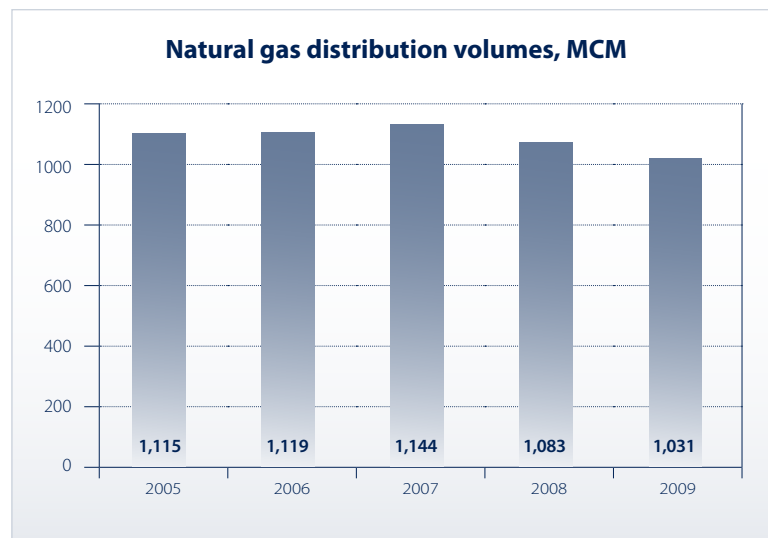
To implement the plan of measures securing gas system reliability and safety, two large-scale pipeline reconstruction works were undertaken. First: gas pressure reduction unit was installed in the pipeline Ivacevichy-Vilnius-Riga. Thus, automated operating pressure control in the 57 km section of one line of the pipeline was established. The said pipeline section is the oldest pipeline section in operation in Lithuania (since 1961). Second: pig launcher in the gas pipeline Riga-Panevėžys-Vilnius was mounted. The installation is requisite for the pipeline interior cleaning and the internal intelligent pigging.

In 2009, 8 line valve controllers were replaced, 18 control metering units were reconstructed, and modernisation of the compressor technological parameters control system in the Panevėžys Gas Compressor Station was started.

Maintenance of the transmission system

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 32.3 km-long section of the Panevėžys-Šiauliai Gas Transmission Pipeline. As part of the repair works



programme, we replaced three line block valves with new ones, we replaced two above-ground gas pipeline crossings with the underground ones, and we carried out the pressure tests.

On 24 October 2009, an accident took place in the transmission pipeline Panevėžys-Vilnius, Širvintos District. A section of the pipeline got broken, the burst gases flamed up, people were not injured though. Gas supply was not interrupted. Harm made to the nature was small. Renovation of the damaged pipeline was aggravated since the accident took place in a marshy, difficult to access area. Gas transmission system was completely restored on 10 November 2009. Burst of the steel pipe occurred due to the onetime impact of the operating load onto the localised thinning of the pipe wall. The thinning of the wall was caused by the biologic corrosion due to bacteria attack. This is certified in the laboratory investigations reports and in the conclusions submitted by the commission which examined the reasons of the accident. Such biological corrosion of a steel pipe is a rather infrequent phenomenon. Diagnostics of the biological corrosion are complicated both in Lithuania and other European countries. The commission has set a number of preventive measures helping to avoid similar accidents in the future. Based on the recommendations of the commission, a plan of measures which the Company plans to implement in the coming two years has been prepared. In 2010, it is planned to clean and to test internally this transmission pipeline.

DISTRIBUTION OF NATURAL GAS

In 2009, the volumes of natural gas distributed via the gas distribution system by the Company totalled 1,030.9 million m³, which represents a drop of 4.8% y/y.

Investments in the distribution system

The investments into the construction of new gas distribution systems totalled LTL 19.3 million (in 2008: LTL 50.0 million). 76.4 km of new distribution pipelines were constructed.

No major projects were run in 2009. In all, 2.5 thousand new customers were connected to the gas system in 2009. Slower development of the system was due to the economic recession in the country.

In 2009, the investments in the reconstruction of the distribution system totalled LTL 7.1 million. In 2008, the investments amounted to LTL 8.3 million. The largest investment we made in the renovation of the distribution pipelines (reconstructed 22.5 km of pipeline) and gas pressure regulation units.

Maintenance of the distribution system

The Company runs a gas distribution system consisting of 8.1 thousand km of gas distribution lines and, being the owner of the distribution system, the Company spares no effort to ensure proper

maintenance of the gas systems: the gas pipelines are periodically 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 defects in the gas system are eliminated. In 2009, in accordance with the aforesaid programmes, we carried out works related to the repairs of the gas pressure regulation units, pipelines, valves, service lines, etc.

SUPPLY OF NATURAL GAS

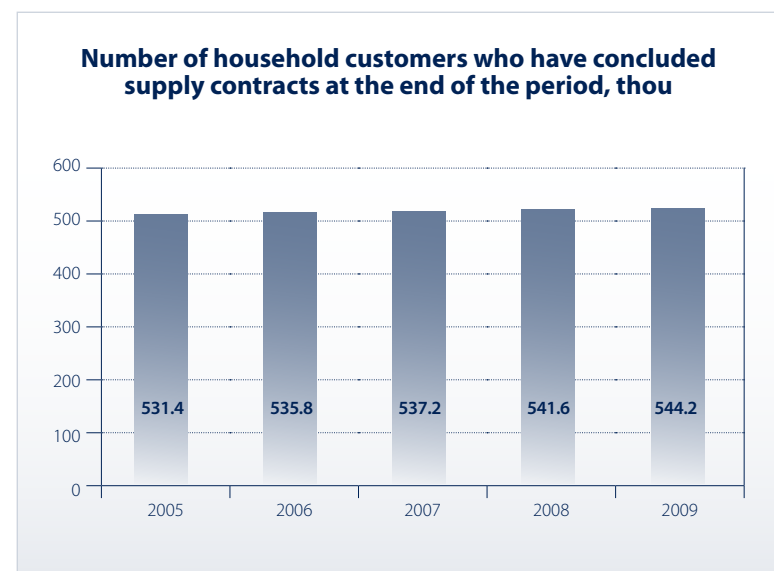
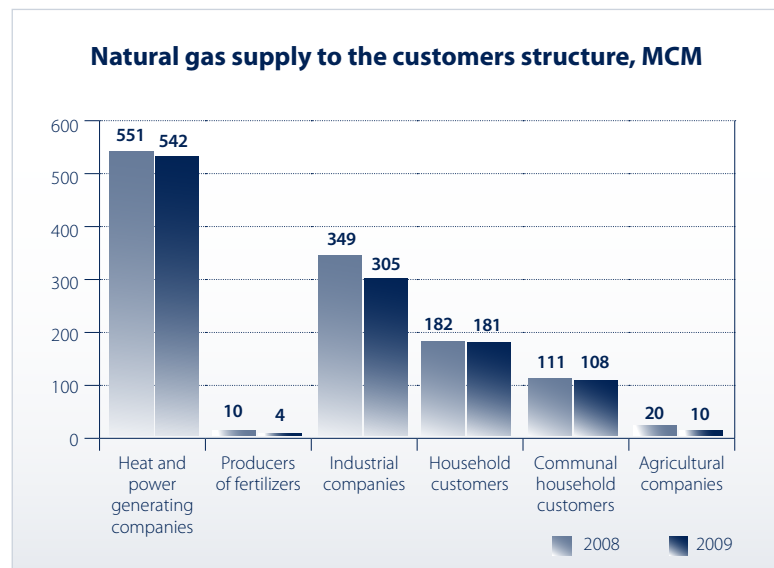
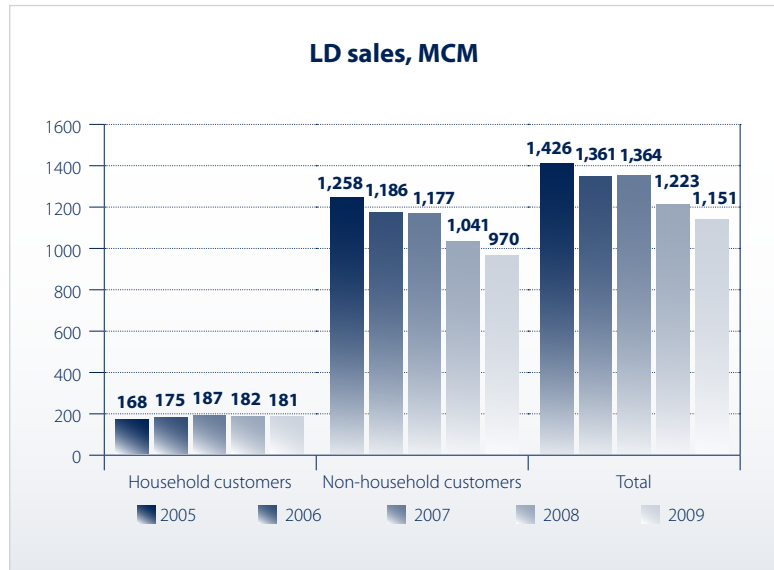
In 2009, LD purchased natural gas from OAO Gazprom according to a long-term (until 2015) natural gas supply agreement.

From 2008, pursuant to the Resolution of the Government of the Republic of Lithuania of 26 February 2008 No 163 "On approval of the list of measures that guarantee security of natural gas supplies", the Company stores contingency gas reserve volumes specified in the legal acts in the Incukalna (the Republic of Latvia) Underground Gas Storage Facility in order to satisfy the requirements of the household customers. In 2009, in the event of incidents and extreme situations these accumulated gas volumes ensured uninterrupted gas supply to the household customers in the period of no less than 20 days.

