



warmth
safety
variety
future



CONTENTS

CHAIRMAN'S STATEMENT	4
GENERAL MANAGER'S STATEMENT	7
REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED	10
MAIN DATA ABOUT THE ISSUER	10
MAJOR DEVELOPMENTS OF THE REPORTING PERIOD	10
NATURAL GAS BUSINESS ENVIRONMENT	11
RISK MANAGEMENT	13
MAIN FEATURES OF THE GROUP'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO DRAWING UP CONSOLIDATED FINANCIAL STATEMENTS	16
FINANCIAL PERFORMANCE	17
RESEARCH AND DEVELOPMENT ACTIVITIES	20
BUSINESS PLANS AND FORECASTS	20
MANAGEMENT OF THE COMPANY	20
TRANSMISSION OF NATURAL GAS	29
DISTRIBUTION OF NATURAL GAS	30
SUPPLY OF NATURAL GAS	31
ENVIRONMENTAL PROTECTION	33
STAFF	34
MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION	35
SPONSORSHIP PROGRAMS	36
SOCIAL RESPONSIBILITY	37
AB LIETUVOS DUJOS CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011	41

Board of Directors

since 20 April, 2011



Dr Peter Frankenberg

Chairman*

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



Dr Valery Golubev

Deputy Chairman*

Deputy Chairman of Management Committee, OAO Gazprom



Uwe Fip

Member

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



Kirill Seleznev

Member

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



Romas Švedas**

Member

Vice-Minister of Energy of the Republic of Lithuania



Kęstutis Žilėnas***

Member

Vice-Minister of Energy of the Republic of Lithuania

* Chairman of the Board of Directors and his Deputy are elected by rotation for a two-year term.

** Resigned with effect from 11 October 2011.

*** Elected with effect from 9 December 2011.

CHAIRMAN'S STATEMENT



Sales market

In 2011, Lithuania's total demand for natural gas stood at nearly 3.4 billion m³, of which the share supplied by AB Lietuvos Dujos amounted to 39%. The lion's share of the national gas demand was covered by other suppliers. For nearly two decades, AB Lietuvos Dujos has been granting unrestricted Third Party Access to all of the Company's gas transportation infrastructure. Third Party Access has been also provided for by laws and regulations, irrespective of the country of origin of natural gas supplies. The gas transportation contracts concluded with third parties are of standard type and the tariffs and conditions are regulated by the state.

Compared to 2010, Lithuania's gas consumption rose, which may be attributed to the increase in demand of the fertilizer producer Achema, which in turn was driven by the trends of the global fertilizer market rather than by the Lithuanian energy market trends. Excluding this effect, national gas consumption dropped by 15%, mainly because the competitiveness of gas in relation to other fuels deteriorated as a consequence of the import price developments.

Infrastructure investment

Back in April of 2010, the Company's Board of Directors adopted a unanimous decision that the Šakiai–Klaipėda Pipeline Project must be completed under the condition that the EU co-financing is granted for the remaining part. This was also required by the regulatory authority in order to limit the negative impact of this Project on gas consumer tariffs. AB Lietuvos Dujos has already invested in the Project approx. LTL 40 million of the Company's own funds. In 2007, the first section of the Gas Transmission Pipeline Šakiai–Jurbarkas was put into operation. At the end of 2011, the state finally granted its part of the co-financing. At the beginning of 2012, AB Lietuvos Dujos immediately started the works for the implementation of the Project. The public procurement procedures were initiated by AB Lietuvos Dujos already several months prior to the actual allocation of the EU co-financing, this measure was undertaken in order to ensure that the Project is completed by the end of the year 2013.

In 2011, the Company continued with the implementation of the gas pipeline interconnection projects with Lithuania's two EU neighbors: Latvia and Poland (both projects are financially supported by the EU Commission). Latvijas Gaze A/S and AB Lietuvos Dujos jointly performed construction works to enhance the throughput capacity of the Lithuania–Latvia Gas Interconnector, which was established by the Company back in 2005 as the first of the numerous major gas transportation projects implemented after the privatization. The works for the enhancement of the throughput capacity of this Gas Interconnector are expected to be completed in 2013. The year 2011 was the first year of the operation of the new Gas Compressor Station located near Vilnius, which was required for both Lithuanian needs and for increasing gas transit volumes. The enhanced Gas Interconnector with Latvia and the new Gas Compressor Station are also prerequisites for the prospective Gas Interconnector with Poland. In 2011, the Company, together with the Polish partner GAZ-SYSTEM S.A., prepared a business case analysis, which in November was presented to the EU Commission and shortly afterwards approved by the supervisory bodies of the two companies involved in the Project. In 2012, the two companies are continuing their work on this Project by preparing a joint feasibility study.

Infrastructure regulation

Throughout the year 2011, as in the years before, the return on investment (ROI) in the natural gas infrastructure was capped by law at 5% pre tax. The new law, which came into effect in summer 2011, does not provide for such a cap anymore and assigns the regulatory authority with the task to establish a reasonable ROI. From 2012, the ROI has increased, but it still does not give sufficient incentive for future investments. Moreover, future investments are jeopardized by the lack of regulatory stability; over the last few years, the principles of tariff regulation were changed every year and applied with immediate effect, despite the fact that the regulatory period provided for by law is 5 years. This strips the term "regulatory period" of any meaning and, together with the low profitability, discourages investment in the gas infrastructure. Nevertheless, we hope that with the next regulatory period the regulatory environment will improve according to the best EU practice.

Transit

From 1 January 2011, new conditions for natural gas transit are applied, including the ship-or-pay obligation. At the same time, as provided for by the National Energy Strategy, the new Gas Compressor Station near Vilnius, which serves both the transit needs and the Lithuanian market needs, came into operation. The preliminary investment decision for the Gas Compressor Station was taken by the AB Lietuvos Dujos Board of Directors back in March 2008, only after the management agreed with the transit user OAO Gazprom on the transit and on the terms of the pay-back for the part allocated to the transit. The final investment decision was taken in September 2008 by the National Control Commission for Prices and Energy together with the Ministry of Economy and AB Lietuvos Dujos. The National Control Commission for Prices and Energy concluded that one half of the Gas Compressor Station capacities are needed to cater for the increase of the transit volumes and the other half of the capacities are needed to cater for the needs of Lithuanian customers. It was also noted that the newly constructed Šakiai-Klaipėda Pipeline, due to technical reasons, can only function together with the Gas Compressor Station.

The actual transit quantity in 2011 was 2.0 billion m³ – up by 47% compared to the year before. This increase was because the second unit of the new power station in Kaliningrad came into operation at the end of 2010. Since privatization in 2002, the annual transit volumes according to the ship-or-pay agreements quadrupled (2.5 billion m³ from 1 January 2011), and the transit tariff was raised significantly. Therefore, the transit became an important business for the Company.

Third Energy Package implementation

The Ministry of Energy prepared the draft of new gas law (the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas) supposed to implement the EU Directive 2009/73/EC and set up a working group, to which also one representative of AB Lietuvos Dujos was invited. In this group, all the members who were delegated by non-state institutions expressed the opinion that ownership unbundling – preferred by the Ministry of Energy – was the most interfering option among the three implementation options available under the Third EU Directive (1. Ownership Unbundling, 2. Independent System Operator, 3. Independent Transmission Operator) – which, in the Lithuanian context, will considerably increase infrastructure tariffs, but will not generate any improvements compared to the existing situation. The Company's proposal was to opt for the Independent Transmission Operator option and, only when the planned LNG Terminal becomes operational, to discuss further the Ownership Unbundling option based on the experience of other EU member states. Therefore, the Company tried to achieve, within the new legal framework, the consideration of the right to choose between different unbundling options besides Ownership Unbundling. However, on key-issues of the implementation of the Directive and in particular on the various options provided by this Directive, no meaningful discussion was conducted by the Ministry of Energy or any other governmental authority neither with consumers, nor with the Company or its shareholders. No impact analysis was performed by the Government, but the Ministry of Energy just referred to the general statements of the EU Commission, which are mostly applicable to the large EU member states rather than being specifically applicable to Lithuania. Finally, the draft new gas law prepared by the Ministry of Energy was presented to the Parliament of the Republic of Lithuania and eventually came into force on 1 August 2011. In 2011, the Government also approved the Plan for Performing the Unbundling of the Activities and Control of Natural Gas Undertakings That Do Not Conform to the Requirements of the Law on Natural Gas of the Republic of Lithuania.

Thanks to management and employees

In 2011, despite the difficult business environment, the Company managed to achieve its objectives and further enhanced its efficiency. On behalf of the Board of Directors, I thank the management and the employees for their achievements, for their loyalty to the Company, and for their consistent customer orientation.



Dr Peter Frankenberg
Chairman of the Board of Directors

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

GENERAL MANAGER'S STATEMENT



First of all, the Year 2011 has been of exceptional significance to our Company due to historical reasons and anniversaries of natural gas sector landmark events.

As many as 150 years ago, in the town of Klaipėda, in Western Lithuania, gas business foundations were laid, when the first Town Gas Plant was put into operation. Another landmark date was the 50th anniversary of the introduction of natural gas in Lithuania, which was celebrated by the Company's staff together with our business partners and customers.

In 2011, we invested a lot effort in the development of regional projects and gas interconnectors. The work in close cooperation with our counterpart gas companies operating in the neighbouring countries – the Latvian company Latvijas Gaze A/S and the Polish company GAZ-SYSTEM S.A. – which was co-financed with the EU Structural Fund grants, enabled us to proceed with the implementation of joint projects aimed at the enhancement of the safety and reliability of natural gas supplies and at the diversification of the natural gas supply sources.

With a view to the development of the regional gas market, we concluded a co-operation agreement with our Finnish partner Gasum Oy in order to establish a joint venture which would engage in the natural gas market operator's activities or, in other words, which would arrange trade on the natural gas exchange, first of all, for customers of Lithuania and, in the future, also for customers of other neighbouring countries. The natural gas exchange offers an additional opportunity to market players to procure or sell natural gas. This trading channel will offer gas consumers a greater flexibility and wider opportunities in their businesses, since, in an event of an unexpected natural gas demand rise or gas supply surplus, customers will always be in a position to buy or sell gas at market prices.

Since the middle of last year, AB Lietuvos Dujos became an Associated Partner of the European Network of Transmission System Operators for Gas (ENTSOG). This organization is responsible for the elaboration of the European cross-border network codes and for promotion of the co-operation among the European Gas Transmission System Operators.

In spite of the very unfavourable external and internal factors impacting the natural gas sector, the Company succeeded in achieving all the key goals that were set by the shareholders and by the Board of Directors for the Year 2011 and met all the key budget targets, both the revenue targets and the expense-related ones.

1,900 new gas consumers became customers of the Company; various works planned by the Company in the fields of system diagnostics, in the modernization and repair programmes were successfully carried out; new investment projects in the field of market development were also successfully implemented. The customer service quality improvement programme was continued, and the public opinion survey showed an improvement in the quality of services and an improvement in the Company's customer relations.

The set of systems implemented by the Company of goal setting, risk management and staff incentive scheme not merely ensured the attainment of the key goals in the fields of technology, production, and finances, but also secured a favourable micro-climate, and a harmonious interaction between the management and the staff of all the units of the Company. The Company continued with the implementation of measures for the improvement of processes and as a result not merely managed to optimize the work of departments that perform different functions, but to improve their work efficiency and cost control as well.

The Company started direct preparations for the implementation of the applicable requirements of the new Law on Natural Gas: we made a preliminary analysis of the legal acts, conducted their implementation impact assessment study and submitted the conclusions and proposals to the shareholders of the Company for discussion and for taking respective decisions.

A handwritten signature in black ink, appearing to read 'Viktoras Valentukevičius', written in a cursive style.

Viktoras Valentukevičius
General Manager

All of our work
is tailored to meet
your large and small needs





of family and
growing children

REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED – The Year 2011.

MAIN DATA ABOUT THE ISSUER

Name of the Issuer:	AB Lietuvos Dujos (hereinafter referred to as “the Company” or “LD”)
Legal 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.

The mission of the Company is to supply natural gas in a safe and reliable way, so that everybody would enjoy a more comfortable life.

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 2011, new natural gas transmission and distribution service tariffs as well as new natural gas tariffs for household customers came into effect. The Board of Directors of the Company approved them on 19 November 2010, and the National Control Commission for Prices and Energy (hereinafter referred to as “the NCCPE”) approved them on 29 November 2010.
- On 28 January 2011, an official ceremony of the opening of the new Gas Compressor Station in Jauniūnai was held. The ceremony was attended by representatives of supervisory authorities, major shareholders of the Company, the Municipality of the Širvintos District, the contractors of the construction and the Company. The new Jauniūnai Gas Compressor Station is the largest investment made by LD over the course of the past decade.
- On 5 April 2011, an agreement on the Business Case Analysis Study of the Poland-Lithuania Gas Interconnector was concluded. The agreement was signed by the gas companies AB Lietuvos Dujos and GAZ-SYSTEM S.A. and the winner of the tender – Ernst & Young Business Advisory LLC & PLP.
- On 20 April 2011, the Annual General Meeting of Shareholders of the Company took place at which the shareholders approved the Board of Directors’ proposal for the Company’s activity results of the Year 2010 to pay out dividends in amount of 25.6 Lithuanian cents per share with par value of one litas. The share of the profit appropriated to the payout of dividends amounted to LTL 120 million.
- On 20 April 2011, at the Board of Directors Meeting, according to the principle of rotation as provided for by the Shareholders’ Agreement, the Chairman of the Board of Directors was elected (Dr Peter Frankenberg) as well as the Deputy Chairman of the Board of Directors (Dr Valery Golubev).
- On 27 May 2011, the NCCPE unilaterally set new natural gas tariffs for household customers. The new tariffs took effect on 1 July 2011.
- On 15 June 2011, the European Commission approved the special decision regarding the granting of financial assistance (according to the Trans-European Networks for Energy (TEN-E) Programme) to AB Lietuvos Dujos and GAZ-SYSTEM S.A. for the preparation of the Lithuania-Poland Gas Interconnector Business Case Analysis and Feasibility Study.
- On 22 June 2011, at the General Assembly of the European Network of Transmission System Operators for Gas (ENTSOG) held in Edinburgh (UK) AB Lietuvos Dujos was admitted to this organization as an Associated Partner.
- On 30 June 2011, the Seimas of the Republic of Lithuania passed the Law on Amending the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas. The Law on Natural Gas provides for the reorganization

of the activities of AB Lietuvos Dujos through the employment of the most radical option of the all possible options provided for by the EU Third Energy Package. The implementation of the provisions of the Law will have a material impact on the Company's activities.

- On 29 July 2011, two historic gas street lights that were restored to new life were lit in front of the Klaipėda Youth Centre. The gas street lights were reinstated on the initiative of AB Lietuvos Dujos in order to commemorate two anniversaries: the 150th anniversary of gas business in Lithuania and the 50th anniversary of natural gas use in Lithuania.
- On 20 September 2011, after the adoption of the decision regarding the allocation of the EU Structural Fund financial assistance to the Project "Construction of the Jurbarkas–Klaipėda Gas Transmission Pipeline" and coordination with the European Commission the order and procedures of the allocation of the financial assistance, AB Lietuvos Dujos submitted to the Lithuanian Business Support Agency its financial assistance request.
- On 11 October 2011, the Member of the Board of Directors Romas Švedas, who represented the Ministry of Energy of the Republic of Lithuania, resigned.
- On 27 October 2011, the NCCPE set new adjusted AB Lietuvos Dujos natural gas transmission, distribution and supply price caps effective in the year 2012.
- On 28 October 2011, the Government of the Republic of Lithuania adopted Resolution No. 1239 "On Approval of the Plan of Performing the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law of the Republic of Lithuania on Natural Gas". The Plan that was approved by the Government of the Republic of Lithuania sets the key dates by which natural gas companies must perform main actions in order to conform to the requirements of Chapter Eight "Unbundling of Activities and Accounts" of the Law on Natural Gas.
- On 9 November 2011, LD and the Finnish natural gas company Gasum Oy signed a Memorandum of Understanding on cooperation aimed at setting up a

joint venture to perform the functions of a natural gas market operator and to organize trade at the natural gas exchange established thereby.

- On 30 November 2011, the NCCPE approved LD's natural gas transmission and distribution service tariffs and natural gas tariffs for household customers effective from 1 January 2012 (set by the LD Board of Directors decision of 18 November 2011). The household natural gas tariffs were not changed, i.e. from 1 January 2012 apply the same tariffs that were in effect in Half 2 of 2011.
- On 9 December 2011, the Extraordinary General Meeting of Shareholders of LD elected a new member of the LD Board of Directors Kęstutis Žilėnas (Vice Minister of the Ministry of Energy of the Republic of Lithuania) who will hold this position until the expiration of the term of office of the current Company's Board of Directors.
- On 21 December 2011, LD and the Ministry of Economy of the Republic of Lithuania and the public institution Lithuanian Business Support Agency entered into an agreement regarding the financial support of the EU Structural Funds amounting to LTL 77.1 million. The financial support will be received for the implementation of the second stage of the project for the construction of the Šakiai–Klaipėda transmission pipeline provided for by the National Energy Strategy of the Republic of Lithuania – for the construction of the gas pipeline from Jurbarkas to Klaipėda, including the construction of a new Gas Distribution Station in Klaipėda.

All notices that in accordance with law are subject to publication are posted in the electronic publication of the Administrator of Register of Legal Persons. Notifications on convening a general meeting of shareholders of the Company as well as other material events are posted in accordance with procedure established by the Law on Securities of the Republic of Lithuania in the Central Database of Regulated Information www.crib.lt and the Company website www.dujos.lt. Where shareholders' holdings entitle them to at least 10% of the total voting rights, notices to such shareholders on convening a general meeting of shareholders are dispatched in accordance with procedure established by the Bylaws of the Company.

NATURAL GAS BUSINESS ENVIRONMENT

Implementation of the Third Energy Package

On 30 June 2011, a new Law on Natural Gas was adopted by the Seimas of the Republic of Lithuania, transposing into the national legislation provisions of Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas ("EU third energy package"). Of the three available models of the unbundling of the natural gas activities offered by the third energy package of the EU, the most radical option was chosen, i.e. the unbundling of the natural gas transmission and supply activities based on the ownership unbundling. Together with the new Law on Natural Gas, a Law on Implementation of the Law on Natural Gas was also passed, providing for the methods and terms of the unbundling of the activities. The Laws came into effect on 1 August 2011. The Law on Natural Gas as well as the Law on Implementation of the Law on Natural Gas will have a material impact on the Company's activities.

The Law on Implementation of the Law on Natural Gas and the Plan of Performing the Unbundling of Activities and Control of Natural Gas Companies provide for the following methods for the unbundling of the activities and control of the Transmission System Operator (TSO):

- unbundling of transmission activities and control through a "voluntary control reorganization procedure";
- unbundling of transmission activities and control through reorganization (unbundling) of natural gas undertakings opting for the "reorganization procedure".

Setting up a Natural Gas Exchange

With the coming into effect of the new Law on Natural Gas, the natural gas supply activity was no longer regulated, which opened up a possibility for LD to get the Market Operator's license and to establish a Natural Gas Exchange in Lithuania. LD and the Finnish gas

company Gasum Oy established cooperation aiming to set up a joint venture which would perform functions of Market Operator and organize the trading process of the Natural Gas Exchange established thereby. The long-term goal of this cooperation is the formation of a Regional Gas Exchange covering Lithuania, Latvia and Estonia and the market integration.

