



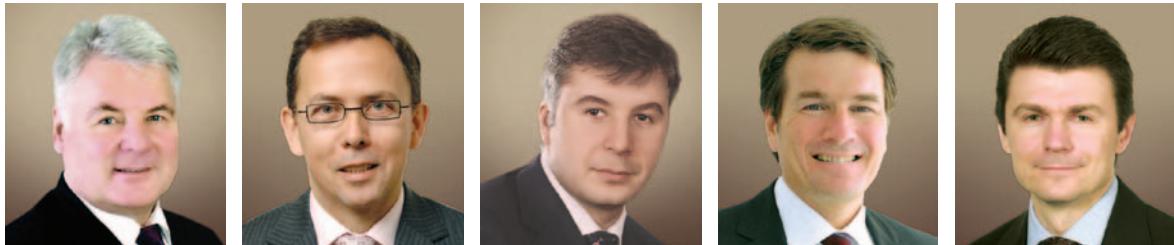
Consolidated Annual Report 2010





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Board of Directors*since 23 April, 2010***Dr Valery Golubev**

Chairman
(since 20 April, 2011)
Deputy Chairman,
 Deputy Chairman
 of Management
 Committee,
 OAO Gazprom

Dr Peter

Frankenberg
Deputy Chairman
(since 20 April, 2011)
Chairman,
 Senior Vice President
 of E.ON Ruhrgas AG,
 Managing Director
 of E.ON Ruhrgas
 International GmbH

Kirill Seleznev

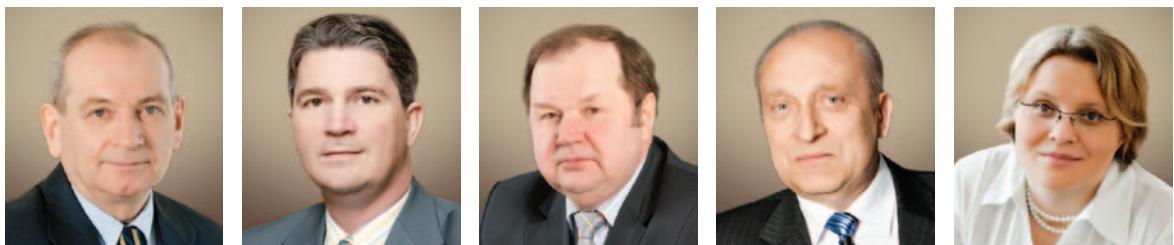
Member of the
 Management
 Committee, OAO
 Gazprom; Head of
 the Department of
 Marketing, Processing
 of Gas and Liquid
 Hydrocarbons,
 OAO Gazprom

Uwe Fip

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

Romas Švedas

Vice-Minister of Energy
 of the Republic
 of Lithuania

Chief Executives**Viktoras
Valentukevičius**
General Manager

Dr Joachim Hockertz
 Deputy General
 Manager – Director
 of Commerce

Vladimir Obukhov
 Deputy General
 Manager – Director for
 Gas Purchase

Jonas Janiulionis
 Deputy General
 Manager – Technical
 Director

Giedrė Glinskienė
 Deputy General
 Manager – Chief
 Financial Officer

CHAIRMAN'S STATEMENT



In 2010, the main objectives of AB Lietuvos Dujos consisted in further enhancement of efficiency and development of the market as well as infrastructure. The Company's 2010 annual investments in infrastructure were the second largest in history. After privatisation, the Company increased its annual investment in new systems more than five times and until today has invested a total amount exceeding one billion LTL. In December 2010, the Company put into operation the Jauniūnai Gas Compressor Station (GCS), construction of which was foreseen in the 2007 National Energy Strategy.

50 percent of the capacities of the new GCS are used to cater to the needs of the Lithuanian system users and the remaining 50 percent of the capacities are used to cater to the natural gas transit needs. The Government of the Republic of Lithuania demanded that the Company, in the wake of the decommissioning of the Ignalina Nuclear Power Plant, would be prepared to transport to Lithuanian customers 5 billion m³ of gas per year. The Company would not be able to deliver this quantity without the new GCS. The National Energy Strategy foresaw that the Company was to construct the GCS using co-financing from EU Structural Funds. Due to the unsmooth procedure for the allocation of the EU support, the Company had to choose between the following two options: 1) to wait for the EU support and to construct the GCS later, or 2) to use exclusively its own funds and to implement the project within the time-frame set by the Government. The Company has constructed the GCS using exclusively its own funds, but in due time and below budget.

After the Company's privatisation, the first major project was to establish an operational gas interconnection with Latvia. End 2010 Latvijas Gaze A/S and the Company started works to enhance this interconnection. The companies jointly and successfully applied to the EU for project co-financing under the Trans-European-Networks program (TEN-E). Both this interconnection and the new GCS are prerequisites for a future gas pipeline interconnection with Poland. Regarding this connection, throughout 2010 AB Lietuvos Dujos continued to cooperate with the Polish Gaz-System S.A. In April both companies jointly applied to the EU for TEN-E co-financing of a Business Case Analysis and a Feasibility Study, on which the EU positively decided end 2010.

The new GCS is also needed for the operation of the Šakiai–Klaipėda gas transmission pipeline. The Company started this pipeline project on its own initiative, and before the year 2010 it had already invested into this project nearly LTL 40 million of exclusively its own funds, and had already put into operation the first section of the Šakiai–Jurbarkas gas transmission pipeline. Throughout the whole year 2010 the Company has been endeavouring to trigger off the completion of the project. However, the Energy Ministry did not cooperate with the Company. In sharp contradiction to the facts, the Government accused AB Lietuvos Dujos and its non-state shareholders of reluctance to proceed with the construction of the gas transmission pipeline to Klaipėda.

In 2010, the Government widely disseminated via the mass media channels the information that in order to secure alternative gas supply sources and to construct a liquefied natural gas terminal facility it was allegedly necessary to separate the gas transmission business. It claimed that this was a necessary precondition for third party access to the system. This does not correspond to reality. Everybody may freely access the transmission system. The laws require that from the Company since 1993. In the last years some 60% of the gas volumes consumed in Lithuania were namely the gas volumes that were transported by Lietuvos Dujos for other companies. The state strictly regulates the terms and conditions for gas transmission including the tariffs. Moreover, the state has the right to take decisions regarding gas transmission projects and the Company is obliged by law to implement such projects.

The infrastructure regulation that was mentioned in the last year's annual report in 2010 remained unchanged despite the fact that it is neither in line with the logic of international gas business nor with the EU Directive 2009/73/EC. Also the full scale end-user price regulation is still in force, despite the fact that, for example, 80-90% of the fuel currently used in the production of heat and electricity can be substituted by other fuels without any additional investment and despite the fact that such a regulation discriminates natural gas in relation to other fuels, none of which is subject to state price regulation. As in 2009, also in 2010, on numerous occasions the Company drew the state authorities' attention to these issues.

In 2010, the Company successfully operated in the increasingly competitive energy market and showed extreme flexibility. The state-owned power plant Lietuvos Elektrinė, for example, had forecasted for the year 2010 demand of 1.7 billion m³, on short notice lowered this forecast to 0.2 and actually consumed 0.5 billion m³. The Company very successfully negotiated with the supplier OAO Gazprom and avoided any penalties related to take-or-pay clauses. For 2010, as for the year before, the Company did not ask a single consumer to pay any take-or-pay clause related penalties.

The Company continued to cooperate with partners in all neighbouring states and with its gas supplier in order to achieve synergy benefits and in particular to optimise the use of cross border infrastructure both commercially and for the sake of security of supply. For example, in autumn 2009, LD had stored additional quantities of gas in the storage facility owned and operated by Latvijas Gaze A/S in Latvia. This proved very helpful during the cold spell in January 2010. But most important: at the request of the Company, the supplier OAO Gazprom agreed to deliver daily quantities and the January quantity significantly in excess of its contractual obligations. Consequently the Company was able to supply much more gas than consumers were contractually entitled to, thus helping some of our consumers to avoid extreme situations. A similar situation also arose in December 2010. Both in January and December the Company sold the additional quantities required at the same price as the base quantity.

In 2010, the Company succeeded in achieving its objectives, which is reflected in the financial result. On behalf of the Board of Directors, I thank the management and the employees for their engagement and achievements, for their loyalty to the Company, and for their consistent customer focus.

Dr Valery Golubev
Chairman of the Board of Directors

GENERAL MANAGER'S STATEMENT



It is obvious that natural gas has remained the major type of fuel in Lithuania and has warranted both the production of electricity and heat, and the support to industry operation by providing the most efficient, the cheapest and an environment-friendly solution. By delivering eco-friendly fuel to its clients, AB Lietuvos Dujos ensured a stable and secure supply, and delivered 17% of natural gas above the Company's initial contractual obligations for the Year 2010, still for the same price, which allowed natural gas consumers to save considerable amounts.

Solid working relations and partnerships within the natural gas business are the key elements of success; therefore the Head Office of AB Lietuvos Dujos together with its regional branches and commercial departments were instrumental in encouraging client loyalty by every available means in pursuance of mutual benefit, the evidence of which are the Company's results for the Year 2010.

We managed to boost our sales by one third and, what is more, we fully achieved all other indicators of investment, of targeted and purposeful repair, of reconstruction and modernization programs as well as of process management enhancement and of cost cutting as established by shareholders and management bodies and thus increased the value of the Company.

By implementing the measures of the National Energy Strategy, even in the face of economic downturn, the Company maintained its investment activities, which were targeted at the development of infrastructure to increase the security and reliability of gas supply, also at market expansion and perfection of the quality of services, all of which resulted in connecting a total amount of 1,500 new consumers in 2010.

In April 2010, the Board of Directors once again passed a unanimous decision to start final construction works of Klaipėda Gas Transmission System without delay as soon as the financing, which was set forth in the National Energy Strategy, was ready at least for the Gas Transmission Pipeline to be constructed from Jurbarkas to Tauragė. Namely because of delays in allocating resources from the EU Structural Fund, the project might be put into operation in 2013.

The Company's provisions of payment for transit changed after planned investment into the expansion of transit capacities was implemented and respective agreements were signed. New provisions not only enabled the Company to return its investment, but also to begin generating additional income from the 1st of January, 2011. At the same time, higher transit volumes are a considerable reinforcement to the security of consumers in Lithuania.

We have been gaining more and more benefits from measures aimed at improving the quality of services and information provision to customers, at introducing the customer service standard, and at upgrading the client payment systems. A mere fact, that 97% of customer calls are processed and responded to by the established Call Center of the Company and only 3% of calls are forwarded to branches of AB Lietuvos Dujos, proves the efficiency of the aforementioned activities.

Upon consolidating the cooperation of the Board of Directors and Executive Directorship of the Company as well as the endeavor and professional skills of all operational chain staff, and by improving internal communication, we extensively employ the systems of risk assessment, evaluation of goals and annual achievements, which, in their turn, allow us to properly estimate the active input of the Company's branches and individual employees into the final result and to stimulate their motivation. I would like to thank the employees for their joint efforts and aspiration to put the Company at the top within its sector.

A handwritten signature in black ink, appearing to read "Viktoras Valentukevičius".

Viktoras Valentukevičius
General Manager

We are with
those who created the past.





REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED – The Year 2010.

MAIN DATA ABOUT THE ISSUER

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

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

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 2010, 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 20 November 2009, and the National Control Commission for Prices and Energy (hereinafter referred to as "the NCCPE") approved the tariffs on 26 November 2009.
- On 23 April 2010, the Annual General Meeting of Shareholders of the Company took place at which the shareholders approved the proposal of the Board of Directors for the year 2009 to pay out dividends in amount of 15.2 Lithuanian cents per share with par value of one litas. The share of the profit appropriated to the payout of dividends amounted to LTL 71.1 million.
- On 23 April 2010, the shareholders approved the new wording of the Bylaws

of LD. The new Bylaws were registered with the Register of Legal Persons on 7 May 2010.

- Upon expiry of the term in office of the Board of Directors elected by the shareholders on 18 April 2007, on 23 April 2010, the Board of Directors was recalled (the members: Dr Valery Golubev, Dr Achim Saul, Kirill Seleznev and Joerg Tumat) and a new Board of Directors was elected: Uwe Fip, Dr Peter Frankenbergs, Dr Valery Golubev, Kirill Seleznev and Romas Švedas. Dr V. Golubev became Chairman of the Board of Directors and Dr P. Frankenbergs became Deputy Chairman of the Board of Directors.
- On 19 May 2010, the Government of the Republic of Lithuania approved the Concept of the Law Amending the Law on Natural Gas of the Republic of Lithuania. The Concept reflects the stance taken held by the Government of Lithuania on the methods and principles of the transposition into the national legislation of the Directive 2009/73/EC of the European Parliament and of the Council of 13 July

2009 concerning common rules for the internal market in natural gas.

- On 19 May 2010, the Government of the Republic of Lithuania by its resolution entrusted the management of the state-owned stake of the Company to the Ministry of Energy of the Republic of Lithuania. Until this date, the management of the state-owned stake of the Company had been entrusted to the State Property Fund.
- On 20 May 2010, the Board of Directors of the Company approved new natural gas tariffs for household customers. On 27 May 2010, the new tariffs were approved by the NCCPE. The new tariffs took effect on 1 July 2010.
- On 2 August 2010, GAZ-SYSTEM S.A. and LD signed a document setting out the principles of co-operation of the two companies in carrying out investigation works in preparation for the construction of the Poland–Lithuania Gas Interconnector.
- On 13 August 2010, the European Commission approved the grant for

the enhancement of the throughput capacity of the Lithuania–Latvia Gas Interconnector. 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. The share of the grant allocated to LD – LTL 10.15 million.

- On 1 October 2010, LD launched an action "Please Assess Our Services". The month-long action was aimed at assessing the quality of the services rendered to customers by LD employees, at establishing the strong points and the possible shortcomings of the services rendered.
- On 22 October 2010, the NCCPE by its resolution set new adjusted natural gas transmission, distribution and supply price caps with effect from 1 January 2011.
- On 19 November 2010, 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 2011. The NCCPE approved these tariffs on 29 November 2010.
- On 22 December 2010, the European Commission adopted its final decision regarding rendering financial assistance to the Lithuania–Poland Gas Interconnector Business Environment Analysis and Feasibility Study. The EU grant to both countries will cover 50% of the value of the study – up to LTL 1.47 million.
- On 22 December 2010, the state commission signed the Jauniūnai Gas Compressor Station construction completion certificate and the Station was put into operation.