Customers

All natural gas consumers are divided into the household consumers (natural persons buying gas for their private needs, for their family or household needs) and the non-household consumers. Already from 1 July 2007, all natural gas consumers 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 favourite supplier. On the non-household customers' market, the share of LD was 38.5%.

In 2009, LD supplied to its customers 1,150.9 million m³ of natural gas: the volume of natural gas supplied to the non-household consumers amounted to 969.5 million m³ and the volume of natural



Number of non-household customers who have concluded supply contracts at the end of the period, thou



gas supplied to the household consumers amounted to 181.4 million m³. In 2008, the gas volume supplies totalled 1,223.3 million m³, i.e. they were by 5.9% higher.

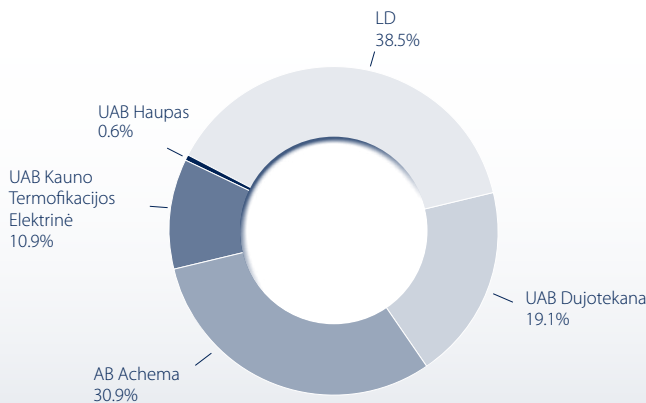
According to the data as of 31 December 2009, the Company sold natural gas to 550 thousand non-household and household consumers.

In 2009, gas volumes transmitted, distributed and sold decreased due to the general decline of the country's economy.

Customer service

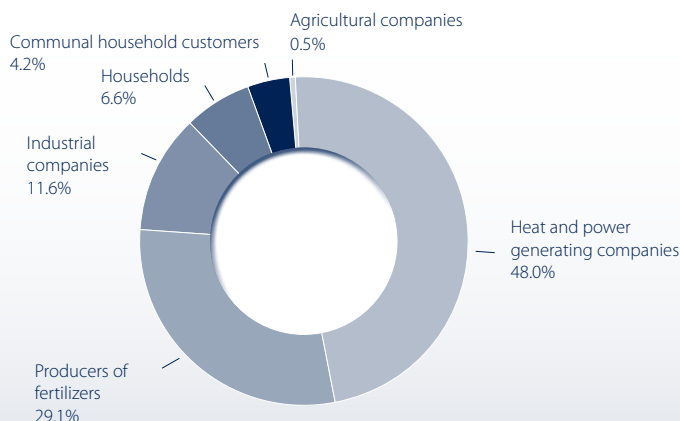
One of the main goals of the Company is to improve the quality of services supplied to its clients. When pursuing this goal the Company constantly revises processes related to servicing its clients, makes them more efficient and effective.

Lithuanian non-household customer market, 2009

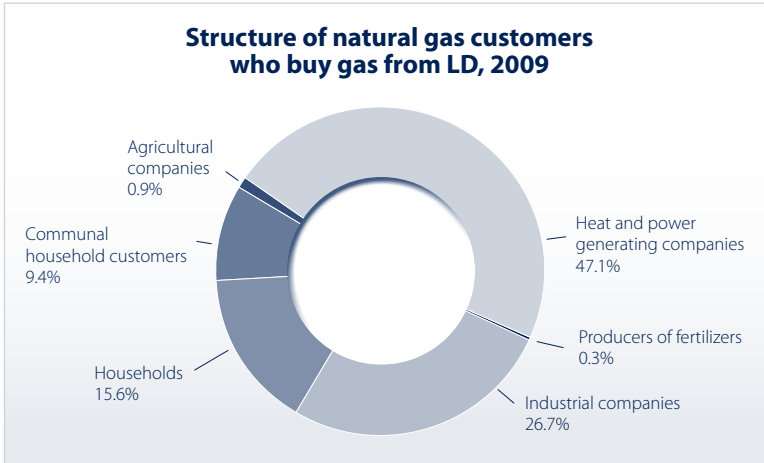


Significant changes related to the improvement of servicing our clients occurred in 2009. From 2009, the Call Centre was established in the Company and, presently, customers all over Lithuania can get information by dialling the short number: 1894. The introduced "Single Window" principle proved effective at servicing our clients. The greater part of the received queries (around 95%) is answered during the first contact. Modern call managing and automatic voice system implemented after the establishment of the Call Center, which operates on a 24 hour basis, enables the customers to get the most important information on gas tariffs applicable, also to check their balance of payments. Relevant information is sent as SMS messages to cell phones.

Lithuanian natural gas consumers, 2009



The Company renewed its internet site www.dujos.lt, in which clearly classified information is presented to all the customers. By connecting to the systems "My Payment Book. For Private Clients" and "My Payment Book. For Business Clients", the customers can quickly revise the payments they have made, other actual data, to subscribe to the Company's Newsletter, press releases. Under the heading "The Most Often Received Queries" the private and business clients will find answers to the topical standard questions, also by making use of the web site they will be able to e-mail their questions, which will be promptly answered by a Company employee.



In 2009, for the convenience of the gas customers a number new services were proposed. From 2009 the household customers can pay for the natural gas consumed by Direct Debit. Non-household customers that annually consume less than 1.0 million m³ of natural gas are allowed to declare the consumed gas volumes by internet. There is one more novelty introduced for the convenience of the non-household customers: electronic bills are presented in the popular with the customers "E-pay" system, which saves both time and money.

In 2009, LD started the implementation of the Client Service Standard, which is planned to put into practise in full in 2011. Around 200 employees are planned to be trained for efficient servicing the clients.

A representative public opinion poll carried out in 2009 shows that client servicing processes initiated by the Company are positively rated by the Lithuanians. Proposals of the polled residents have been considered and put into practice.

ENVIRONMENTAL PROTECTION

Being a socially responsible company, LD spares no effort to minimize the negative impact of its activities upon the environment. In 2009, the Company approved of the Environmental Policy embedding this objective. Estimation of the Company's activity allowed determining the aspects of the environmental protection and rating their significance. Environmental protection objectives, tasks and programmes, providing for the reduction

of pollution of the environment due to gas leak from gas systems, sparing of the natural resources, improvement of the landscape, proper waste management, forming of clear environmentally orientated conscience and fairness of the employees, etc., are prepared, approved and integrated in the general strategic goals.

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 endeavour 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. Seeking to spare the nature and to follow the clear rules, in 2009, the Company prepared and started the implementation of 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 2009, six gas distribution stations were reconstructed: in Prienai, Lekėčiai, Plungė, Biržai, Kėdainiai, and Baltoji Vokė.

In 2009, Environmental Impact Assessment Report of the new Jauniūnai Gas Compressor Station design was prepared, coordinated and approved. The Compressor Station construction works were begun in strict observance of the environmental protection requirements. The new Gas Compressor Station will be much more advanced and, therefore, much more environment-friendly than the Panevėžys Gas Compressor Station which has been in operation since 1974. The pollution levels depend on the operation-use time of the Compressor units, their load factors, the number of their start-ups, etc. In 2009, the operation-use time of the Gas Compressor Station was considerably shorter than in 2008, which resulted in distinctly lower pollutant emissions.

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 from the gas pipeline system into the atmosphere. In its business

Recorded emissions of natural gas (MCM)		
	2009	2008
	12.4	13.2
Pollutant (tons)	2009	2008
CO	14.0	29.0
NO _x	12.0	13.8

activities, the Company implements measures to minimize the emissions.

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

STAFF

The turnover of employees made up 7.5% (2008: 8.7%).

Workers (blue-collar) made up 37% of all Group employees on the roll (2008: 39%). Managing staff made up 8% (2008: 8%), specialists made up 55% (2008: 53%). 67% of the Group employees were male and 33% of the Group employees were female.

The average age of the Group employees was 45 years (2008: 45.2 years) and the average work experience was 15.8 years (2008: 12.2 years).

The number of employees with university education increased by 2%.

In implementation of the Company Strategy and in the pursuit of its main goals, a Human Resource Management System has been implemented at the Company and the Company Human Resources Selection Policies & Procedures establishing a uniform HR selection process for the entire Company have been adopted.

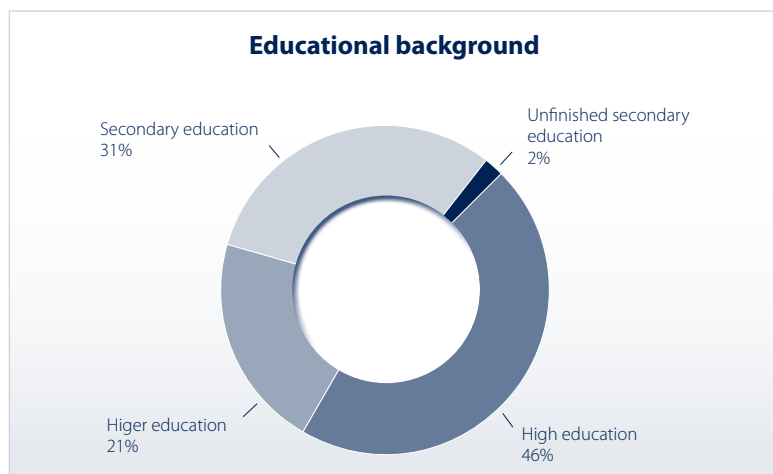
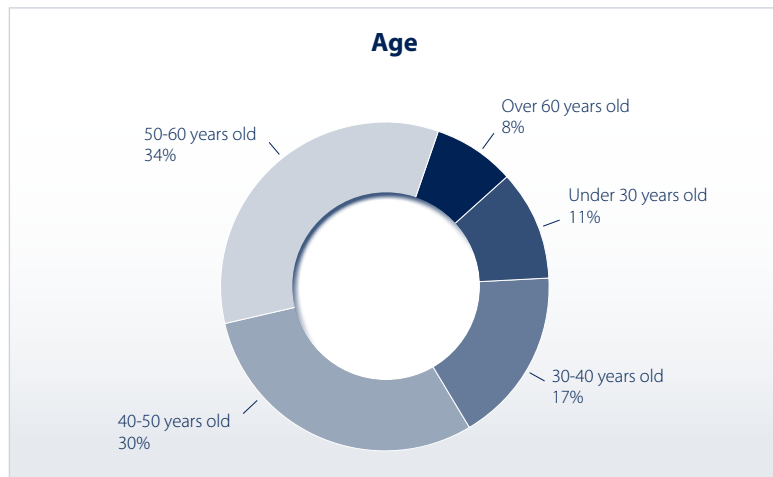
Great attention was devoted to the training of the Company employees and to the improvement of their qualifications. General trainings were attended by 667 employees and professional trainings were attended by 482 employees. In all, 65% of employees improved their qualifications. LD employees improved their leadership/management skills and work organization skills, deepened their legal and accounting knowledge and improved their specialist competencies.