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 (out of 60). 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.

Pricing system and natural gas tariffs

Natural gas transmission and distribution service tariffs applicable to all customers are subject to regulation by the NCCPE. Price caps of the regulated tariffs are set for a five-year regulation period and by the NCCPE decision may be adjusted, however not more often than once per year and exclusively in cases provided for by the Law on Natural Gas of the Republic of Lithuania. In implementation of the provisions of the new Law on Natural Gas, the NCCPE by Resolution No. O3-284 of 24 October 2011 approved the amendments to the Natural Gas Transmission and Distribution Price Cap Calculation Methodology setting forth that the Natural Gas Transmission and Distribution Price Cap calculation shall include a reasonable return on investments, calculated on the basis of the WACC (weighted average cost of capital). Having taken into account this change as well as other changes, the NCCPE by Resolution No. O3-362 of

28 October 2011 set new adjusted gas transmission and distribution price caps for LD effective from 1 January 2012.

Natural gas supply tariffs to all customers were subject to regulation prior to the coming into effect of the new Law on Natural Gas. From 1 August 2011, the supply activity is no longer subject to regulation and the NCCPE by Resolution No. O-266 of 30 September 2011 repealed the natural gas transmission price caps set for the Company.

Concrete natural gas transmission and distribution services tariffs are set by the Company on an annual basis. Natural gas tariffs for household customers are set once in every six months.

On 18 November 2011, the Board of Directors of the Company set the concrete natural gas transmission and distribution service tariffs as well as new natural gas tariffs for household customers with effect from 1 January 2012. On 30 November 2011, these tariffs were approved by the NCCPE. The natural gas tariffs applicable to the household customers were not changed, i.e. from 1 January 2012 the same tariffs that were in effect in Half 2 of 2011 will be further applied. Despite the fact that based on the trends for the oil product price and the currency exchange rate changes forecast for 2012, the variable component of the natural gas price should have gone up

by 11-12%, nevertheless, having taken into account the economic situation in Lithuania and seeking to mitigate the situation on the market, the Company's Board of Directors, acting in accordance with the applicable provision of the Law on Natural Gas, decided not to change the natural gas tariffs for the household customers, thus putting off the compensation for the gas imports price difference for Half 2 of 2011 and Half 1 of 2012 for a future period.

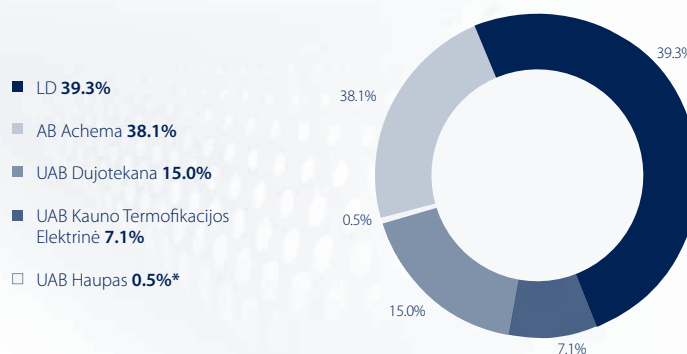
For the non-household customers, natural gas price is subject to monthly recalculations. Natural gas import price depends on heavy fuel oil and gasoline prices in international market, the EUR/USD exchange rate set by the European Central Bank and actual calorific value of natural gas. Due to the extremely significant and sudden rise of the prices of energy resources in Half 1 of 2011, and in particular due to the significant drop in the value of the euro at the end of 2011, the natural gas prices for the non-household customers have been gradually rising since January of 2011.

For more detailed information on the natural gas service tariffs and gas tariffs for household customers see the Company website www.dujos.lt.

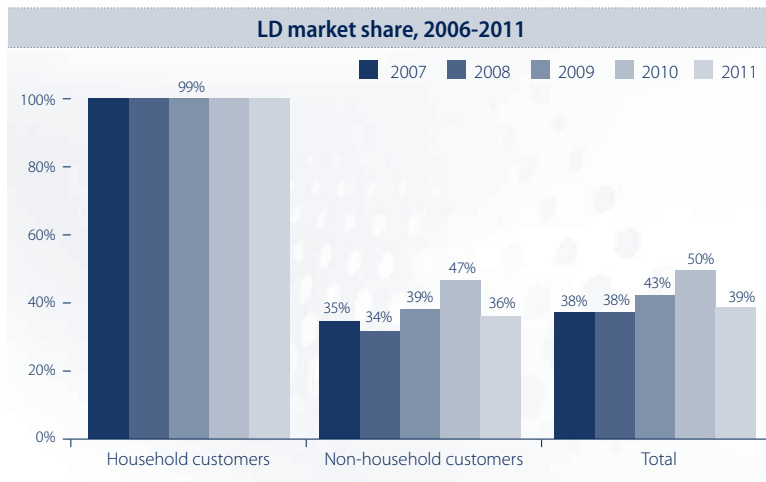
Market

In 2011, there were five companies importing natural gas into Lithuania: LD, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haupas.

Breakdown of natural gas imports to Lithuania, 2011



* Data supplied by UAB Haupas.



UAB Kauno Termofikacijos Elektrinė and UAB Haupas. In 2011, the total volume of natural gas imported into Lithuania via the system operated by LD amounted to 3.4 billion m³. UAB Haupas did not use the Company's Natural Gas System for its imports of natural gas. In 2011, the following companies supplied natural gas to household and non-household customers of Lithuania: LD, UAB Fortum Heat Lietuva, UAB Druskininkų Dujos, AB agro firm 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.

RISK MANAGEMENT

The Company has implemented a Risk Management System, which is a constituent part of LD activities. The LD Risk Management Process is carried out in accordance with a methodology that has been adopted by the Company. The Risk Management working group has been set up at the Company to coordinate, monitor and secure the risk management process. The risk management activities are aimed at maintaining an adequate 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 establishment of the risk control measures; development of 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 organizational structure-related risk, the regulation-related risk, the competition-related risk, the natural gas import price fluctuation risk, the credit risk, the technology-related risk, the macroeconomic factors-related 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 2011.

The organizational structure-related risk

On 1 August 2011, the new versions of the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas came into effect. In implementation of the aforesaid laws, on 28 October 2011, the Government of the Republic of Lithuania adopted Resolution No. 1239 "On Approval of the Plan of Performing the Unbundling of Activities and

Control of Natural Gas Companies that do not Conform to the Requirements of the Law of the Republic of Lithuania on Natural Gas" and on 7 December 2011 it adopted Resolution No. 1417 "On Approval of Description of Procedures for the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law on Natural Gas of the Republic of Lithuania". While fulfilling the requirements of legal acts, the Company should, by 31 October 2014, complete the unbundling of the natural gas transmission activity and control as well as legally, functionally and organizationally unbundle the natural gas distribution activity in this way achieving conformity to the requirements of Chapter Eight of the Law on Natural Gas.

The regulation-related risk

The regulation-related risk is linked to unfavourable changes in the legal environment and decisions taken by the regulatory authorities.

The core activities of the Company are natural gas transmission, distribution and supply. These activities are subject to licensing. The natural gas transmission and distribution activities are subject to state regulation. The frequent changing of the applicable legal provisions and regulatory regime create uncertainty of the business environment, thus aggravating the Company's relations with its customers and impeding its ability to plan for long-term.

The Company spares no effort to maintain constructive relations with the regulatory authorities and to take an active part in the legal act 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, LD competes with other companies supplying natural gas. The Draft National Energy Strategy (Energy

All of our work
is tailored to meet
your large and small needs



warmth

warmth

warmth

warmth

warmth

warmth



of a cosy
home

Independence Strategy) (the "NES") provides for the construction by the end of the year 2014 a LNG Terminal Facility which will provide opportunities for the diversification of natural gas imports.

In the Fuel (Energy) Sector, LD competes with suppliers of alternative fuels: heavy fuel oil and bio fuel. The NES provides for the increase of the share of renewable fuels in the primary energy balance at the expense of the fossil fuels (mainly at the expense of natural gas). Also LD competes with 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 vast majority of the largest heat and power producing natural gas customers have dual-fuel systems and may use these alternative fuels replacing natural gas without any additional investments.

Energy produced by using renewable resources is bought up in the priority order, its production is subsidized though the Public Service Obligations (PSO) mechanism. The prices set by the NCCPE in respect to the biogas to which the PSO mechanism is applied are up to three times higher than the ones set in respect of natural gas; price of electricity produced by burning biomass is three times, wind energy is up to 2.5 times and solar energy price is up 9 times higher than the regular electricity price on the market.

In order to retain and expand its market share, to secure safe natural gas supplies to consumers, to meet the customer service quality standard requirements that have been set, the Company continuously implements gas system development projects, continuously carries out gas system maintenance, repair and modernization works, 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. LD consistently follows the principles of transparency and fair competition in its business activities.

The technology-related risk

One of the main objectives of the Company consists in ensuring the safety and reliability of its gas systems. The Company implements this objective by:

- acting in strict compliance with the provisions of applicable legal acts, the applicable construction, operation and maintenance rules, work execution procedures;
- ensuring a high technical and technological level of the gas systems;
- ensuring an adequate level of preparedness for accidents, emergencies and extreme situations;
- improving the management of the operation and maintenance processes, improving the organization of the maintenance and engineering supervision; using state-of-the-art information technologies;
- monitoring the technical condition of the gas systems and eliminating any defects that are established;
- investigating, analyzing malfunctions, assessing any possible risks of accidents or malfunctions and planning and implementing respective preventive measures;
- informing the public about the rules of safe behaviour in the vicinity of gas pipelines and measures for ensuring safety of gas consumption;
- attracting, training and retaining the necessary staff, ensuring their adequate competence levels.

The macroeconomic factors-related risk

The deteriorating macroeconomic situation in the Euro area and in the world is having a negative impact on the economic situation of Lithuania. Lithuania's general economic situation is having a respective impact on the gas sales volumes, on the natural gas system development and, accordingly, on the Company's activities results. The level of investments in connection of new customers to the natural gas grid continues to be rather low. By employing respective debt-management measures that have been implemented at the Company and due to active work with LD's customers, the customer debt level is kept at the level that is acceptable to the Company.

It is difficult to predict with any certainty as to how exactly the Company's financial situation will be effectively impacted by the future developments of Lithuania's macroeconomic situation. In the opinion of the management, in the present circumstances, all the necessary measures to secure the stability and development of the Company's operations are being applied.

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, LD has adopted the Accounting Policies and Procedures Manual which regulates the principles, methods, and rules of accounting and preparation and presentation of consolidated financial statements.

FINANCIAL PERFORMANCE

Group's key performance indicators

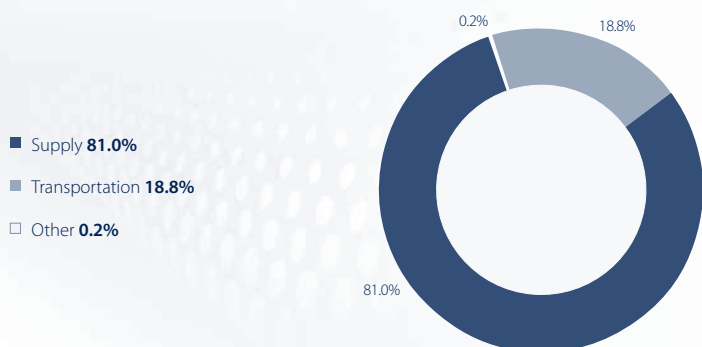
	2011	2010	2009
Performance indicators			
Volume of transmitted natural gas, M m ³	3,360.9	3,068.8	2,681.4
Volume of natural gas transit, M m ³	2,043.6	1,387.2	1,197.3
Volume of distributed natural gas, M m ³	1,066.1	1,167.9	1,030.9
Volume of natural gas sales, M m ³	1,317.8	1,546.0	1,150.9
Number of customers, that have concluded natural gas supply agreements as of the end of the year, thousand			
Household customers	548.2	546.2	544.2
Non-household customers	5.9	5.8	5.7
Length of operating gas pipelines, thousand km			
Transmission pipelines	1.9	1.9	1.9
Distribution pipelines	8.1	8.1	8.1
Employees			
Average number of employees	1,719	1,750	1,787

Group's key financial indicators

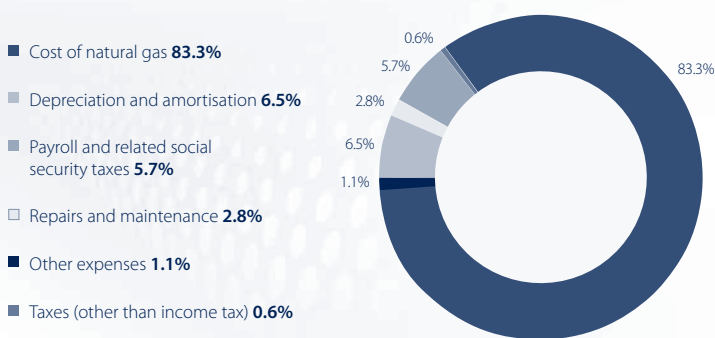
	2011	2010	2009
Financial results			
Sales, M LTL	1,840.0	1,746.8	1,264.3
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	213.9	245.2	214.8
Profit from operations, M LTL	122.1	146.2	117.1
Profit before tax, M LTL	104.3	148.9	120.1
Net profit, M LTL	95.8	159.5	94.8
Net cash flows from operating activities	213.6	265.6	173.8
Investments, M LTL	62.3	178.5	139.8
Assets at the end of the year, M LTL	2,698.6	2,709.6	2,551.2
Equity at the end of the year, M LTL	2,055.3	2,079.6	1,991.2
Net financial debt	-123.6	-110.1	-79.2
Profitability ratios			
EBITDA margin, %	11.6	14.0	16.9
Profit from operations margin, %	6.6	8.4	9.2
Profit before tax margin, %	5.7	8.5	9.5
Net profit margin, %	5.2	9.1	7.5
Average return-on-assets ratio (ROA), %	3.5	6.1	3.7
Average return-on-equity ratio (ROE), %	4.6	7.8	4.9
Return on capital employed (ROCE), %	5.0	7.0	5.9
Liquidity			
Overall liquidity	1.3	1.3	1.2
Quick ratio	1.1	1.1	1.1
Leverage			
Equity to asset ratio, %	76.2	76.8	78.1
Financial debt to equity ratio, %	0.2	0.3	0.4
Net financial debt to equity ratio, %	-6.0	-5.3	-4.0
Market value ratios			
Price-earnings ratio (P/E)	10.34	7.41	10.50
Basic earnings per share, LTL	0.20	0.34	0.20
Dividend payment ratio, %	75.2	75.2	75.0
Dividends per share for the current year, LTL	0.15	0.26	0.15

The consolidated financial statements for 2011 prepared by the Company also include the financial results of its subsidiary UAB Palangos Perlas. The overview of the financial results of AB Lietuvos Dujos Group (hereinafter referred to as "the Group") is presented below.

Sales structure, 2011



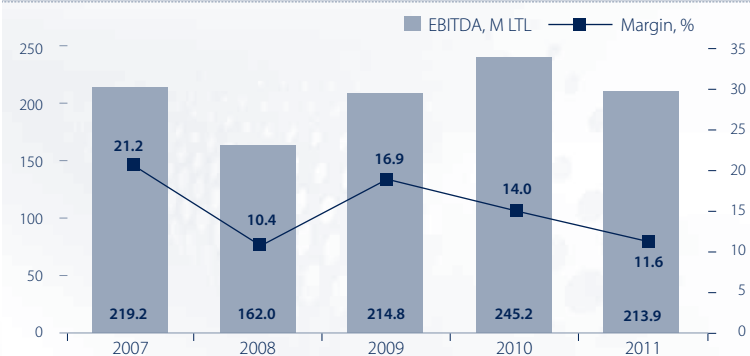
Structure of expenses, 2011



Sales, net profit, M LTL



EBITDA



Revenues

In 2011, the revenues of the Group, compared with 2010, increased by 5.4% (LTL 94.2 million) and amounted to LTL 1,845.9 million. The sales accounted for the largest part of the revenues (99.7%).

The 5.3% increase in the sales was determined by the increase in the gas supply activity revenues. This increase came as a result of the gas sales price increase, which was caused by the gas imports price growth which in turn was caused by the increase in the oil and oil product prices on the global markets. The gas sales volumes decreased. The transportation activity revenues remained at the level of 2010, including the transit revenues which significantly rose. In 2011, the natural gas transmission volumes, compared with 2010, increased, whereas the natural gas distribution volumes decreased.

Expenses

In 2011, the Group's expenses, compared to 2010, increased by 7.4% (LTL 118.3 million) and amounted to LTL 1,723.7 million. Increase of expenses was determined by the increase in the cost of natural gas by 6.9% (LTL 92.8 million) due to the higher natural gas import price. In the total expenses breakdown, cost of natural gas accounted for 83.3%.

In 2011, the remaining relatively fixed costs accounted for 16.7% of the total expenses and increased by 9.7%. The growth was determined by the increase of transportation activity expenses. The largest growth was in the repairs and maintenance expenses (by LTL 14.1 million or by 42.7%) as a result of the higher scope of repair works, taking into account the defects established during the internal diagnostics on the Riga-Panevėžys-Vilnius gas transmission pipeline, the aging of the current gas systems and in connection with the putting into operation of the new major gas infrastructure facilities. Also, there was an increase in the depreciation expenses due to putting into operation of the new Jauniūnai Gas Compressor Station at the end of 2010 and due to investments into other infrastructure facilities. In 2011, the Company continued with the implementation of efficiency raising policies – improvement of the organizational structure, consistent implementation of cost optimization policies.

Activity results

The decrease of the profit before tax from LTL 148.9 million (in 2010) to LTL 104.3 million in 2011 was mainly determined by the significantly worse results of the regulated transportation activity. The profit decrease was also significantly impacted by the formation of decrease in the value of the short-term investments held by the Company in the bankrupt AB Bankas Snoras (LTL 20 million). In 2011, the earnings before interest, taxes, depreciation and amortization (EBITDA) also decreased accordingly – by LTL 31.3 million (12.8%) – and amounted to LTL 213.9 million. In 2010 EBITDA amounted to LTL 245.2 million.

In 2011, the net profit decreased by LTL 63.7 million and amounted to LTL 95.8 million. The net profit reflects the income tax exemption for investments as provided for by the Law on Income Tax – LTL 10.0 million (in the net profit of 2010 the income tax exemption amounted to LTL 33.0 million).

The Company is one of the biggest tax payers in Lithuania. According to the State Tax Inspectorate data, in 2011 LD was the fourth-biggest tax payer. Over the past 5 years, the tax amount paid by the Company to the state and the municipality budgets and the state social security fund totalled LTL 1.7 billion. Out of it, dividends paid to the state, which controls 17.7% of the Company's shares, amounted of LTL 56.0 million.

Investments

Since the privatization back in 2002, the Company has invested into the construction of new gas systems, reconstruction of gas systems and modernization a total amount of LTL 1.1 billion.

In 2011, the Group's investments totalled LTL 62.3 million, i.e. by LTL 116.2 million or 65.1% less compared to 2010. In 2011 80.0% were invested in the reconstruction of gas systems and modernization and the rest of the amount (20.0%) was allocated to investments in the construction of new gas system facilities.