Major development that took place after the expiry of the financial year:

In the course of Half 2 of 2010, the Ministry of Energy of the Republic of Lithuania drew up the drafts of the Law Amending the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas. Following the approval of the drafts by the Government of the Republic of Lithuania, on 3 February

2011 they were submitted to the Seimas of the Republic of Lithuania for deliberation.

All public notifications that in accordance with law are subject to publication in daily newspapers were published in the Lietuvos Rytas daily newspaper. 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 on 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, notifications to such shareholders on convening a general meeting of shareholders are dispatched in accordance with procedure established by the Bylaws of the Company.

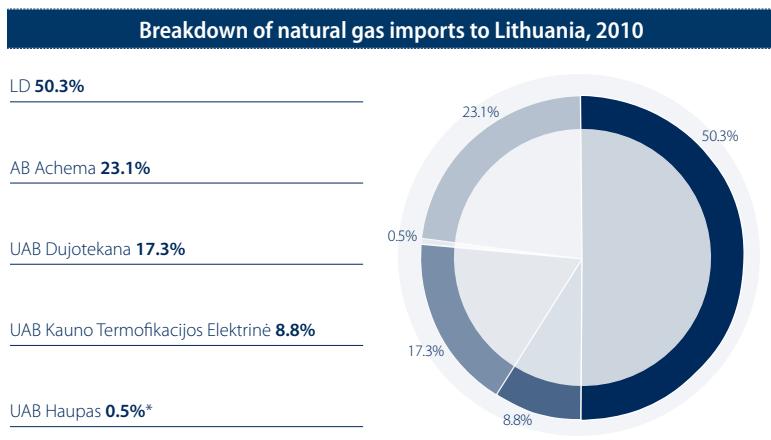
situation of Lithuania as an isolated gas market or make any study of assessment of the possible effects. Moreover, they ignored the resolution of 5 June 2008 of the Committee on European Affairs of the Seimas of the Republic of Lithuania and selected Ownership Unbundling as the specific model of the transposition of the Directive. The shareholders of the Company E.ON Ruhrgas AG and OAO Gazprom have on numerous occasions publicly voiced their well-grounded disapproval of the unbundling of the Company provided for by the Concept and the non-transparent organization of this process and invited the state authorities to have a dialogue, but all such addresses and invitations were ignored.

On the basis of the Concept that was approved by the Government of the Republic of Lithuania, the Draft Law Amending the Law on Natural Gas and the Draft Law on Implementation of the Law on Natural Gas were prepared. Even though nominally a working group, which included a representative of the Company, was set up for the preparation of the draft laws however, decisions on principal provisions of the draft law were unilaterally taken by the Ministry of Energy. No impact or cost-benefit analysis of the law was made. Following the approval by the Government of the Republic of Lithuania, on 3 February 2011 the draft laws were submitted to the Seimas of the Republic of Lithuania for deliberation.

The Ministry of Energy interpreted the provisions of the Directive regarding the application of the derogation for the isolated Member States with a sole external gas supplier that the derogation for the unbundling of activities was not applicable to Lithuania. However, the possibility of the application of the derogation to Lithuania has been confirmed by international law experts.

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



* Data supplied by UAB Haapas.

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 as well as natural gas supply tariffs applicable to 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 than once per year and exclusively in cases provided for by the Law on Natural Gas of the Republic of Lithuania.

On 6 October 2010, the NCCPE approved amended versions of the Natural Gas Transmission and Distribution Price Cap Calculation Methodology and

the Natural Gas Supply Price Cap Calculation Methodology. Despite the fact that according to the regulatory authorities' prevailing international practise, regulatory principles should not be subject to change during the regulation period, the NCCPE for a second consecutive year amended the Pricing Methodologies. When setting the adjusted natural gas transmission and distribution and supply price caps with effect from 1 January 2011 the NCCPE followed the provisions of the new amended Pricing Methodologies.

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 19 November 2010, 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

2011. The NCCPE approved these tariffs on 29 November 2010. For the household customers the variable tariff component was lowered by on average 11 ct/m³. The fixed tariff component was also lowered.

For the non-household customers, natural gas price are subject to monthly recalculations. Natural gas import price depends on 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 developments on the energy resources markets and the currency markets in Half 1 of 2010, and in particular due to the significant drop in the value of the euro, since January of 2010, the natural gas prices for the non-household customers have been gradually rising.

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

Market

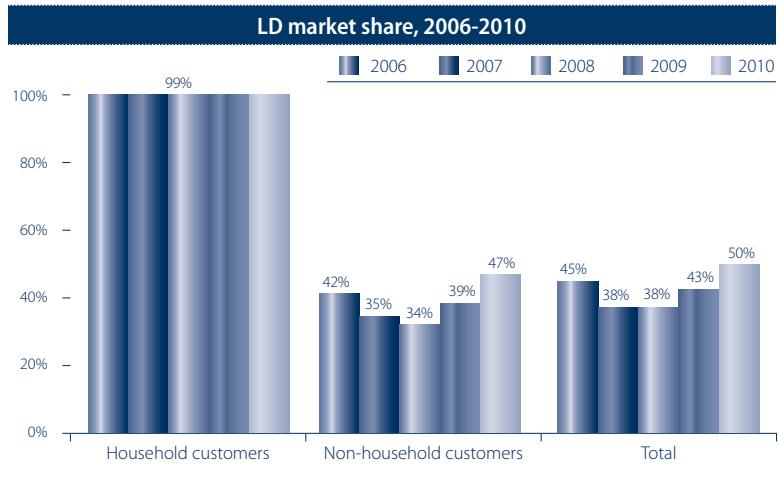
In 2010, there were five companies importing natural gas into Lithuania: LD, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haapas. In 2010, the total volume of natural gas imported into Lithuania via the system operated by LD amounted to 3.1 billion m³ (2009: 2.7 billion m³). UAB Haapas did not use the Company's Natural Gas System for its imports of natural gas.

In 2010, 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 Haapas 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 establishing the risk control measures; developing the Risk Management Action Plan and implementation of measures of the Plan; monitoring and supervision of the Risk Management Process.

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

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 2010 (note 25).

The legal regulation-related risk

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

The core activities of the Company, i.e. the natural gas transmission, distribution and supply, are subject to licensing and regulation by the State. The frequent changing of the applicable legal provisions and regulatory regime creates 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 Independence Strategy) (the "NES") provides for the construction by 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, orimulsion, bio fuel. The NES provides for the increase of the share of renewable fuels in the primary fuel market at the expense of the fossil fuels (mainly at the expense of natural gas). Also LD competes with the 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. The general economic situation of the country also impacts the Company's sales volumes, gas system development and, respectively, the Company's performance.

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 technical-related risk

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

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

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

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



We are with
those who cherish the present.





 LIETUVOS DUJOS NATURAL GAS IN LITHUANIA TURNS 

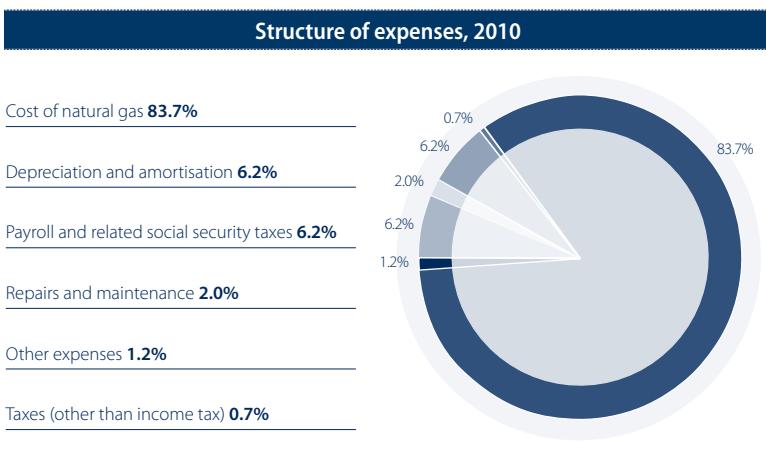
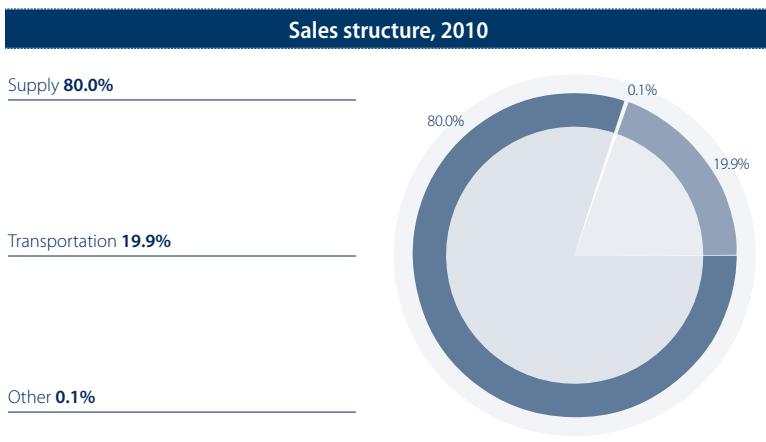
FINANCIAL PERFORMANCE

Group's key performance indicators

	2010	2009	2008
Performance indicators			
Volume of transmitted natural gas, M m ³	3,068.8	2,681.4	3,197.0
Volume of natural gas transit, M m ³	1,387.2	1,197.3	1,256.7
Volume of distributed natural gas, M m ³	1,167.9	1,030.9	1,082.7
Volume of natural gas sales, M m ³	1,546.0	1,150.9	1,223.3
Number of customers, that have concluded natural gas supply agreements as of the end of the year, thousand pcs			
Household customers	546.2	544.2	541.6
Non-household customers	5.8	5.7	5.6
Length of operating gas pipelines, thousand km			
Transmission pipelines	1.9	1.9	1.8
Distribution pipelines	8.1	8.1	7.9
Employees			
Average number of employees	1,750	1,787	1,821

Group's key financial indicators

	2010	2009	2008
Financial results			
Sales, M LTL	1,746.8	1,264.3	1,555.4
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	245.2	214.8	162.0
Profit from operations, M LTL	146.2	117.1	67.6
Profit before tax, M LTL	148.9	120.1	73.3
Net profit, M LTL	159.5	94.8	64.2
Net cash flows from operating activities	265.6	173.8	227.7
Investments, M LTL	178.5	139.8	123.3
Assets at the end of the year, M LTL	2,709.6	2,551.2	2,529.3
Equity at the end of the year, M LTL	2,079.6	1,991.2	1,882.3
Net financial debt	-110.1	-79.2	-77.6
Profitability ratios			
EBITDA margin, %	14.0	16.9	10.4
Profit from operations margin, %	8.4	9.2	4.3
Profit before tax margin, %	8.5	9.5	4.7
Net profit margin, %	9.1	7.5	4.1
Average return-on-assets ratio (ROA), %	6.1	3.7	2.6
Average return-on-equity ratio (ROE), %	7.8	4.9	3.4
Return on capital employed (ROCE), %	7.0	5.9	3.6
Liquidity			
Overall liquidity	1.3	1.3	1.2
Quick ratio	1.1	1.1	1.0
Leverage			
Equity to asset ratio, %	76.8	78.1	74.4
Financial debt to equity ratio, %	0.3	0.4	0.6
Net financial debt to equity ratio, %	-5.3	-4.0	-4.1
Market value ratios			
Price-earnings ratio (P/E)	7.41	10.50	9.21
Basic earnings per share, LTL	0.34	0.20	0.14
Dividend payment ratio, %	75.2	75.0	70.1
Dividends per share for the current year, LTL	0.26	0.15	0.10



The consolidated financial statements for 2010 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.

Revenues

In 2010, the revenues of the Group compared with 2009 increased by 37.9% (LTL 481.1 million) and amounted to

LTL 1,751.6 million. The largest part of the revenues (99.7%) composed the sales.

The 38.2% increase in the sales was determined by the significant increase in the gas sales volumes and a respective increase in the natural gas transportation volumes. Gas supply and transportation volumes were higher because of the lower, compared with the same period of 2009, weather temperatures during the heating season (especially in January and December) which resulted in



increase in demand for natural gas as a primary fuel for heat production. There was also an increase in demand for natural gas for electricity production after decommissioning of the Ignalina Nuclear Power Plant.

Revenue from the supply activity, compared to 2009, increased by 46.5%, and revenue from the transportation activity increased by 12.7%.

Expenses

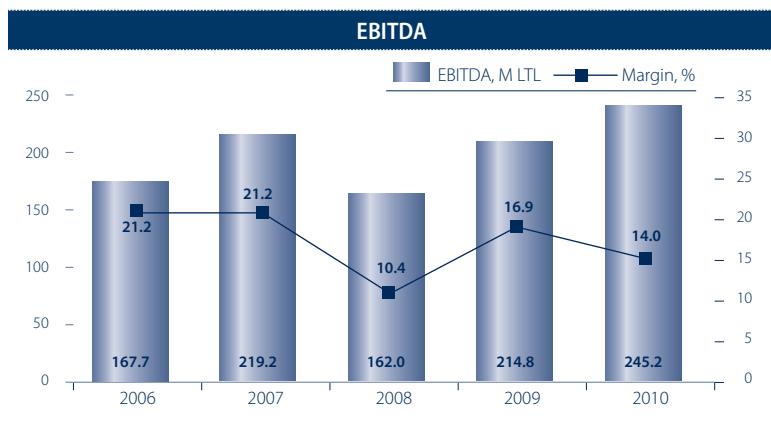
In 2010, the Group's expenses compared to 2009 increased by 39.2% (LTL 452.0 million) and amounted to LTL 1,605.4 million. The growth of expenses was determined by the increase in cost of natural gas by 49.1% (LTL 442.0 million). The increase of expenses was determined by higher gas sales volumes and higher natural gas import price. In the total expenses breakdown, cost of natural gas accounted for 83.7%.