At LD branches there were local units of trade unions united into the Lithuanian Association of Gas Industry Trade Unions.

Average number of Group employees on the roll

Year	Average number of employees on the roll	Change compared to previous year
2008	1,821	+0.4%*
2009	1,787	-1.9%**

* compared to 2007 ** compared to 2008



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

Employees	Average number of employees on the roll in 2008	Average monthly salary, LTL
Managing staff	145	7,130
Specialists	959	2,916
Workers	717	2,243
Total:	1,821	2,986
Employees	Average number of employees on the roll in 2009	Average monthly salary, LTL
Managing staff	140	6,866
Specialists	986	2,953
Workers	661	2,267
Total:	1,787	3,006

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.

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

The Company maintains close cooperation with Vilnius Gediminas Technical University, Kaunas University of Technology and other universities and admits students to internships.

MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- The Lithuanian Gas Association (www.dua.lt), the General Manager of LD Viktoras Valentukevičius is the President of this Association since 16 June 2008.
- The Association "Eurogas" (www.eurogas.com). It is a non governmental 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.

- The association of gas transmission pipeline companies of the Baltic Sea Region "Baltic Gas" (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.
- The Chamber of Commerce of Germany and the Baltic countries in Estonia, Latvia and Lithuania (www.ahk-balt.org).
- The association of the largest and most active investors in the economy of Lithuania "Investors' Forum" (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.

2009 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

Being a consistent supporter and sponsor of various projects and initiatives including the ones of the preservation of cultural heritage, health protection, social patronage and care, art and sport, promotion of education and science, in 2009, LD rendered support to more than 50 institutions, organizations or supported their projects. The most significant ones are as follows:

- support to the J. Ivanauskaitė Literary & Artistic Heritage Centre for the completion of the works to spruce up the memorial square at Aguonų Street, Vilnius, to commemorate the writer, artist and pilgrim Jurga Ivanauskaitė and for the erection of a decorative granite statue featuring a cat (by the Lithuanian National Culture and Art Prize Laureate Ksenija Jaroševaitė) there. At the statue opening ceremony, the General Manager of LD V. Valentukevičius expressed his satisfaction over the fact that the employees of the company headed by him had turned out to be eager supporters of this initiative: "I can only rejoice over the fact that we were able to contribute to the implementation of the good ideas, works and initiatives to spruce up this previously shabby square of Vilnius and to commemorate the outstanding Artist and Public Figure.

We have always supported and we are always going to support such beautiful and meaningful ideas, even more so, that our Company Headquarters happen to be located in the immediate vicinity, so by the very fact that we are immediate neighbours we are obliged to assume part of the responsibility for the implementation of the meaningful initiatives";

- support to Vilnius University Publishing House to the publication (in cooperation with Department of Translation Studies of Vilnius University) of the L. Pažūsis' monograph "The Lithuanian language in North America (research into phenomena conditioned by bilingualism)". The publication devoted to the studies of the language peculiarities of Lithuanian emigrants is the first of its kind in Lithuania;
- support to the Family Medicine Centre of Vilnius University Hospital Santariškės Clinic for the procurement of the state-of-the-art medical equipment and to Vilnius Maternity Hospital for the partial refurbishment of the premises;
- support to the institutions and organizations of the disabled persons: Vilnius J. Laužikas General Education Consultation Centre for the procurement of inventory required by the children - patients (coming from various regions of Lithuania) treated for tuberculosis at this Hospital Boarding School. Support to the Alma Adamkus Support Foundation, to the Charities "Metvilas" and the "Mothers Union" and for the implementation of some of their charitable projects.
- support to the Direction of the Kuršių Nerija National Park. For a second consecutive year, 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. The voluntary action attracted 280 Company employees including their family members. In total, the LD employees and their family members planted 29 thousand saplings, thus contributing to the

reforestation of over 5.8 ha of the scorched forest area;

- support in organizing the XIV Pažaislis Music Festival that has already become traditional. The goals of the festival: to introduce new works of Lithuanian composers to the public, to present Lithuanian and other world countries professional performers (orchestras, ensembles, soloists and conductors) and to promote international cooperation. Support to the Lithuanian Art Museum and the Lithuanian Artists' Union in organizing various national cultural events;
- support to the Lithuanian Sports Society "Žalgiris" for the implementation of the measures included in their plans and to the Lithuanian Sports Veterans Association "The Five Rings" for the participation in the Sydney 2009 World Masters Games (Australia). Support to the Lithuanian Table Tennis Association for the arrangement of international ladies table tennis match between the squads of Lithuania and Luxemburg according to the European Nations League event calendar for 2009-2012;
- support to the Lithuanian Youth Council (LijOT) for the implementation of the project "Mission Siberia 09" aimed at promoting patriotism and active citizenship. With the aim of maintaining and developing "historic memory" and duly commemorating the victims of the deportations of Lithuanian citizens to Siberia after World War II, in the summer of 2009, the Lithuanian Youth Council (LijOT) organized expeditions to the places of deportations, concentration camps and places of imprisonment of Lithuanians in the Russian Federation and the Republic of Kazakhstan. During the expeditions, their participants and got cemeteries of Lithuanians in trim and met with Lithuanians and communities of Lithuanians still living in Siberia.
- support to the Lithuanian Free Market Institute for the implementation of various projects aimed at reducing business restrictions, bureaucracy and corruption and aimed at building civil society.

SOCIAL RESPONSIBILITY

In pursuing socially responsible business practices, AB Lietuvos Dujos 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. The Company Strategy documents outline the goal of becoming a socially responsible company – AB Lietuvos Dujos Strategic Goals for 2010-2012 (approved by the General Manager of LD) include the goal of joining the United Nations Global Compact. LD is also going to participate in the Lithuania's National Network of Socially Responsible Corporations and to promote the Corporate Social Responsibility (hereinafter referred to as "CSR").

Already at this stage, LD has achieved considerable results by its responsible and fair business development practices. LD, 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 wider use of which reduces the environmental pollution. At the same time, the Company promotes economical and rational use of this non renewable natural resource. Natural gas is a fuel that improves the quality of life and contributes to business development in various regions of Lithuania. The Company is consistently planning its investments in order to minimize the number of towns and settlements that are still not connected to the natural gas grid.

Demonstrating a genuinely responsible attitude to its business practices, the Management of the Company has set the following goal: before joining the United Nations Global Compact, to do the "homework", i.e. with the assistance of the consulting firms to make an exhaustive analysis of the Company's internal processes and procedures and to adopt respective regulations in the Company's activity areas that are of extreme importance from the point of view of CSR, namely the areas of the Human Resources and the Environmental Protection. In 2009, the Management adopted the following new regulations:

The Human Resources Policies (posted on LD intranet), The Human Resources Selection Rules (posted on LD intranet) and The Environmental Protection Policies (posted on the intranet and the Company website www.dujos.lt).

Being a socially responsible company, LD spares no effort to directly contribute to the welfare to the community in which it is operating. LD is one of the largest companies in the entire country in the number of customers, in the number of employees, in the annual sales revenues and in the value of assets. Since the Company's operations cover virtually the entire territory of Lithuania, its corporate voluntary initiatives are noted for their massive character, due to the vast numbers of volunteering employees who get involved.

In 2009, LD employees were participating in the following continuous Volunteer Actions: the replanting of the pine trees in the area scorched by the forest fire in Smiltynė in the Kuršių Nerija National Park and the Free Blood Donation Action organized by the National Blood Centre. In all, there were around 280 volunteers working in Smiltynė; and 62 LD employees who volunteered to donate

their blood free of charge. For these actions of 2009 the Company employees received acknowledgements from the Acting Director of the Direction of the Kuršių Nerija National Park L. Dikšaitė and the Director of the National Blood Centre V. Kalibatas. The aforesaid Volunteer Actions have been organized at the Company since 2008.

As Year 2009 was drawing to a close, in December, employees of the Company for the first time ever launched a Charity Action initiative'2009, which covered all the regions of Lithuania. The employees of the Centre of Administration and Gas Transmission and all the five branches of LD were making donations (either donating various goods or making monetary contributions) in support of the needy, the underprivileged members of our society. Each LD branch made its autonomous decision regarding the beneficiaries of its donations (either the same members of our society or their groups that had been supported by LD before, or the nationwide charities like the Food Bank Charity or Caritas) The Company employees' charity reached the following beneficiaries: the Food Bank Charity, Švenčionys Children's Day Care Centre, Švenčionėliai Children's Day Care

Centre, Kaunas Panemunė Senior Citizens' Nursing Home, Kaunas Children's Foster Home Atžalynas, Klaipėda Maria Queen of Peace Church Parochial Senior Citizens' Nursing Home Caritas, Šiauliai Children's Foster Home Šaltinis, and Panevėžys Algimantas Bandza Infants' and Children's Foster Home.