As the national economy, including the construction sector, was slightly bit of growing, in 2011 one could observe a growing interest of potential customers in natural gas. In 2011, the Company's investments in the gas distribution system development, compared to 2010, rose by over 45%, nevertheless the investment amounts were well below

the pre-crisis level. The Budget 2011 had provided for investments a much higher amount, nevertheless the larger part of the allocations was not used because in connection with late receipt of the European Union funds, the planned works for the construction of the Jurbarkas–Klaipėda gas transmission pipeline were not started. In 2010, the largest share of investments (LTL 120.8 million) was accounted for the investments in the construction of the Jauniūnai Gas Compressor Station. This facility that was provided for by the National Energy Strategy was the largest investment in the natural gas sector since regaining independence.

Assets

Over the year 2011, the value of assets decreased by 0.4% (LTL 11.0 million) and at the end of the year amounted to LTL 2,698.6 million. As of end of the year 2011, the non-current assets accounted for 85.9%, and the current assets accounted for 14.1% of the total assets of the Group.

Over the year 2011, the value of the non-current assets decreased by 2.1% (LTL 50.0 million), due to depreciation exceeding the investments. The value of

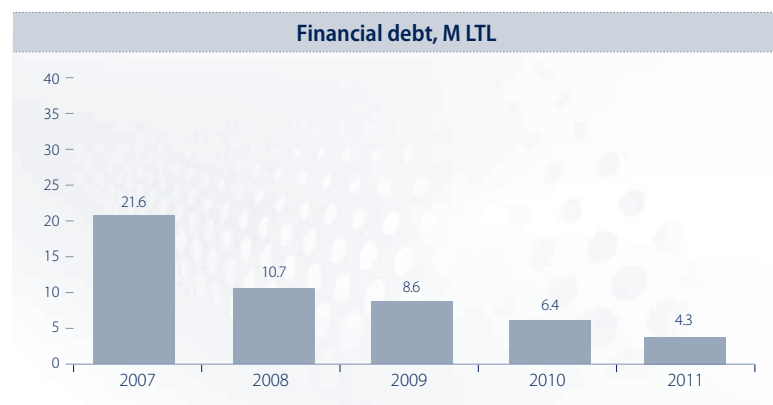
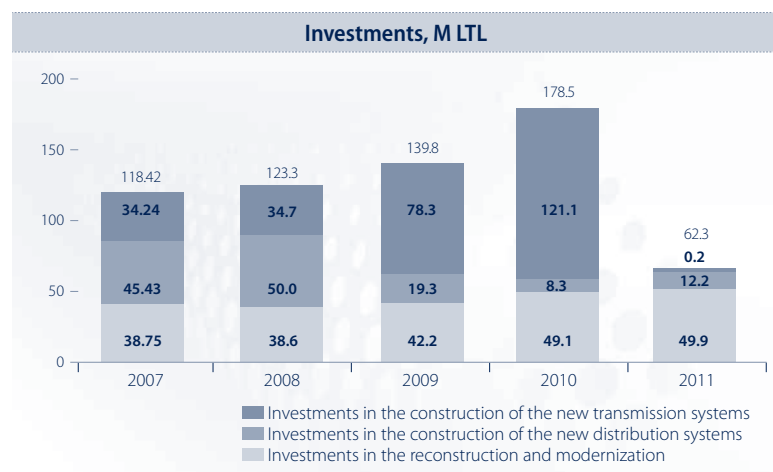
the current assets increased by 11.5% (LTL 39.1 million) mainly due to the higher value of the natural gas reserves resulting from the increase in the gas import price and the higher volumes of natural gas, which pursuant to provisions of applicable legislation, were stored at the Incukalns Underground Gas Storage Facility in order to secure uninterrupted natural gas supplies.

Equity and liabilities

The Group's equity decreased by 1.2% (LTL 24.3 million) due to the higher dividends paid out in 2011 for the year 2010, compared to the net profit received in 2011, and at the end of the year 2011 amounted to LTL 2,055.3 million. The equity at the end of the reporting period accounted for 76.2% of the total assets of the Group.

The liabilities increased by 2.1% (LTL 13.3 million) and at the end of the year amounted to LTL 643.3 million.

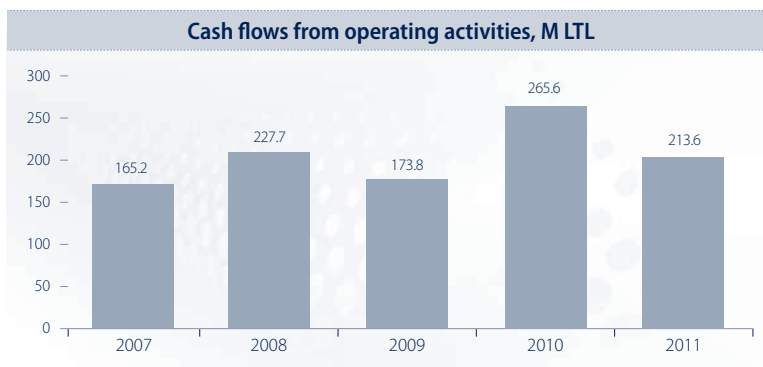
Over the year 2011, the financial debt of the Group decreased by 32.8% (LTL 2.1 million) and at the end of the period amounted to LTL 4.3 million.



Cash flows

The Group's cash flows from the operating activities decreased by LTL 52.0 million (19.6%) and amounted to LTL 213.6 million.

For detailed information on the financial results of the Group, see the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2011.



RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's research and development activities are aimed at securing adequate capacities of the natural gas transmission and distribution systems, economic and safe operation and maintenance of the natural gas systems, meeting the customers' demand, securing an adequate level of services provided to the Company's customers and environmental protection.

With these aims in mind, the Company is engaged in the research into internal diagnostics (intelligent pigging) of natural gas pipelines, technical condition of infrastructure facilities, environmental protection, market development and other LD activities.

In co-operation with the Polish Gas Transmission System Operator GAZ-SYSTEM S.A. the Business Case Analysis of Gas Interconnection Poland-Lithuania was made, resulting in comprehensive information on the gas markets and business environment of Poland and Lithuania. In December of 2011 – January 2012 the Boards of Directors of the two companies adopted a resolution on proceeding with the preparation of a Feasibility Study of the Gas Interconnection (technical, economical and environmental assessment). The Study will be carried out in 2012 and its results will constitute a basis for respective decisions by the Boards of Directors of the two companies on the open season procedure and the implementation of the investment project.

For the preparation of the Business Case Analysis and the Feasibility Study the European Union financial assistance according to the EU TEN-E programme has been granted. The EU financial assistance covers 50% of the costs related to the preparation of the Business Case Analysis and the Feasibility Study, whereas the balancing amount is financed in equal parts with the own funds of LD and the GAZ-SYSTEM S.A.

In co-operation with the Latvian gas company Latvijas Gaze A/S, the condition of the Riga-Panevėžys gas transmission pipeline (serving as a link between Lithuania and Latvia) has been checked using the intelligent pigging procedures.

Drawing on the research findings, the Company carries out respective works for the reconstruction and modernization of its gas systems, prepares and implements market development investment projects.

BUSINESS PLANS AND FORECASTS

It is forecast that in 2012 the natural gas volume transmission to the customers of Lithuania via the Gas Transmission System of LD will amount to approximately 3.0 billion m³.

In 2012, the Company plans to connect approximately 1.9 thousand new customers, but this number might be corrected by future developments in the economic situation of Lithuania. The Company's investments in the construction of new gas systems of 2012 are planned to be significantly higher than the ones of 2011, because there are plans to continue with the implementation of the National Energy Strategy project – the construction of the Jurbarkas–Klaipėda section of the Šakiai–Klaipėda gas transmission pipeline. The estimated value of the Jurbarkas–Klaipėda section: approx. LTL 168.5 million. The project implementation is co-financed with the European Union Structural Fund

grants, the projected grant amount: LTL 77.1 million. According to a tentative schedule, the gas pipeline construction is planned to be completed by the end of the year 2013. The Company started the implementation of the Šakiai–Klaipėda gas transmission pipeline project on its own initiative and has already invested in it approx. LTL 40 million of own funds. The first section to the town of Jurbarkas of this gas transmission pipeline was constructed back in 2007 and is fully operational. This project is also important in the light of the prospective implementation of another project that is included into the National Energy Strategy, i.e. gas pipeline connection to the Liquefied Natural Gas Terminal Facility.

The Company will continue with the implementation of the projects that were started earlier and are directed towards raising the efficiency of operations and cost-optimization.

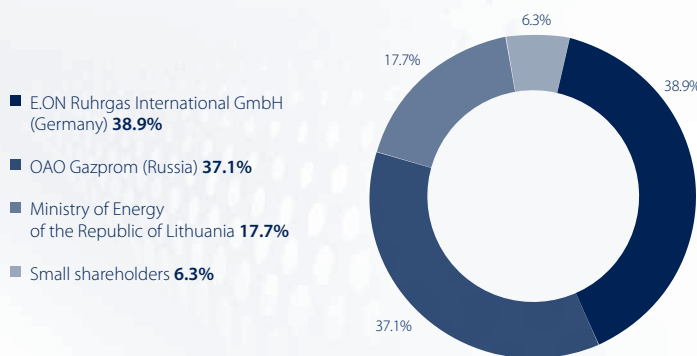
MANAGEMENT OF THE COMPANY

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
E.ON Ruhrgas International GmbH (Germany)	182,534,384
OAO Gazprom (Russia)	173,847,696
Ministry of Energy of the Republic of Lithuania	83,030,367
Small shareholders	29,655,807
Total	469,068,254

Structure of LD shareholders as of 31 Dec 2011



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 2011, 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. In accordance with the Bylaws of LD, decisions on issuing new shares and on acquisition of own shares may be adopted exclusively by a resolution of the General Meeting of Shareholders of LD.

E.ON Ruhrgas International GmbH is a holding company which is a part of concern 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.

The Ministry of Energy of the Republic of Lithuania is a state institution in charge of the energy sector public administration functions delegated to it by laws and other legislation and the implementation of state policies in the energy sector.

AB Lietuvos Dujos has not acquired its own shares and in 2011 it did not make any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2011, LD was controlled by 2,793 shareholders holding its shares by the right of ownership; the majority of which were small shareholders.

The shareholders of AB Lietuvos Dujos E.ON Ruhrgas International GmbH, OAO Gazprom and the Republic of Lithuania whose shares are held in trust by the Ministry of Energy

of the Republic of Lithuania together control 93.7% of the stock of AB Lietuvos Dujos, 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. The agreement is confidential.

The Company's shareholders E.ON Ruhrgas International GmbH, OAO Gazprom and the Republic of Lithuania whose shares are held in trust by the Ministry of Energy of the Republic of Lithuania are not subject to any securities disposal restrictions except the ones provided for in the shares purchase-sale (privatization) agreements.

To the best of the Company's knowledge, there exist no shareholders arrangements that might serve as grounds for the securities disposal restrictions and/or voting right restrictions except the arrangements provided for by 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.

Main data about LD shares

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

Share price dynamics at NASDAQ OMX Vilnius, 2009–2011

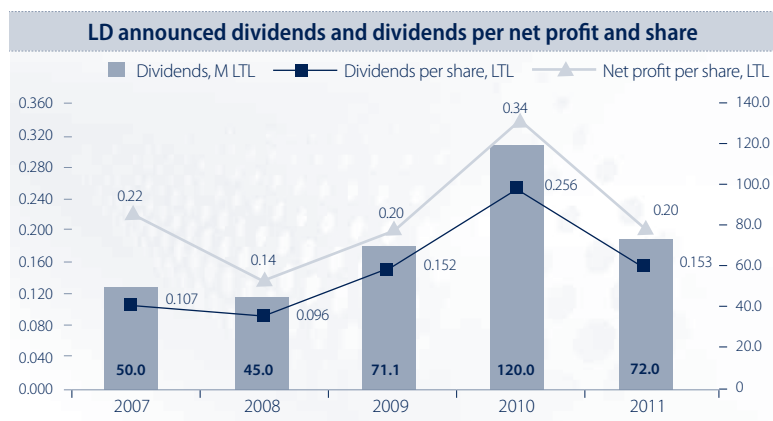
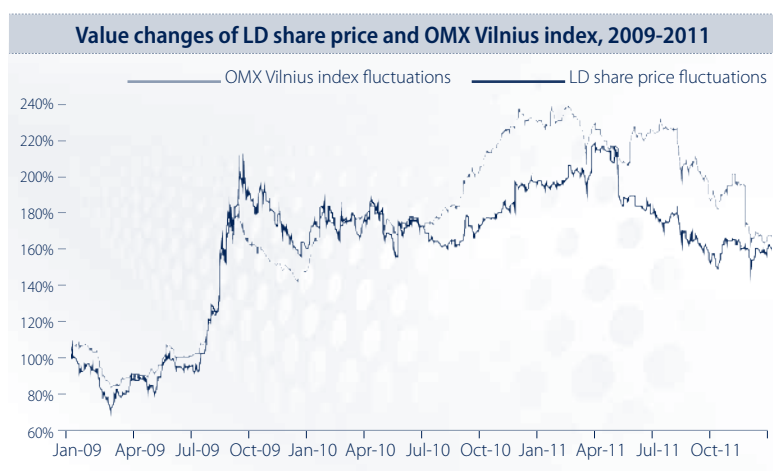
	Period		
	2011	2010	2009
Highest price per share, LTL	2.828	2.555	2.770
Lowest price per share, LTL	1.730	1.970	0.890
Weighted average price per share, LTL	2.336	2.232	1.550
Price per share as of end of the period, LTL	2.068	2.521	2.100
Capitalization as of end of the period, M LTL	970.1	1,182.3	985.0

All of our work
is tailored to meet
your large and small needs





of steps
forward



In 2011, the turnover of the trading in LD shares amounted to LTL 11.7 million (2010: LTL 17.8 million). Through the transactions that were concluded, 5,014,082 shares were disposed of (2010: 7,958,560).

In 2011, after two consecutive years of growth, the stock markets of all three Baltic States recorded a drop. Aggregate capitalization of the Baltic market companies dropped by 24.0% (in 2010 there was a rise of 7.2%). In 2011, capitalization of companies listed at the stock exchange NASDAQ OMX Vilnius dropped by 25.6%

(in 2010 there was a rise of 31.1%), the value of LD shares showed a decrease of 18.0% (in 2010 there was a rise of 20.0%). As of 31 December 2011, LD capitalization amounted to 9.0% of the aggregate capitalization of the companies listed at the stock exchange NASDAQ OMX Vilnius (as of 31 December 2010 it amounted to 8.1%).

OMX Vilnius index is a total shares return index which includes all the shares listed on the Main and Secondary lists on the Vilnius stock exchange. This index does not include the share prices of the companies

where one shareholder controls 90% or more of the shares issued. The aim of the index is to reflect the current status and changes on the Vilnius securities market.

Dividends

In recent years, LD has been pursuing a consistent dividend payout policy and every year it appropriates part of the profit to the payout of dividends. For the year 2011, it is appropriated for dividends a total amount of LTL 72.0 million, or 15.3 Lithuanian cents per share (2010: LTL 120.0 million, or 25.6 cents per share).

Agreements with intermediaries of public trading in securities

In 2011, the services of accountancy of the securities issued by AB Lietuvos Dujos and services relative to the accountancy of securities were rendered by AB Financial Broker Company (FBC) Finasta. The contract concluded with the aforementioned company on 26 November 2003 was cancelled on 31 March 2012.

On 16 March 2012, AB Lietuvos Dujos entered into a new contract on the accountancy of the securities issued and on services pertinent to the accountancy of securities with AB SEB Bank in accordance. The aforesaid services under this contract have been rendered since 1 April 2012.

AB FBC Finasta requisites	
Business identification number:	122570630
Category of a license	B
FBC license No.	B087 (the license, as subsequently amended, was issued by the Securities Commission of the Republic of Lithuania on 28 March 2003)
Registered office	Maironio St. 11, Vilnius, Lithuania
Tel.	+370 5 278 6833, +370 5 278 6844, short phone No. 1813
E-mail	info@finasta.lt
Website	www.finasta.lt

AB SEB bank requisites	
Business identification number:	112021238
Bank license No.	2 (the license, as subsequently amended, was issued by the Bank of Lithuania on 29 November 1990)
Registered office	Gedimino Ave. 12, Vilnius, Lithuania
Tel.	+370 5 268 2800, short phone No. 1518
E-mail	info@seb.lt
Website	www.seb.lt

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 as 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 regions of Lithuania: Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys.

The Bylaws of the Company provide for a possibility of amending the Bylaws by a decision of the 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.

The Bylaws provide for the following governing bodies:

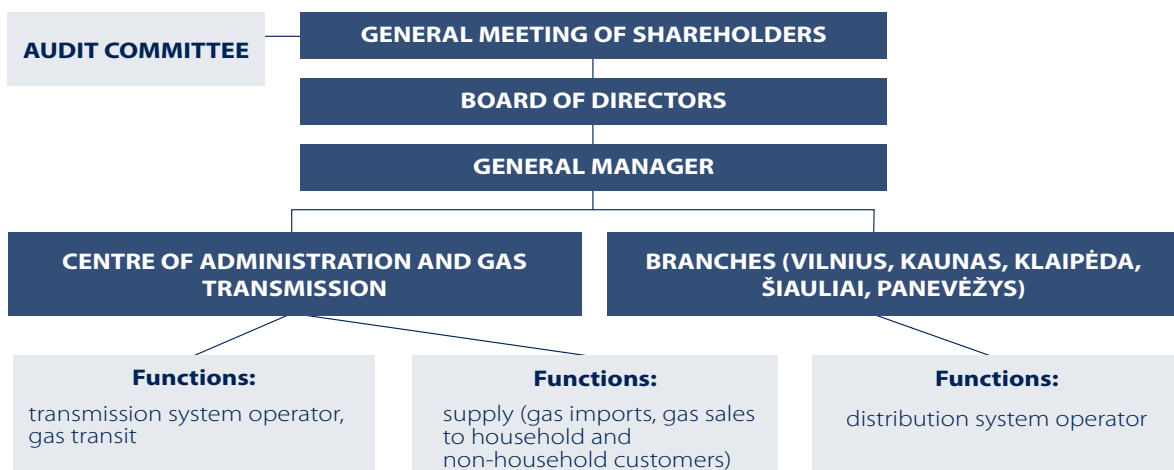
- The Board of Directors,
- The Chief Executive Officer – General Manager.

According to the Bylaws, the Company's Board of Directors consists of 5 (five) members elected for a period of three years in accordance with procedure provided for in 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 as prescribed by the Law on Companies and the Bylaws of the Company, there are no exceptions with regard to any powers of the Members of the Board of Directors or the Chief Executive Office subject to additional notification.

In accordance with the Law on Audit, since 2009, the Company has an Audit Committee in place. The authority, powers and duties of the Audit Committee are as provided for by the regulations of the formation and activities of this supervisory body of the Company and are in compliance with legal provisions. The term of office of the Audit Committee coincides with the term of office of the Board of Directors by which the members of the Audit Committee were nominated. 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 23 April 2010 till 20 April 2011

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 2010–April 2013
2.	Dr Peter Frankenberg	Deputy Chairman of the Board of Directors*	April 2010–April 2013
3.	Uwe Fip	Member of the Board of Directors	April 2010–April 2013
4.	Kirill Seleznev	Member of the Board of Directors	April 2010–April 2013
5.	Romas Švedas	Member of the Board of Directors	April 2010–April 2013

* Chairman of the Board of Directors and his Deputy are elected by rotation for a two-year term.