In 2010, the remaining relatively fixed costs accounted for 16.3% of the total expenses and increased by 3.9%. The largest growth was in the repairs and maintenance expenses as a result of the higher scope of these works, taking into account the aging of the current gas systems and in connection with the putting into operation of the new major gas infrastructure facilities. The Company continued with the implementation of a strict cost-saving and operational efficiency raising policies.

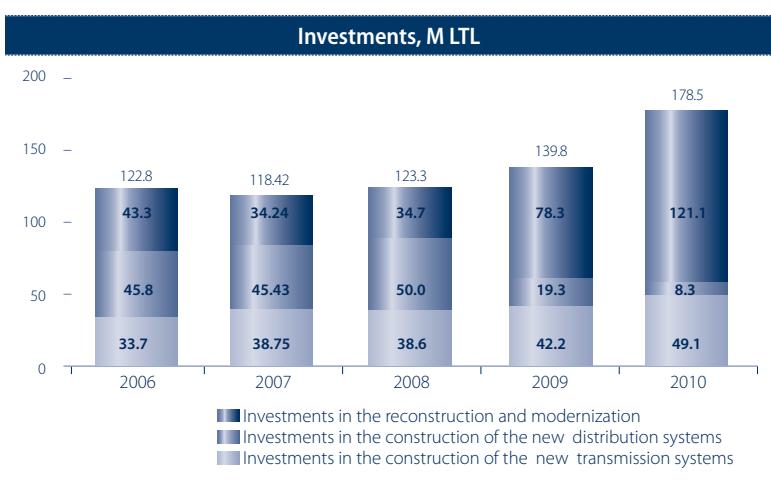
Activity results

The significant increase in gas supply and transportation volumes determined the increase in profit before tax from LTL 120.1 million in 2009 to LTL 148.9 million in 2010. Earnings before interest, taxes, depreciation and amortization (EBITDA) in 2010 increased accordingly by LTL 30.4 million (14.1%) and amounted to LTL 245.2 million (2009: LTL 214.8 million).

In 2010, the Company continued investing sizeable amounts into the construction of new gas systems, reconstruction of gas systems and modernization. Only the investments of the past two years amounted to over LTL 300 million. The Company's financial statements of 2010 also reflect the income tax exemption for investments provided for by the Law on Income Tax (LTL 33.0 million) which significantly improved the financial result. Accordingly,



the net profit for 2010, including the income tax exemption, also increased and amounted to LTL 159.5 million (2009: LTL 94.8 million). The growth of the net profit was also impacted by the lower income tax rate than in 2009.



The Company is one of the biggest tax payers in Lithuania. According to the State Tax Inspectorate data in 2010 LD was 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 1.4 billion. Out of it, dividends to the state, which controls 17.7% of the Company's shares, amounted of LTL 40 million.

Investments

Since the privatization back in 2002, the Company has invested into the construction of new gas systems, into the reconstruction of the systems and modernization total amount exceeding LTL 1 billion.

In 2010, the Group's investments increased by 27.7% or by LTL 38.7 million compare with 2009 (from LTL 139.8 million to LTL 178.5 million). Investments into new gas system construction objects amounted to 72.5% of the total investment funds, and the remaining part (27.5%) was allocated to investments into the reconstruction of gas systems and modernization. The construction of the Jauniūnai Gas Compressor Station was completed in 2010. This object that was included in the National Energy Strategy was the most sizeable investment into the natural gas sector since regaining independence. In 2010, the investments in this project amounted to LTL 120.8 million (in previous years: LTL 74.8 million).

Assets

Over the year 2010, the value of assets increased by 6.2% (LTL 158.4 million) and at the end of the year amounted to LTL 2,709.6 million.

As of end of the year 2010, the non-current assets amounted 87.4%, the current assets - to 12.6% of the total assets of the Group.

Over the year 2010, the value of the non-current assets increased by 3.4% (LTL 77.6 million) due to the sizeable investments into gas system development and into reconstruction of



the gas systems and modernization. The value of the current assets increased by 31.0% (LTL 80.8 million) mainly due to the higher trade receivables as a result of the increase in gas imports prices and gas sales volumes at the end of the year.

Equity and liabilities

The Group's equity increased by 4.4% (LTL 88.4 million) and at the end of the year 2010 amounted to LTL 2,079.6 million. The Group's equity to asset ratio at the end of the reporting period stood at 76.7%.

Liabilities increased by 12.5% (LTL 70.0 million) and at the end of the year 2010 amounted to LTL 630.0 million. This increase was mainly impacted by the increase in the trade payables which came as a result of the higher natural gas imports price and the higher volumes of natural gas purchased.

Over the year 2010, the financial debt of the Group decreased by 25.0% (LTL 2.1 million) and at the end of the period amounted to LTL 6.4 million.

Cash flows

The Group's cash flows from the operating activities increased by LTL 91.8 million (52.8%) and amounted to LTL 265.6 million.

More detailed information on the financial results of the Group, see the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2010.

RESEARCH AND DEVELOPMENT ACTIVITIES

Due to the nature and specificity of the Company's business activities, a lot of attention has been devoted to the research into diagnostics (intelligent pigging) of natural gas pipelines, technical condition of gas facilities, environment protection, market development, and other activities in which LD is engaged.

In co-operation with the Polish Gas Transmission System Operator GAZ-SYSTEM S.A. the possibilities of interconnection of the gas transmission systems of the two countries are being explored, the European Commission's financial assistance has already been granted for the Interconnector's

pre-project research: analysis of the business environment and preparation of the feasibility study. In co-operation with the Latvian gas company Latvijas Gaze A/S works have been started for the intelligent pigging procedures aimed at checking the condition of the gas pipeline links between Lithuania and Latvia.

With the assistance of German experts, examination of the cathodic protection solutions for the gas transmission pipelines has been carried out and recommendations have been presented for the improvement of the efficiency of the cathodic protection system. Lithuanian scientists were contracted to establish the levels of activity of the sulphate reducing bacteria in the vicinity of gas transmission pipelines, and to assess the impact of cold on the pressure regulators.

On the basis of the results of the research, the reconstruction and modernization activities of the Company's natural gas systems is being organized and investment projects for market development are being drawn up and implemented.

BUSINESS PLANS AND FORECASTS

It is forecast that in 2011 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, i.e. will be comparable to the respective indicator of 2010.

In 2011, the Company plans to connect approximately 1.6 thousand new customers, but this number might be corrected by the developments in the economic situation of Lithuania. In 2011,

the Company's investments into the construction of new gas systems are planned at a lower level compared to the ones of 2010, because of objective reasons: the year 2010 marked the completion of the construction of the Jauniūnai Gas Compressor Station, the largest investment into the natural gas sector since regaining independence.

In 2011, the construction of the Jurbarkas-Klaipėda section of the Šakiai-Klaipėda Gas Transmission System is planned to be started. In all, three investment projects are planned to be implemented, the completion of the construction of the gas pipeline is scheduled for 2012. The projects have been included into the plans of measures of the Lithuanian National Energy Strategy.

The Company will continue with the implementation of the projects directed towards raising the efficiency of operations and cost-optimization. Organizational management structure will be further improved, taking into account the applicable provisions of the EU law. An especially large-scale analysis and Impact Study will have to be made with a view to a proper preparation for the transformation of the Third Energy Package to Lithuania's circumstances and for the preparation of a respective action plan.

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.

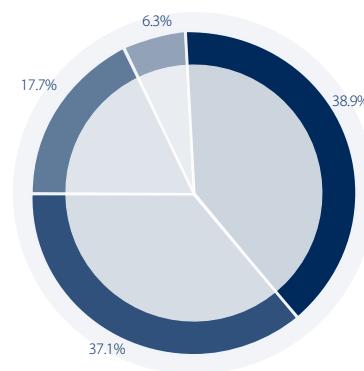
Structure of LD shareholders as of 31 Dec 2010

E.ON Ruhrgas International GmbH (Germany) **38.9%**

OAO Gazprom (Russia) **37.1%**

Ministry of Energy of the Republic of Lithuania **17.7%**

Small shareholders **6.3%**



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

All the information is available at the Company website www.dujos.lt and the Central Database of Regulated Information www.crib.lt.

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 2010, 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 (till 2010 was E.ON Ruhrgas International AG) 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.

By Resolution of the Government of the Republic of Lithuania as of 19 May 2010, the function of holding the state-owned stake of LD was entrusted to the Ministry of Energy of the Republic of Lithuania. Till that date the state-owned stake of LD was held by the State Property Fund.

AB Lietuvos Dujos has not acquired its own shares and in 2010 it did not make any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2010, LD was controlled by 2,640 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 Ministry of Energy of the Republic of Lithuania 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 and management. The agreement is confidential.

The Company's shareholders E.ON Ruhrgas International GmbH, OAO Gazprom and 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 made in the shares purchase–sale (privatization) agreements and the shareholders' agreement.

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

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

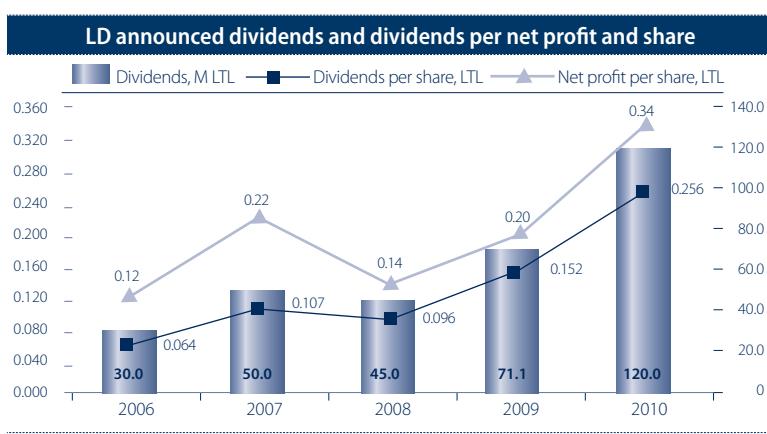
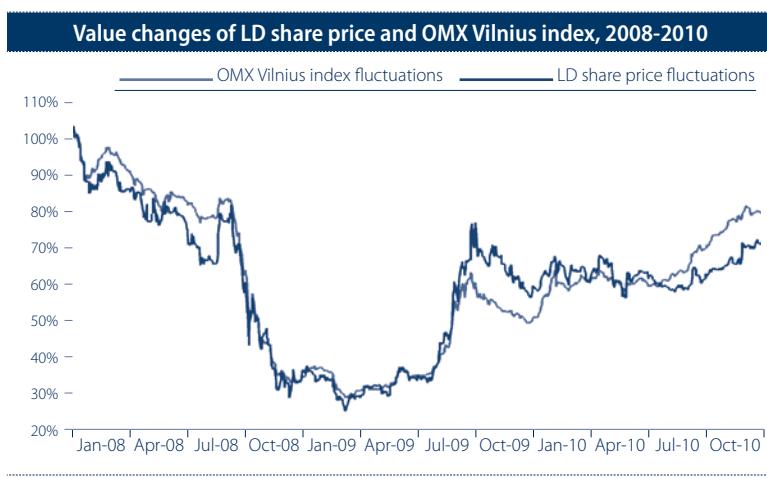
The Company's shares are traded on the regulated market, they are quoted on the Main List of the stock exchange NASDAQ OMX Vilnius.

As of 22 November 2010, the euro became the only trading and clearing

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

Share price dynamics at NASDAQ OMX Vilnius, 2007-2009

		Period		
		2010	2009	2008
Highest price per share, LTL		2.555	2.770	3.650
Lowest price per share, LTL		1.970	0.890	1.010
Weighted average price per share, LTL		2.232	1.550	2.080
Price per share as of end of the period, LTL		2.521	2.100	1.290
Capitalization as of end of the period, M LTL		1,182.3	985.0	605.1



currency at the stock exchange NASDAQ OMX Vilnius. From this date, the price per share, the trade turnover and other indicators are announced and listed exclusively in euro.

In 2010, the turnover of the trading in LD shares amounted to LTL 17.8 million (2009: LTL 12.5 million). Through the

transactions that were concluded, 7,958,560 shares were disposed (2009: 8,091,695).

In 2010, for a second consecutive year, the Baltic States stock market recorded a rise. Among the three Baltic States, the most notable rise was in the capitalization of the companies listed

at the stock exchange NASDAQ OMX Vilnius. It showed an increase of 31.1% (2009: 23.5%) and the value of LD shares showed an increase of 20.0% (2009: 62.8%). As of 31 December 2010, LD capitalization amounted to 8.1% of the capitalization of the companies listed at the stock exchange NASDAQ OMX Vilnius.

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. Considering the good performance of the Company for the year 2010, it is appropriated for dividends a total amount of LTL 120.0 million, or 25.6 Lithuanian cents per share (2009: LTL 71.1 million, or 15.2 cents per share).

Agreements with intermediaries of public trading in securities

On 26 November 2003, LD concluded an agreement with AB Bankas Finasta regarding the accounting of securities issued by the Company and provision of services related to securities accounts.

Particulars of AB Bankas Finasta	
Company code	122570630
Financial broker's licence No	A087 (issued by Securities Commission of the Republic of Lithuania)
Registered office	Maironio g. 11, Vilnius, Lithuania
Telephone No	1813
E-mail	info@finasta.lt
Website	www.finasta.lt





We are with
those who think about the future.

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.

On 23 April 2010, the shareholders approved the new wording of the Bylaws of LD. On 7 May 2010, the new Bylaws were registered with the Register of Legal Persons. The Bylaws

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

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 22 April 2009 till 23 April 2010:

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

* Resigned since the 1st of July, 2009.

Composition of the Board of Directors from 23 April 2010:

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.