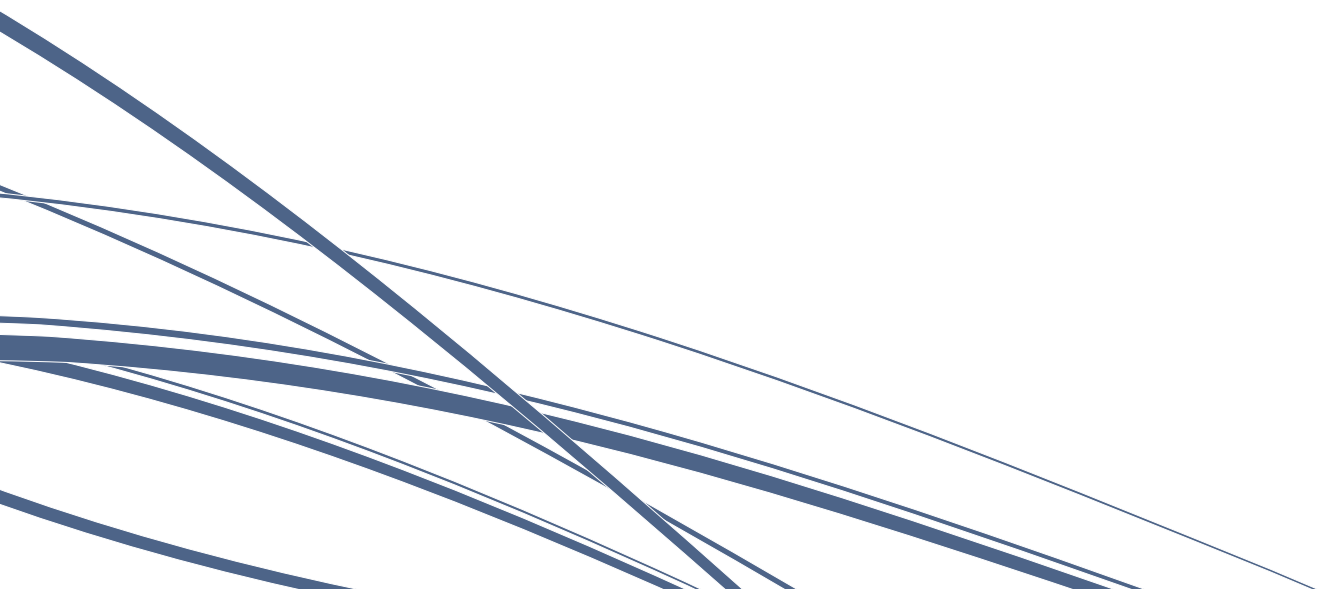
In order to get an objective and representative assessment of LD performance by its customers and various social groups, in 2009, for the first time ever, the Company ordered a representative public opinion survey. The public opinion survey partner selected through a tendering procedure was the Market Analysis and Survey Group UAB RAIT. The survey included questions on the Company's activities, limits of responsibility, social influence, on the efficient or inefficient support of the community. The responses of the various social groups and their analysis resulted in the formation of the tasks for 2010 that were included into LD Strategic Goals. The survey will be carried out on a continuous basis. The idea is to get data that could be subject to comparison, and to have a possibility of making an objective analysis of LD activity with a view to taking into account the justified expectations of the society.

A vibrant autumn landscape with colorful trees in shades of yellow, orange, and red. A rainbow is visible in the lower right corner, arching over a green field. The scene is framed by a white, torn-paper-like border on the left and top. The sky is blue with some clouds.

We
do not
change reality –
we just
make it more
colourful.

Always with you!





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

Report on Financial Statements

We have audited the accompanying 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 statements of financial position as of 31 December 2009, the statements of income, comprehensive 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 2009, 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 2009 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

UAB ERNST & YOUNG BALTIC

Audit company's licence No. 001335
Vilnius, Lithuania



Jonas Akelis

Auditor's licence
No. 000003
President

The audit was completed on 3 March 2010.

Statements of financial position

	Notes	Group		Company	
		As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
ASSETS					
A. Non-current assets		2,290,965	2,249,069	2,292,578	2,252,636
I. Intangible assets	4	3,917	3,765	3,896	3,738
II. Property, plant and equipment	5	2,287,000	2,245,239	2,277,897	2,238,096
II.1. Land		183	183	183	183
II.2. Buildings and structures		2,046,025	2,050,832	2,039,464	2,044,127
II.2.1. Buildings		84,536	82,994	77,975	76,289
II.2.2. Transmission networks and related installations		1,257,982	1,268,382	1,257,982	1,268,382
II.2.3. Distribution networks and related installations		692,380	689,942	692,380	689,942
II.2.4. Other buildings and structures		11,127	9,514	11,127	9,514
II.3. Machinery and equipment		94,131	84,814	94,131	84,814
II.4. Vehicles		15,001	13,596	14,990	13,577
II.5. Other equipment, tools and devices		30,627	32,897	30,338	32,584
II.6. Other property, plant and equipment		3,892	4,316	3,892	4,316
II.7. Construction in progress		97,141	58,601	94,899	58,495
III. Non-current financial assets		48	65	10,785	10,802
III.1. Investments into subsidiaries	1, 6	-	-	10,737	10,737
III.2. Non-current accounts receivable	7	48	65	48	65
B. Current assets		260,217	280,197	257,231	275,840
I. Inventories and prepayments		44,402	58,660	44,391	58,638
I.1. Inventories	8	44,226	58,174	44,215	58,159
I.1.1. Raw materials, spare parts and other inventories		4,177	2,992	4,176	2,991
I.1.2. Goods for resale (including natural gas)		40,049	55,182	40,039	55,168
I.2. Prepayments		176	486	176	479
II. Accounts receivable		128,029	133,212	127,668	133,207
II.1. Trade receivables	9	126,757	130,878	126,722	130,882
II.2. Prepaid income tax		-	1,852	-	1,844
II.3. Other receivables	9	1,272	482	946	481
III. Other current assets	10	22,958	4,099	21,016	-
IV. Cash and cash equivalents	11	64,828	84,226	64,156	83,995
Total assets		2,551,182	2,529,266	2,549,809	2,528,476

(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)

Statements of financial position (cont'd)

	Notes	Group		Company	
		As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
EQUITY AND LIABILITIES					
C. Equity		1,991,184	1,882,305	1,989,996	1,881,045
I. Share capital	1	469,068	469,068	469,068	469,068
II. Reserves	12	1,369,370	1,411,775	1,366,977	1,409,678
II.1. Legal reserve		26,372	23,160	26,180	22,983
II.2. Other reserves		1,342,998	1,388,615	1,340,797	1,386,695
III. Retained earnings		152,746	1,462	153,951	2,299
D. Liabilities		559,998	646,961	559,813	647,431
I. Non-current liabilities		358,577	415,223	358,964	415,750
I.1. Non-current borrowings	13	6,432	8,576	6,432	8,576
I.2. Grants (deferred revenue)	14	171,871	164,212	171,871	164,212
I.3. Non-current employee benefits	15	7,283	–	7,283	–
I.4. Deferred tax liability	20	172,991	242,435	173,378	242,962
II. Current liabilities		201,421	231,738	200,849	231,681
II.1. Current portion of non-current borrowings	13	2,144	2,144	2,144	2,144
II.2. Trade payables	16	145,112	180,951	144,592	180,941
II.3. Prepayments received		9,760	10,536	9,755	10,529
II.4. Income tax payable		2,853	–	2,853	–
II.5. Payroll related liabilities		7,273	7,901	7,237	7,861
II.6. Other payables and current liabilities	17	34,279	30,206	34,268	30,206
Total equity and liabilities		2,551,182	2,529,266	2,549,809	2,528,476

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

Income statements

	Notes	Group		Company	
		2009	2008 (restated)	2009	2008 (restated)
I. Revenue		1,270,521	1,561,744	1,269,695	1,560,439
I.1. Sales	3	1,264,308	1,555,366	1,263,482	1,554,061
I.2. Other income	18	6,213	6,378	6,213	6,378
II. Expenses		(1,153,439)	(1,494,145)	(1,152,346)	(1,492,804)
II.1. Cost of natural gas		(901,078)	(1,242,167)	(901,078)	(1,242,167)
II.2. Depreciation and amortisation		(97,741)	(94,358)	(97,491)	(94,111)
II.3. Payroll and related social security taxes		(96,083)	(90,307)	(95,610)	(89,683)
II.4. Repairs and maintenance		(29,752)	(35,252)	(29,750)	(35,249)
II.5. Taxes, other than income tax		(11,810)	(11,321)	(11,740)	(11,247)
II.6. Other expenses		(16,975)	(20,740)	(16,677)	(20,347)
III. Profit from operations		117,082	67,599	117,349	67,635
IV. Financial activity	19	3,000	5,674	2,664	5,443
IV.1. Income		3,620	6,537	3,284	6,306
IV.2. Expense		(620)	(863)	(620)	(863)
V. Profit before tax		120,082	73,273	120,013	73,078
VI. Income tax	20	(25,307)	(9,038)	(25,166)	(9,141)
VI.1. Current period income tax		(35,646)	(18,841)	(35,646)	(18,820)
VI.2. Deferred income tax		10,339	9,803	10,480	9,679
VII. Net profit		94,775	64,235	94,847	63,937
Basic and diluted earnings per share (LTL)	21	0.20	0.14		

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of comprehensive income

	Note	Group		Company	
		2009	2008	2009	2008
I. Net profit		94,775	64,235	94,847	63,937
II. Change in deferred income tax liability due to income tax rate change	20	59,104	(61,717)	59,104	(61,717)
III. Total comprehensive income		153,879	2,518	153,951	2,220

