LIETUVOS DUJOS

Consolidated Annual Report 2012

LIETUVOS DUJOS

CONTENTS

CHAIRMAN'S STATEMENT 5
THE CEO'S STATEMENT 7
REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED 10
MAIN DATA ABOUT THE ISSUER 10
MAJOR DEVELOPMENTS OF THE REPORTING PERIOD 10
MAJOR DEVELOPMENTS AFTER THE REPORTING PERIOD 11
NATURAL GAS BUSINESS ENVIRONMENT 11
RISK MANAGEMENT 13
MAIN FEATURES OF THE GROUP'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO DRAWING UP CONSOLIDATED FINANCIAL STATEMENTS 16
FINANCIAL PERFORMANCE 17
RESEARCH AND DEVELOPMENT ACTIVITIES 20
BUSINESS PLANS AND FORECASTS 20
MANAGEMENT OF THE COMPANY 20
TRANSMISSION OF NATURAL GAS 29
DISTRIBUTION OF NATURAL GAS 30
SUPPLY OF NATURAL GAS 31
ENVIRONMENTAL PROTECTION 33
STAFF 34
MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION 35
SPONSORSHIP PROGRAMS 36
SOCIAL RESPONSIBILITY 37
AB LIETUVOS DUJOS CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 41

Board of Directors

since 23 April 2012

Dr Peter Frankenberg
Chairman *(till 30 June 2012)*
Senior Vice President of E.ON Ruhrgas AG
Managing Director of E.ON Ruhrgas International GmbH

Dr Achim Saul*
Chairman *(from 4 July 2012)*
CEO Essen Operations of E.ON Global Commodities SE
Chairman of the Management Board of E.ON Ruhrgas International GmbH

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

Uwe Fip
Member
Senior Vice President, Gas Supply East, E.ON Global Commodities SE

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

Kęstutis Žilėnas
Member *(from 9 December 2011 to 25 April 2013)*
Vice-Minister of Energy of the Republic of Lithuania

Valdas Lastauskas
Member *(from 25 April 2013)*
Chancellor of the Ministry of Energy of the Republic of Lithuania

Chairman of the Board of Directors and his Deputy are elected by rotation for a two-year term.
** Elected Deputy Chairman with effect from 25 April 2013.*
*** Elected Chairman with effect from 25 April 2013.*

CHAIRMAN'S STATEMENT

In 2012, the Company's main challenge was to prepare for legal unbundling, which it managed in addition to its current business, further development of its strategic infrastructure projects and other extraordinary tasks like the creation of a natural gas exchange. However, during the three-year period 2011-2013 the Company expects to lose one third of its gas sales quantities due to competition with other energy sources.

The Company prepared for the legal unbundling taking account of the national legislation passed in 2011 and implementing the EU's Third Energy Package from the end of July 2013, the transmission business, including transit, is to be spun off and operate as a legally separate company. The transfer of control, i.e. ownership unbundling, must be achieved by the end of October 2014. Until the latter date the Company has to establish a subsidiary to take over the distribution business. Although the time schedule for legal unbundling is extremely demanding, the Company succeeded in keeping to the schedule and avoiding any regulatory or other complaints.

In 2012 the Company continued pipeline interconnection projects with both of Lithuania's two EU neighbours. Work was carried out to enhance the bi-directional interconnection capacity with Latvia. This project is on time and within budget and will be operational in 2013. Together with the Polish transmission system operator GAZ-SYSTEM S.A., the Company finished the business case analysis and started the feasibility study for the Gas Interconnection Poland-Lithuania (GIPL) project. Already in 2017 the GIPL may provide access both to mainland Europe's gas market and, via the Polish LNG terminal, to the global LNG market. The Company, together with its respective international partners, had managed to secure EU co-financing for both the construction works (LT-LV) and the analysis/study (PL-LT).

Throughout 2012 the Company continued the construction of the Šakiai-Jurbarkas-Tauragė-Klaipėda pipeline. This project is also on time and within budget. It will become operational at the end of 2013.

Since the privatization, the Company has now invested LTL 1.3 billion into the Lithuanian gas infrastructure.

With the Finnish gas company Gasum Oy, the Company set up a natural gas exchange on schedule and within budget. This is a result of the cooperation commenced in late 2011. The importance of this exchange is expected to increase when the transmission system operator becomes legally unbundled because then the operator will no longer be able to provide valuable flexibility services to system users free of charge. As a second step the exchange will become more important as soon as an alternative gas supply source becomes available. The exchange's long-term goal is to go regional.

In 2012 legislation on the Klaipėda LNG terminal project was enacted. While the Company supports initiatives to diversify sources of gas supply, any such project must be implemented in compliance with EU and national legislation and without distorting competition. The Company has reservations about whether that legislation does actually comply with these requirements. Therefore, at the end of the year the Company filed a complaint to the EU Commission after consumers representing 72% of national consumption had already complained to this institution.