Composition of the Board of Directors from 20 April 2011

No	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Peter Frankenberg	Chairman of the Board of Directors*	April 2010–April 2013
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors*	April 2010–April 2013
3.	Uwe Fip	Member of the Board of Directors	April 2010–April 2013
4.	Kirill Seleznev	Member of the Board of Directors	April 2010–April 2013
5.	Romas Švedas**	Member of the Board of Directors	April 2010–October 2011
6.	Kęstutis Žilėnas***	Member of the Board of Directors	December 2011–April 2013

* Chairman of the Board of Directors and his Deputy are elected by rotation for a two-year term.

** Resigned with effect from 11 October 2011.

*** Elected with effect from 9 December 2011.

In 2011, tantiemes totalling LTL 540 thousand were disbursed to the members of the Board of Directors, i.e. on average LTL 108 thousand per member of the Board of Directors.

Information on the start and end of the term of the Audit Committee

No	Full name	Position title	Place of employment	Start and end of term
Audit Committee:				
1.	Juozas Kabašinskas	Independent member	UAB JK GĖRIMŲ NAMAI, UAB JKP Namai, J.Kabašinskas Consultancy	April 2010–April 2013
2.	Agnė Žičiūtė	Member	AB Lietuvos Dujos	April 2010–April 2013

Information on the start and end of the term of the top executives

No	Full name	Position title	Start and end of term
Top executives:			
1.	Viktoras Valentukevičius	General Manager	From 28 June 2002; April 2010–April 2013*
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	(1 January 2004– 1 January 2008; Chief Financial Officer) From 1 January 2008

* For the term in office of the Board of Directors by which he was appointed.

In 2011, payouts to the top executives of the Company totalled LTL 2,380.8 thousand, i.e. on average LTL 476.2 thousand per top executive.

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 December 2011)			
Dr Peter Frankenberg	Chairman of the Board of Directors	–	–
Dr Valery Golubev	Deputy Chairman of the Board of Directors	–	–
Uwe Fip	Member of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Romas Švedas*	Member of the Board of Directors	–	–
Kęstutis Žilėnas**	Member of the Board of Directors	–	–
Audit Committee (as of 31 December 2011)			
Juozas Kabašinskas	Independent member	–	–
Agnė Žičiūtė	Member	0.000	0.000
Top executives (as of 31 December 2011)			
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	–	–

* Resigned with effect from 11 October 2011.

** Elected with effect from 9 December 2011.

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.

Main data about UAB Palangos Perlas	
Legal & organizational form	private company
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
Fax number	+370 460 48250
E-mail address	info@zydrojiliepsna.lt
Website	www.zydrojiliepsna.lt

In 2011, the authorized capital of UAB Palangos Perlas did not change. It is comprised of 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. In 2011, UAB Palangos Perlas incurred a loss of LTL 0.2 million (2010: loss of LTL 1.5 million (adjusted result)). In 2011, the average number of employees was 23 (2010: 23 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 2011.

The Company's Natural Gas Transmission and Distribution System



- Gas transmission pipelines
- Major gas distribution pipelines
- M Gas metering stations
- C Gas compressor stations
- 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 companies

Core business activity of the Company:

- **Transmission of natural gas:** transportation 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 of natural gas:** transportation of natural gas via gas distribution pipelines, designed for the delivery of natural gas to consumers, except for the supply.
- **Supply of natural gas:** gas selling and/or reselling to customers and gas delivery to the natural gas system.

Gas transmission pipelines	Gas distribution pipelines	Gas distribution stations	Gas metering stations	Gas compressor stations
1.9 thou km	8.1 thou km	65	3	2

TRANSMISSION OF NATURAL GAS

In 2011, the volumes of natural gas transmitted via the transmission system totalled 3,360.9 million m³. Compared to 2010, the natural gas transmission volumes increased by 9.5%. The increase in the natural gas transmission volumes was determined by the higher gas volumes consumed by AB Achema for fertilizer production.

Transit

In 2011, the natural gas transit volumes to the Kaliningrad Region of Russian Federation totalled 2,043.6 million m³, which represents an increase of 47.3% y/y.

Assets and expenses of transit activity, according to the legal acts, have been unbundled from the regulated gas transmission activity since 2005. The price of natural gas transmission for the Lithuanian consumers is not influenced by transit activity.

Investments in the transmission system

In 2011, investments in the construction of new gas transmission systems and pipeline system development totalled LTL 0.2 million (2010: LTL 121.1 million). In 2010, the largest share of investments (LTL 120.8 million) was accounted for the investments in the construction of the Jauniūnai Gas Compressor Station.

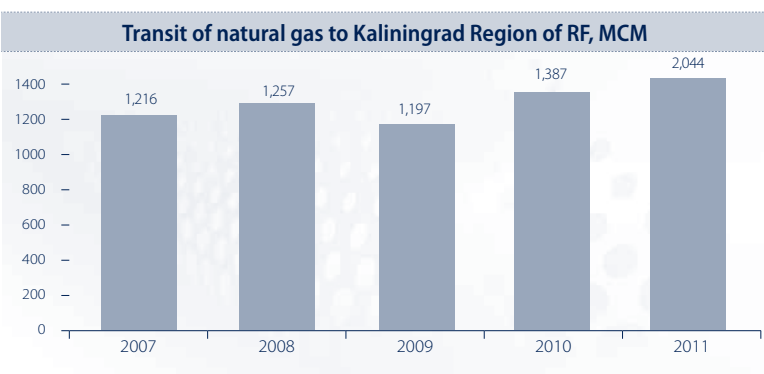
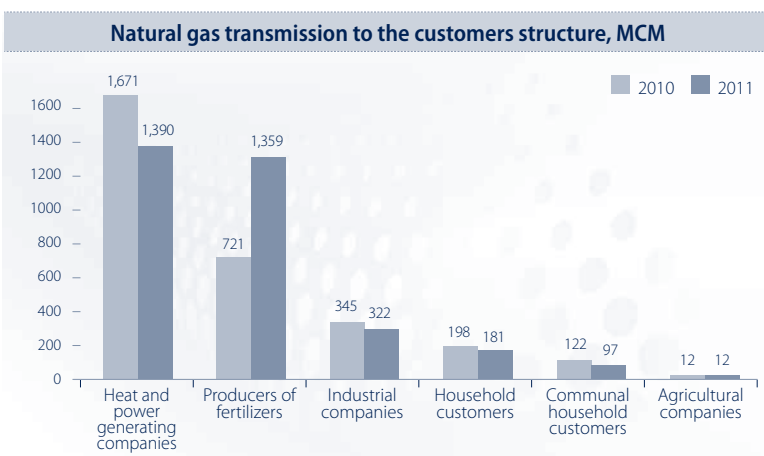
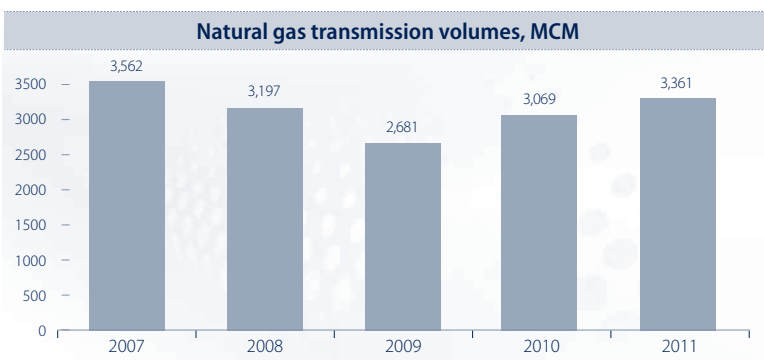
Investments in the reconstruction of the gas transmission system totalled LTL 29.4 million (2010: LTL 27.7 million).

With a view to promoting the development of the internal market of the Baltic States and with a view to enhancing the throughput capacity of the Lithuania–Latvia Interconnector, In Quarter 4 of 2009 a joint Lithuanian–Latvian project was launched, for the implementation of which a 50% EU co-financing was approved. The project is scheduled for completion in 2013. With a view to enhancing the safety and reliability of the gas transmission system with the financial assistance of the EU the following main works were carried out:

- Connection of the Ukmergė, Gegužinė and Pasvalys Gas Distribution Stations (hereinafter referred to as the “GDS”) and the Kiemėnai Gas Metering Station to the second lines of the gas pipelines;
- On the Ivatsevichi–Vilnius–Riga gas transmission pipeline 7 line block valve units were replaced;
- Reconstruction of the cathodic protection system was started;
- At the Panevėžys Gas Compressor Station works for the modernization of the gas compressors air supply systems, modernization of the operational parameters control systems and modernization of the valve units at the line block valve sites were continued.

The Company also carried out other main works as follows:

- Works for the reconstruction of GDS were continued according to the plan. In 2011, the Elektrėnai and Pajėšmeniai GDSs were fully reconstructed and the Girininkai GDS, Alksnupiai GDS and Raguva GDS were started to be reconstructed. At present, out of the total 65 GDSs, 55 ones are either new or have been subjected to major overhauls;
- Installation of 3 line block valve remote control systems (SCADA);
- Procurement of basic equipment and materials required for the preparation of the gas pipelines for the intelligent pigging procedures;
- Works for the preparation of the Vilnius–Kaliningrad gas pipeline for the intelligent pigging procedures;



- Planned works for the reconstruction of the gas pipeline cathodic protection system equipment;
- Works for the modernization of the telemetry, SCADA and telecommunication systems and the gas metering equipment.

Maintenance of the transmission system

With a view to ensuring the reliability, efficiency and safety of the transmission pipelines operations the gas repair and maintenance works that had been scheduled for the period were duly executed.

In co-operation with Latvijas Gaze A/S, the works for cleaning and preparation for the intelligent pigging procedures of the Riga–Panevėžys and the Panevėžys–Vilnius Gas Transmission Pipeline were carried out. The dangerous defects that were established as a result of these procedures were forthwith eliminated by performing emergency restoration repair works.

DISTRIBUTION OF NATURAL GAS

In 2011, the Company's gas volume distribution via its natural gas distribution system totalled 1,066.1 million m³, which represents a drop of 8.7% y/y.

Investments in the distribution system

In 2011, the investments in the construction of new gas distribution systems totalled LTL 12.2 million (2010: LTL 8.3 million); 60.6 km of new distribution pipelines were constructed. In 2011, 1.9 thousand new customers were connected to the natural gas system (2010: 1.5 thousand).

In 2011, investments in the reconstruction of the distribution system totalled LTL 7.7 million (2010: LTL 6.7 million). Of this total, the largest amount (LTL 3.1 million) was invested in the reconstruction of the distribution pipelines: 7.6 km of gas distribution lines were reconstructed, of which 1.1 km was reconstructed using the method of insertion of new polyethylene pipes into the old steel ones.

The investments in the gas pressure regulating stations totalled LTL 2.4 million. The technological equipment was modernized at 9 stationary gas pressure regulating stations, 15 container-type gas pressure regulating stations; and 17 stationary gas pressure regulating stations were replaced by container-type gas pressure regulating stations.

Also, works for the modernization of the cathodic protection, telemetry, SCADA and telecommunications systems and gas metering devices were performed on which the Company spent a total amount of LTL 2.2 million.

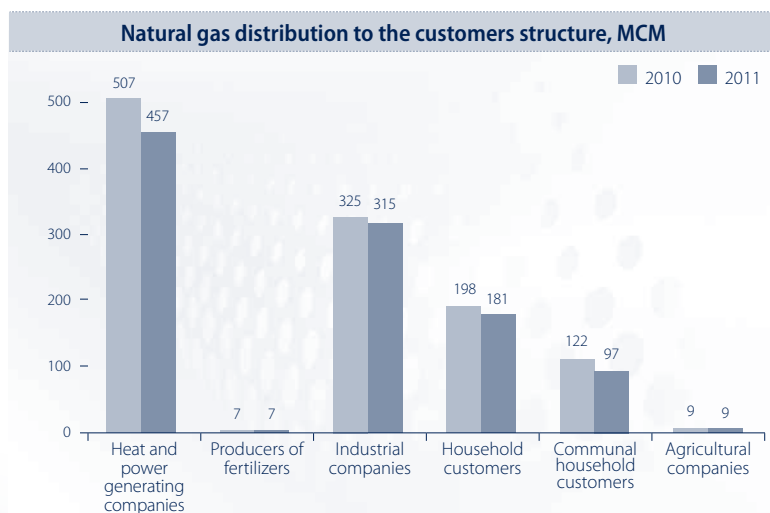
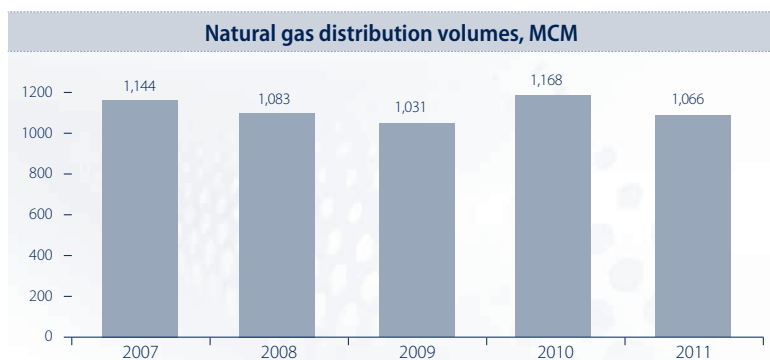
In accordance with the procedure approved by Order of the Minister of Energy of the Republic of Lithuania, the Company continued with the buyback of local natural gas systems of common use belonging to other legal and natural entities. In all, 16 local natural gas systems of common use (total length 17.5 km) were bought back. In all, 362.8 km of gas pipelines have already bought back.

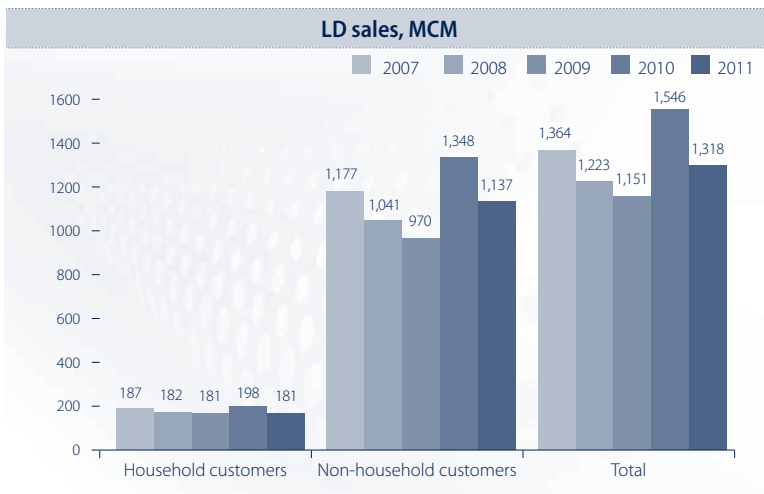
Maintenance of the distribution system

The Company operates a gas distribution system consisting of 8.1 thousand km of gas distribution lines. The Company, acting in accordance with applicable legal act provisions and performing the distribution system operator's functions, is in charge of securing adequate maintenance of gas systems and adequate quality of gas distribution services provided to customers.

Any defects established during the regular maintenance procedures are either eliminated forthwith, or, alternatively, included into the distribution system repairs programme that is drawn up by the Company and according to which gas system maintenance works are carried out.

Drawing up on the technical data accumulated by the Company and on the basis of the equipment condition evaluation criteria that have been established, the Company identifies the elements of the distribution system causing the highest risk, and subsequently performs respective works for their repairs and/or replacement according to the repair works programme.

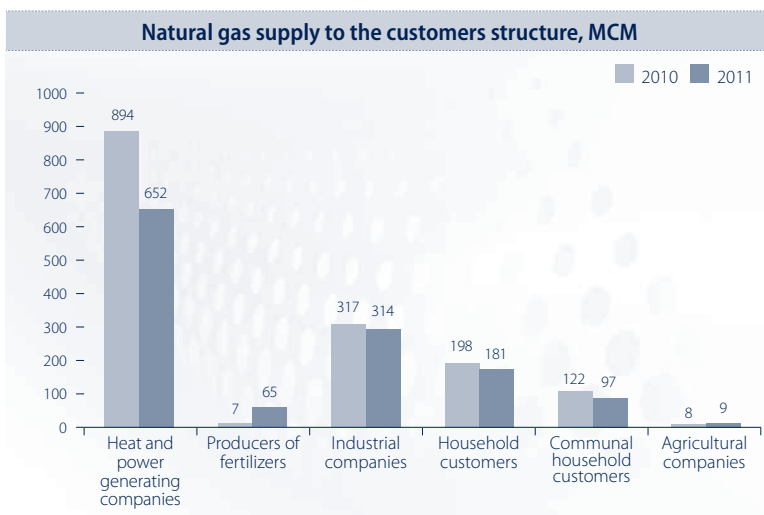




In 2011, the Company devoted a lot of attention to the procurement of state-of-the-art equipment, instruments and tools used in the gas distribution system maintenance procedures and to the training/instructing LD staff how to use them. In 2011, the Company succeeded in ensuring safe and reliable operations of its natural gas distribution system.

SUPPLY OF NATURAL GAS

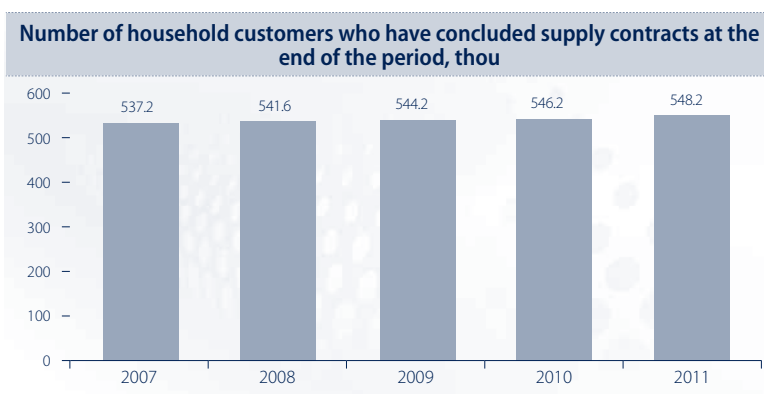
In 2011, LD purchased natural gas from OAO Gazprom according to a long-term (until 2015) natural gas supply agreement.



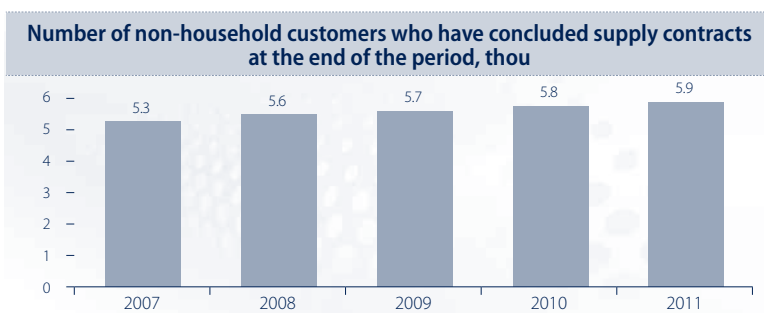
From 2008, pursuant to the Resolution of the Government of the Republic of Lithuania of 26 February 2008 No 163 "On approval of the list of measures to guarantee security of natural gas supplies", the Company stores contingency gas reserve volumes specified in the legal acts in the Incukalns (the Republic of Latvia) Underground Gas Storage Facility in order to meet the demand of the household customers. In 2011, in the event of incidents and/or extreme situations these accumulated gas volumes would have ensured uninterrupted gas supplies to the household customers for at least 40 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. From 1 July 2007, all natural gas consumers became free customers and are free to choose their gas suppliers at their own discretion, however, almost 100% of the household customers still chose LD as their favourite supplier. On the non-household customers' market, the share of LD was 35.6%.