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

Statements of changes in equity

<u>Group</u>	<u>Notes</u>	<u>Share capital</u>	<u>Legal reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of 1 January 2008		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	22	–	–	–	(50,000)	(50,000)
Total comprehensive income		–	–	–	2,518	2,518
<i>Net profit for the year</i>		–	–	–	64,235	64,235
<i>Change in deferred income tax liability due to income tax rate change</i>	20	–	–	–	(61,717)	(61,717)
Balance as of 31 December 2008		469,068	23,160	1,388,615	1,462	1,882,305
Transfer to legal reserve	12	–	3,212	–	(3,212)	–
Transfer to other reserves	12	–	–	16,100	(16,100)	–
Transfer to retained earnings due to shareholders decision		–	–	(61,717)	61,717	–
Dividends declared	22	–	–	–	(45,000)	(45,000)
Total comprehensive income		–	–	–	153,879	153,879
<i>Net profit for the year</i>		–	–	–	94,775	94,775
<i>Change in deferred income tax liability due to income tax rate change</i>	20	–	–	–	59,104	59,104
Balance as of 31 December 2009		469,068	26,372	1,342,998	152,746	1,991,184

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 (cont'd)

<u>Company</u>	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2008		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	22	-	-	-	(50,000)	(50,000)
Total comprehensive income		-	-	-	2,220	2,220
<i>Net profit for the year</i>		-	-	-	63,937	63,937
<i>Change in deferred income tax liability due to income tax rate change</i>	20	-	-	-	(61,717)	(61,717)
Balance as of 31 December 2008		469,068	22,983	1,386,695	2,299	1,881,045
Transfer to legal reserve	12	-	3,197	-	(3,197)	-
Transfer to other reserves	12	-	-	15,819	(15,819)	-
Transfer to retained earnings due to shareholders decision		-	-	(61,717)	61,717	-
Dividends declared	22	-	-	-	(45,000)	(45,000)
Total comprehensive income		-	-	-	153,951	153,951
<i>Net profit for the year</i>		-	-	-	94,847	94,847
<i>Change in deferred income tax liability due to income tax rate change</i>	20	-	-	-	59,104	59,104
Balance as of 31 December 2009		469,068	26,180	1,340,797	153,951	1,989,996

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

Statements of cash flows

	Notes	Group		Company	
		2009	2008	2009	2008
I. Cash flows from (to) operating activities					
I.1.	Net profit	94,775	64,235	94,847	63,937
Adjustments of non-cash items and other corrections:					
I.2.	Depreciation and amortisation	97,741	94,358	97,491	94,111
I.3.	(Gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal	(18)	(161)	(18)	(161)
I.4.	Impairment losses for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories	940	1,448	940	1,448
I.5.	Income tax expenses	25,307	9,038	25,166	9,141
I.6.	Interest (income)	(1,756)	(5,099)	(1,419)	(4,868)
I.7.	Interest expenses	619	862	619	862
I.8.	(Profit) loss on foreign currency exchange	(1)	1	(1)	1
I.9.	Elimination of other financial activity results	–	(122)	–	(122)
I.10.	Amortisation of the grants, deferred revenue and other adjustments of non-cash items	1,167	(3,738)	1,167	(3,738)
		218,774	160,822	218,792	160,611
Changes in working capital:					
I.11.	Decrease in inventories	13,912	51,028	13,907	51,028
I.12.	Decrease (increase) in trade accounts receivable	5,012	(43,020)	5,052	(43,022)
I.13.	(Increase) decrease in other accounts receivable and prepayments	(16)	2,332	295	2,288
I.14.	(Decrease) increase in trade accounts payable	23	(46,407)	(46,415)	61,021
I.15.	Increase in other accounts payable and other current liabilities	7,961	29,203	7,957	29,206
I.16.	Income tax (paid)	(25,401)	(33,636)	(25,401)	(33,614)
	Total changes in working capital	(44,939)	66,922	(44,605)	66,907
	Net cash flows from operating activities	173,835	227,744	174,187	227,518
II. Cash flows from (to) investing activities					
II.1.	(Acquisitions) of property, plant and equipment and intangible assets	23	(128,381)	(122,861)	(122,754)
II.2.	Proceeds from sales of property, plant and equipment	139	633	138	633
II.3.	(Acquisition) of financial assets held for trade	(21,016)	–	(21,016)	–
II.4.	Receipt of non-current receivables and loans granted	17	10	17	10
II.5.	Decrease (increase) in term deposits	2,157	(376)	–	–
II.6.	Interest received	1,284	5,099	947	4,868
	Net cash flows (to) investing activities	(145,800)	(117,495)	(146,593)	(117,243)

(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)

Statements of cash flows (cont'd)

	Group		Company	
	2009	2008	2009	2008
III. Cash flows from (to) financing activities				
III.1. Dividends (paid)	(45,022)	(50,052)	(45,022)	(50,052)
III.2. Loans (repaid)	(2,144)	(10,839)	(2,144)	(10,839)
III.3. Grants received	376	2,185	376	2,185
III.4. Interest (paid)	(643)	(911)	(643)	(911)
Net cash flows (to) financing activities	(47,433)	(59,617)	(47,433)	(59,617)
IV. Net (decrease) increase in cash and cash equivalents	(19,398)	50,632	(19,839)	50,658
V. Cash and cash equivalents at the beginning of the year	84,226	33,594	83,995	33,337
VI. Cash and cash equivalents at the end of the year	64,828	84,226	64,156	83,995

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,
LT-03212, Vilnius,
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 2009 and 2008 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 2009 and 2008. 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 its subsidiary UAB Palangos Perlas (hereinafter the Group). The information of UAB Palangos Perlas as of 31 December 2009 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	(91)	12,006	Accommodation and restaurant and facilities

The average number of employees of the Group and the Company in 2009 was 1,787 and 1,761, respectively (1,821 and 1,792 in 2008, 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 (Note 3).

The Company's activities of Transmission, Distribution and Supply of Natural Gas are subject to licensing. Licences are granted and licensed activities observed by the National Control Commission for Prices and Energy (hereinafter the NCCPE). The Company has licences for Transmission, Distribution and Supply of Natural Gas.

The prices for Transmission, Distribution and Supply of Natural Gas are regulated. The price caps are set by the NCCPE.

The management of the Company approved these financial statements on 3 March 2010. 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.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2009 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 Reporting Interpretation Committee (hereinafter IFRIC) interpretations during the year:

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 *Segment Reporting*. The Group and the Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are presented in Note 3, including the related revised comparative information.

Amendment to IAS 1 Presentation of Financial Statements

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. The Group and the Company have decided to present its comprehensive income in two separate statements.

Amendment to IAS 23 Borrowing Costs

The amendment requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's and the Company's previous policy was to expense borrowing costs as they were incurred.

In accordance with the transitional provisions, the Group and the Company has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. During the year 2009, the amount of capitalised borrowing costs was immaterial.

The following other new IFRS, IFRIC interpretations and their amendments adopted in 2009 did not change the statements of financial position or the statements of comprehensive income, however, had limited effect on disclosures of the Group and the Company:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*;
- Amendment to IFRS 2 *Share-based Payment*;
- Amendments to IFRS 7 *Financial Instruments: Disclosures*;
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* – Embedded derivatives;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*;
- IFRIC 15 *Agreement for the Construction of Real Estate*;
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*;
- Improvements to IFRS (issued in 2008 and effective on 1 January 2009).

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Standards issued but not yet effective

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

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2010, once adopted by the EU).

The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company do not have share-based payments.

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).

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, in case respective transactions will be concluded. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).

IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group and the Company, however it may impact the related party disclosures.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company do not have 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 do not apply hedging accounting.

Improvements to IFRSs

In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group and the Company:

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segments*. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 *Statement of Cash Flows*. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 *Impairment of Assets*. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group and the Company:

- IFRS 2 *Share-based Payment*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 17 *Leases*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRIC 9 *Reassessment of Embedded Derivatives*;
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Neither the Group nor the Company is an operator and, therefore, this interpretation has no impact on the Group and the Company.

Amendment to 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 2011, once adopted by the EU).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group and the Company do not have defined benefit assets.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 31 October 2009).

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 do not pay non-cash dividends.

IFRIC 18 Transfers of Assets from Customers (effective for financial years beginning on or after 31 October 2009).

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 natural gas). The Group and the Company has not yet evaluated the impact of the implementation of this interpretation.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 April 2010, once adopted by the EU).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group and the Company do not have such transactions, IFRIC 19 will not have any impact on the consolidated financial statements.

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 Accounting principles (cont'd)

2.2. Changes in accounting policies

As at 1 January 2009 the Group and the Company changed the presentation of expenses in the income statements from expense by function to expense by nature. The change was made in order to provide better presentation of Group's and the Company's expenses. Comparative information was restated accordingly.

2.3. 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.

2.4. Principles of consolidation

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to those 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 are accounted for applying the cost method.

2.5. 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 indefinite useful live.

2.6. 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 repair 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 as profit or loss as incurred.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.6. Property, plant and equipment (cont'd)

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	55	years
Distribution networks and related installations	55	years
Machinery and equipment	5-20	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 value of property, plant and equipment whenever there is an indication that the property, plant and equipment may be impaired. An impairment loss is recognised in the income statement, whenever estimated.

2.7. 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 the 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 Group and 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 the 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 (written-off) when they are assessed as uncollectible.

2 Accounting principles (cont'd)

2.7. Financial assets (cont'd)

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 these 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.

2.8. 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 and the Company 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 and the Company'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 and the Company could be required to repay.

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.

2.9. Inventories

Inventories of the Group and the Company, consisting of natural gas in pipelines and storage 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.