In 2010, tantiemes totalling LTL 490.0 thousand were disbursed to the members of the Board of Directors, i.e. on average LTL 98.0 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 GÉRIMŲ NAMAI, UAB JKP Namai, J.Kabašinskas Consultancy	April 2009–April 2010; April 2010–April 2013
2.	Daiva Petrovienė	Member	AB Lietuvos Dujos	April 2009–April 2010
3.	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	April 2007–April 2010; 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	April 2007–April 2010; April 2010–May 2010; From 7 May 2010 (open ended contract)

In 2010, payouts to the top executives of the Company totalled LTL 2,411.9 thousand, i.e. on average LTL 482.4 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 2010)			
Dr Valery Golubev	Chairman of the Board of Directors	–	–
Dr Peter Frankenberg	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	–	–
Audit Committee (as of 31 December 2010)			
Juozas Kabašinskas	Independent member	–	–
Agnė Žičiūtė	Member	0.000	0.000
Top executives (as of 31 December 2010)			
Viktoras Valentukevičius	Chief Executive Officer – General Manager	0.013	0.013
Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	–	–
Jonas Janiulionis	Deputy General Manager – Technical Director	0.001	0.001
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

Subsidiary

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

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 2010, 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. According to the audited financial statements, in 2010, UAB Palangos Perlas incurred a loss of LTL 0.2 million (2009: loss of LTL 0.1 million). In 2010, the average number of employees totalled 23 (2009: 26 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 2010 (note 26).

The Company's Natural Gas Transmission and Distribution System



- | | | | |
|---|---------------------------------------|---|-------------------------------------------------|
| — | Gas transmission pipelines | — | Major towns connected to the natural gas system |
| — | Major gas distribution pipelines | ○ | Towns connected to the natural gas system |
| M | Gas metering stations | ● | Towns not connected to the natural gas system |
| C | Gas compressor stations | — | Gas pipelines (projected) |
| ● | Gas distribution stations | — | Gas system controlled by other companies |
| ● | Gas distribution stations (projected) | | |

Core business activity of the Company:

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

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

TRANSMISSION OF NATURAL GAS

In 2010, the volumes of natural gas transmitted via the transmission system totalled 3,068.8 million m³. Compared to 2009, the natural gas transmission volumes increased by 14.4%. The increase in the natural gas supply and transportation volumes was determined by the lower, compared with the same period of 2009, weather temperatures during the heating season (especially in January and December) and the growth in gas demand for electricity production in the wake of the decommissioning of the Ignalina Nuclear Power Plant.

Transit

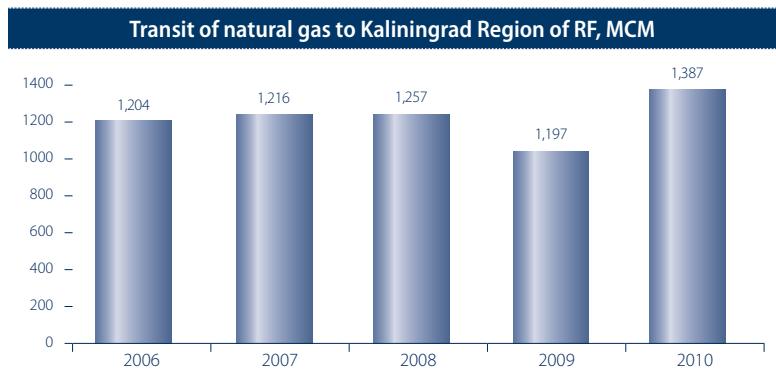
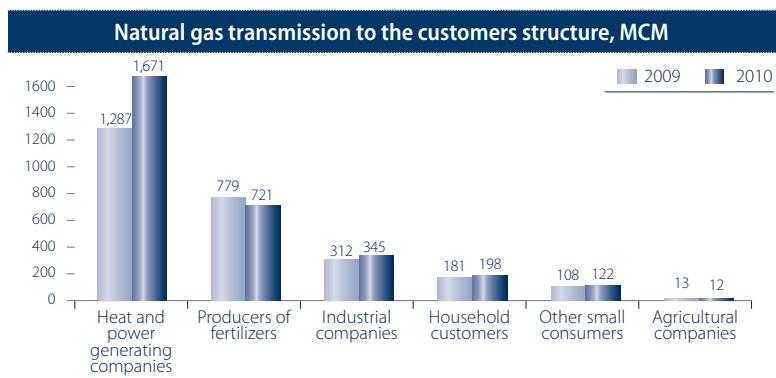
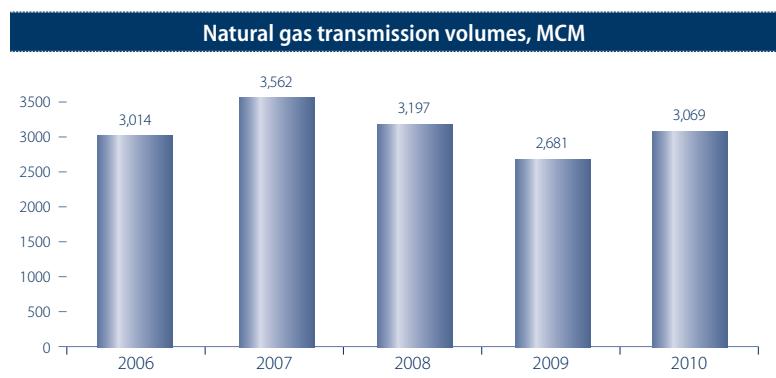
In 2010, the natural gas transit volumes to the Kaliningrad Region of Russian

Federation totalled 1,387.2 million m³, which represents an increase of 15.9% y/y. In 2010, an agreement was reached on higher gas transit volumes and on more favourable contractual terms.

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 2010, investments into the construction of new transmission systems and pipeline system development totalled LTL 121.1 million (2009: LTL 78.3 million).



The year 2010 marked the completion of the implementation of the construction project that was included in the Lithuanian National Energy Strategy action plans – the Jauniūnai Gas Compressor Station (hereinafter referred to as the "GCS") in Širvintos District. It is the largest investment in the natural gas sector since regaining independence. The Jauniūnai GCS engineering design works were started back in 2007. In 2008, a contract for the supply of the main technological equipment was concluded with the manufacturer MAN Diesel & Turbo SE (previously called MAN Turbo AG, Germany). At the end of the year 2009, the construction works were started, and on 22 December 2010, the state commission signed the Jauniūnai GCS construction works completion certificate. The Jauniūnai GCS was equipped with 3 gas compressor units, other technological equipment and related facilities. The construction of this GCS is an integral part of the plan of measures of the Lithuanian National Energy Strategy. The Jauniūnai GCS is of great strategic importance in securing an adequate level of reliability of natural gas supplies to natural gas consumers of Lithuania, in fulfilling LD gas transit obligations, also in developing regional co-operation.

Investments in the reconstruction of the gas transmission system totalled LTL 27.7 million (2009: LTL 19.4 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 has been already approved. The project is scheduled for completion in 2013.

In 2010, the most sizeable investments were allocated to the reconstruction of gas transmission pipelines. Works for the replacement of the line block valve units of the Riga–Panevėžys Gas Transmission Pipeline and the Panevėžys–Vilnius Gas Transmission Pipeline were carried out. This reconstruction opened up a possibility to continue the gas pipeline cleaning procedures that had been started back in 2009 in preparation of the pipeline for the internal diagnostics (intelligent pigging). As part of the preparation of the gas pipelines for the intelligent pigging procedures, four additional intelligent pig launchers and receivers were installed: on the Vilnius–Kaunas and on the Kaunas–Šakiai

Gas Transmission Pipelines as well as on the gas pipeline branch to the Utena Gas Distribution Station (hereinafter referred to as the "GDS"). Equipment has been procured that is necessary for the modernization of seven line block valve units including the bypass lines. The reconstruction of these line block valve units is scheduled for completion in 2012.

The reconstruction of the gas distribution stations is being continued. At present, out of the 65 gas distribution stations, 54 gas distribution stations are either brand new or have been subjected to radical modernization. In 2010, we reconstructed the Pasvalys GDS and the Rudamina GDS. The capacity of the Rudamina GDS has been significantly enhanced. The natural gas supplies reliability to the town of Vilnius has been significantly enhanced. In 2010, we started the reconstruction of two more major gas distribution stations: the Elektrėnai GDS and the Girininkai GDS. These reconstruction works are scheduled for completion in 2011 and 2012, respectively.

The Panevėžys Gas Compressor Station, which has been in operation since 1974, has been subjected to the following reconstruction works: modernization of the technological water and electricity supply systems, renovation of the actuators of the valves of the GCS connection to the gas transmission pipeline; also other modernization works have been started.

In 2010, works for the renovation of the gas transmission system's cathodic protection, telemetry, SCADA and telecommunications systems were carried out.

Maintenance of the transmission system

With a view to enhancing the reliability, efficiency and safety of the transmission

pipelines operations we executed all the gas repair and maintenance works that had been scheduled for the period.

In co-operation with Latvijas Gaze A/S we continued the works for cleaning and preparation for the intelligent pigging procedures of the Riga–Panevėžys and the Panevėžys–Vilnius Gas Transmission Pipeline.

On the Vilnius–Kaunas Gas Transmission Pipeline, the line block valve unit was modernized, the gas pipeline coating was repaired, the gas pipeline route was cleaned and other works that had been planned were executed.

Other works that were performed covered the repairs of the gas transmission system cathodic protection systems, the repairs of the engineering systems of buildings and structures; implementation of the planned measures for the repairs of facilities.

DISTRIBUTION OF NATURAL GAS

In 2010, the Company's gas volume distribution via its natural gas distribution system totalled 1,167.9 million m³, which represents a rise of 13.3% y/y.

Investments in the distribution system

In 2010, investments in the construction of new gas distribution systems totalled LTL 8.3 million (2009: LTL 19.3 million); 40.2 km of new distribution pipelines were constructed. In 2010, 1.5 thousand new customers were connected to the natural gas system (2009: 2.5 thousand). The slower development rate was determined by the general national construction business stagnation.

In 2010, investments in the reconstruction of the distribution system totalled LTL 6.7 million

(2009: LTL 7.1 million). Of this total, the largest amount was invested in the reconstruction of the distribution pipelines: 14.1 km of gas distribution lines were reconstructed, of which 5 km were reconstructed using the method of insertion of new polyethylene pipes into the old steel ones.

As regards investments in the gas pressure regulating stations, the technological equipment of gas pressure regulating stations was modernized, 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.

Maintenance of the distribution system

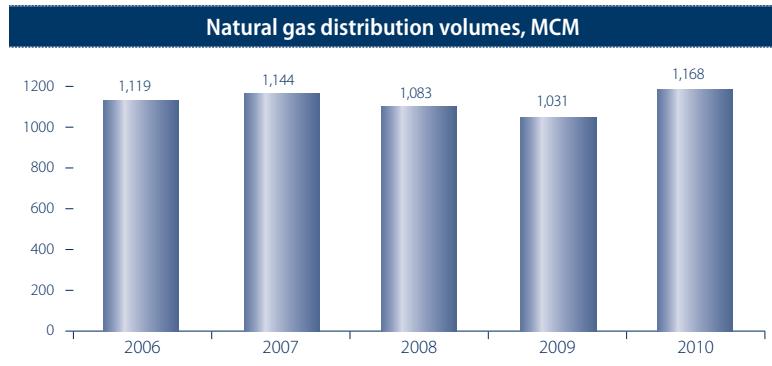
The Company runs a gas distribution system consisting of 8.1 thousand km of gas distribution lines. The year 2010 saw a wider implementation of information technologies for the unification of the operation and maintenance processes, aimed at a gradual transition towards the installations and gas systems operation and maintenance risk assessment. Projects for the improvement of the planning and organization of the gas distribution system routine works and operations at the branches of the Company were implemented (uniform work schedules have been drafted, as well as work assignment, etc. forms).

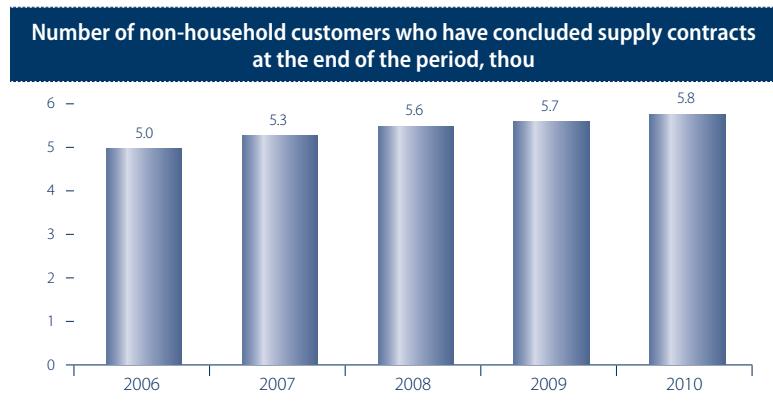
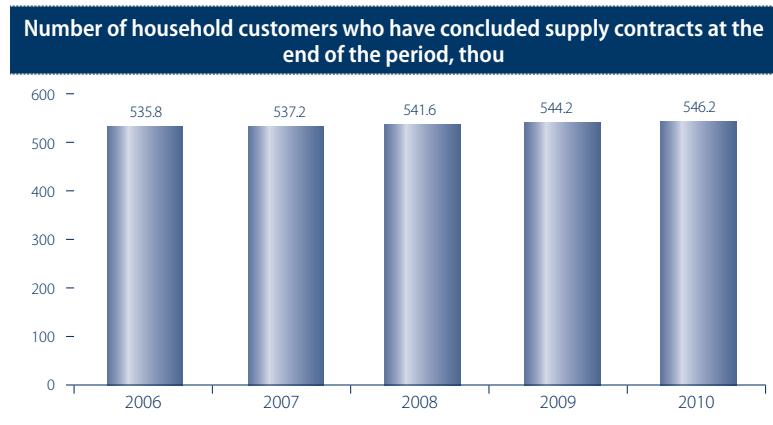
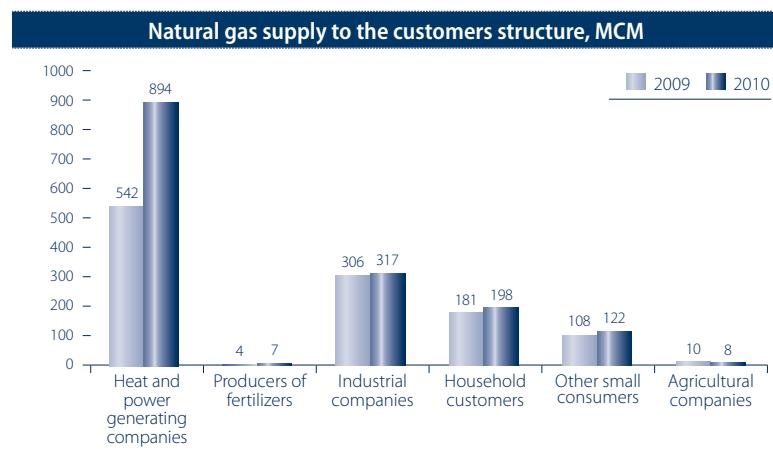
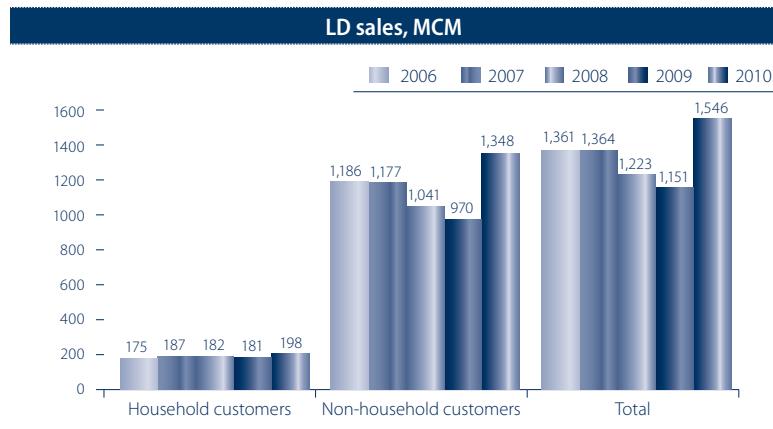
With a view to securing an adequate technical and technological level of gas systems, we modernized the technological processes and replaced the worn out and obsolete equipment. In 2010, we achieved our target: 70% of the gas pressure regulating stations of the gas distribution systems of the Company are equipped with new technological equipment.