In 2011, LD supplied to gas consumers 1,317.8 million m³ of natural gas, or by 14.8% less than in 2010 when the respective indicator stood at 1,546.0 million m³. In 2011, significantly lower volumes of natural gas (by 44.3%) used for the production of electricity were consumed by Lietuvos Energija, AB. In 2011, the volume of natural gas supplied to the non-household consumers amounted to 1,136.5 million m³ and the volume of natural gas supplied to the household consumers amounted to 181.3 million m³.

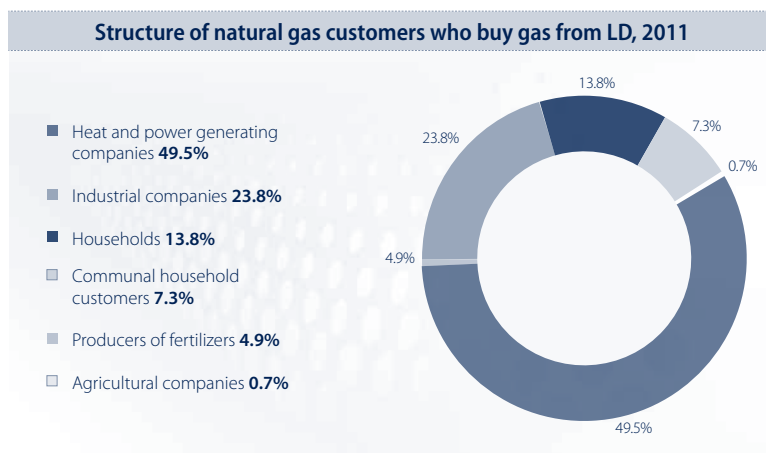
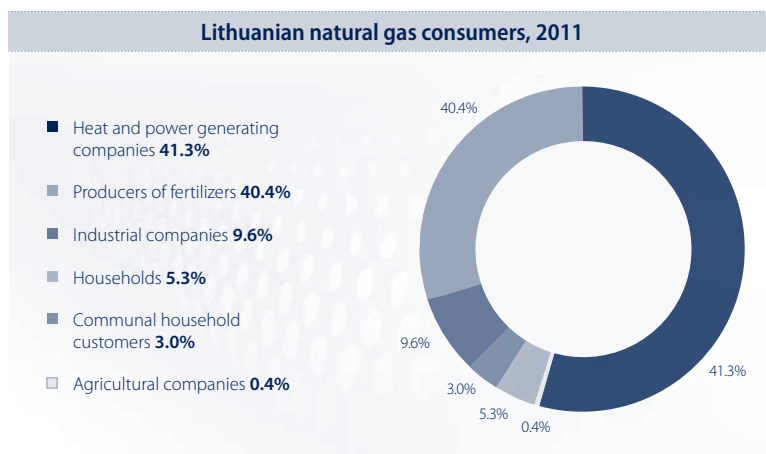
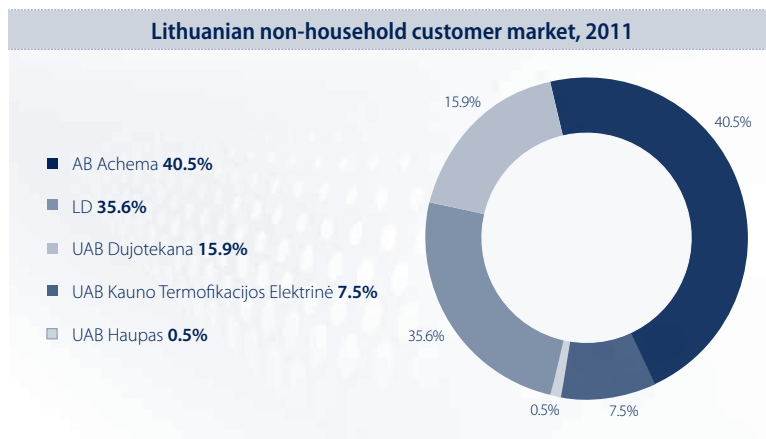


According to data as of 31 December 2011, the Company was selling natural gas to 554 thousand non-household and household consumers.

Customer service

With a view to the improvement of the quality of services rendered by the Company to its customers, in 2011, LD continued with the customer service-related projects launched in previous years and it also launched new projects:

- In 2011, the main goals of LD in this field consisted in the upgrading of the quality of the customer service and achieving a higher level of customer satisfaction with services provided by the Company. In all, the Company's employees rendered services to customers located all over Lithuania as many as almost 570 thousand times.
- In implementation of the continuous staff training programme, in 2011, further training was provided to LD employees directly involved in rendering customer services.
- In 2011, for the convenience of customers, the Company concluded agreements regarding collection of payment for natural gas supplies with the following new partners: UAB Kauno Spauda, UAB Mažeikių Butų Ūkis and UAB Sollo. The latter partner provides the possibility of paying for gas at the supermarket MAXIMA checkstands. By now, LD has concluded agreements with 23 different partners rendering aforesaid payment collection services.
- For the second consecutive year, in autumn of 2011, the action "Please Assess Our Services" was launched. The main aim of the action was to assess the quality of the customer services rendered by the Company's staff, the level of customers' satisfaction and to ask the customers' opinion as to what could be improved in the customer service procedures and what innovations could be introduced. The results of the action revealed that, just as it was the case last year, the overall customers assessment rating of the Company's services was high – such was the opinion of the vast majority of the respondents (over 93% of the total). In 2011, the customers' assessment rating of the quality of the services provided by the company was slightly higher than it was in 2010.
- In 2011, the Company launched a pilot project aimed at installing remote data acquisition equipment (enabling



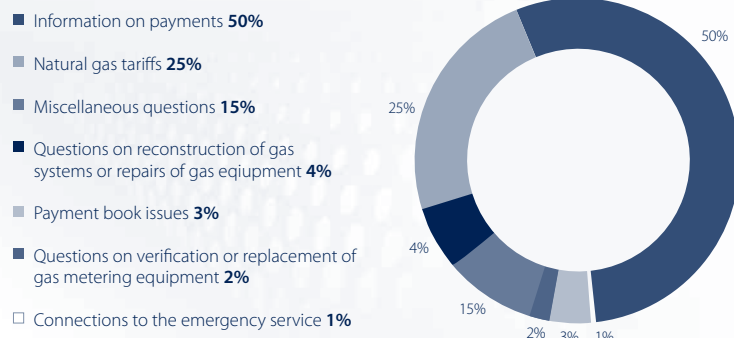
remote access to gas meter readings) at the premises of part of LD household customers. The project is scheduled for completion 2012.

- In 2011, over 80% of the Company's non-household customers used the possibility of receiving gas bills by e-mail via the E-Pay system.
- In 2011, a total of 1.9 thousand new customers were connected to the natural gas system.

Customer service via Hotline 1894

- In 2011, the LD Hotline 1894 received a total of 150 thousand calls of the Company's customers.
- During the first contact, all the necessary information was supplied to as many as 96% of all the callers to the Hotline 1894. Other customers were supplied with the necessary information either during the course of the same

Breakdown of calls via Hotline 1894, 2011



day or next working day by forwarding the customer inquiry to the Company's specialists in charge of respective field of activity.

- The Automatic Voice System that has been implemented by LD enables the Company's customers to access respective data on their balance of payments and on gas tariffs by Hotline 1894 a 24 hour/7day a week basis. In 2011, the Automatic Voice System was resorted to by a total of 34 thousand customers. The system becomes very popular and is especially actively used during the periods when there is a change in tariffs.
- Following the implementation by the Company of the possibility of the household customer notification by SMS messages on any changes in the gas tariffs, any payment irregularities, and other important issues, the numbers SMS messages circulated by the Company is constantly rising. During each gas tariff change period the number of SMS messages to LD customers' amounts up to 350 thousand; and in 2011 the number of such SMS messages was by 30% higher than in 2010. LD customers are active in updating their contact data and they appreciate this service, and the Company considers it to be an effective and economical customer information channel.
- In 2011, on Hotline 1894, the average waiting time before the call was answered by a call manager was 14 seconds.
- The vast majority of the customers who called to the Company's Call Centre via Hotline 1894, in 2011, asked for information on payments and natural gas tariffs. For details see the figure.

Customer service at LD branches

- In 2011, the number of visits by customers on payment issues and issues related to the conclusion of contracts totalled to over 111 thousand.
- In 2011, the number of requests for the connection to the gas grid submitted by prospective customers showed a rise of 22% compared to respective indicator of 2010.

On-site customer service visits

- In 2011, the number of on-site customer service visits paid by LD staff amounted to over 308 thousand, the overwhelming majority of such visits (296 thousand) were regular check-ups on the gas metering equipment whereas the balancing share (over 12 thousand) of such visits were related to the rendering of technical services and to the elimination of customers' gas systems' faults or dealing with breakdowns in response to customers' calls.
- In 2011, LD launched a new service to owners of private houses that either consume excessively high volumes of natural gas or that have been newly connected to the natural gas grid: by

employing thermovisors, as far as it is possible, it helps the owner of the house to establish the places of the house where there is possibility of the greatest heat loss.

- In 2011, the Company's Central Calibration and Testing Laboratory was accredited for a new activity – now natural gas customers are provided with a possibility of having their gas samples quality tested by taking gas samples right at the customers' premises.

ENVIRONMENTAL PROTECTION

With a view to minimizing the Company's general environmental impact in the most effective way, LD concentrates its efforts on the areas where the environmental impact is the greatest and where its efforts yield the best results. The Company carries out systematic and exhaustive environmental audits, establishes its environmental protection goals and sets up its improvement targets which are integrated into the General Goals of the Company.

In order to improve the efficiency of the use of resources, in 2011, two Gas Distribution Stations (the Elektrėnai GDS and the Pajėšmeniai GDS) were reconstructed. At the Pabradė GDS and Anykščiai GDS, boilers with better fuel efficiency characteristics were installed, and at the Girininkai GDS the odorization system was replaced.

In 2011, the Panevėžys Gas Compressor Station was in operation for a significantly shorter time period, compared to the one of 2010, which resulted in a significant decrease of the pollutant emissions into the atmosphere. The environmental pollution also depends of the operation hours of the systems, on the load, on the number of the start-ups, and on other factors.

Pollutant (tons)	2011	2010
CO	17.6	26.7
NO _x	8.89	12.0

Recorded emissions of natural gas (MCM)	
2011	2010
10.8	14.0

Average number of Group employees

Year	Average number of employees	Change compared to previous year
2010	1,750	-2.1%*
2011	1,719	-1.8%**

* compared to 2009.
 ** compared to 2010.

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

Employees	Average number of employees in 2010	Average monthly salary, LTL
Managing staff	136	8,162
Specialists	997	3,305
Workers	617	2,583
Total:	1,750	3,428

Employees	Average number of employees in 2011	Average monthly salary, LTL
Managing staff	136	8,326
Specialists	982	3,367
Workers	601	2,606
Total:	1,719	3,493

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

On an ongoing basis, the Company monitors and measures pollutant emissions from its stationary sources.

In 2011, the Company subjected to audit and certification its Environmental Management System (which was implemented several years ago), as a result of which it was established that the Company's Environmental Management System has been prepared and implemented in accordance with the ISO 14001:2004 standard requirements.

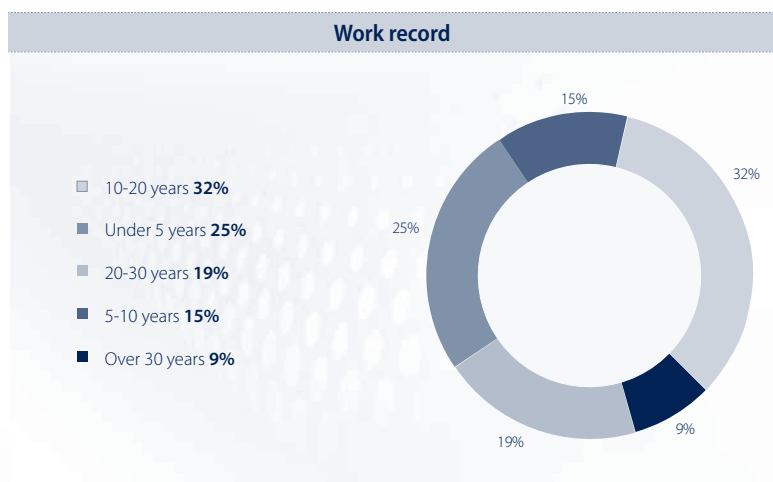
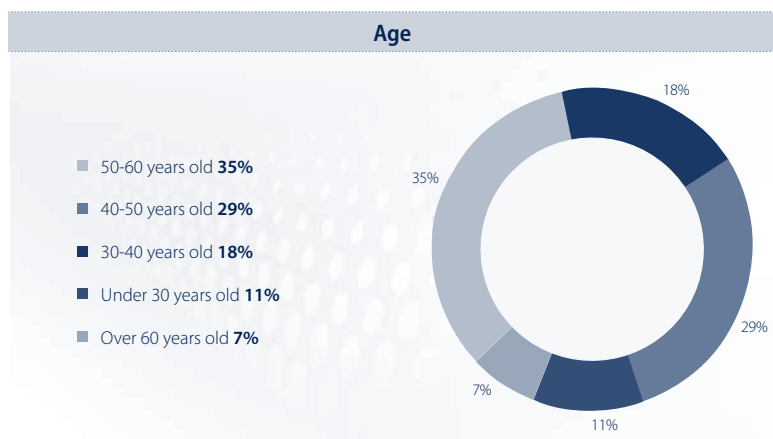
In 2011, for a fourth consecutive year, the Company arranged and held a voluntary action on the Curonian Spit. In cooperation with the Kuršių Nerija National Park, the Company organized works for the protective dune crest fortification. In 2011, LD employees and their family members filled up the pits (caused by winter winds) with twigs that were specially prepared to this end, and picked up the litter that was polluting the seashore.

STAFF

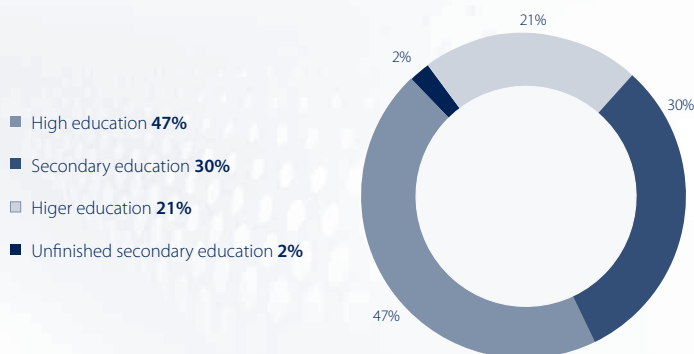
The average age of the Group employees was 45.0 years (2010: 44.5 years) and the average work experience was 16.0 years (2010: 16.0 years).

With a view to raising the LD human resource management efficiency, in 2011 the Company's management processes were subjected to further improvement and the Company's staff size was subjected to further optimization.

With the aim of raising the efficiency of the implementation of the Company Strategy and its main goals, improving the Company's employees' motivation and career planning, the Company has implemented a Human Resource Management System, which is being improved on an ongoing basis. The staff selection process is based on the Staff Selection Procedures Manual, and the New Staff Adaptation Procedures Manual which were adopted by the Company.



Educational background



LD devotes special attention to the creation of adequate working conditions for the personnel and to ensuring remuneration and social guarantees conforming to the market situation. At LD branches there are local units of trade unions united into the Lithuanian Association of Gas Industry Trade Unions. In 2011, the Company Management and representatives of the trade unions closely cooperated in handling the employees' social, cultural, health, etc. issues and held joint meetings on a regular basis. The validity term of the Collective Bargaining Agreement of the Company (with subsequent amendments) signed on 6 December 2006 was extended until 28 May 2012. 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.

In 2011, a lot of attention was devoted to the training of the Company employees and to the improvement of their qualifications. In 2011, general trainings were provided to 764 employees and professional and technical trainings were provided to 1,131 employees. Over the reporting period, 97% of the total number of employees improved their qualifications. LD employees deepened their knowledge in the fields of customer service, debt management, finance, labour law, business management systems, human resource management, management and improved their specialist competencies. In 2011, special attention was paid to the development of employees respective professional

practical skills. At the Vilnius, Kaunas and Klaipėda branches of the Training Centre of the Company's Personnel Division, classrooms for practical training courses were completed to be equipped. In 2011, like every year, the Company arranged and held a Professional Skills Competition for pipe fitters and welders. For the first time the Welders' Professional Skills Competition was attended by specialists from Latvijas Gaze A/S.

In 2011, LD co-operated with the Vilnius Gediminas Technical University, the Kaunas University of Technology, and other universities and participated in their Career Days. In 2011, just like in the previous years, the Company extended opportunities for student professional internships at LD.

LD co-financed studies of 22 employees seeking Bachelor's and Master's degrees at various universities of Lithuania.

MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- The Lithuanian Gas Association (www.dua.lt), is a voluntary alliance of legal entities of the Republic of Lithuania interested in economic and technical development of Lithuanian gas sector and comprising the largest companies engaged in natural gas supply, transmission, and distribution, UAB SG Dujos (engaged in the liquefaction of natural gas), and various

associated members engaged in natural gas activities: the Association Lietuvos Dujotiekio Statyba (comprising 16 companies engaged in gas pipeline construction works) and educational and scientific research institutions. 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 European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions of EU 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). "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 reduce the non-commercial obstacles in the way of natural gas business. Membership of LD in this association dates back to 1999. From 2006, LD has a representative in the Board of this association.

- On 22 June 2011, at the General Assembly of the European Network of Transmission System Operators for Gas (ENTSO) (www.entsog.eu) held in Edinburgh (UK) LD was admitted to this organization as an Associated Partner. ENTSOG was established pursuant to the Regulation of the European Parliament and of the Council as an organization promoting co-operation of gas transmission system operators at the level of the European Union. ENTSOG is also engaged in the elaboration of the European gas network codes, development of non-binding Community-wide ten-year network development plans, delivering common network operation tools, performing other functions.

- 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 "Eurogas", the association "Baltic Gas" and The Chamber of Commerce of Germany and the Baltic countries ("AHK") E.ON Ruhrgas International GmbH and the member of the association "Baltic Gas" OAO Gazprom each hold over 5% of shares of the Company.

The year 2011 saw a 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.

LD and Latvijas Gaze A/S are implementing a joint project "The Enhancement of the Capacity of the Lithuania-Latvia Gas Interconnector", which was initiated back in 2009. The Project is aimed at upgrading integration of the gas systems of the Baltic States and creating preconditions for the creation of the natural gas market of the Baltic States as well as preparation for the integration into the common EU natural gas market.

Since 2009, LD has been engaged in an intensive co-operation with the Polish natural gas system operator GAZ-SYSTEM S.A. LD and the Polish companies have been engaged in the analytical activities related to the construction of the Poland-Lithuania Gas Interconnector. In 2011, LD specialists together with representatives of gas transmission systems operators of the EU member states belonging to the Baltic Region participated in the preparation of the first Regional Investment Plan which will have to be prepared by transmission systems operators every two years in accordance with Regulation of the European Parliament and of the Council No 715/2009. The Regional Investment Plan is expected to be adopted in Half 1 of 2012.