2.10. 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.

2.11. Borrowings

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.

Borrowings are classified as non-current if the completion of a refinancing agreement before the date of statement of financial position provides evidence that the substance of the liability at the date of statement of financial position was long term.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.12. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Based on the decision of the Group and the Company specific borrowings do not become general borrowings after the construction/acquisition of the qualifying assets financed from the specific borrowing is completed and therefore related borrowing costs are not capitalised further.

The Group and the Company capitalises borrowing costs for all qualifying assets where acquisitions, construction or production was commenced on or after 1 January 2009. Borrowing costs related to acquisition/construction of the assets that commenced prior to 1 January 2009 are expensed.

2.13. 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.

2.14. 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 caption 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 statement of financial position.

2.15. Non-current employee benefits

Defined benefit plan – post employment benefits

According to the collective agreement, each employee leaving the Company at the retirement age is entitled to a one-time payment. Employment benefits are recognised in the statement of financial position and reflect the present value of future payments at the date of the statement of financial position. The abovementioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised in the income statement as incurred.

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the income statement as incurred.

2 Accounting principles (cont'd)

2.15. Non-current employee benefits (cont'd)

Other long-term employee benefits

The Company is paying bonuses to its employees for the long work experience in the Company. Non-current obligation for employment benefit is recognised in the statement of financial position as the present value of defined benefit obligation at the date of the statement of financial position. Present value of defined benefit obligation is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and the similar maturity as the employment benefits. Actuarial gains and losses are recognised in the income statement as incurred.

2.16. 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 20% in 2009 and 15% in 2008. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 15% income tax rate has been established for indefinite period starting from 1 January 2010.

According to the provisions of the of Income Tax Law (hereinafter – the Law) which came into effect starting 1 January 2009, the income tax incentive may be used for investments into qualifying property, plant and equipment if the non-current assets qualifying for tax incentive are used in the Group's and the Company's activities for at least three years. Preliminary calculations show that the Group and the Company made investments into qualifying assets for the amount over LTL 80,000 thousand in 2009. When calculating current income tax for the year 2009, the Group and the Company did not use the benefit of the income tax incentive as on the reporting date they could not confirm that the requirement to hold the assets for at least three years will be met.

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 were incurred except when the Company does not continue its activities due to reasons which do not depend on the 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 liability method of the statement of financial position. 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 date of the statement of financial position.

Deferred tax asset have been recognised in the statement of financial position 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 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 in the statements of comprehensive income. 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.

2.17. 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 non-household customers are recognised monthly based on meter readings and checked by 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 household customers but not yet declared, which approximates an accrual basis.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.18. 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.

2.19. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each date of the statements of financial position.

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.

2.20. 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 2.6 and Note 5), impairment evaluation of property, plant and equipment (Note 2.6 and Note 5), deferred tax asset (Note 2.16 and Note 20), investments into subsidiaries – only the Company (Note 1 and Note 6), impairment for accounts receivable (Note 2.7, Note 7 and Note 9), inventories (Note 2.9 and Note 8), non-current employee benefits (Note 2.15 and Note 15) and capitalised borrowing costs (Note 2.12 and Note 5). 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.

2.21. 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.

2.22. Subsequent events

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

2.23. Offsetting

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.

3 Segment information

The Company's business activities are organised based on the legal requirements for regulated activities. These activities are used to identify operating segments. The accounting principles used for in the segment accounting are the same as for the financial accounting of the Group and the Company.

The Group and the Company have three main operating segments: natural gas Transmission, Distribution and Supply, as well as segment of other activity:

- Transmission of natural gas comprises 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 comprises the transportation of natural gas through the distribution gas pipelines;
- Supply of natural gas comprises the natural gas sales to end users;
- Other activity comprises other activity not related to main business.

The Group's operating segments are not aggregated, except for Supply of natural gas, which consists of supply to households and non-households. The two groups were aggregated, as they relate to the same product.

Segment information for the years ended 2009 and 2008 is presented below:

Group

2009	Transmission	Distribution	Supply	Other activity	Total
Sales	139,297	169,234	952,933	2,844	1,264,308
Interest income	3	23	1,390	340	1,756
Interest expense	619	–	–	–	619
Profit before tax	35,946	21,409	60,483	2,244	120,082
Income tax	7,129	5,860	12,034	284	25,307
Total assets	1,519,909	785,677	232,649	12,947	2,551,182
Total liabilities	223,602	168,203	167,934	259	559,998
Other segment information					
Acquisition of non-current assets	103,451	33,971	93	2,262	139,777
Depreciation and amortisation	60,187	35,775	1,320	459	97,741
2008	Transmission	Distribution	Supply	Other activity	Total
Sales	134,103	137,794	1,278,872	4,597	1,555,366
Interest income	6	7	4,850	236	5,099
Interest expense	844	18	–	–	862
Profit before tax	22,401	(8,153)	54,870	4,155	73,273
Income tax	3,331	(2,868)	8,331	244	9,038
Total assets	1,473,084	784,411	259,327	12,444	2,529,266
Total liabilities	262,676	174,470	210,223	(408)	646,961
Other segment information					
Acquisition of non-current assets	57,045	65,751	375	111	123,282
Depreciation and amortisation	59,052	33,929	946	431	94,358

All the assets of the Group and the Company are allocated in the territory of Lithuania where the Group and the Company are operating, except for a part of natural gas accounted for in inventories (Note 8).

In 2009 and 2008 the Group and the Company earned over 99% of its revenue from Lithuanian customers.

(all amounts are in LTL thousand unless otherwise stated)

4 Intangible assets

Movement of intangible assets for the current period:

<u>Group</u>	<u>Patents, licenses</u>	<u>Software</u>	<u>Other intangible assets</u>	<u>Total</u>
Cost:				
Balance as of 1 January 2008	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
Additions	882	474	219	1,575
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	3,922	6,210	1,708	11,840
Amortisation:				
Balance as of 1 January 2008	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
Charge for the year	635	685	103	1,423
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	2,018	4,433	1,472	7,923
Net book value as of 31 December 2009	1,904	1,777	236	3,917
Net book value as of 31 December 2008	1,657	1,988	120	3,765

<u>Company</u>	<u>Patents, licenses</u>	<u>Software</u>	<u>Other intangible assets</u>	<u>Total</u>
Cost:				
Balance as of 1 January 2008	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
Additions	882	473	219	1,574
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	3,922	6,178	1,708	11,808
Amortisation:				
Balance as of 1 January 2008	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
Charge for the year	635	678	103	1,416
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	2,018	4,422	1,472	7,912
Net book value as of 31 December 2009	1,904	1,756	236	3,896
Net book value as of 31 December 2008	1,657	1,961	120	3,738

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 5,559 thousand as of 31 December 2009 (LTL 4,744 thousand as of 31 December 2008) was fully amortised, but still in use.

5 Property, plant and equipment

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

Group	Land	Buildings	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 2008	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
Additions	-	122	-	1,277	-	618	4,911	2,890	785	127,599	138,202
Disposals and retirements	-	(71)	-	(154)	(93)	(550)	(1,474)	(1,910)	(221)	-	(4,473)
Reclassifications	-	4,615	35,784	25,215	2,253	17,189	-	3,886	117	(89,059)	-
Balance as of 31 December 2009	183	103,908	1,484,932	805,617	14,371	142,003	35,437	98,178	10,319	97,141	2,792,089
Accumulated depreciation:											
Balance as of 1 January 2008	-	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
Charge for the year	-	3,149	46,184	24,035	639	8,450	3,506	9,045	1,310	-	96,318
Disposals and retirements	-	(26)	-	(135)	(80)	(521)	(1,474)	(1,909)	(205)	-	(4,350)
Reclassifications	-	1	-	-	(12)	11	-	-	-	-	-
Balance as of 31 December 2009	-	15,857	226,950	113,237	3,244	47,872	20,436	67,551	6,427	-	501,574
Impairment losses:											
Balance as of 1 January 2008	-	3,515	-	-	-	-	-	3	7	1	3,526
Reversal of impairment	-	-	-	-	-	-	-	(3)	(7)	(1)	(11)
Balance as of 31 December 2008	-	3,515	-	-	-	-	-	-	-	-	3,515
Balance as of 31 December 2009	-	3,515	-	-	-	-	-	-	-	-	3,515
Net book value as of 31 December 2009	183	84,536	1,257,982	692,380	11,127	94,131	15,001	30,627	3,892	97,141	2,287,000
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

(all amounts are in LTL thousand unless otherwise stated)

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 2008	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
Additions	-	122	-	1,277	-	618	4,911	2,823	785	125,463	135,999
Disposals and retirements	-	(71)	-	(154)	(93)	(550)	(1,474)	(1,896)	(221)	-	(4,459)
Reclassifications	-	4,615	35,784	25,215	2,253	17,189	-	3,886	117	(89,059)	-
Balance as of 31 December 2009	183	91,759	1,484,932	805,617	14,371	142,003	35,312	96,749	10,319	94,899	2,776,144
Accumulated depreciation:											
Balance as of 1 January 2008	-	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
Charge for the year	-	3,005	46,184	24,035	639	8,450	3,498	8,954	1,310	-	96,075
Disposals and retirements	-	(26)	-	(135)	(80)	(521)	(1,474)	(1,895)	(205)	-	(4,336)
Reclassifications	-	1	-	-	(12)	11	-	-	-	-	-
Balance as of 31 December 2009	-	13,784	226,950	113,237	3,244	47,872	20,322	66,411	6,427	-	498,247
Impairment losses:											
Balance as of 1 January 2008	-	-	-	-	-	-	-	3	7	1	11
Reversal of impairment	-	-	-	-	-	-	-	(3)	(7)	(1)	(11)
Balance as of 31 December 2008	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2009	-	-	-	-	-	-	-	-	-	-	-
Net book value as of 31 December 2009	183	77,975	1,257,982	692,380	11,127	94,131	14,990	30,338	3,892	94,899	2,277,897
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

5 Property, plant and equipment (cont'd)

Regulatory environment of the energy sector has been worsened in the context of the global economy recession. An evaluation of the non-current assets' value based on the cash flow projections of an integrated Company has been performed under the assumption of future balanced development of national economy and regulatory regime leading to no negative impact on asset values.