SUPPLY OF NATURAL GAS

In 2010, 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 2010, 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 30 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 46.7%.

In 2010, LD supplied to gas consumers 1,546.0 million m³ of natural gas, or by 34.3% more than in 2009 when the respective indicator stood at 1,150.9 million m³. In 2010, the volume of natural gas supplied to the non-household consumers amounted to 1,348.2 million m³ and the volume of natural gas supplied to the household consumers amounted to 197.8 million m³.

According to data as of 31 December 2010, the Company was selling natural gas to 552 thousand non-household and household consumers.

Customer service

One of the main goals of the Company is to improve the quality of services rendered to its customers. In pursuit of this goal, the Company subjects the processes related to customer service to regular revisions, thus enhancing their effectiveness and upgrading them.

As a result of a consistent implementation of the customer service upgrading strategy also in the year 2010 LD customers were offered certain novelties:

- In 2010, for the convenience of customers, the business hours of the customer service units of LD were extended. From 1 June 2010, the Gas Supply Department units located in the major towns of Lithuania and the Call Centre Info Hotline (short telephone

1894) have extended their business hours and work till 18.00 hours.

- Autumn of 2010 saw the implementation of the action "Please Assess Our Services". The main aim of the action was to assess the customer services rendered by the Company's staff, to find out the strong points and the drawbacks of the services rendered as well as the customers wishes and expectations. The results of the action revealed that the overall customers assessment of the Company's services was positive, this was the opinion expressed by the vast majority of the respondents and only 3% of the respondents had critical comments regarding the work of LD, part of their proposals were implemented forthwith, whereas for the analysis of the others working groups have been set and the proposals will be implemented in the near future. This action will be of a continuous nature, it will be organized on an annual basis.

- In Half 2 of 2010, the Company implemented a new electronic system for its non-household customers that have concluded natural gas transmission and distribution contracts with the Company. The system enables the customers to declare the data on their gas consumption volumes and their natural gas transmission capacity bookings in electronic space and it also enables them to make checks of the actual gas consumption volumes according to the data presented by the telemetry systems (where applicable), it enables them to monitor their actual gas consumption volumes history, their gas transmission capacity bookings history, to print out the required data, and there is no need any longer to store full data in paper format.

- In 2010, LD has developed its Customer Service System which after the staff training process is scheduled for full implementation in 2011. The effective customer service training course is planned to be delivered to over 200 employees. The purpose of the Customer Service System is to upgrade the quality of customer services, to make the values of the Company visible to the Company's customers and to ensure adequate and uniform attitude of all the employees towards the customer services.

A representative public opinion survey carried out in 2010 showed that

Lithuanian non-household customer market, 2010

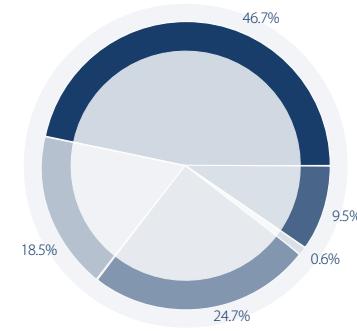
LD 46.7%

AB Achema 24.7%

UAB Dujotekana 18.5%

UAB Kauno Termofikacijos Elektrinė 9.5%

UAB Haapas 0.6%



Lithuanian natural gas consumers, 2010

Heat and power generating companies 54.4%

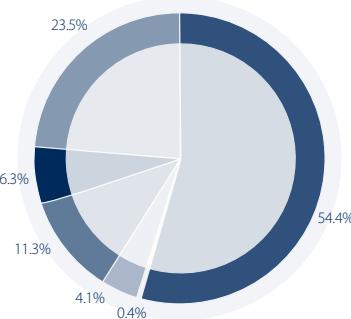
Producers of fertilizers 23.5%

Industrial companies 11.3%

Households 6.3%

Other small consumers 4.1%

Agricultural companies 0.4%



Structure of natural gas customers who buy gas from LD, 2010

Heat and power generating companies 57.8%

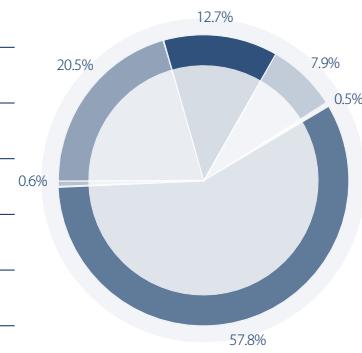
Industrial companies 20.5%

Household customers 12.7%

Other small consumers 7.9%

Agricultural companies 0.6%

Producers of fertilizers 0.5%



customer servicing processes initiated by the Company are positively rated by customers of LD. Proposals of the residents who participated in the survey have been taken into account and subjected to implementation. The public opinion survey is of a continuous nature, and since 2009 it has been conducted on an annual basis.

ENVIRONMENTAL PROTECTION

In its Environmental Protection Policy LD has entrenched the objective to minimize the Company's adverse environmental

impacts. The Company links it with social responsibility.

The adverse environmental impacts of the Company's operations are low, since natural gas is one of the greenest fuels and is the cleanest of all the fossil fuels. However, as it is the case with any undertaking's operations, there is a certain inevitable impact on the environment that is exerted, therefore the Company applies the modern environmental pollution prevention measures.

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

Pollutant (tons)	2010	2009	2008
CO	26.7	14.0	29.0
NO _x	12.0	12.0	13.8

Recorded emissions of natural gas (MCM)		
2010	2009	2008
14.0	12.4	13.2

- *protection of the natural environment at the gas facility sites:* industrial facilities and gas supplied to customers are heated using state-of-the-art appliances with minimum environmental pollution effect;
- *ensuring industrial and ecological safety during the construction and maintenance of gas facilities:* every endeavour is made to minimize the negative impact of these activities on the environment;
- *ensuring industrial and ecological safety at the gas facility sites:* gas system repairs and tests are carried out employing state-of-the-art technologies with the view of minimizing the pollutant emissions into the environment. The Company has implemented a programme of measures to collect and utilize the materials that were used in the operation, waste, scrap and effluent. In the staff training process, a fair amount of attention is devoted to the ecological education.

In 2010, the Company implemented an Environmental Management System in accordance with the ISO 14001 standard requirements, and in 2012 it expects to receive a respective certificate.

Even though in accordance with the ISO 14001 standard the implementation of this requirement is optional, the Company has established its environmental efficiency indicators for all its activities so that it would be able to monitor the efficiency indicators for all the fields of activity and would be in a position to manage its environmental protection aspects and monitor the progress.

Every year, drawing on the important environment protection aspects that have been established and the actual environmental efficiency indicators of the previous period, the Company sets out its environmental protection aims, goals and programmes. For the year 2010, the Company had set and was pursuing

the following goals: minimizing gas leaks from gas systems, sparing natural resources, improving landscape, sorting waste, forming environmental awareness and consciousness of the staff, competent execution of works that are performed by LD, paying greater attention to environmental protection.

In 2010, a computerised Environmental Protection Distant Instruction Programme was developed and has been already used to instruct the vast majority of the Company's employees.

The year 2010 marked the completion of the construction and the putting into operation of the state-of-the-art Jauniūnai Gas Compressor Station in Širvintos District. The new Gas Compressor Station meets all safety, reliability and environmental standard requirements applicable in the European Union with respect to facilities of this type. The gas compressor units are equipped with extra devices for the reduction of noise levels: noise absorbers in the chimney flues, insulating coating of the over-ground gas pipes, special acoustic enclosures of the gas turbines and the compressors. The gas turbines are equipped with new-generation dry-type low NO_x emission combustion chambers ensuring low pollutant emissions. Quite a few other measures were also implemented aimed at averting any possible adverse environmental impacts.

The environmental pollution is also being reduced through the reconstruction of other facilities (in 2010 the Rudamina Gas Distribution Station and the Pasvalys Gas Distribution Station were reconstructed).

In 2010, due to the lower than usual average yearly weather temperatures prevailing in Lithuania, the operation time of the gas facilities their load factors, the number of their start-ups was longer

than in 2009, which resulted in higher pollutant (CO) emissions, however the overall maximum allowable pollutant emission levels specified in the emission permits were not exceeded.

Due to the very nature of the natural gas operation maintenance system and because to the occupational safety system requirements, a small proportion of gas volumes are emitted from the gas pipeline system into the atmosphere. In its business activities, the Company implements measures to minimize the emissions. The gas volumes emitted from the gas pipeline system into the atmosphere in 2010 were higher y/y due to the increase in the scope of the construction and reconstruction works.

In the future, when implementing further modernization processes and operating gas systems and when planning the procurement of new equipment and new construction projects, LD will follow the strategic environmental protection guidelines laid down in this chapter.

STAFF

The average age of the Group employees was 44.5 years (2009: 45 years) and the average work experience was 16.0 years (2009: 15.8 years).

With a view to raising the LD human resource management efficiency, in 2010 the Company's Organisation Chart 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 a new Staff Selection Procedures Manual, and a New Staff Adaptation Procedures Manual.

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.

Average number of Group employees

Year	Average number of employees	Change compared to previous year
2009	1,787	-1.9%*
2010	1,750	-2.1%**

* compared to 2008.

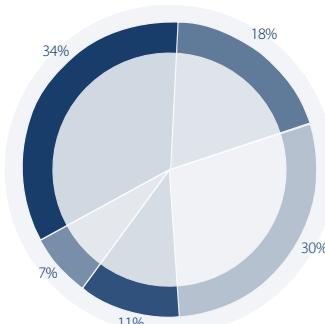
** compared to 2009.

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

Employees	Average number of employees in 2009	Average monthly salary, LTL
Managing staff	140	6,866
Specialists	989	2,953
Workers	661	2,267
Total:	1,787	3,006
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

Age

50-60 years old	34%
40-50 years old	30%
30-40 years old	18%
Under 30 years old	11%
Over 60 years old	7%



In 2010, 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 version of the Collective Bargaining Agreement of the Company (with subsequent amendments) signed on 6 December 2006 will be in effect until 28 May 2011. 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.

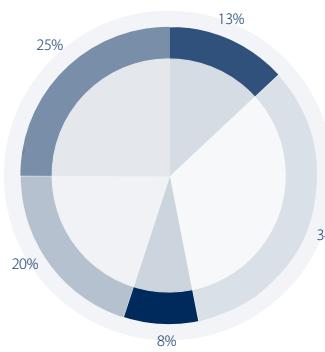
At LD, great attention is devoted to the training of the Company employees and to the improvement of their qualifications. In 2010, general trainings were provided to 511 employees and professional and technical trainings were provided to 859 employees. Over the reporting period, 92.2% of the total number of employees improved their qualifications. LD employees deepened their knowledge in the fields of debt management, labour law, business management systems, human resource management, energy policy and improved their specialist competencies. In 2010, special attention was paid to the development of communication skills and improvement of the customer service.

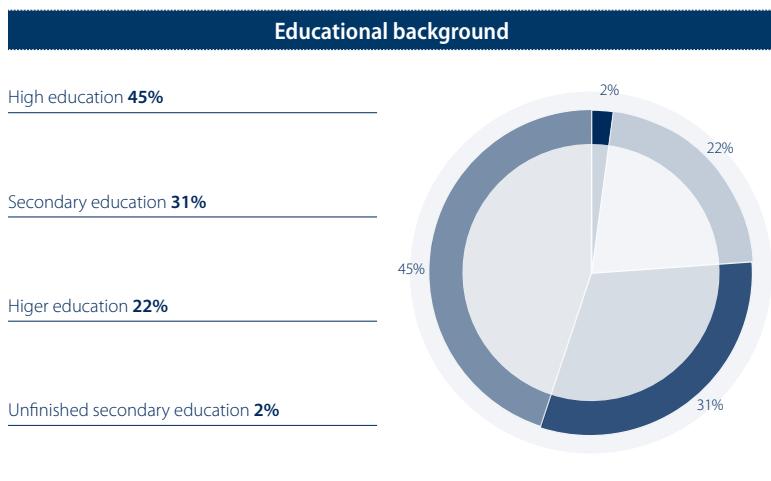
Aiming to attract young students to the Company, LD has been co-operating with the Vilnius Gediminas Technical University, the Kaunas University of Technology, and other universities. LD participated in the Career Days of several universities, and in this way supplied students with somewhat more extensive information on LD activities, development, strategy and goals. In 2010, the Company adopted a Student Internship Procedures Manual aimed at establishing uniform principles for student admission to professional internships at LD.