SPONSORSHIP PROGRAMS

Even though in 2011 the country's economy was still in dire straits, nevertheless LD, according to its clearly set priorities for participation in projects, continued to participate in sponsorship programmes and social projects:

- Projects to improve the living environment of vulnerable social groups;
- Projects aimed at the preservation of Lithuanian national heritage;
- Projects that are part of a long-term cultural programme;
- Projects aimed at the improvement of public health;
- Project aimed at the popularization of the name of Lithuania abroad.

In 2011, LD rendered support to more than 100 institutions, organizations or supported their individual projects and thus significantly contributed to the promotion of various communal initiatives:

- Support to festivals of town communities: to the Public Entity "Pažaislis Music Festival" (support to the town of Kaunas in organizing the XVI Pažaislis Music Festival), to the Administration of the Municipality of Kretinga District (support to the Kretinga town historical and anniversary events), to the Administration of the Municipality of the Širvintos District (support for the international folklore festival "The Sparrow Invited..."), to the Public Entity "The Sea Festival" (support in organizing the Sea Festival 2011 in Klaipėda), to the Administration of Municipality of Anykščiai District (support in organizing the horse festival "Run, Horse, Run" in Niūronys, Anykščiai District), to the Board of the Žagarė Regional Park (support to the traditional Žagarė Cherry Festival "Hello, Brother"), etc.
- Support to creative and active children and young people: to the Lithuanian National Radio and Television (support to the LTV project

Lithuania's Millenium Children), to the Lithuanian Youth Council "LiJOT" (support to the project "Mission Siberia 2011"), to Association Xclub (support to the popularization among young people of extreme sports: roller skating, skateboard, bmx bicycles, snowboard), etc.

- Support to improve the public health: to the Vilnius University Hospital Santariškės Clinic (support aimed at improving the activities of the Family Medicine Centre), to the Vilnius Maternity Hospital (for the partial refurbishment of the premises), to the Lithuanian Heart Association (support for the preparation of the doctors professional development programmes), to the Public Entity VIRTUS LT (support for the project of this Public Entity "Company Facilitates Convalescence"), etc.
- Support to sports societies: to the Lithuanian National Olympic Committee (support for the Lithuania's sportsmen's preparation for the Winter Olympic Games 2014), to the Lithuanian Olympic Sports Centre (support for the preparation of Lithuania's sportsmen for the Summer Olympic Games 2012), support to the Public Entity "Šarūnas Marčiulionis Basketball Academy" (programme for the development of young basketball players), to the Lithuanian Sports Society "Žalgiris" (support to society sports events programme 2011), to the Baseball Club "Vilnius" (support to the club's sportsmen – children of various age groups and adults – for the participation in major baseball tournaments abroad and in Lithuania for the improvement of their baseball skills and popularization of the name of Lithuania abroad), etc.
- Support to the representatives of the socially vulnerable communities and children's foster homes: to the Šiauliai Children's Foster Home "Šaltinis" (support for the activities of the foster home), support to the Public Entity "Mažoji Guboja" (support for the disabled young people education and training programme), support to the Vilnius Youth School "Gija" (support to students of this school who because of various social, psychological or other reasons were the odd ones out at other schools), to the Public Entity St Joseph's Foster Home (support for the acquisition of goods required for social care); to the Public Entity Vilnius Jonas Laužikas Consultative Centre (support to sick children who

are both educated and treated at the Centre); Sports and Day Care Centre for the Disabled "Draugystė" (support to the disabled members of the Club for the development of their sports and health improvement activities), etc.

- Support to representatives of art and culture: the Kernavė State Culture Reservation (support to the festival "Days of Live Archaeology in Kernavė") to the Lithuanian Press Photo Club (support for annual exhibition "Lithuanian Press Photo 2011"), to the Lithuanian Artists Union (support for an educational painting plain air event in Pervalka), to the Embassy of Lithuania in Estonia (support for the organization of the Lithuanian National Opera days in Estonia), etc.
- Support to the preservation of the Lithuanian national heritage: support to the Public Entity TV Europa (support for the creation of the documentary "The Children of the Ice" telling the true stories of Lithuanian residents who fell victims of the massive deportations (before or after World War II), who were deprived of their homes and were deported either to Siberia or to the Laptev Sea in Russia), to the Lithuanian Art Museum (support for the preparatory works for the exposition of Lithuanistic heritage in Lithuania from

the museums of the Louvre (France), the Hermitage (the Russian Federation), the Warsaw National Art Museum (Poland), the Latvian Art Museum and other foreign museums); to the Anykščiai Culture Society "Meno Atodangos" (support for the publication of the art album "Mons. Albertas Talačka: Art Collections"), etc.

- Support to religious communities: to the Ariogala St Michael the Archangel Parish (contribution to the construction of the parish house), to the Širvintos St Michael the Archangel Parish (contribution to the erection of the statue of St Virgin Mary), to the Šešuolėliai St Virgin Mary Parish (support for the maintenance and preservation of the cultural heritage – buildings of the church), to the Vilnius St Francis of Assisi Parish (support to the church activities).

SOCIAL RESPONSIBILITY

In pursuing socially responsible business practices, the Company lays a stress on the environmental protection, human rights and the Company's employees' rights, promotion of economic development and active participation in social life. LD already participates in the Lithuania's National Network of Socially Responsible Corporations in promoting

the Corporate Social Responsibility (hereinafter referred to as "CSR", and intends to join the United Nations Global Compact.

In pursuit of responsible business activities, at present, the Company is focused on the review of its routine processes and procedures, on the internal audit of certain specific areas of its activity. On an ongoing basis, the Company implements various projects related to environmental protection, employee motivation improvement, customer service upgrading, participation in communal activities which were disclosed in greater detail in other chapters of the present Consolidated Annual Report.

In order to get an objective and representative assessment of LD performance by its customers and various social groups, on an annual basis, the Company conducts a representative public opinion survey. The survey includes 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 result in the formation of the tasks for the improvement of LD activities.

All of our work
is tailored to meet
your large and small needs





of daily
tasks

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 2011, 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 information).

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 the Group and the Company as of 31 December 2011, 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 2011 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

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



Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 6 March 2012.

Statements of financial position

	Notes	Group		Company	
		As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
ASSETS					
A. Non-current assets		2,318,573	2,368,608	2,320,412	2,370,194
I. Intangible assets	4	3,390	3,867	3,382	3,852
II. Property, plant and equipment	5	2,315,167	2,364,718	2,307,833	2,357,138
II.1. Land		223	183	223	183
II.2. Buildings and structures		1,985,438	2,034,892	1,978,499	2,027,808
II.2.1. Buildings		88,411	89,492	81,472	82,408
II.2.2. Transmission networks and related installations		1,201,402	1,239,810	1,201,402	1,239,810
II.2.3. Distribution networks and related installations		671,304	680,072	671,304	680,072
II.2.4. Other buildings and structures		24,321	25,518	24,321	25,518
II.3. Machinery and equipment		254,843	260,264	254,843	260,264
II.4. Vehicles		15,605	15,562	15,528	15,467
II.5. Other equipment, tools and devices		29,546	33,062	29,294	32,726
II.6. Other property, plant and equipment		3,659	3,519	3,659	3,519
II.7. Construction in progress		25,853	17,236	25,787	17,171
III. Non-current financial assets		16	23	9,197	9,204
III.1. Investments into subsidiaries	1, 6	–	–	9,181	9,181
III.2. Non-current accounts receivable	7	16	23	16	23
B. Current assets		380,058	340,977	377,725	338,742
I. Inventories and prepayments		78,792	47,623	78,765	47,600
I.1. Inventories	8	78,516	47,307	78,504	47,294
I.1.1. Raw materials, spare parts and other inventories		7,182	5,422	7,181	5,421
I.1.2. Goods for resale (including natural gas)		71,334	41,885	71,323	41,873
I.2. Prepayments		276	316	261	306
II. Accounts receivable	9	173,393	174,288	173,391	174,265
II.1. Trade receivables		168,847	170,283	168,848	170,281
II.2. Other receivables		4,546	4,005	4,543	3,984
III. Prepaid income tax		–	2,494	–	2,494
IV. Other current assets	10	31,989	2,036	30,000	–
V. Cash and cash equivalents	11	95,884	114,536	95,569	114,383
Total assets		2,698,631	2,709,585	2,698,137	2,708,936

(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 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
EQUITY AND LIABILITIES					
C. Equity		2,055,340	2,079,578	2,054,297	2,078,611
I. Share capital	1	469,068	469,068	469,068	469,068
II. Reserves	12	1,491,640	1,452,130	1,489,543	1,449,828
II.1. Legal reserve		39,100	31,114	38,908	30,922
II.2. Other reserves		1,452,540	1,421,016	1,450,635	1,418,906
III. Retained earnings		94,632	158,380	95,686	159,715
D. Liabilities		643,291	630,007	643,840	630,325
I. Non-current liabilities		359,435	356,189	360,035	356,569
I.1. Non-current borrowings	13	2,144	4,288	2,144	4,288
I.2. Grants (deferred revenue)	14	191,053	177,842	191,053	177,842
I.3. Non-current employee benefits	15	9,097	9,097	9,097	9,097
I.4. Deferred income tax liability	20	157,141	164,962	157,741	165,342
II. Current liabilities		283,856	273,818	283,805	273,756
II.1. Current portion of non-current borrowings	13	2,144	2,144	2,144	2,144
II.2. Trade payables	16	215,569	206,006	215,562	205,992
II.3. Prepayments received		9,445	12,203	9,445	12,199
II.4. Income tax payable		2,413	–	2,413	–
II.5. Payroll related liabilities		10,403	10,227	10,372	10,193
II.6. Other payables and current liabilities	17	43,882	43,238	43,869	43,228
Total equity and liabilities		2,698,631	2,709,585	2,698,137	2,708,936

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

Income statements

	Notes	Group		Company	
		2011	2010	2011	2010
I. Revenue		1,845,869	1,751,629	1,844,906	1,750,831
I.1. Sales	3	1,840,012	1,746,758	1,839,064	1,745,959
I.2. Other income	18	5,857	4,871	5,842	4,872
II. Expenses		(1,723,733)	(1,605,432)	(1,722,576)	(1,602,746)
II.1. Cost of natural gas		(1,435,881)	(1,343,124)	(1,435,881)	(1,343,124)
II.2. Depreciation and amortisation	4, 5	(111,803)	(98,988)	(111,535)	(98,712)
II.3. Payroll and related social security tax expenses		(98,093)	(99,687)	(97,641)	(99,303)
II.4. Repair and technical maintenance expenses		(47,277)	(33,129)	(47,274)	(33,119)
II.5. Taxes, other than income tax		(11,110)	(11,528)	(11,039)	(11,437)
II.6. Other expenses		(19,569)	(18,976)	(19,206)	(17,051)
III. Profit from operations		122,136	146,197	122,330	148,085
IV. Financial activity	19	(17,863)	2,733	(17,913)	1,059
IV.1. Income		2,467	3,180	2,417	3,088
IV.2. Expense		(20,330)	(447)	(20,330)	(2,029)
V. Profit before tax		104,273	148,930	104,417	149,144
VI. Income tax	20	(8,511)	10,564	(8,731)	10,571
VI.1. Current period income tax		(16,332)	2,535	(16,332)	2,535
VI.2. Deferred income tax		7,821	8,029	7,601	8,036
VII. Net profit		95,762	159,494	95,686	159,715
Basic and diluted earnings per share (LTL)	21	0.20	0.34		

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of comprehensive income

	Group		Company	
	2011	2010	2011	2010
I. Net profit	95,762	159,494	95,686	159,715
II. Total comprehensive income	95,762	159,494	95,686	159,715

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

Statements of changes in equity

Group	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2010		469,068	26,372	1,342,998	152,746	1,991,184
Transfer to legal reserve		–	4,742	–	(4,742)	–
Transfer to other reserves		–	–	78,109	(78,109)	–
Transfer from other reserves to cover the losses of subsidiary		–	–	(91)	91	–
Dividends declared	22	–	–	–	(71,100)	(71,100)
Total comprehensive income		–	–	–	159,494	159,494
<i>Net profit for the year</i>		–	–	–	159,494	159,494
Balance as of 31 December 2010		469,068	31,114	1,421,016	158,380	2,079,578
Transfer to legal reserve		–	7,986	–	(7,986)	–
Transfer to other reserves		–	–	31,729	(31,729)	–
Transfer from other reserves to cover the losses of subsidiary		–	–	(205)	205	–
Dividends declared	22	–	–	–	(120,000)	(120,000)
Total comprehensive income		–	–	–	95,762	95,762
<i>Net profit for the year</i>		–	–	–	95,762	95,762
Balance as of 31 December 2011		469,068	39,100	1,452,540	94,632	2,055,340

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)

Company	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2010		469,068	26,180	1,340,797	153,951	1,989,996
Transfer to legal reserve		-	4,742	-	(4,742)	-
Transfer to other reserves		-	-	78,109	(78,109)	-
Dividends declared	22	-	-	-	(71,100)	(71,100)
Total comprehensive income		-	-	-	159,715	159,715
<i>Net profit for the year</i>		-	-	-	159,715	159,715
Balance as of 31 December 2010		469,068	30,922	1,418,906	159,715	2,078,611
Transfer to legal reserve		-	7,986	-	(7,986)	-
Transfer to other reserves		-	-	31,729	(31,729)	-
Dividends declared	22	-	-	-	(120,000)	(120,000)
Total comprehensive income		-	-	-	95,686	95,686
<i>Net profit for the year</i>		-	-	-	95,686	95,686
Balance as of 31 December 2011		469,068	38,908	1,450,635	95,686	2,054,297

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

Statements of cash flows

	Notes	Group		Company	
		2011	2010	2011	2010
I. Cash flows from (to) operating activities					
I.1.		95,762	159,494	95,686	159,715
Adjustments of non-cash items and other corrections:					
I.2.	4, 5	111,803	98,988	111,535	98,712
I.3.		(116)	118	(116)	113
I.4.		717	1,957	716	1,984
I.5.		8,511	(10,564)	8,731	(10,571)
I.6.		(1,310)	(992)	(1,261)	(906)
I.7.		320	447	320	447
I.8.		2	5	2	5
I.9.		(1)	(868)	–	(862)
I.10.		(4,654)	(4,076)	(4,654)	(4,076)
I.11.	10	20,000	–	20,000	–
I.12.		(1,094)	(4,226)	(1,094)	(4,227)
		229,940	240,283	229,865	240,334
Changes in working capital:					
I.13.	8	(31,176)	(3,149)	(31,177)	(3,147)
I.14.		364	(38,023)	361	(38,051)
I.15.		472	75	459	(221)
I.16.	23	14,103	53,215	14,125	53,721
I.17.		7,254	28,006	7,258	28,010
I.18.		(7,362)	(14,810)	(7,362)	(14,810)
		(16,345)	25,314	(16,336)	25,502
		213,595	265,597	213,529	265,836
II. Cash flows from (to) investing activities					
II.1.	4, 5, 23	(66,873)	(170,806)	(66,858)	(170,502)
II.2.		673	151	659	151
II.3.	10	307	22,041	–	22,341
II.4.		7	25	7	25
II.5.	10	(259)	212	–	–
II.6.		965	969	916	883
II.7.	10	(50,002)	–	(50,002)	–
		(115,182)	(147,408)	(115,278)	(147,102)

(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)

	Notes	Group		Company	
		2011	2010	2011	2010
III. Cash flows from (to) financing activities					
III.1. Dividends (paid)		(119,875)	(71,062)	(119,875)	(71,062)
III.2. Loans (repaid)	13	(2,144)	(2,144)	(2,144)	(2,144)
III.3. Grants received	23	5,297	4,777	5,297	4,777
III.4. Interest (paid)		(343)	(471)	(343)	(471)
III.5. Other increases of cash flows from financing activities		-	419	-	393
Net cash flows (to) financing activities		(117,065)	(68,481)	(117,065)	(68,507)
IV. Net increase (decrease) in cash and cash equivalents		(18,652)	49,708	(18,814)	50,227
V. Cash and cash equivalents at the beginning of the year		114,536	64,828	114,383	64,156
VI. Cash and cash equivalents at the end of the year		95,884	114,536	95,569	114,383

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 2011 and 2010 the shareholders of the Company were as follows:

	Number of shares held	Percentage of ownership (%)
E.ON Ruhrgas International GmbH	182,534,384	38,9
OAQ Gazprom	173,847,696	37,1
Ministry of Energy of the Republic of Lithuania	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 2011 and 2010. 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 2011 is as follows:

Company	Address of registered office	Part of shares controlled by the Group (%)	Share capital	Current year profit (loss)	Equity	Main activity
UAB Palangos Perlas	Gintaro Str. 36, Palanga	100	9,704	(159)	10,319	Accommodation and restaurant facilities

The average number of employees of the Group and the Company in 2011 was 1,719 and 1,696, respectively (1,750 and 1,727 in 2010, respectively).

On 30 June 2011 the Seimas of the Republic of Lithuania passed a new Law on Natural Gas of the Republic of Lithuania transferring the provisions of Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas (the EU Third Energy Package) to the national law. Out of three alternative unbundling models for operations with natural gas provided in the Third Energy Package, the Seimas selected the strictest one – unbundling natural gas transmission and supply operations on the basis of ownership. Along with the Law on Natural Gas, the Law on the Implementation of the Law on Natural Gas was adopted. It set forth the methods and terms for the unbundling of operations. These laws came into force on 1 August 2011.

On 28 October 2011 the Government of the Republic of Lithuania passed a Resolution No. 1239 Concerning the Approval of the Plan for the Execution of Unbundling Activities and Control of Natural Gas Companies That Do Not Comply with the Requirements of the Law on Natural Gas of the Republic of Lithuania, which set forth that the natural gas companies that do not comply with the requirements of the Law on Natural Gas of the Republic of Lithuania not later than by 31 July 2013 shall legally, functionally and organisationally unbundle their natural gas operations, and by 31 October 2014 they shall perform unbundling of their transmission and supply operations on the basis of ownership. Based on this resolution the Company till 31 March 2012 has to make the decision on the selected activity and control segregation method and together with the intended action plan provide to the National Control Commission for Prices and Energy (hereinafter the NCCPE). Currently there is considered the matter for the prolongation of this term in the Government of the Republic of Lithuania.

(all amounts are in LTL thousand unless otherwise stated)

The implementation of the provisions of these laws will have a substantial effect on the activities of the Company. As of the date of preparation of these financial statements the Company's authorities have not yet taken a decision in respect of the selection for the activities and the control unbundling approach, and the impact on the Company's operational results was not assessed.

Activities of AB Lietuvos Dujos are regulated by the Law on Natural Gas of the Republic of Lithuania, which currently requires the unbundling of the accounts among each of the Company's main activities: transmission, distribution and supply. The Company keeps accounts based on the requirements of the law. The Company's activity segments are transmission, distribution, 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 NCCPE. The Company has licences for transmission, distribution and supply of natural gas.

The prices for transmission and distribution of natural gas are regulated. The price caps are set by the NCCPE, too. Until the new law came into effect starting from 1 August 2011, the supply prices of natural gas were regulated, too. After this date they became unregulated.

The management of the Company approved these financial statements on 6 March 2012. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2011 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 International Financial Reporting Interpretations Committee (IFRIC) interpretations

The Group and the Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Revised)**
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
- **IAS 24 Related Party Disclosures (Revised)**
- **IAS 32 Classification on Rights Issues (Revised)**
- **Improvements to IFRSs (May 2010)**

Except for what is written below, new and / or changed standards and their interpretations did not have any impact on the Group and the Company:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definition of a related party. The new definition emphasises a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. The effect of this amendment is evaluated in Note 27.

Improvements to IFRSs

In May 2010, the IASB issued its third 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 adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group and the Company.

- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. In the future the Group and the Company will amend the accounting policy when the component of other comprehensive income will appear.
- *IAS 34 Interim Financial Reporting*: This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group and the Company will include appropriate corrections in the interim financial statements.

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

- **IFRS 1 First-time adoption;**
- **IFRS 3 Business Combinations;**
- **IFRS 7 Financial Instruments – Disclosures;**
- **IAS 27 Consolidated and Separate Financial Statements;**
- **IFRIC 13 Customer Loyalty Programmes.**

(all amounts are in LTL thousand unless otherwise stated)

2.1. Basis of preparation (cont'd)

Standards issued but not yet effective

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

- **IAS 1 Financial Statement Presentation (Revised) – Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's and the Company's financial position or performance. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 12 Income Taxes (Revised) – Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. This amendment has not yet been endorsed by the EU. On 31 December 2011 the Group and the Company had no investment property.

- **IAS 19 Employee Benefits (Revised)**

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 27 Separate Financial Statements (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The standard will not affect the Group's and the Company's financial statements because the Group and the Company has no such investments.

- **IAS 32 Financial Instruments: Presentation (Revised) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group and the Company.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The Group and the Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group and the Company.

2.1. Basis of preparation (cont'd)

- **IFRS 7 Financial Instruments: Disclosures (Revised) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group and the Company.

- **IFRS 9 Financial Instruments - Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities at fair value through profit or loss. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The standard will not affect the Group's and the Company's financial statements because the Group and the Company has no share in joint arrangement entities.

- **IFRS 12 Disclosures of Involvement with Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (stripping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. Interpretation will have no impact on the Group and the Company financial statements, as the Group and the Company are not involved in the mining activity.

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

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.2. Measurement and presentation currency

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

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

2.3. Principles of consolidation

The consolidated financial statements of the Group include AB Lietuvos Dujos and its subsidiary UAB Palangos Perlas. 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 acquisition 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 consolidated 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.

2.4. Intangible assets

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

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

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

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

2.5. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major 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.

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

2 Accounting principles (cont'd)

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

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	15-19	years
Vehicles	6-8	years
Other equipment, tools and devices	4-9	years
Other property, plant and equipment	4-9	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.

2.6. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's and the Company's financial assets are classified as 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.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale which 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.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.7. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group 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.

2.8. 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.

2.9. Cash and cash equivalents

Cash includes cash on hand, cash in banks and cash in transit. 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.

2.10. 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.

2.11. 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 asset. 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.

2 Accounting principles (cont'd)

2.12. Grants (deferred revenue)

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised as income in the financial statements over the period of depreciation of the assets associated with this grant and is included under the caption of other income of the income statement.

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.

2.13. 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.

Other long-term employee benefits

The Company is paying benefits 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.

2.14. 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.

15 % income tax rate has been established starting from 1 January 2010 for companies operating in Republic of Lithuania.

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. Since 2010 tax losses can be transferred between the group companies if there is compliance with the Republic of Lithuania Law on corporate income tax requirements. 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.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.14. Income tax (cont'd)

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 IFRSs, 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 IFRSs 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 change in asset carrying value and tax base), the Group and the Company accounts for this change 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.

2.15. 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 - (except for the income from non-domestic users consuming more than 1 million m³ of natural gas per year - revenue from these customers are recognized twice a month), based on meter readings provided by the customers and checked by the Company (accrual basis). Revenues from household customers are recognised monthly based on the meter readings declared by the customers and by correcting them based on evaluated discrepancies between the quantities of declared and consumed gas.

2.16. 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.

2.17. 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 Accounting principles (cont'd)

2.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Group and the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation (Note 2.5 and Note 5), deferred income tax asset (Note 2.14 and Note 20), non-current employee benefits (Note 2.13 and Note 15), accrued revenue from household customers (Note 2.15) and impairment evaluation of property, plant and equipment (Note 2.5 and Note 5), investments into subsidiaries – only the Company (Note 1 and Note 6), accounts receivable (Note 2.6, Note 7 and Note 9), inventories (Note 2.8 and Note 8), financial assets (Note 2.6, Note 2.17 and Note 10). 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 financial year.

If indications for impairment of property, plant and equipment exist, evaluation of the non-current assets' value based on the discounted cash flow projections of an integrated Company is performed, while there is no reliable basis to separate out individual cash generating units. The assumptions used in determination of the discount rate for the evaluation of the recoverable amount of the assets being tested in principle corresponds to the assumptions applied by the NCCPE for the rate of return in the price regulation based on the legislation and the methodology currently in force. Any changes in the discount rate and quantity of gas to be sold mostly affects the recoverable value of the Company's property, plant and equipment.

Due to the current legal developments, the Company performed an impairment test which did not result in any impairment charge. However a decision to unbundle the Company's activities according to the requirements of the EU Third Energy Package could have a negative impact on the separate entities asset values after unbundling of the activities if no sufficiently positive regulatory regime improvements are taken in the future.

2.19. Contingencies

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

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

2.20. Subsequent events

Post-balance sheet events that provide additional information about the Group's and the Company's position at the 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.

2.21. Offsetting

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

(all amounts are in LTL thousand unless otherwise stated)

3 Segment information

The Group's and the Company's business activities are organised based on the legal requirements for regulated activities. The Group and the Company has split operating segments based on the legal requirements. 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 a 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 segments were aggregated, as they have similar economic and other characteristics.

The Group's segment information for the years ended 2011 and 2010 is presented below:

2011	Transmission	Distribution	Supply	Other activity	Total
Sales	175,530	171,069	1,490,822	2,591	1,840,012
Interest income	1	40	1,218	51	1,310
Interest expense	320	–	–	–	320
Profit before tax	38,684	21,941	42,667	981	104,273
Income tax	(1,985)	723	9,867	(94)	8,511
Total assets	1,603,312	762,586	322,304	10,429	2,698,631
Total liabilities	224,064	180,896	238,804	(473)	643,291
Other segment information					
Acquisition of non-current assets	34,580	27,595	128	15	62,318
Depreciation and amortisation	72,365	37,643	1,341	454	111,803
2010	Transmission	Distribution	Supply	Other activity	Total
Sales	153,579	194,161	1,396,450	2,568	1,746,758
Interest income	38	25	841	88	992
Interest expense	447	–	–	–	447
Profit before tax	43,534	45,642	60,819	(1,065)	148,930
Income tax	(23,209)	3,648	8,886	111	(10,564)
Total assets	1,634,195	772,663	292,100	10,627	2,709,585
Total liabilities	232,231	172,943	225,087	(254)	630,007
Other segment information					
Acquisition of non-current assets	156,412	21,582	188	303	178,485
Depreciation and amortisation	60,557	36,585	1,366	480	98,988

All the assets of the Group and the Company are located 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 2011 the Group and the Company earned over 98 % of its revenue from Lithuanian customers (in 2010 – over 99 %).

In 2011, there was one Group customer (Lietuvos energija, AB), whose revenue constituted more than 10 % of total Group's revenue – LTL 310,409 thousand (from it revenue of the transmission segment amounted to LTL 14,942 thousand and revenue of the supply segment amounted to LTL 295,467 thousand). In 2010 revenue from AB Lietuvos Elektrinė amounted to LTL 417,565 thousand (including transmission segment revenue of LTL 20,223 thousand and supply segment revenue of LTL 397,342 thousand). On 21 July 2011 the new company Lietuvos Energija, AB was registered with the Register of Legal Persons of the Republic of Lithuania and took over the property, rights and obligations of AB Lietuvos Energija and AB Lietuvos Elektrinė.

4 Intangible assets

Movement of intangible assets for the current and prior periods:

Group	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as of 1 January 2010	3,922	6,210	1,708	11,840
Additions	1,009	176	155	1,340
Retirements	–	(89)	(125)	(214)
Balance as of 31 December 2010	4,931	6,297	1,738	12,966
Additions	848	256	–	1,104
Retirements	(530)	(1,399)	(773)	(2,702)
Balance as of 31 December 2011	5,249	5,154	965	11,368
Accumulated amortisation:				
Balance as of 1 January 2010	2,018	4,433	1,472	7,923
Charge for the year	758	546	86	1,390
Retirements	–	(89)	(125)	(214)
Balance as of 31 December 2010	2,776	4,890	1,433	9,099
Charge for the year	921	564	96	1,581
Retirements	(530)	(1,399)	(773)	(2,702)
Balance as of 31 December 2011	3,167	4,055	756	7,978
Net book value as of 31 December 2011	2,082	1,099	209	3,390
Net book value as of 31 December 2010	2,155	1,407	305	3,867

(all amounts are in LTL thousand unless otherwise stated)

4 Intangible assets (cont'd)

Company	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as of 1 January 2010	3,922	6,178	1,708	11,808
Additions	1,009	174	155	1,338
Retirements	–	(88)	(125)	(213)
Balance as of 31 December 2010	4,931	6,264	1,738	12,933
Additions	848	256		1,104
Retirements	(530)	(1,393)	(773)	(2,696)
Balance as of 31 December 2011	5,249	5,127	965	11,341
Accumulated amortisation:				
Balance as of 1 January 2010	2,018	4,422	1,472	7,912
Charge for the year	758	538	86	1,382
Retirements	–	(88)	(125)	(213)
Balance as of 31 December 2010	2,776	4,872	1,433	9,081
Charge for the year	921	557	96	1,574
Retirements	(530)	(1,393)	(773)	(2,696)
Balance as of 31 December 2011	3,167	4,036	756	7,959
Net book value as of 31 December 2011	2,082	1,091	209	3,382
Net book value as of 31 December 2010	2,155	1,392	305	3,852

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 3,960 thousand as of 31 December 2011 (LTL 5,812 thousand as of 31 December 2010) 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 2010	183	103,908	1,484,932	805,617	14,371	142,003	35,437	98,178	10,319	97,141	2,792,089
Additions	-	1	-	185	-	2,170	4,904	3,278	768	165,839	177,145
Disposals and retirements	-	(122)	(19)	(54)	(15)	(738)	(2,946)	(1,459)	(196)	-	(5,549)
Reclassifications	-	9,817	28,307	11,886	15,104	172,932	-	7,611	87	(245,744)	-
Balance as of 31 December 2010	183	113,604	1,513,220	817,634	29,460	316,367	37,395	107,608	10,978	17,236	2,963,685
Additions	40	-	-	1,584	12	716	4,576	2,858	1,326	50,102	61,214
Disposals and retirements	-	(565)	(85)	(103)	-	(208)	(1,601)	(1,763)	(241)	-	(4,566)
Reclassifications	-	2,701	8,724	14,242	358	11,640	-	3,659	161	(41,485)	-
Balance as of 31 December 2011	223	115,740	1,521,859	833,357	29,830	328,515	40,370	112,362	12,224	25,853	3,020,333
Accumulated depreciation:											
Balance as of 1 January 2010	-	15,857	226,950	113,237	3,244	47,872	20,436	67,551	6,427	-	501,574
Charge for the year	-	3,180	46,479	24,352	727	8,920	4,237	8,442	1,261	-	97,598
Disposals and retirements	-	(34)	(19)	(27)	(15)	(698)	(2,840)	(1,448)	(195)	-	(5,276)
Reclassifications	-	38	-	-	(14)	9	-	1	(34)	-	-
Balance as of 31 December 2010	-	19,041	273,410	137,562	3,942	56,103	21,833	74,546	7,459	-	593,896
Charge for the year	-	3,374	47,131	24,509	1,584	17,849	4,530	9,900	1,345	-	110,222
Disposals and retirements	-	(132)	(84)	(18)	-	(190)	(1,598)	(1,762)	(239)	-	(4,023)
Reclassifications	-	(25)	-	-	(17)	(90)	-	132	-	-	-
Balance as of 31 December 2011	-	22,258	320,457	162,053	5,509	73,672	24,765	82,816	8,565	-	700,095
Impairment losses:											
Balance as of 1 January 2010	-	3,515	-	-	-	-	-	-	-	-	3,515
Impaired	-	1,556	-	-	-	-	-	-	-	-	1,556
Balance as of 31 December 2010	-	5,071	-	-	-	-	-	-	-	-	5,071
Balance as of 31 December 2011	-	5,071	-	-	-	-	-	-	-	-	5,071
Net book value as of 31 December 2011	223	88,411	1,201,402	671,304	24,321	254,843	15,605	29,546	3,659	25,853	2,315,167
Net book value as of 31 December 2010	183	89,492	1,239,810	680,072	25,518	260,264	15,562	33,062	3,519	17,236	2,364,718

(all amounts are in LTL thousand unless otherwise stated)

5 Property, plant and equipment (cont'd)

<u>Company</u>	<u>Land</u>	<u>Buildings</u>	<u>Transmission networks and related installations</u>	<u>Distribution networks and related installations</u>	<u>Other buildings and structures</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Other equipment, tools and devices</u>	<u>Other property, plant and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost:											
Balance as of 1 January 2010	183	91,759	1,484,932	805,617	14,371	142,003	35,312	96,749	10,319	94,899	2,776,144
Additions	-	1	-	185	-	2,170	4,812	3,132	768	165,776	176,844
Disposals and retirements	-	(122)	(19)	(54)	(15)	(738)	(2,946)	(1,431)	(196)	-	(5,521)
Reclassifications	-	7,577	28,307	11,886	15,104	172,932	-	7,611	87	(243,504)	-
Balance as of 31 December 2010	183	99,215	1,513,220	817,634	29,460	316,367	37,178	106,061	10,978	17,171	2,947,467
Additions	40	-	-	1,584	12	716	4,576	2,843	1,326	50,102	61,199
Disposals and retirements	-	(565)	(85)	(103)	-	(208)	(1,534)	(1,584)	(241)	-	(4,320)
Reclassifications	-	2,701	8,724	14,242	358	11,640	-	3,660	161	(41,486)	-
Balance as of 31 December 2011	223	101,351	1,521,859	833,357	29,830	328,515	40,220	110,980	12,224	25,787	3,004,346
Accumulated depreciation:											
Balance as of 1 January 2010	-	13,784	226,950	113,237	3,244	47,872	20,322	66,411	6,427	-	498,247
Charge for the year	-	3,019	46,479	24,352	727	8,920	4,229	8,343	1,261	-	97,330
Disposals and retirements	-	(34)	(19)	(27)	(15)	(698)	(2,840)	(1,420)	(195)	-	(5,248)
Reclassifications	-	38	-	-	(14)	9	-	1	(34)	-	-
Balance as of 31 December 2010	-	16,807	273,410	137,562	3,942	56,103	21,711	73,335	7,459	-	590,329
Charge for the year	-	3,229	47,131	24,509	1,584	17,849	4,512	9,802	1,345	-	109,961
Disposals and retirements	-	(132)	(84)	(18)	-	(190)	(1,531)	(1,583)	(239)	-	(3,777)
Reclassifications	-	(25)	-	-	(17)	(90)	-	132	-	-	-
Balance as of 31 December 2011	-	19,879	320,457	162,053	5,509	73,672	24,692	81,686	8,565	-	696,513
Impairment losses:											
Balance as of 1 January 2010	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2010	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2011	-	-	-	-	-	-	-	-	-	-	-
Net book value as of 31 December 2011	223	81,472	1,201,402	671,304	24,321	254,843	15,528	29,294	3,659	25,787	2,307,833
Net book value as of 31 December 2010	183	82,408	1,239,810	680,072	25,518	260,264	15,467	32,726	3,519	17,171	2,357,138

5 Property, plant and equipment (cont'd)

Property, plant and equipment of the Group and the Company with the acquisition cost of LTL 69,237 thousand and LTL 68,415 thousand, respectively, were fully depreciated as of 31 December 2011 (LTL 57,685 thousand and LTL 56,771 thousand as of 31 December 2010, respectively), but were still in use.

As of 31 December 2011 and 2010 the Group and the Company had no property, plant and equipment, acquired under financial lease agreements.

The Group and the Company did not have any borrowing costs in 2011 and 2010 related to qualifying assets.

Major objects of construction in progress of the Group and the Company as of 31 December 2011 were as follows:

Object	Group	Company
Construction of gas transmission pipeline Jurbarkas – Klaipėda:	8,308	8,308
<i>Construction of gas transmission pipeline from Jurbarkas to the branch to gas distribution station (hereinafter – GDS) in Tauragė</i>	1,969	1,969
<i>Construction of gas transmission pipeline from the branch to GDS in Tauragė to the branch to GDS in Šilutė</i>	3,209	3,209
<i>Construction of gas transmission pipeline from the branch to GDS in Šilutė to the branch to GDS-2 in Klaipėda, the branch to GDS-2 in Klaipėda and GDS-2 in Klaipėda</i>	3,130	3,130
Reconstruction of GDS in Girininkai village, Kaunas district	4,593	4,593
Acquisition of intelligent pig launcher and receiver chambers for the Vilnius-Vievis gas transmission pipeline	2,012	2,012
Procurement of equipment and replacement works of line block valves with bypasses No. 19, 41, 40 by new ones on the Ivatsevichi-Vilnius-Riga gas transmission pipeline (DN 500)	1,524	1,524
GDS reconstruction Alksnupių village, Radviliškio district	1,024	1,024
Other (including UAB Palangos Perlas)	8,392	8,326
Net book value as of 31 December 2011	25,853	25,787

As of 31 December 2010 the Group's and the Company's construction in progress comprised LTL 17,236 thousand and LTL 17,171 thousand respectively.

In 2010, the Group has accounted for the impairment of property, plant and equipment amounting to LTL 1,556 thousand due to decrease of the recoverable amount of the subsidiary UAB Palangos Perlas buildings.

6 Investments into subsidiaries

As of 31 December 2011 the Company's investment in subsidiaries consisted of the investment into UAB Palangos Perlas and amounted to LTL 9,181 thousand (LTL 9,181 thousand in 2010) (Note 1). In 2010, the Company has accounted impairment for the investment in subsidiary, reducing the value of investments down to its recoverable amount. Impairment for investments in subsidiaries is accounted under financial activity expense.

7 Non-current accounts receivable

	Group		Company	
	2011	2010	2011	2010
AB Warta Glass Panevėžys (former AB Panevėžio Stiklas) debt	6,373	6,373	6,373	6,373
Other non-current accounts receivable	16	23	16	23
	6,389	6,396	6,389	6,396
Less: allowance for non-current accounts receivable	(6,373)	(6,373)	(6,373)	(6,373)
	16	23	16	23

Receivable from AB Warta Glass Panevėžys (former name 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 a debt restructuring agreement was signed with AB Warta Glass Panevėžys (former name 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	
	2011	2010	2011	2010
Raw materials, spare parts and other inventories	7,321	5,594	7,320	5,593
Goods for resale (including natural gas)	71,334	41,885	71,323	41,873
Inventories, gross	78,655	47,479	78,643	47,466
Less: allowance for inventories	(139)	(172)	(139)	(172)
	78,516	47,307	78,504	47,294

The Group's and the Company's cost of inventories accounted for at net realisable value amounted to LTL 1,624 thousand as of 31 December 2011 (LTL 1,667 thousand as of 31 December 2010). As of 31 December 2011 the balance of the Group's and the Company's goods for resale increased significantly due to increased gas import price and larger quantities of gas stored at the gas storage facility in Latvia (as of 31 December 2011 – for LTL 52,080 thousand, as of 31 December 2010 – for LTL 27,627 thousand). Changes in the allowance for inventories in 2011 and 2010 were included into other expenses.