Furthermore, a decision to split in the future the Company's activities according to the requirements of the EU 3rd energy package would have another negative impact on the asset values of the separate companies if no sufficiently positive regulatory regime improvements are taken.

Property, plant and equipment of the Group and the Company with the acquisition cost of LTL 48,382 thousand and LTL 47,524 thousand, respectively, were fully depreciated as of 31 December 2009 (LTL 44,959 thousand and LTL 44,146 thousand as of 31 December 2008, respectively), but were still in use.

As of 31 December 2009 and 2008 the Group and the Company had no property, plant and equipment, acquired under financial lease agreements.

Capitalisation of borrowing costs attributable to the Group's and the Company's qualifying assets were made every quarter using the following annual capitalisation rates:

1 st quarter	3.88%
2 nd quarter	4.08%
3 rd quarter	3.37%
4 th quarter	3.55%

As major construction projects were started prior to 1 January 2009, amounts capitalised in 2009 on qualifying assets are immaterial.

Major objects of construction in progress of the Group and the Company as of 31 December 2009 were as follows:

<u>Object</u>	<u>Group</u>	<u>Company</u>
Construction of compressor station in Jauniūnai, Širvintos district	74,820	74,820
Reconstruction of M&R station in Rudamina	6,116	6,116
Construction of transmission pipeline Jurbarkas - Šilalė	3,355	3,355
Construction of transmission pipeline Šilalė - Klaipėda	3,987	3,987
Other (including UAB Palangos Perlas)	8,863	6,621
Net book value as of 31 December 2009	97,141	94,899

6 Investments into subsidiaries

As of 31 December 2009 and 2008 the Company's investment into subsidiaries consisted of the investment into UAB Palangos Perlas and amounted to LTL 10,737 thousand (Note 1).

7 Non-current accounts receivable

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
AB Panevėžio Stiklas debt	6,373	6,373	6,373	6,373
Other non-current accounts receivable	48	65	48	65
	6,421	6,438	6,421	6,438
Less: allowance for non-current accounts receivable	(6,373)	(6,373)	(6,373)	(6,373)
	48	65	48	65

Receivable from AB Panevėžio Stiklas is related to the mentioned entity's 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 Group and 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	
	2009	2008	2009	2008
Raw materials, spare parts and other inventories	4,281	3,058	4,280	3,057
Goods for resale (including natural gas)	40,049	55,182	40,039	55,168
Inventories, gross	44,330	58,240	44,319	58,225
Less: allowance for inventories	(104)	(66)	(104)	(66)
	44,226	58,174	44,215	58,159

As of 31 December 2009 the Group's and the Company's balances of the goods for resale significantly decreased due to decreased gas purchase price.

The cost of inventories accounted for at net realisable value amounted to LTL 1,912 thousand as of 31 December 2009 (LTL 1,160 thousand as of 31 December 2008). Changes in the allowance for inventories in 2009 and 2008 were included into other expenses.

9 Trade and other accounts receivable

	Group		Company	
	2009	2008	2009	2008
Receivables for natural gas, Transmission and Distribution of natural gas from non-household customers	124,926	130,899	124,934	130,910
Receivables for natural gas, Transmission and Distribution of natural gas from household customers	7,467	4,500	7,467	4,500
Other trade receivables	1,465	1,764	1,423	1,757
Total trade accounts receivable	133,858	137,163	133,824	137,167
Other accounts receivable	1,293	498	966	497
	135,151	137,661	134,790	137,664
Less: allowance for accounts receivable	(7,122)	(6,301)	(7,122)	(6,301)
	128,029	131,360	127,668	131,363

Trade receivables are non-interest bearing and are generally due in 15 days for non-household customers and 30 days for household customers.

As of 31 December 2009 trade and other receivables with the nominal value of LTL 1,924 thousand (as of 31 December 2008 – LTL 1,386 thousand) were fully provided for.

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 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
Charge for the year	4,639	2,889	7,528
Utilised	–	(79)	(79)
Unused amounts reversed	(5,514)	(1,114)	(6,628)
Balance as of 31 December 2009	4,030	3,092	7,122

Changes in allowance for accounts receivable in 2009 and 2008 were included into other expenses.

9 Trade and other accounts receivable (cont'd)

The ageing analysis of the Group's trade and other accounts receivable as of 31 December 2009 and 2008 is as follows:

	Receivables neither past due nor impaired	Receivables past due but not impaired					Total
		Less than 30 days	30 – 90 days	90 – 180 days	180 – 360 days	More than 360 days	
2008	113,473	14,090	3,491	191	111	–	131,356
2009	120,896	4,307	1,707	317	451	–	127,678

The ageing analysis of the Company's trade and other accounts receivable as of 31 December 2009 and 2008 is as follows:

	Receivables neither past due nor impaired	Receivables past due but not impaired					Total
		Less than 30 days	30 – 90 days	90 – 180 days	180 – 360 days	More than 360 days	
2008	113,472	14,090	3,487	190	111	–	131,350
2009	120,864	4,307	1,705	314	445	–	127,635

10 Other current assets

The Group's and the Company's investment units held for trade were equal to LTL 21,016 thousand as of 31 December 2009 (no such investments as of 31 December 2008). Unrealised gain resulting from investment units' valuation at fair value is accounted for under interest income in the income statement and was not material for 2009.

The Group's other short term investments consist of deposits and were equal to LTL 1,942 thousand as of 31 December 2009 (LTL 4,099 thousand as of 31 December 2008). The maturity of short term deposits is 3-12 months period. As of 31 December 2009 weighted average annual interest rates of the short term deposits of the Group was 7.69% (Group – 6.42% as of 31 December 2008).

11 Cash and cash equivalents

	Group		Company	
	2009	2008	2009	2008
Cash at bank, in transit and on hand	2,679	3,984	2,608	3,853
Frozen funds	6,137	6,137	6,137	6,137
Deposits with the term of less than three months	62,149	80,242	61,548	80,142
	70,965	90,363	70,293	90,132
Less: impairment	(6,137)	(6,137)	(6,137)	(6,137)
	64,828	84,226	64,156	83,995

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. 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 2009 was 0,51% (2,54% as of 31 December 2008). 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 2009 was LTL 64,828 thousand and LTL 64,156 thousand, respectively (LTL 84,226 thousand and LTL 83,995 thousand as of 31 December 2008).

(all amounts are in LTL thousand unless otherwise stated)

12 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 4,742 thousand of the Company's net profit for 2009 must be allocated for a transfer to the legal reserve for 2009. 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 2009 on the date of issue of these financial statements.

13 Borrowings

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Non-current borrowings				
Borrowings from Lithuanian credit institutions	6,432	8,576	6,432	8,576
Current borrowings				
Current portion of non-current borrowings	2,144	2,144	2,144	2,144
	<u>8,576</u>	<u>10,720</u>	<u>8,576</u>	<u>10,720</u>

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

	As of 31 December 2009	As of 31 December 2008
	Fixed interest bearing loans	Fixed interest bearing loans
2009	–	2,144
2010	2,144	2,144
2011	2,144	2,144
2012	2,144	2,144
2013	2,144	2,144
	<u>8,576</u>	<u>10,720</u>

Actual interest rates are close to effective interest rates. As of 31 December 2009 the weighted average annual interest rate of borrowings outstanding was 5.65% (5.65% as of 31 December 2008). Borrowings at the end of the year in national and foreign currencies expressed in LTL were as follows:

Borrowings denominated in:	Group		Company	
	2009	2008	2009	2008
EUR	8,576	10,720	8,576	10,720
	<u>8,576</u>	<u>10,720</u>	<u>8,576</u>	<u>10,720</u>

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

As of 31 December 2009 the Group and the Company had available LTL 6,900 thousand (LTL 6,900 thousand as of 31 December 2008) of unutilized credit limit facility in respect of which all conditions precedent had been met.

14 Grants (deferred revenue)

Group and Company	2009			2008		
	Deferred revenue	Grants	Total	Deferred revenue	Grants	Total
Balance at the beginning of the period	102,693	61,519	164,212	75,436	61,795	137,231
Additions per year	10,231	1,431	11,662	28,831	2,010	30,841
Amortisation per year	(2,002)	(1,966)	(3,968)	(1,574)	(2,044)	(3,618)
Grants used for compensation of expenses	–	(35)	(35)	–	(242)	(242)
Balance at the end of the period	110,922	60,949	171,871	102,693	61,519	164,212

Increase in grants (deferred revenue) in 2009 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 Non-current employee benefits

As of 31 December 2009 the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 6,058 thousand; other non-current employee benefits resulting from bonuses for long work experience in the Company were equal to LTL 1,225 thousand. These amounts are included in the caption of payroll and related social security taxes in the income statement and the caption of non-current employee benefits in the statement of financial position.

The major assumptions made when estimating the Company's liability of non-current employee benefits are the following:

	As of 31 December 2009
Discount rate	7.67%
Employee turnover rate	4%
Annual salary increase	2%

The amount for 2008 was not material due to significantly higher discount rate. The amount of obligations has been booked prospectively in 2009.

The Group and the Company have no plan asset designated for settlement with employee benefit obligations

16 Trade payables

	Group		Company	
	2009	2008	2009	2008
Suppliers of natural gas	129,047	177,729	129,047	177,729
Other	16,065	3,222	15,545	3,212
	145,112	180,951	144,592	180,941

As of 31 December 2009 the Group's and the Company's payables to suppliers of natural gas significantly decreased due to significant decrease in import price of natural gas.