The Company's employees have been taking an active part in social life. For several consecutive years, the Company's employees have volunteered to participate in the Blood Donor Days that were organized at LD. Also, for a third year running, LD staff with their family members participated in voluntary actions to tidy up the landscape of the Curonian Spit.

Work record

10-20 years	34%
Under 5 years	25%
20-30 years	20%
5-10 years	13%
Over 30 years	8%





MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- The Lithuanian Gas Association (www.dua.lt), the General Manager of LD Viktoras Valentukevičius is the President of this Association since 16 June 2008.
- The Association "Eurogas" (www.eurogas.com). It is a non governmental non profit organization uniting the European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions 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). Membership of LD in this association dates back to 1999. From 2006, LD has a representative in the Board of this association. "Baltic Gas" is an association of the Baltic Sea Region promoting use of natural gas in the Baltic Sea Region, development of an integrated natural gas consumer market, seeking to reduce the non-commercial obstacles in the way of natural gas business.
- The Chamber of Commerce of Germany and the Baltic countries

in Estonia, Latvia and Lithuania (www.ahk-balt.org).

- The association of the largest and most active investors in the economy of Lithuania "Investors' Forum" (www.investorsforum.lt).

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

The member of the association "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 2010 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 company have been engaged

in the analytical activities related to the construction of the Poland–Lithuania Gas Interconnector. Both companies have set up their respective working groups in charge of co-operation in performing the necessary analytical work. At the end of 2010, the European Commission adopted a decision to render financial assistance to business environment study and a feasibility study of the Poland–Lithuania Gas Interconnector.

SPONSORSHIP PROGRAMS

The Company has clearly set its priorities for participation in social projects. LD participates if:

- The project aims to improve the living environment of vulnerable social groups;
- The project involves preservation of Lithuanian national heritage;
- The project is part of a long-term cultural programme;
- The project is aimed at the improvement of public health;
- The project involves popularizing the name of Lithuania abroad.

In 2010, LD rendered support to more than 70 institutions, organizations or supported their individual projects. In 2010, LD significantly contributed to the promotion of various communal initiatives:

- Support to town festivals: to the Public Entity "Pažaislis Music Festival" (support to the town of Kaunas in organizing the XV Pažaislis Music Festival), to the Birštonas Cultural Centre (support to the town of Birštonas in organizing the international jazz festival "Birštonas 2010"), to the Public Entity "The Sea Festival" (support in organizing the Sea Festival 2010 in Klaipėda), to the Administration of Municipality of Anykščiai District (support in organizing the horse festival "Run, Horse, Run" in Niūronys, Anykščiai District), etc.
- Support to creative and active children and young people: to the Lithuanian National Radio and Television (support to the LTV project Lithuania's Millennium Children), to the Lithuanian Youth Council ("LiJOT") (support to the project "Mission Siberia 2010"), 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).
- Support to sports societies: to the Public Entity "The National Automobile Club" (support in organizing the first massive bicycle festival for the residents of Vilnius "Velo Marathon"), 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 2010), to the Lithuanian Tennis Society (support in organizing Davis World Cup match between Lithuanian and Slovenian national men's teams), to the Lithuanian Women's Basketball League (support to the activities of the Lithuanian Women's Basketball League), etc.
- Support to the representatives of the socially vulnerable communities and children's foster homes: to the Šiauliai Children's Foster Home "Saitinės" (support for the activities of the foster home), the Lithuanian Special Creation Society (support for organizing the young disabled music performers' competition-festival "The Little Pearls"), to the children's charity "Notice Me" (support to children raised by poor families), support to the Public Entity "Little Gubojai" (support for the disabled young people education and training programme), to the Mentally Disabled Persons Club "Spiritual Warmth" (support for the activities of the Club), 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 2010"), to the Lithuanian Artists Union (support for an educational painting plain air event), to the Writers Club (support for the literary evening of the writer A.Drilinga in Anykščiai), etc.

- Support to the preservation of the Lithuanian national heritage: to the Public Entity "Modern Art Centre" (support to the project "Reanimation of the Literatų Street in Vilnius"), to the Public Entity Publishing House "Artlora" (support to the publication of Volume 3 of the book "The Great Lithuania"), to the Public Entity "Kultūros Paveldo Išsaugojimo Pajėgos" (support to the publication of Volume 3 of the book "The Lithuanian Warriors"), to the Lithuanian Art Museum (support to the iconography exhibition "The Battle of Žalgiris"), to the Alma Adamkus Support Foundation (for the production of the educational film "The Book Smuggler"), to the A.Baranauskas and A.Vienuolis-Žukauskas Memorial Museum (support for the establishment of Lithuania's first Angels Museum located in Anykščiai), to the Vilnius Academy of Art (for organization of the international exhibition "The Baltic Art" in Riga National Art Museum), etc.

- Support to religious communities: to the Ariogala St. Michael the Archangel Parish (contribution to the construction of the parish house), to the Šeduva St. Cross Discovery Parish (contribution to the church interior reconstruction works), to the Širvintos St. Michael the Archangel Parish (contribution to the erection of the statue of St. Michael the Archangel), to the Naujamiestis St. Matthew the Apostle Parish (contribution to the church reconstruction works after the fire), to the Caritas Charity of the Panevėžys Episcopate (contribution to the partial refurbishment of the premises, support for the charitable 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. The Company Strategy documents outline the goal of becoming a socially responsible company – LD strategic documents (approved by the General Manager of LD) include the goal of joining the United Nations Global Compact. LD is already participating in the Lithuania's National Network of Socially Responsible Corporations in promoting the Corporate Social Responsibility (hereinafter referred to as "CSR").

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 holds consultations with its international partners and implements various projects related to environmental protection, employee motivation improvement, transparency of the selection of new employees, 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.

The Company presented its results achieved in the field of CSR in the year 2010 in its application seeking the Lithuanian National Responsible Business Award, which is an initiative launched by the United Nations Development Programme in Lithuania, the Ministry of Social Security and Labour, the Ministry of Economy and the Ministry of Environment of the Republic of Lithuania.



 LIETUVOS DUJOS
NATURAL GAS IN LITHUANIA TURNS 



We are **always with them...**







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 2010, 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 2010, 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 2010 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

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

Jonas Akelis
Auditor's licence
No. 000003
President

The audit was completed on 3 March 2011.

Statements of financial position

Notes	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
ASSETS				
A. Non-current assets				
I. Intangible assets	4	3,867	3,917	3,852
II. Property, plant and equipment	5	2,364,718	2,287,000	2,357,138
II.1. Land		183	183	183
II.2. Buildings and structures		2,034,892	2,046,025	2,027,808
II.2.1. Buildings		89,492	84,536	82,408
II.2.2. Transmission networks and related installations		1,239,810	1,257,982	1,239,810
II.2.3. Distribution networks and related installations		680,072	692,380	680,072
II.2.4. Other buildings and structures		25,518	11,127	25,518
II.3. Machinery and equipment		260,264	94,131	260,264
II.4. Vehicles		15,562	15,001	15,467
II.5. Other equipment, tools and devices		33,062	30,627	32,726
II.6. Other property, plant and equipment		3,519	3,892	3,519
II.7. Construction in progress		17,236	97,141	17,171
III. Non-current financial assets		23	48	9,204
III.1. Investments into subsidiaries	1,6	–	–	9,181
III.2. Non-current accounts receivable	7	23	48	23
B. Current assets		340,977	260,217	338,742
I. Inventories and prepayments		47,623	44,402	47,600
I.1. Inventories	8	47,307	44,226	47,294
I.1.1. Raw materials, spare parts and other inventories		5,422	4,177	5,421
I.1.2. Goods for resale (including natural gas)		41,885	40,049	41,873
I.2. Prepayments		316	176	306
II. Accounts receivable	9	174,288	128,029	174,265
II.1. Trade receivables		170,283	126,757	170,281
II.2. Other receivables		4,005	1,272	3,984
III. Prepaid income tax		2,494	–	2,494
IV. Other current assets	10	2,036	22,958	–
V. Cash and cash equivalents	11	114,536	64,828	114,383
Total assets		2,709,585	2,551,182	2,708,936
				2,549,809

(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 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
EQUITY AND LIABILITIES				
C. Equity	2,079,578	1,991,184	2,078,611	1,989,996
I. Share capital	1	469,068	469,068	469,068
II. Reserves	12	1,452,130	1,369,370	1,449,828
II.1. Legal reserve		31,114	26,372	30,922
II.2. Other reserves		1,421,016	1,342,998	1,418,906
III. Retained earnings		158,380	152,746	159,715
D. Liabilities	630,007	559,998	630,325	559,813
I. Non-current liabilities		356,189	358,577	356,569
I.1. Non-current borrowings	13	4,288	6,432	4,288
I.2. Grants (deferred revenue)	14	177,842	171,871	177,842
I.3. Non-current employee benefits	15	9,097	7,283	9,097
I.4. Deferred income tax liability	20	164,962	172,991	165,342
II. Current liabilities		273,818	201,421	273,756
II.1. Current portion of non-current borrowings	13	2,144	2,144	2,144
II.2. Trade payables	16	206,006	145,112	205,992
II.3. Prepayments received		12,203	9,760	12,199
II.4. Income tax payable		–	2,853	–
II.5. Payroll related liabilities		10,227	7,273	10,193
II.6. Other payables and current liabilities	17	43,238	34,279	43,228
Total equity and liabilities	2,709,585	2,551,182	2,708,936	2,549,809

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

Income statements

	Notes	Group		Company	
		2010	2009	2010	2009
I. Revenue		1,751,629	1,270,521	1,750,831	1,269,695
I.1. Sales	3	1,746,758	1,264,308	1,745,959	1,263,482
I.2. Other income	18	4,871	6,213	4,872	6,213
II. Expenses		(1,605,432)	(1,153,439)	(1,602,746)	(1,152,346)
II.1. Cost of natural gas		(1,343,124)	(901,078)	(1,343,124)	(901,078)
II.2. Depreciation and amortisation	4, 5	(98,988)	(97,741)	(98,712)	(97,491)
II.3. Payroll and related social security tax expenses		(99,687)	(96,083)	(99,303)	(95,610)
II.4. Repair and maintenance expenses		(33,129)	(29,752)	(33,119)	(29,750)
II.5. Taxes, other than income tax		(11,528)	(11,810)	(11,437)	(11,740)
II.6. Other expenses		(18,976)	(16,975)	(17,051)	(16,677)
III. Profit from operations		146,197	117,082	148,085	117,349
IV. Financial activity	19	2,733	3,000	1,059	2,664
IV.1. Income		3,180	3,620	3,088	3,284
IV.2. Expense		(447)	(620)	(2,029)	(620)
V. Profit before tax		148,930	120,082	149,144	120,013
VI. Income tax	20	10,564	(25,307)	10,571	(25,166)
VI.1. Current period income tax		2,535	(35,646)	2,535	(35,646)
VI.2. Deferred income tax		8,029	10,339	8,036	10,480
VII. Net profit		159,494	94,775	159,715	94,847
Basic and diluted earnings per share (LTL)	21	0.34	0.20		

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of comprehensive income

Note	Group		Company			
	2010	2009	2010	2009		
I.	Net profit	159,494	94,775	159,715	94,847	
II.	Change in deferred income tax liability due to income tax rate change	20	–	59,104	–	59,104
III.	Total comprehensive income	159,494	153,879	159,715	153,951	

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

Statements of changes in equity

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

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of changes in equity (cont'd)

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

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

Statements of cash flows

Notes	Group		Company	
	2010	2009	2010	2009
I. Cash flows from (to) operating activities				
I.1. Net profit		159,494	94,775	159,715
Adjustments of non-cash items and other corrections:				
I.2. Depreciation and amortisation	4, 5	98,988	97,741	98,712
I.3. Loss (gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal		118	(18)	113
I.4. Impairment losses for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories		1,957	940	1,984
I.5. Income tax expenses		(10,564)	25,307	(10,571)
I.6. Interest (income)		(992)	(1,756)	(906)
I.7. Interest expenses		447	619	447
I.8. Loss (profit) on foreign currency exchange		5	(1)	5
I.9. (Income) from change of value of investment units		(868)	–	(862)
I.10. (Amortisation) of the grants (deferred revenue)		(4,076)	(4,002)	(4,076)
I.11. Expenses from non-current employee benefits and change in revenue accrual		(4,226)	5,169	(4,227)
		240,283	218,774	240,334
				218,792
Changes in working capital:				
I.12. (Increase) decrease in inventories		(3,149)	13,912	(3,147)
I.13. (Increase) decrease in trade accounts receivable		(38,023)	5,012	(38,051)
I.14. Decrease (increase) in other accounts receivable and prepayments		75	(16)	(221)
I.15. Increase (decrease) in trade accounts payable	23	53,215	(46,407)	53,721
I.16. Increase in other accounts payable and other current liabilities		28,006	7,961	28,010
I.17. Income tax (paid)		(14,810)	(25,401)	(14,810)
Total changes in working capital		25,314	(44,939)	25,502
Net cash flows from operating activities		265,597	173,835	265,836
				174,187
II. Cash flows from (to) investing activities				
II.1. (Acquisitions) of property, plant and equipment and intangible assets	23	(170,806)	(128,381)	(170,502)
II.2. Proceeds from sales of property, plant and equipment		151	139	151
II.3. Disposal (acquisition) of investment units held for trade	10	22,041	(21,016)	22,341
II.4. Receipt of non-current receivables and loans granted		25	17	25
II.5. Decrease in term deposits		212	2,157	–
II.6. Interest received		969	1,284	883
Net cash flows (to) investing activities		(147,408)	(145,800)	(147,102)
				(146,593)

(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	
	2010	2009	2010	2009
III. Cash flows from (to) financing activities				
III.1. Dividends (paid)		(71,062)	(45,022)	(71,062)
III.2. Loans (repaid)	13	(2,144)	(2,144)	(2,144)
III.3. Grants received		4,777	376	4,777
III.4. Interest (paid)		(471)	(643)	(471)
III.5. Other increases of cash flows from financing activities		419	–	393
Net cash flows (to) financing activities		(68,481)	(47,433)	(68,507)
IV. Net increase (decrease) in cash and cash equivalents		49,708	(19,398)	50,227
V. Cash and cash equivalents at the beginning of the year		64,828	84,226	64,156
VI. Cash and cash equivalents at the end of the year		114,536	64,828	114,383
				64,156

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 2010 and 2009 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
OAO 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
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	469,068,254	100.0

* By the resolution No. 584 of the Government of Lithuanian Republic 19 May 2010, the state owned share package of AB Lietuvos Dujos was transferred to the Ministry of Energy of the Republic of Lithuania to be managed by the right of trust. Until this date the share package belonging to the state was managed by VĮ Valstybės turto fondas.