9 Accounts receivable

	Group		Company	
	2011	2010	2011	2010
Receivables for natural gas, transmission and distribution of natural gas from non-household customers	159,792	161,092	159,803	161,103
Receivables for natural gas, transmission and distribution of natural gas from household customers	16,949	15,142	16,949	15,142
Other trade receivables	529	1,874	514	1,856
Total trade accounts receivable	177,270	178,108	177,266	178,101
Other accounts receivable	4,560	4,025	4,557	4,004
	181,830	182,133	181,823	182,105
Less: allowance for accounts receivable	(8,437)	(7,845)	(8,432)	(7,840)
	173,393	174,288	173,391	174,265

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 2011 trade and other receivables with the nominal value of LTL 6,086 thousand (as of 31 December 2010 – LTL 3,995 thousand) were fully provided for.

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

	Group			Company		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
Balance as of 1 January 2010	4,030	3,092	7,122	4,030	3,092	7,122
Charge for the year	5,494	1,988	7,482	5,489	1,988	7,477
Utilised	–	(35)	(35)	–	(35)	(35)
Unused amounts reversed	(5,666)	(1,058)	(6,724)	(5,666)	(1,058)	(6,724)
Balance as of 31 December 2010	3,858	3,987	7,845	3,853	3,987	7,840
Charge for the year	4,043	1,902	5,945	4,043	1,902	5,945
Utilised	–	(159)	(159)	–	(159)	(159)
Unused amounts reversed	(4,223)	(971)	(5,194)	(4,223)	(971)	(5,194)
Balance as of 31 December 2011	3,678	4,759	8,437	3,673	4,759	8,432

Changes in allowance for accounts receivable in 2011 and 2010 were included into other expenses.

9 Accounts receivable (cont'd)

The ageing analysis of the Group's trade and other accounts receivable as of 31 December 2011 and 2010 is as follows:

	Trade and other receivables neither past due nor impaired	Trade and other receivables past due but not impaired					Total
		Less than 30 days	31 – 90 days	91 – 180 days	181 – 360 days	More than 360 days	
2010	166,678	5,961	755	306	254	–	173,954
2011	164,021	7,917	967	252	198	–	173,355

The ageing analysis of the Company's trade and other accounts receivable as of 31 December 2011 and 2010 is as follows:

	Trade and other receivables neither past due nor impaired	Trade and other receivables past due but not impaired					Total
		Less than 30 days	31 – 90 days	91 – 180 days	181 – 360 days	More than 360 days	
2010	166,683	5,960	753	296	254	–	173,946
2011	164,031	7,917	965	246	197	–	173,356

10 Other current assets

As of 31 December 2011 the Group's other current investments consisted of LTL 30,000 thousand of debt securities and LTL 1,989 thousand of deposits (as of 31 December 2010 deposits amounted to LTL 1,730 thousand). The term of current investments is 3-12 months. The weighted average annual interest rate of the Group's current investments was 2.24 percent as of 31 December 2011 (3.41 percent as of 31 December 2010).

As of 31 December 2011 the Group had no investment units held for sale, and as of 31 December 2010 the investment units held for sale amounted to LTL 306 thousand. Gain from change in the value of investment units in 2011 and 2010 was accounted for as income from financial activities (Note 19).

On 20 October 2011 the Company entered into a deposit certificate agreement with AB Bankas Snoras, according to which LTL 20 million was invested into this instrument. By the decision of 7 December 2011 Vilnius Regional Court commenced a bankruptcy lawsuit against AB Bankas Snoras. In accordance with the bankruptcy procedure provided for in the Law on Banks of the Republic of Lithuania, the claims of the Group and the Company as the creditor will be satisfied in fourth rank; therefore, it is likely that due to shortage of assets of the bankrupt bank the Company will not recover the lost deposit certificate amount. As of 31 December 2011 the Group and the Company accounted for the full impairment of the deposit certificate amount and recorded it as financial activities expenses (Note 19).

11 Cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
Cash at bank, in transit and on hand	5,294	2,439	4,979	2,366
Deposits with the term of less than three months	90,590	112,097	90,590	112,017
	95,884	114,536	95,569	114,383

The original term of all deposits is less than three months, the weighted average annual interest rate as of 31 December 2011 was 0,75 % (0,49 % as of 31 December 2010). 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 2011 was LTL 95,884 thousand and LTL 95,569 thousand, respectively (LTL 114,536 thousand and LTL 114,383 thousand as of 31 December 2010).

(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 4,784 thousand of the Company's net profit for 2011 must be allocated for a transfer to the legal reserve in 2012. 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

Other reserves of the Group and the Company consist of reserve for corporate business development.

Profit distribution

The Company did not have a draft proposal of profit distribution for 2011 on the date of issue of these financial statements.

13 Borrowings

	Group		Company	
	2011	2010	2011	2010
Non-current borrowings				
Borrowings from Lithuanian credit institutions	2,144	4,288	2,144	4,288
Current borrowings				
Current portion of non-current borrowings	2,144	2,144	2,144	2,144
	4,288	6,432	4,288	6,432

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

	2011	2010
	Fixed interest bearing loans	Fixed interest bearing loans
2011	–	2,144
2012	2,144	2,144
2013	2,144	2,144
	4,288	6,432

Actual interest rates are close to effective interest rates. As of 31 December 2011 the weighted average annual interest rate of the Group's and the Company's borrowings outstanding was 5,65 % (5,65 % as of 31 December 2010). Borrowings at the end of the year in national and foreign currencies expressed in LTL were as follows:

	Group		Company	
	2011	2010	2011	2010
Borrowings denominated in:				
EUR	4,288	6,432	4,288	6,432
	4,288	6,432	4,288	6,432

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

As of 31 December 2011 the Group and the Company had available LTL 2,900 thousand (LTL 2,900 thousand as of 31 December 2010) of unutilized credit limit facility in respect of which all conditions precedent have been met.

14 Grants (deferred revenue)

Group and Company	2011			2010		
	Deferred revenue	Grants	Total	Deferred revenue	Grants	Total
Balance at the beginning of the period	115,066	62,776	177,842	110,922	60,949	171,871
Received during the year	7,966	9,478	17,444	6,299	339	6,638
Change in grant receivable	–	560	560	–	3,409	3,409
Amortisation during the year	(2,285)	(2,291)	(4,576)	(2,155)	(1,879)	(4,034)
Grants used for compensation of expenses	–	(217)	(217)	–	(42)	(42)
Balance at the end of the period	120,747	70,306	191,053	115,066	62,776	177,842

Increase in grants (deferred revenue) in 2011 and 2010 is influenced by the payments received for new connections of customers to the Group's and the Company's natural gas system and received capital grants. 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 2011 and 2010 the Group's and the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 7,546 thousand; other non-current employee benefits resulting from bonuses for long work experience in the Company were equal to LTL 1,551 thousand. In 2011 the non-current employee benefit amount remained the same (the change of the benefits amount in 2010 is included in the caption of payroll and related social security tax expenses (LTL 1,399 thousand) and financial expenses caption (LTL 415 thousand) in the income statements for 2010 of the Group and the Company).

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

	2011	2010
Discount rate	5,66 %	5,7 %
Annual employee turnover rate	2 %	2 %
Annual salary increase	2 %	2 %

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

16 Trade payables

	Group		Company	
	2011	2010	2011	2010
Suppliers of natural gas	192,122	180,025	192,122	180,025
Other	23,447	25,981	23,440	25,967
	215,569	206,006	215,562	205,992

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.

17 Other payables and current liabilities

Other payables and current liabilities mainly consist of VAT payable, which was equal to LTL 39,362 thousand as of 31 December 2011 (LTL 39,619 thousand as of 31 December 2010).

(all amounts are in LTL thousand unless otherwise stated)

18 Other income

In 2011 the major part of the Group's and the Company's other income consists of grants (including deferred revenues) amortisation amounting to LTL 4,576 thousand (LTL 4,034 thousand in 2010).

19 Financial activities

Notes	Group		Company	
	2011	2010	2011	2010
Interest income	1,310	992	1,261	906
Change in value of investment units	1	868	–	862
Other income from financial activities	1,156	1,320	1,156	1,320
Total income from financial activities	2,467	3,180	2,417	3,088
Interest expenses on borrowings	(320)	(447)	(320)	(447)
Financial expenses from non-current employee benefits	–	(415)	–	(415)
Impairment of the investment into subsidiary	–	–	–	(1,556)
Reversal (charge) of impairment of financial assets (Note 10)	(20,000)	419	(20,000)	393
Other expenses from financial activities	(10)	(4)	(10)	(4)
Total expenses from financial activities	(20,330)	(447)	(20,330)	(2,029)
Result from financial activities, net	(17,863)	2,733	(17,913)	1,059

20 Income tax

	Group		Company	
	2011	2010	2011	2010
Income tax:				
Profit before tax	104,273	148,930	104,417	149,144
Changes in temporary differences	50,585	53,460	50,673	53,508
Permanent differences	14,792	(404)	14,560	(666)
Taxable income for the year	169,650	201,986	169,650	201,986
Current year income tax	25,448	30,298	25,448	30,298
Current year income tax incentive	(9,638)	(15,149)	(9,638)	(15,149)
Current year income tax after applying income tax incentive	15,810	15,149	15,810	15,149
Prior year income tax incentive*	(334)	(17,842)	(334)	(17,842)
Other prior years' income tax adjustments	856	158	856	158
Change in deferred income tax during the year	(7,821)	(8,029)	(7,601)	(8,036)
Income tax expense charged to the income statement	8,511	(10,564)	8,731	(10,571)

20 Income tax (cont'd)

According to the provisions of the Law on Corporate Income Tax (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 the tax incentive are used in the Group's and the Company's activities for at least three years (hereinafter – the Requirement). When calculating current income tax for the year 2009, the Group and the Company did not use the benefit of the income tax incentive because of existing uncertainties related with the Requirement. In 2010 the uncertainty has decreased and the Group and the Company used the benefit of the abovementioned incentive for the investments accomplished in 2010 and 2009 and reduced income tax expenses for the year 2010 by a total amount of LTL 32,991 thousand.

	Group		Company	
	2011	2010	2011	2010
Deferred tax asset:				
Impairment losses on property, plant and equipment and vacation accrual	1,604	1,412	926	947
Accrual for non-current employee benefit	1,365	1,365	1,365	1,365
Deferred revenue from connection fees	2,028	2,071	2,028	2,071
Deferred tax asset before valuation allowance	4,997	4,848	4,319	4,383
Less: valuation allowance	(108)	(113)	(108)	(108)
Less: deferred tax asset netted with deferred tax liability	(4,889)	(4,735)	(4,211)	(4,275)
Deferred tax asset, net	-	-	-	-
Deferred tax liability:				
Difference in tax base of property, plant and equipment	(162,030)	(169,697)	(161,952)	(169,617)
Deferred tax liability, net	(157,141)	(164,962)	(157,741)	(165,342)

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 2011 and 2010 the Group and the Company has used income tax rate of 15 %.

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

	Group		Company	
	2011	2010	2011	2010
Profit before tax	104,273	148,930	104,417	149,144
Tax (expense) at the applicable standard tax rate	(15,641)	(22,340)	(15,663)	(22,372)
Non-deductible items	(2,219)	61	(2,184)	100
Income tax incentive	9,972	15,149	9,972	15,149
Other	(9)	(127)	(242)	(127)
Effect of prior periods income tax adjustment	(614)	17,821	(614)	17,821
Income tax (expense)	(8,511)	10,564	(8,731)	10,571

(all amounts are in LTL thousand unless otherwise stated)

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:

	<u>Group</u>	
	<u>2011</u>	<u>2010</u>
Net profit attributable to the shareholders (in LTL thousand)	95,762	159,494
Weighted average number of shares (in thousands)	469,068	469,068
Basic earnings per share (in LTL)	<u>0.20</u>	<u>0.34</u>

As there were no changes in the share capital of the Company during 2011 and 2010, therefore the weighted average number of shares equals to the total number of shares at the end of the year.

22 Dividends declared

	<u>2011</u>	<u>2010</u>
Dividends declared (in LTL thousand)*	120,000	71,100
Number of shares at the date when dividends were declared (in thousands)	469,068	469,068
Dividends per share (in LTL)	<u>0.26</u>	<u>0.15</u>

* In the year when the dividends are declared.

23 Cash flows from investing and financing activities

When calculating cash flows from investing activities in 2011, the change in accounts payable for non-current assets of the Group and the Company of LTL 4,555 thousand (LTL 7,171 thousand and LTL 7,647 thousand of the Group and the Company in 2010 respectively), was taken into account.

When determining the grants received in cash flows from financing activities of 2011 there were evaluated the annual changes of advances received LTL 4,181 thousand (in 2010 the annual changes of advances received were equal to LTL 4,438 thousand).

24 Capital investment commitments

As of 31 December 2011, 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 21,446 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.

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

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2011 and 2010 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	-	-	2,356	2,235	-	4,591
Other current liabilities	-	1,997	-	-	-	1,997
Trade payables	-	215,564	5	-	-	215,569
Balance as of 31 December 2011		217,561	2,361	2,235	-	222,157
Interest bearing loans and borrowings	-	-	2,477	4,591	-	7,068
Other current liabilities	-	1,177	-	-	-	1,177
Trade payables	-	206,006	-	-	-	206,006
Balance as of 31 December 2010	-	207,183	2,477	4,591	-	214,251

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2011 and 2010 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	-	-	2,356	2,235	-	4,591
Other current liabilities	-	1,994	-	-	-	1,994
Trade payables	-	215,557	5	-	-	215,562
Balance as of 31 December 2011		217,551	2,361	2,235	-	222,147
Interest bearing loans and borrowings	-	-	2,477	4,591	-	7,068
Other current liabilities	-	1,177	-	-	-	1,177
Trade payables	-	205,992	-	-	-	205,992
Balance as of 31 December 2010	-	207,169	2,477	4,591	-	214,237

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. Using installed debt management tools and by working with customers in an effective way, the Company managed to sustain acceptable indebtedness level of the customers.

The Group and the Company face the risk when keeping the funds in bank accounts or investing it in short term instruments. The Group and the Company for short term investing uses only products of banks and their subsidiaries, therefore the level of risk incurred depend on the reliability of the selected bank. The reliability level is assessed based on the publicly available information.

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.

(all amounts are in LTL thousand unless otherwise stated)

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

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2011 were as follows (stated in LTL thousand):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	270,186	268,251	89,037	88,986
EUR	31,058	30,689	196,615	196,615
Total	301,244	298,940	285,652	285,601

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2010 were as follows (stated in LTL thousand):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	288,547	286,674	86,147	86,089
EUR	2,336	1,997	188,853	188,853
Total	290,883	288,671	275,000	274,942

Interest rate risk

As of 31 December 2011 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 variable interest rates as of 31 December 2011 and 2010.

Gas import price fluctuation risk

Natural gas import price depends on heavy fuel 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, defined in the Natural Gas Law.

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 (Level 1 valuation technique).

The following methods and assumptions are used by the Group and the Company 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 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

On 25 March 2011 the Ministry of Energy of the Republic of Lithuania, which holds 17.7 percent of the Company's shares by the right of trust, applied to Vilnius Regional Court with an action for an investigation of activities of a legal person and indicated AB Lietuvos Dujos, the Company's board members delegated by OAO Gazprom and the general manager as defendants. This action requests initiation of an investigation of AB Lietuvos Dujos activities and satisfaction of the respective claims specified in the action, provided that the activities of the company AB Lietuvos Dujos and/or the above board members and/or the general manager are found inadequate.

On 28 October 2011 AB Lietuvos Dujos applied to Vilnius Regional Administrative Court with a request to partially annul the Resolution of the National Control Commission for Prices and Energy No. O3-283 of 30 September 2011 Regarding a Planned Target Inspection of AB Lietuvos Dujos, where violations of AB Lietuvos Dujos licensed activities' regulations were identified and requirements applicable for providing the data for adjusting the upper price margin of transmission and distribution for 2012, for determination of the property, plant and equipment depreciation expenses as well as for the other obligations were imposed for the Company. On 20 February 2012 Vilnius Regional Administrative Court rejected the Company's claim. The Company did not agree with the decision of the first instance court and appealed against it to the Supreme Administrative Court.

On 28 November 2011 AB Lietuvos Dujos applied to Vilnius Regional Administrative Court with a complaint and requested annulment of the Resolution of the National Control Commission for Prices and Energy No. O3-347 of 27 October 2011 Regarding Violation of Regulated Activities of AB Lietuvos Dujos, based on which AB Lietuvos Dujos was imposed a fine of LTL 350 thousand.

The abovementioned legal cases are under ruling in the first instance and / or appealing stage. The outcome of these legal cases is not known and cannot be reliably estimated.

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 2011 and 2010 were as follows:

- E.ON Ruhrgas International GmbH (one of the major shareholders of the Company);
- OAO Gazprom (one of the major shareholders of the Company);
- Ministry of Energy of the Republic of Lithuania (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);
- OAO Beltransgaz (same ultimate shareholder);
- UAB Kauno termofikacijos elektrinė (same ultimate shareholder);
- Open Grid Europe GmbH (same ultimate shareholder).

(all amounts are in LTL thousand unless otherwise stated)

27 Related party transactions (cont'd)

2011	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	1,465,335	38,135	10,676	192,122
OAO Beltransgaz	30	-	-	-
UAB Palangos Perlas	33	57	11	-
AS Latvijas Gaze	1,615	-	-	8
UAB Kauno termofikacijos elektrinė	-	15,918	862	-
Open Grid Europe GmbH	239	-	-	-
	1,467,252	54,110	11,549	192,130

2010	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	1,345,446	15,306	1,991	180,025
OAO „Beltransgaz“	86	-	-	-
UAB Palangos Perlas	90	56	11	-
AS Latvijas Gaze	1,584	-	-	14
E.ON IS GmbH	5	-	-	-
UAB Kauno termofikacijos elektrinė	-	15,684	1,294	-
	1,347,211	31,046	3,296	180,039

With one of the major AB Lietuvos Dujos shareholders OAO Gazprom on 16 December 1999 there was concluded an Agreement No. 1Г Ли-2000 between Open Joint Stock Company Gazprom and Public Limited Liability Company Lietuvos Dujos for the natural gas supply into Republic of Lithuania quantities and terms in 2000-2015. The object of the agreement is import of part of natural gas into Republic of Lithuania and natural gas transit service through the Republic of Lithuania to the Russian Federation Kaliningrad Region. Natural gas import price depend on heavy fuel oil and gasoline prices in the international market, US dollar and EUR exchange rate set by the European Central Bank and actual natural gas calorific value. The agreement defines the natural gas quantities provided to the Company until 2015. The agreement is valid until 31 December 2015.

AB Lietuvos dujos does not treat the Government controlled companies as one client because there is no significant economic integration between these companies. AB Lietuvos Dujos supply gas to the Government controlled companies; the transactions with them are concluded on the arms length principle. The transactions, which are material separately, are disclosed in Note 3. One of the major Company shareholders is the Ministry of Energy of the Republic of Lithuania.

Dividends to the shareholders have been paid in 2011 and 2010.

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 receivables from related parties by the Group and the Company.

Payments to management

In 2011 payments to the administration management of the Group and the Company amounted to LTL 2,437 thousand and LTL 2,381 thousand, respectively (in 2010 respectively LTL 2,470 thousand and LTL 2,412 thousand). The annual payments (tantieme) paid for the Company's Board members amounted to LTL 540 thousand in 2011 (LTL 490 thousand in 2010). In 2011 and 2010 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 ended 31 December 2011 and 2010.

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 2011 and 2010 the Group and the Company were in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Group and the Company.

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