As of 31 December 2009 the Group's and the Company's other trade payables significantly increased due to increased payables for construction works.

Terms and conditions of the above financial liabilities: trade payables are non-interest bearing and majority of them are normally settled on 20 days terms.

(all amounts are in LTL thousand unless otherwise stated)

17 Other payables and current liabilities

Other payables and current liabilities mainly consist of VAT payable, which was equal to LTL 30,858 thousand as of 31 December 2009 (LTL 27,009 thousand as of 31 December 2008).

18 Other income

In 2009 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 3,968 thousand (LTL 3,618 thousand in 2008).

19 Financial activities

	Group		Company	
	2009	2008	2009	2008
Interest income on short-term investments	1,756	5,099	1,419	4,868
Other income from financial activities	1,864	1,438	1,865	1,438
Total income from financial activities	3,620	6,537	3,284	6,306
Interest expenses on borrowings	(619)	(862)	(619)	(862)
Other expenses from financial activities	(1)	(1)	(1)	(1)
Total expenses from financial activities	(620)	(863)	(620)	(863)
Gain from financial activities, net	3,000	5,674	2,664	5,443

20 Income tax

	Group		Company	
	2009	2008	2009	2008
Income tax:				
Profit before tax	120,082	73,273	120,013	73,078
Changes in temporary differences	58,312	51,436	58,370	51,492
Permanent differences	(94)	2,322	(83)	2,320
Taxable income for the year	178,300	127,031	178,300	126,890
Current year income tax	35,660	19,055	35,660	19,035
Prior periods' income tax adjustment	(13)	(214)	(14)	(214)
Change in deferred income tax	(69,444)	51,914	(69,584)	52,037
Impact on change in deferred income tax due to tax rate change, recorded in the statements of comprehensive income*	59,104	(61,717)	59,104	(61,717)
Income tax expense charged to the income statement	25,307	9,038	25,166	9,141
Deferred tax asset:				
Impairment losses on property, plant and equipment and vacation accrual	1,308	1,837	835	1,195
Accrual for non-current employee benefit	1,092	-	1,092	-
Deferred revenue from connection fees	2,114	2,877	2,114	2,877
Deferred tax asset before valuation allowance	4,514	4,714	4,041	4,072
Less: valuation allowance	(113)	(172)	(108)	(168)
Less: deferred tax asset netted with deferred tax liability	(4,401)	(4,542)	(3,933)	(3,904)
Deferred tax asset, net	-	-	-	-
Deferred tax liability:				
Difference in tax base of property, plant and equipment	(177,392)	(246,977)	(177,311)	(246,866)
Deferred tax liability, net	(172,991)	(242,435)	(173,378)	(242,962)

* Due to application of 20% income tax rate starting from 1 January 2009 and 15% income tax rate starting from 1 January 2010 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 in the statements of comprehensive income.

20 Income tax (cont'd)

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 statement of financial position of the Company, as they both are related to the same tax authority. In the Group's statement of financial position the deferred tax asset and deferred tax liability of the Company and its subsidiary are netted to the extent they are realised simultaneously.

While assessing deferred income tax asset and liability components in 2009 the Group and the Company has used 15% income tax rate. While assessing deferred income tax asset and liability components in 2008 the Group and the Company has used income tax rate of 20%, as future change in tax rate was unknown as of the release date of financial statements for the year 2008.

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 20% (in 2009) and 15% (in 2008) to pre-tax income:

	Group		Company	
	2009	2008	2009	2008
Profit before tax	120,082	73,273	120,013	73,078
Tax (expense) at the applicable standard tax rate	(24,016)	(10,991)	(24,003)	(10,962)
Non-deductible items	19	(464)	17	(464)
Change in deferred tax asset realisation allowance	(59)	172	(60)	168
Impact of changes in income tax rates	(1,264)	2,459	(1,134)	2,331
Effect of prior periods income tax adjustment	13	(214)	14	(214)
Income tax (expense)	(25,307)	(9,038)	(25,166)	(9,141)

21 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	
	2009	2008
Net profit attributable to the shareholders (in LTL thousand)	94,775	64,235
Weighted average number of shares in thousand	469,068	469,068
Basic earnings per share (in LTL)	0.20	0.14

As there were no changes in the share capital of the Company during 2009 and 2008, therefore the weighted average number of shares equals to the total number of shares at the end of the year.

22 Dividends declared

	2009	2008
Approved dividends (in LTL thousand)*	45,000	50,000
Number of shares at the date when dividends were declared (in thousand)	469,068	469,068
Approved dividends per share (LTL)	0.10	0.11

* In the year when the dividends are approved.

(all amounts are in LTL thousand unless otherwise stated)

23 Cash generated from investing activities

When calculating cash flows from investing activities in 2009, the change in accounts payable for non-current assets of the Group and the Company of LTL 10,570 thousand and LTL 10,067 thousand, respectively, (LTL 421 thousand of the Group and the Company in 2008), was taken into account.

24 Capital investment 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 2002-2009 the Group and the Company has bought out 333 km pipelines for the total value of LTL 5,426 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 2009 the Group and the Company has unsatisfied requests to buy out 93 km pipelines with the estimated price of approximately LTL 0.9 million according to the Group's and the Company's calculation.

As of 31 December 2009, 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 117,924 thousand.

25 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 2009 and 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	-	-	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
-	-	-	-	-	-	-
Interest bearing loans and borrowings	-	-	2,598	7,068	-	9,666
Other current liabilities	-	761	-	-	-	761
Trade payables	-	145,112	-	-	-	145,112
Balance as of 31 December 2009	-	145,873	2,598	7,068	-	155,539

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2009 and 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	-	-	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
-	-	-	-	-	-	-
Interest bearing loans and borrowings	-	-	2,598	7,068	-	9,666
Other current liabilities	-	761	-	-	-	761
Trade payables	-	144,592	-	-	-	144,592
Balance as of 31 December 2009	-	145,353	2,598	7,068	-	155,019

25 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, other receivables, cash and short term investments less impairment losses recognised at the date of the statement of financial position. As the Group and the Company are working with big number of customers, they do not face a significant credit concentration risk. Credit risk is managed through regular monitoring procedures (individual debtors' supervision, especially 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 debts of the individual customers and their groups are valued and in accordance with the procedures of the Company the decision about formation of allowance for accounts receivable is accepted.

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

The Group and the Company do 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, LTL 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 2009 were as follows (stated in LTL):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	214,089	211,390	67,731	67,164
EUR	1,774	1,498	137,645	137,645
Total	<u>215,863</u>	<u>212,888</u>	<u>205,376</u>	<u>204,809</u>

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	<u>221,602</u>	<u>217,267</u>	<u>229,778</u>	<u>229,728</u>

Interest rate risk

As of 31 December 2009 the Group and the Company had one loan with fixed interest rate. The sensitivity analysis for changes in interest rates is not disclosed, as the Group and the Company had no borrowings with fluctuating interest rates as of 31 December 2009 and 2008.

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. Management of the Group and the Company believes that this risk is managed effectively in the following way: 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.

(all amounts are in LTL thousand unless otherwise stated)

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

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.

Investment units classified as held for trading are carried at fair value. 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.
- (c) The fair value of investment units held for trading is obtained from the quoted market prices (Level 1 valuation technique).

26 Commitments and contingencies

Legal disputes

1. On 29 December 2008 the National Control Commission for Prices and Energy (hereinafter the NCCPE) 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 NCCPE 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 NCCPE.

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 NCCPE'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".

The cases mentioned in the paragraph 1 and 2 were compounded into one case. As of 30 September 2009 the court has rejected the complains of AB Lietuvos Dujos and National Gas, Electricity and Heat Consumer Protection League as unsubstantiated. Both applicants lodged an appeal.

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 abovementioned cases, as the Company applies tariffs, approved by the NCCPE.

27 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 2009 and 2008 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);
- DOAO Orgenergogaz (same ultimate shareholder).

27 Related party transactions (cont'd)

2009	Purchases	Sales	Accounts receivable	Accounts payable
OA0 Gazprom	885,990	11,674	1,485	129,047
DOAO Orgenergogaz	760	–	–	–
UAB Palangos Perlas	54	39	8	–
AS Latvijas Gaze	1,826	–	–	12
E.ON IS GmbH	115	–	–	–
	888,745	11,713	1,493	129,059

2008	Purchases	Sales	Accounts receivable	Accounts payable
OA0 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

Dividends to the shareholders have been paid in 2009 and 2008.

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash in 15-30 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 2,443 thousand and LTL 2,377 thousand in 2009, respectively (LTL 2,416 thousand and LTL 2,345 thousand in 2008, respectively). The annual payments (tantieme) paid for the Company's Board members amounted to LTL 94 thousand in 2009 (LTL 79 thousand in 2008). In 2009 and 2008 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

28 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. For capital management purposes, capital includes share capital, reserves and retained earnings.

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 2009 and 2008.

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. As of 31 December 2009 and 2008 the Group and the Company have been in compliance with this requirement. There were no other externally imposed capital requirements on the Group and the Company.

Editorial work was completed on 23 April, 2010.
Design: Kriventa LJ
Printed: Baltijos Kopija UAB

© Prepared by Centre of Administration and
Gas Transmission of AB Lietuvos Dujos.
Citing the edition it is necessary to refer to source.

AB Lietuvos Dujos

Aguonų g. 24
LT-03212 Vilnius, Lithuania
Tel.: +370 5 236 02 10
Fax: +370 5 236 02 00
E-mail: ld@lietuvosdujos.lt, www.dujos.lt
Vilnius, 2010