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 2010 and 2009. 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 2010 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	(205)	11,801	Accommodation and restaurant facilities

The average number of employees of the Group and the Company in 2010 was 1,750 and 1,727, respectively (1,787 and 1,761 in 2009, respectively).

Activities of AB Lietuvos Dujos are regulated by the Law on Natural Gas No. X-1054 as of 20 March 2007 of the Republic of Lithuania. The law requires unbundling of the accounts among each of the Company's main activities: transmission, distribution and supply. The Company keeps accounts based on the requirements of the law. The Company's activity segments are transmission, distribution and supply and other activity (Note 3).

The Company's activities of transmission, distribution and supply of natural gas are subject to licensing. Licences are granted and licensed activities observed by the National Control Commission for Prices and Energy (hereinafter the NCCPE). The Company has licences for transmission, distribution and supply of natural gas.

The prices for transmission, distribution and supply of natural gas are regulated. The price caps are set by the NCCPE.

The management of the Company approved these financial statements on 3 March 2011. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2010 are as follows:

2.1. Basis of preparation

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

Adoption of new and/or changed IFRSs and IFRIC interpretations

In 2010 following new and amended IFRSs and International Financial Reporting Interpretations Committee (hereinafter IFRIC) interpretations came into force and were adopted:

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and the accounting for business combinations achieved in stages. These changes will impact the amount of goodwill recognised in the statements of financial position, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the accounting for the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 are applied prospectively. They did not have affect on the Group's and the Company's amounts in the financial statements for the year 2010 as there were no business acquisitions, loss of control of subsidiaries or transactions with non-controlling interests in 2010 in the Group.

IFRIC 18 Transfers of Assets from Customers

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The management of the Group and the Company believes that accounting principles applied for accounting of connection fees before 2010 do not contradict the regulations of IFRIC 18, therefore, the adoption did not have any impact on the financial statements of the Group and the Company.

Other

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group and the Company, because the Group and the Company did not have the respective financial statement items and transactions addressed by these changes:

- Amendment to IFRS 2 Share-based Payment;
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- IFRIC 12 Service Concession Arrangements;
- IFRIC 17 Distributions of Non-cash Assets to Owners;
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

Standards issued but not yet effective

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

Amendment to IFRS 7 Financial instruments: Disclosures (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)

The amendment modifies disclosure requirements for certain transfers of financial assets. The management of the Group and the Company does not expect that the change will have any impact on the consolidated financial statements since the Group and the Company do not have these kinds of transfers.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

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

IFRS 9 will eventually replace IAS 39. The International Accounting Standards Board (hereinafter IASB) has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 Income Taxes (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).

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. The implementation of these amendments will have no impact on the financial statements of the Group and the Company.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011).

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

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

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

Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group and the Company:

- IFRS 3 Business Combinations;
- IFRS 7 Financial instruments: Disclosures;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements;
- IFRIC 13 Customer Loyalty Programmes.

Amendment to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. IFRIC 14 regulations will not have any impact on the financial statements because the Group and the Company does not have defined benefit assets.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010).

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

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

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

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

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

Companies acquired or sold during a year are included into the 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, impairment and value increases 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	18-19	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.

The standard income tax rate in Lithuania was 20% in 2009. 15% income tax rate has been established for indefinite period starting from 1 January 2010.

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

Deferred taxes 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.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.14. Income tax (cont'd)

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 a re-basing of the asset for tax purposes), 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 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). 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 cash flow projections of an integrated Company is performed. A decision to split the Company's activities according to the requirements of the EU 3rd energy package in the future could have a negative impact on the asset values of the separate companies if no sufficiently positive regulatory regime improvements are taken.

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 the cases when certain IFRS specifically 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. These activities are used to identify operating segments. The accounting principles used for in the segment accounting are the same as for the financial accounting of the Group and the Company.

The Group and the Company have three main operating segments: natural gas transmission, distribution and supply, as well as segment of other activity:

- Transmission of natural gas comprises the transportation of natural gas through the transmission pipelines. The transmission activity also includes transit of natural gas to the district of Kaliningrad of the Russian Federation;
- Distribution of natural gas comprises the transportation of natural gas through the distribution gas pipelines;
- Supply of natural gas comprises the natural gas sales to end users;
- Other activity comprises other activity not related to main business.

The Group's operating segments are not aggregated, except for Supply of natural gas, which consists of supply to households and non-households. The two segments were aggregated, as they have similar economic and other characteristics.

The Group's segment information for the years ended 2010 and 2009 is presented below:

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
2009	Transmission	Distribution	Supply	Other activity	Total
Sales	139,297	169,234	952,933	2,844	1,264,308
Interest income	3	23	1,390	340	1,756
Interest expense	619	–	–	–	619
Profit before tax	35,946	21,409	60,483	2,244	120,082
Income tax	7,129	5,860	12,034	284	25,307
Total assets	1,519,909	785,677	232,649	12,947	2,551,182
Total liabilities	223,602	168,203	167,934	259	559,998
Other segment information					
Acquisition of non-current assets	103,451	33,971	93	2,262	139,777
Depreciation and amortisation	60,187	35,775	1,320	459	97,741

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 2010 and 2009 the Group and the Company earned over 99% of its revenue from Lithuanian customers.

In 2010, there was one Group customer (AB Lietuvos Elektrine), whose revenue constituted more than 10% of total Group's revenue – LTL 417,565 thousand (from it revenue of the transmission segment amounted to LTL 20,223 thousand and revenue of the supply segment amounted to LTL 397,342 thousand). In 2009, there were no customers whose revenue constituted more than 10% of total Group's revenue.

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 2009	3,090	6,069	1,561	10,720
Additions	882	474	219	1,575
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	3,922	6,210	1,708	11,840
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
Accumulated amortisation:				
Balance as of 1 January 2009	1,433	4,081	1,441	6,955
Charge for the year	635	685	103	1,423
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	2,018	4,433	1,472	7,923
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
Net book value as of 31 December 2010	2,155	1,407	305	3,867
Net book value as of 31 December 2009	1,904	1,777	236	3,917

(all amounts are in LTL thousand unless otherwise stated)

4 Intangible assets (cont'd)

<u>Company</u>	<u>Patents, licenses</u>	<u>Software</u>	<u>Other intangible assets</u>	<u>Total</u>
Cost:				
Balance as of 1 January 2009	3,090	6,038	1,561	10,689
Additions	882	473	219	1,574
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	3,922	6,178	1,708	11,808
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
Accumulated amortisation:				
Balance as of 1 January 2009	1,433	4,077	1,441	6,951
Charge for the year	635	678	103	1,416
Retirements	(50)	(333)	(72)	(455)
Balance as of 31 December 2009	2,018	4,422	1,472	7,912
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
Net book value as of 31 December 2010	2,155	1,392	305	3,852
Net book value as of 31 December 2009	1,904	1,756	236	3,896

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 5,812 thousand as of 31 December 2010 (LTL 5,559 thousand as of 31 December 2009) was fully amortised, but still in use.

5 Property, plant and equipment

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

<u>Group</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 2009	183	99,242	1,449,148	779,279	12,211	124,746	32,000	93,312	9,638	58,601	2,658,360
Additions	–	122	–	1,277	–	618	4,911	2,890	785	127,599	138,202
Disposals and retirements	–	(71)	–	(154)	(93)	(550)	(1,474)	(1,910)	(221)	–	(4,473)
Reclassifications	–	4,615	35,784	25,215	2,253	17,189	–	3,886	117	(89,059)	–
Balance as of 31 December 2009	183	103,908	1,484,932	805,617	14,371	142,003	35,437	98,178	10,319	97,141	2,792,089
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
Accumulated depreciation:											
Balance as of 1 January 2009	–	12,733	180,766	89,337	2,697	39,932	18,404	60,415	5,322	–	409,606
Charge for the year	–	3,149	46,184	24,035	639	8,450	3,506	9,045	1,310	–	96,318
Disposals and retirements	–	(26)	–	(135)	(80)	(521)	(1,474)	(1,909)	(205)	–	(4,350)
Reclassifications	–	1	–	–	(12)	11	–	–	–	–	–
Balance as of 31 December 2009	–	15,857	226,950	113,237	3,244	47,872	20,436	67,551	6,427	–	501,574
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
Impairment losses:											
Balance as of 1 January 2009	–	3,515	–	–	–	–	–	–	–	–	3,515
Balance as of 31 December 2009	–	3,515	–	–	–	–	–	–	–	–	3,515
Impaired	–	1,556	–	–	–	–	–	–	–	–	1,556
Balance as of 31 December 2010	–	5,071	–	–	–	–	–	–	–	–	5,071
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
Net book value as of 31 December 2009	183	84,536	1,257,982	692,380	11,127	94,131	15,001	30,627	3,892	97,141	2,287,000

(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 2009	183	87,093	1,449,148	779,279	12,211	124,746	31,875	91,936	9,638	58,495	2,644,604
Additions	-	122	-	1,277	-	618	4,911	2,823	785	125,463	135,999
Disposals and retirements	-	(71)	-	(154)	(93)	(550)	(1,474)	(1,896)	(221)	-	(4,459)
Reclassifications	-	4,615	35,784	25,215	2,253	17,189	-	3,886	117	(89,059)	-
Balance as of 31 December 2009	183	91,759	1,484,932	805,617	14,371	142,003	35,312	96,749	10,319	94,899	2,776,144
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
Accumulated depreciation:											
Balance as of 1 January 2009	-	10,804	180,766	89,337	2,697	39,932	18,298	59,352	5,322	-	406,508
Charge for the year	-	3,005	46,184	24,035	639	8,450	3,498	8,954	1,310	-	96,075
Disposals and retirements	-	(26)	-	(135)	(80)	(521)	(1,474)	(1,895)	(205)	-	(4,336)
Reclassifications	-	1	-	-	(12)	11	-	-	-	-	-
Balance as of 31 December 2009	-	13,784	226,950	113,237	3,244	47,872	20,322	66,411	6,427	-	498,247
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
Impairment losses:											
Balance as of 1 January 2009	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2009	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2010	-	-	-	-	-	-	-	-	-	-	-
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
Net book value as of 31 December 2009											
	183	77,975	1,257,982	692,380	11,127	94,131	14,990	30,338	3,892	94,899	2,277,897

5 Property, plant and equipment (cont'd)

In 2010, property, plant and equipment of the Group were impaired by LTL 1,556 as the recoverable amount of the buildings of the subsidiary UAB Palangos Perlas UAB has decreased.

Property, plant and equipment of the Group and the Company with the acquisition cost of LTL 57,685 thousand and LTL 56,771 thousand, respectively, were fully depreciated as of 31 December 2010 (LTL 48,382 thousand and LTL 47,524 thousand as of 31 December 2009, respectively), but were still in use.

As of 31 December 2010 and 2009 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 2010 related to qualifying assets; capitalized amounts for qualifying assets were immaterial in 2009.

Major objects of construction in progress of the Group and the Company as of 31 December 2010 were as follows:

Object	Group	Company
Construction of transmission pipeline from Jurbarkas to the branch to gas distribution station (hereinafter – GDS) in Tauragė	1,600	1,600
Construction of transmission pipeline from the branch to GDS in Tauragė to the branch to GDS in Šilutė	3,050	3,050
Construction of transmission pipeline from the branch to GDS in Šilutė to the branch to GDS-2 in Klaipėda, the branch to GDS-2 and GDS-2 in Klaipėda	2,992	2,992
Reconstruction of GDS in Pajiešmeniai village, Pasvalys district	1,088	1,088
Other (including UAB Palangos Perlas)	8,506	8,441
Net book value as of 31 December 2010	17,236	17,171

As of 31 December 2009 the Group's and the Company's construction in progress comprised LTL 97,141 thousand and LTL 94,899 thousand respectively. The largest part of this amount was related with the construction of compressor station in Jauniūnai, Širvintos district (LTL 74,820 thousand).

6 Investments into subsidiaries

As of 31 December 2010 the Company's investment into subsidiaries consisted of the investment into UAB Palangos Perlas and amounted to LTL 9,181 thousand (LTL 10,737 thousand in 2009) (Note 1). In 2010, the Company has accounted impairment for the investment into subsidiary, reducing the value of investments up to its recoverable amount. Impairment for investments into subsidiaries is accounted under financial activity expense (Note 19).

7 Non-current accounts receivable

	Group		Company	
	2010	2009	2010	2009
AB Panevėžio Stiklas debt	6,373	6,373	6,373	6,373
Other non-current accounts receivable	23	48	23	48
	6,396	6,421	6,396	6,421
Less: allowance for non-current accounts receivable	(6,373)	(6,373)	(6,373)	(6,373)
	23	48	23	48

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

(all amounts are in LTL thousand unless otherwise stated)

8 Inventories

	Group		Company	
	2010	2009	2010	2009
Raw materials, spare parts and other inventories	5,594	4,281	5,593	4,280
Goods for resale (including natural gas)	41,885	40,049	41,873	40,039
Inventories, gross	47,479	44,330	47,466	44,319
Less: allowance for inventories	(172)	(104)	(172)	(104)
	47,307	44,226	47,294	44,215

The cost of inventories accounted for at net realisable value amounted to LTL 1,667 thousand as of 31 December 2010 (LTL 1,912 thousand as of 31 December 2009). Changes in the allowance for inventories in 2010 and 2009 were included into other expenses.