Each new entrant in the Lithuanian gas market may immediately gain a large market share, because (i) Third Party Access to all the Company's infrastructure is ensured; (ii) legal unbundling will be accomplished by the end of July 2013; and (iii) Lithuanian gas supply companies sell gas to consumers under contracts concluded for a term of up to one year only. All consumers are free to choose gas suppliers offering the best terms and conditions. I am confident the legislation will take into account both the consumers' and the Company's needs when it is developed further.

Despite the very difficult business environment the Company accomplished its goals. On behalf of the Company's Board of Directors I thank the management and the employees for their excellent work.

Dr Achim Saul
Chairman of the Board of Directors

Chief Executives

Viktoras Valentukevičius
General Manager

Dr Joachim Martin Hockertz
Deputy General Manager – Director of Commerce

Vladimir Obukhov
Deputy General Manager – Director for Gas Purchase

Jonas Janiulionis
Deputy General Manager – Technical Director (until 4 March 2013)

Tomas Šidlauskas
Temporarily in charge Deputy General Manager – Technical Director (from 5 March 2013 to 26 March 2013)
Deputy General Manager – Technical Director (from 27 March 2013)

Giedrė Glinskienė
Deputy General Manager – Chief Financial Officer

THE CEO'S STATEMENT

Last year AB Lietuvos Dujos successfully passed the exam of major changes in natural gas business and the challenges posed by external factors. The forecasted financial performance results were achieved. In 2012, the Company made large-scale investments into the development, reconstruction and modernization of the transmission and distribution systems as well as the safety and reliability of natural gas supplies; also, it continued with important repairs of the transmission system as well as the implementation of its operating cost and process optimisation projects, which were instrumental in enhancing the Company's performance.

In terms of revenue, AB Lietuvos Dujos is ranked among Lithuania's top ten companies, and according to amount of taxes contributed to the state budget, the Company is ranked among the top five companies.

Opting for natural gas as a clean and efficient fuel, over 2.2 thousand of new gas consumers joined the Company's clientele, and this number of new customers exceeds the respective indicators for 2011 and 2010. AB Lietuvos Dujos successfully fulfilled its contractual natural gas supplies-related obligations as well as its contractual obligations to third parties related to the transportation of the natural gas volumes and fully met its natural gas transit-related commitments.

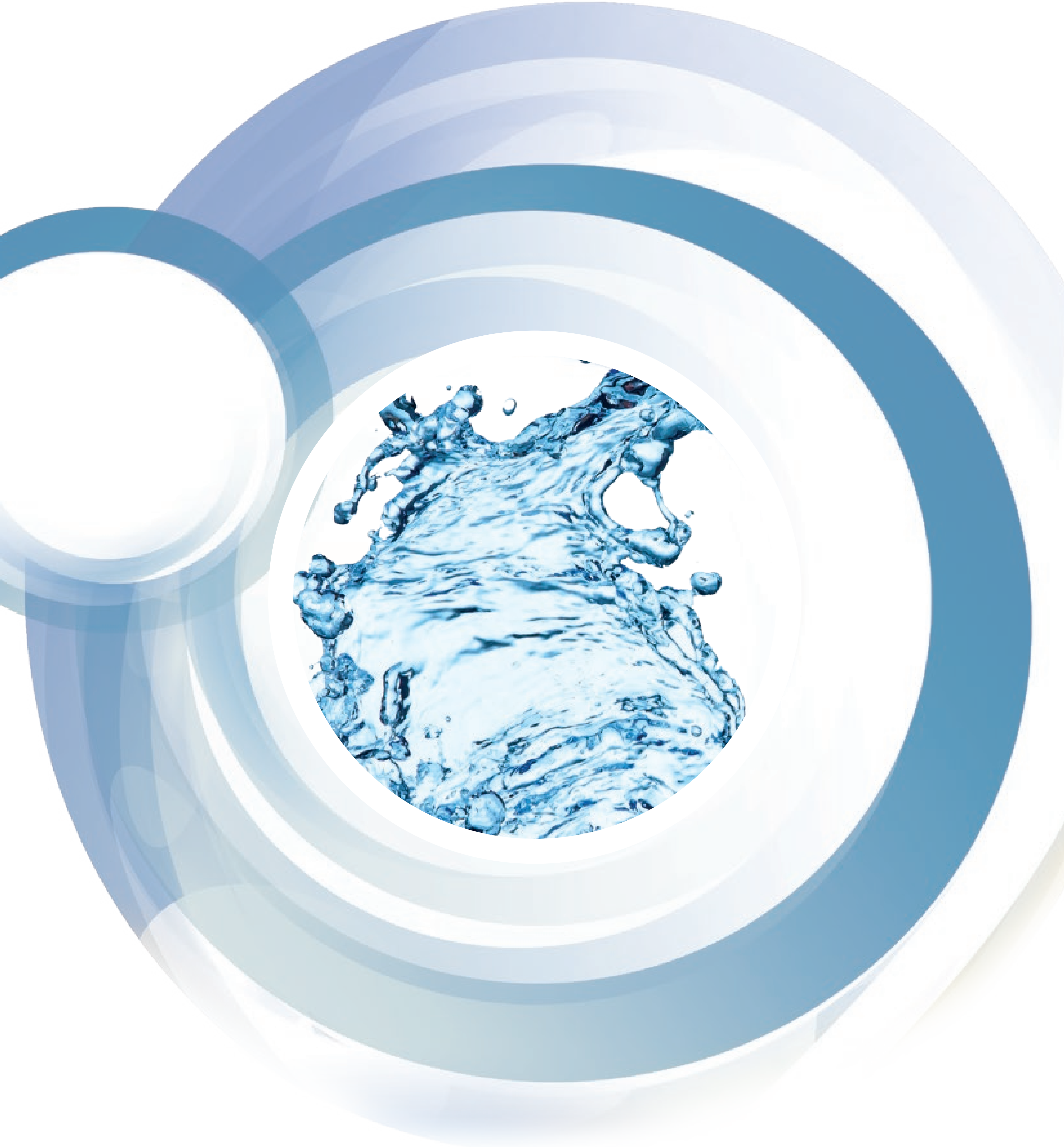
In 2013, AB Lietuvos Dujos plans to complete the continuous (since 2011) multi-stage staff training programme for the Company's employees engaged in customer service in order to implement a uniform customer service standard throughout the entire Company. Later on, this system will be monitored continuously. The surveys performed revealed that the absolute majority of AB Lietuvos Dujos customers and business partners gave positive ratings of the improved workplace culture of our personnel and the quality of our services. As their biggest concern natural gas consumers named the high natural gas import price trends.