9 Accounts receivable

	Group		Company	
	2010	2009	2010	2009
Receivables for natural gas, transmission and distribution of natural gas from non-household customers	161,092	124,926	161,103	124,934
Receivables for natural gas, transmission and distribution of natural gas from household customers	15,142	7,467	15,142	7,467
Other trade receivables	1,874	1,465	1,856	1,423
Total trade accounts receivable	178,108	133,858	178,101	133,824
Other accounts receivable	4,025	1,293	4,004	966
	182,133	135,151	182,105	134,790
Less: allowance for accounts receivable	(7,845)	(7,122)	(7,840)	(7,122)
	174,288	128,029	174,265	127,668

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 2010 trade and other receivables with the nominal value of LTL 3,995 thousand (as of 31 December 2009 – LTL 1,924 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 2009	4,905	1,396	6,301	4,905	1,396	6,301
Charge for the year	4,639	2,889	7,528	4,639	2,889	7,528
Utilised	–	(79)	(79)	–	(79)	(79)
Unused amounts reversed	(5,514)	(1,114)	(6,628)	(5,514)	(1,114)	(6,628)
Balance as of 31 December 2009	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

Changes in allowance for accounts receivable in 2010 and 2009 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 2010 and 2009 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	
2009	120,896	4,307	1,707	317	451	–	127,678
2010	166,678	5,961	755	306	254	–	173,954

The ageing analysis of the Company's trade and other accounts receivable as of 31 December 2010 and 2009 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	
2009	120,864	4,307	1,705	314	445	–	127,635
2010	166,683	5,960	753	296	254	–	173,946

10 Other current assets

The Group's investment units held for trade were equal to LTL 306 thousand as of 31 December 2010. The change in value of investment units is accounted for as financial income (Note 19). The Group's and the Company's investment units held for trade were equal to LTL 21,016 thousand as of 31 December 2009.

The Group's other short term investments consist of deposits and were equal to LTL 1,730 thousand as of 31 December 2010 (LTL 1,942 thousand as of 31 December 2009). The maturity of short term deposits is 3-12 months period. As of 31 December 2010 weighted average annual interest rate of the short term deposits of the Group was 3.41% (7.69% as of 31 December 2009).

11 Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
Cash at bank, in transit and on hand	2,439	2,679	2,366	2,608
Frozen funds	–	6,137	–	6,137
Deposits with the term of less than three months	112,097	62,149	112,017	61,548
	114,536	70,965	114,383	70,293
Less: impairment	–	(6,137)	–	(6,137)
	114,536	64,828	114,383	64,156

As of 31 December 2009 frozen funds mostly consisted of the Group's and the Company's cash deposited at the bank AB Litimpeks Bankas. The bank went bankrupt in 1999 and 100% allowance was recorded for this amount. In 2010, the bankruptcy procedures of AB Litimpeks Bankas were completed, LTL 393 thousand were repaid to the Company (Note 19). Unrecovered frozen funds were written off.

The original term of all deposits is less than three months, the weighted average annual interest rate as of 31 December 2010 was 0.49% (0.51% as of 31 December 2009). 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 2010 was LTL 114,536 thousand and LTL 114,383 thousand, respectively (LTL 64,828 thousand and LTL 64,156 thousand as of 31 December 2009).

(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 7,986 thousand of the Company's net profit for 2010 must be allocated for a transfer to the legal reserve for 2011. 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 2010 on the date of issue of these financial statements.

13 Borrowings

	Group		Company	
	2010	2009	2010	2009
Non-current borrowings				
Borrowings from Lithuanian credit institutions	4,288	6,432	4,288	6,432
Current borrowings				
Current portion of non-current borrowings	2,144	2,144	2,144	2,144
	6,432	8,576	6,432	8,576

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

	2010		2009	
	Fixed interest bearing loans		Fixed interest bearing loans	
2010		–		2,144
2011		2,144		2,144
2012		2,144		2,144
2013		2,144		2,144
	6,432		8,576	

Actual interest rates are close to effective interest rates. As of 31 December 2010 the weighted average annual interest rate of borrowings outstanding was 5.65% (5.65% as of 31 December 2009). Borrowings at the end of the year in national and foreign currencies expressed in LTL were as follows:

Borrowings denominated in:	Group		Company	
	2010	2009	2010	2009
EUR	6,432	8,576	6,432	8,576
	6,432	8,576	6,432	8,576

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

As of 31 December 2010 the Group and the Company had available LTL 2,900 thousand (LTL 6,900 thousand as of 31 December 2009) of unutilized credit limit facility in respect of which all conditions precedent have been met.

14 Grants (deferred revenue)

Group and Company	2010			2009		
	Deferred revenue	Grants	Total	Deferred revenue	Grants	Total
Balance at the beginning of the period	110,922	60,949	171,871	102,693	61,519	164,212
Additions per year	6,299	339	6,638	10,231	1,431	11,662
Grant receivable	–	3,409	3,409	–	–	–
Amortisation per year	(2,155)	(1,879)	(4,034)	(2,002)	(1,966)	(3,968)
Grants used for compensation of expenses	–	(42)	(42)	–	(35)	(35)
Balance at the end of the period	115,066	62,776	177,842	110,922	60,949	171,871

Increase in grants (deferred revenue) in 2010 is influenced by the payments received for new connections of customers to the Group's and the Company's natural gas system and grant receivable of LTL 3,409 thousand from the EU for the enhancement of the throughput capacity of the Lithuania - Latvia Gas Interconnector.

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 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 (respectively LTL 6,058 thousand and LTL 1,225 thousand as of 31 December 2009). Annual change in non-current employee benefits 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 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:

	2010	2009
Discount rate	5.70%	7.67%
Annual employee turnover rate	2%	4%
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	
	2010	2009	2010	2009
Suppliers of natural gas	180,025	129,047	180,025	129,047
Other	25,981	16,065	25,967	15,545
	206,006	145,112	205,992	144,592

As of 31 December 2010 the Group's and the Company's payables to suppliers of natural gas significantly increased due to increase in price of natural gas and due to higher volumes of natural gas purchased.

As of 31 December 2010 the Group's and the Company's other trade payables significantly increased due to increased payables for construction works.

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

(all amounts are in LTL thousand unless otherwise stated)

17 Other payables and current liabilities

Other payables and current liabilities mainly consist of VAT payable, which was equal to LTL 39,619 thousand as of 31 December 2010 (LTL 30,858 thousand as of 31 December 2009).

18 Other income

In 2010 the major part of the Group's and the Company's other income consists of grants (including deferred revenues) amortisation amounting to LTL 4,034 thousand (LTL 3,968 thousand in 2009).

19 Financial activities

	Group		Company	
	2010	2009	2010	2009
Interest income	992	1,756	906	1,419
Change in value of investment units	868	–	862	–
Other income from financial activities	1,320	1,864	1,320	1,865
Total income from financial activities	3,180	3,620	3,088	3,284
Interest expenses on borrowings	(447)	(619)	(447)	(619)
Financial expenses from non-current employee benefits	(415)	–	(415)	–
Impairment of the investment into subsidiary	–	–	(1,556)	–
Reversal of impairment of financial assets	419	–	393	–
Other expenses from financial activities	(4)	(1)	(4)	(1)
Total expenses from financial activities	(447)	(620)	(2,029)	(620)
Gain from financial activities, net	2,733	3,000	1,059	2,664

Impairment of the Company's financial assets of LTL 393 thousand was reversed in 2010, after the partial recovery of frozen funds from AB Litimpeks Bankas (Note 11).

20 Income tax

Income tax:	Group		Company	
	2010	2009	2010	2009
Profit before tax	148,930	120,082	149,144	120,013
Changes in temporary differences	53,460	58,312	53,508	58,370
Permanent differences	(404)	(94)	(666)	(83)
Total taxable income for the year	201,986	178,300	201,986	178,300
Current year income tax	30,298	35,660	30,298	35,660
Current year income tax incentive*	(15,149)	–	(15,149)	–
Current year income tax after applying income tax incentive	15,149	35,660	15,149	35,660
Prior year income tax incentive*	(17,842)	–	(17,842)	–
Other prior years' income tax adjustments	21	(13)	21	(14)
Other	137	–	137	–
Change in deferred income tax during the year	(8,029)	(69,444)	(8,036)	(69,584)
Impact on change in deferred income tax due to tax rate change, recorded in the statements of comprehensive income**	–	59,104	–	59,104
Income tax expense charged to the income statement	(10,564)	25,307	(10,571)	25,166

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 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.

** Due to application of 20% income tax rate starting from 1 January 2009 and 15% income tax rate starting from 1 January 2010 the Group and the Company performed the recalculation of deferred income tax assets and liabilities. Based on the Group's and the Company's choice the effect of change in income tax rate for the deferred income tax liability component was recognised in the statements of comprehensive income.

	Group		Company	
	2010	2009	2010	2009
Deferred tax asset:				
Impairment losses on property, plant and equipment and vacation accrual	1,412	1,308	947	835
Accrual for non-current employee benefit	1,365	1,092	1,365	1,092
Deferred revenue from connection fees	2,071	2,114	2,071	2,114
Deferred tax asset before valuation allowance	4,848	4,514	4,383	4,041
Less: valuation allowance	(113)	(113)	(108)	(108)
Less: deferred tax asset netted with deferred tax liability	(4,735)	(4,401)	(4,275)	(3,933)
Deferred tax asset, net	–	–	–	–
Deferred tax liability:				
Difference in tax base of property, plant and equipment	(169,697)	(177,392)	(169,617)	(177,311)
Deferred tax liability, net	(164,962)	(172,991)	(165,342)	(173,378)

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 2010 and 2009 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% (in 2010) and 20% (in 2009) to pre-tax income:

	Group		Company	
	2010	2009	2010	2009
Profit before tax	148,930	120,082	149,144	120,013
Tax (expense) at the applicable standard tax rate	(22,340)	(24,016)	(22,372)	(24,003)
Non-deductible items	61	19	100	17
Income tax incentive	15,149	–	15,149	–
Other	(127)	(59)	(127)	(60)
Impact of changes in income tax rates	–	(1,264)	–	(1,134)
Effect of prior periods income tax adjustment	17,821	13	17,821	14
Income tax (expense)	10,564	(25,307)	10,571	(25,166)

(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:

	Group	
	2010	2009
Net profit attributable to the shareholders (in LTL thousand)	159,494	94,775
Weighted average number of shares in thousand	<u>469,068</u>	<u>469,068</u>
Basic earnings per share (in LTL)	<u>0.34</u>	<u>0.20</u>

As there were no changes in the share capital of the Company during 2010 and 2009, therefore the weighted average number of shares equals to the total number of shares at the end of the year.

22 Dividends declared

	2010	2009
Dividends declared (in LTL thousand)*	71,100	45,000
Number of shares at the date when dividends were declared (in thousand)	<u>469,068</u>	<u>469,068</u>
Dividends per share (LTL)	<u>0.15</u>	<u>0.10</u>

* In the year when the dividends are declared.

23 Cash generated from investing activities

When calculating cash flows from investing activities in 2010, the change in accounts payable for non-current assets of the Group and the Company of LTL 7,171 thousand and LTL 7,674 thousand, respectively (LTL 10,570 thousand and LTL 10,067 thousand of the Group and the Company in 2009 respectively), was taken into account.

24 Capital investment commitments

As of 31 December 2010, 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 14,468 thousand.

25 Financial assets and liabilities and risk management

Liquidity risk

The Group's and the Company's policy is to maintain sufficient amount of cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet their commitments at a given date. Liquidity risk is managed by constantly forecasting the current and non-current cash flows of the Group and the Company.

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2010 and 2009 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	–	–	2,477	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
Interest bearing loans and borrowings	–	–	2,598	7,068	–	9,666
Other current liabilities	–	761	–	–	–	761
Trade payables	–	145,112	–	–	–	145,112
Balance as of 31 December 2009	–	145,873	2,598	7,068	–	155,539

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

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2010 and 2009 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	–	–	2,477	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
Interest bearing loans and borrowings	–	–	2,598	7,068	–	9,666
Other current liabilities	–	761	–	–	–	761
Trade payables	–	144,592	–	–	–	144,592
Balance as of 31 December 2009	–	145,353	2,598	7,068	–	155,019

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

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

Foreign currency risk

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

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 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

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2009 were as follows (stated in LTL thousand):

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

(all amounts are in LTL thousand unless otherwise stated)

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

Interest rate risk

As of 31 December 2010 the Group and the Company had one loan with fixed interest rate. The sensitivity analysis for changes in interest rates is not disclosed, as the Group and the Company had no borrowings with fluctuating interest rates as of 31 December 2010 and 2009.

Gas import price fluctuation risk

Natural gas import price depends on oil and gasoline prices in international market, the USD and EUR ratio fixed by the European Central Bank and actual natural gas calorific value. Management of the Group and the Company believes that this risk is managed effectively in the following way: for non-household customers - by setting the gas price depending on the same variable component values, for household customers – through the regulated price-setting mechanism.

Fair value of financial instruments

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

Investment units classified as held for trading are carried at fair value. Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, and these parties intend to purchase (sell) assets or net off the liabilities. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- (a) The carrying amount of current trade and other accounts receivable, investments into subsidiary (in the Company), current accounts payable and short-term borrowings approximates fair value;
- (b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with 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 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 2010 and 2009 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);
- DOAO Orgenergogaz (same ultimate shareholder);
- OAO Beltransgaz (same ultimate shareholder).

* By the resolution No. 584 of the Government of Lithuanian Republic, 19 May 2010, the state owned share package of AB Lietuvos Dujos was transferred to the Ministry of Energy of the Republic of Lithuania to be managed by the right of trust. Until this date the share package belonging to the state was managed by VĮ Valstybės turto fondas.

26 Related party transactions (cont'd)

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	–	–	–
	1,347,211	15,362	2,002	180,039

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

Dividends to the shareholders have been paid in 2010 and 2009.

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.

Payments for management

In 2010 payments to the administration management of the Group and the Company amounted to LTL 2,470 thousand and LTL 2,412 thousand, respectively. In 2009 payments to the administration management and the Board members of the Group and the Company amounted to LTL 2,443 thousand and LTL 2,377 thousand, respectively. The annual payments (tantieme) paid for the Company's Board members amounted to LTL 490 thousand in 2010 (LTL 94 thousand in 2009). In 2010 and 2009 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

27 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 economic 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 2010 and 2009.

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 2010 and 2009 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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