In the history of AB Lietuvos Dujos as a business enterprise, the year 2012 was the last year when the Company operated as a vertically integrated company. Simultaneously, AB Lietuvos Dujos was engaged in an intensive preparation for the unbundling of activities in the implementation of the EU Third Energy Package. Shareholders of the Company have adopted important decisions of the future of the Company. Despite the extremely short time allowed for the implementation of such a large-scale reform, the unbundling of activities was conducted in accordance with the action plan approved by the Company and agreed upon with controlling authorities. According to publicly available Terms and Conditions of the Spin-off, in the first stage, i.e. by 31 July 2013, the AB Lietuvos Dujos Gas Transmission Activity, on the basis of the respective assets, rights and obligations attributed to this activity, will be legally unbundled from the remaining part of AB Lietuvos Dujos through the establishment of an independent company, a Transmission System Operator – AB Amber Grid. I wish the new company to continue the honorable 50-year-old traditions of the Lithuanian gas business and the best of success in its independent operations.

I want to thank all the employees of AB Lietuvos Dujos for their active and initiative work as well as their daily tasks professionally performed in 2012.

Viktoras Valentukevičius
General Manager

innovation
advancement
energy
for business



REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED – The Year 2012.

MAIN DATA ABOUT THE ISSUER

Name of the Issuer	AB Lietuvos Dujos (hereinafter referred to as "the Company" or "LD")
Legal form	public company
Date and place of registration	23 November 1990, State Enterprise Centre of Registers
Company code	120059523
Administrator of Register of Legal Persons	State Enterprise Centre of Registers
Authorized capital	LTL 469,068,254
Registered office	Aguonų g. 24, LT-03212 Vilnius, Lithuania
Telephone number	+370 5 236 0210
Fax number	+370 5 236 0200
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, attractive to consumers, and socially responsible company;
- increasing the value of the Company;
- attracting, retaining and training the best employees;
- optimizing costs, ensuring an appropriate return on investments;
- expanding our activities into new segments;
- expanding our infrastructure (gas systems);
- ensuring a high IT, technical and technological level.

MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

- On 1 January 2012, new natural gas transmission and distribution service tariffs (set by the Company's Board of Directors decision of 18 November 2011) came into effect. The natural gas tariffs applicable to household customers remained unchanged, i.e. it was decided from 1 January 2012 to apply the same tariffs that were applied in Half 2 of 2011. On 30 November 2011, the National Control Commission for Prices and Energy (hereinafter referred to as "the NCCPE") approved the natural gas transmission and distribution service tariffs and natural gas tariffs applicable to household customers as set by the LD Board of Directors.

- 10 February 2012 marked a public presentation of the findings of the Business Case Analysis Study conducted in preparation for the Poland-Lithuania Gas Interconnector Project. The Gas Interconnector is aimed at putting an end to the isolation of the Baltic Region, which will be achieved through the integration of the Baltic States into the gas markets of the European Union and by creating access to the global LNG market via the Swinoujuscie Liquefied Natural Gas (hereinafter referred to as "the LNG") Terminal Facility.

- On 15 February 2012, the Company was awarded the Environmental Protection Management System ISO 14001 certificate. It proves that the environmental protection management system, which constitutes an integral part of in the Company's activities, meets the applicable standards. The certificate was issued by an accredited institution UAB Bureau Veritas Lit.

- On 20 March 2012, a public tender was announced for the preparation of the Polish and Lithuanian Natural Gas Systems Integration Feasibility Study.

- On 29 March 2012, in cooperation with other BEMIP region's transmission system operators, LD produced the first regional Gas Investment Plan for 2012–2021. The aim of the Plan is to present the prospects for the development of the regional gas market and infrastructure, including an analysis of the challenges and obstacles that hinder the development of gas infrastructure in the Baltic Sea region.

- On 23 April 2012, the Annual General Meeting of Shareholders of LD approved the Company's activity results for 2011 and decided for the Year 2011 to pay out dividends totalling LTL 72.0 million, or 15.3 Lithuanian cents per share.

- On 24 May 2012, the NCCPE approved the LD Board of Directors' decision regarding natural gas tariffs for household customers effective from 1 July 2012.

- On 28 May 2012, at the Extraordinary General Meeting of Shareholders of LD, the Company's shareholders decided to implement the unbundling of the transmission activity of LD in accordance with the terms provided for by the legal acts by spinning off a part (i.e. the activity of natural gas transmission) from the Company, which continues its activity, and establishing a new company on the basis of the assets, rights and obligations attributed to the activity of natural gas transmission as provided for by Article 71 of the Law on Companies of the Republic of Lithuania. The Company's General Meeting of Shareholders also decided to implement the unbundling of the gas distribution activity by establishing a subsidiary of LD and by transferring the natural gas distribution activity (complex of assets) to such subsidiary together with the assets, rights and obligations attributed to such activity as contribution in kind for the newly issued shares of the subsidiary in accordance with the terms provided for by the legal acts. One of the Company's shareholders, OAO Gazprom, voted on the adoption of this decision "for" with reservation.

- In implementation of the decisions adopted by the General Meeting of Shareholders of LD as well as the applicable provisions of legal acts of the Republic of Lithuania, on 28 May 2012, the Company's Board of Directors approved the Description of the Methods for the Unbundling of the Company's Gas Transmission Activity and Control and for the Unbundling of the Company's Gas Distribution Activity, including the unbundling action plans. The Board Members Valery Golubev and Kirill Seleznev voted on the approval of the Description "for" with reservation.

- On 31 May 2012, pursuant to applicable provisions of legal acts of the Republic of Lithuania and in implementation of resolutions of the General Meeting of Shareholders of LD and the Board of Directors of LD, the Company submitted to the NCCPE for approval the Description of the Methods for the Unbundling of the Company's Gas Transmission Activity and Control and for the Unbundling of the Company's Gas Distribution Activity, including the unbundling action plans, providing for the legal, functional and organizational unbundling of the natural gas transmission activities by 31 July 2013 and for the unbundling of control of the Company's natural gas transmission activities and for the legal, functional and organizational unbundling of the Company's natural gas distribution activities by 31 October 2014.

- On 15 June 2012, the NCCPE adopted Resolution No. O3-145 "On AB Lietuvos Dujos Transmission and Distribution Activities and Control Unbundling Action Plans" and instructed the Company to unbundle the natural gas transmission and distribution activities and control in accordance with the methods and deadlines as specified in the unbundling action plans.

- On 29 June 2012, a contract was concluded with ILF Consulting Engineers Polska Sp. z. o. o regarding the preparation of the Poland-Lithuania Gas Interconnector Feasibility Study. The Feasibility Study is expected to be completed in Quarter 1 of 2013.

- With effect from 30 June 2012 Dr Peter Frankenberg resigned from his office as Member and Chairman of the Board of Directors of LD. Dr Achim Saul was elected new Member of the Board of Directors of LD.

- On 4 July 2012, at the Meeting of the Board of Directors, Dr Achim Saul was unanimously elected Chairman of the Board of Directors of LD for the current term of office of the Board.

- On 7 September 2012, in Vilnius, a statutory meeting was held of the joint venture established by the Finnish gas company Gasum Oy and AB Lietuvos Dujos to operate a gas exchange, at which the articles of association of the new company UAB GET Baltic were approved and the governing bodies were elected. New company is owned by LD (66%) and by Gasum Oy (34%).

- On 22 October 2012, the Company and the bank Swedbank, AB concluded a long-term credit facility agreement for the amount of up to EUR 72 million. The credit facility is intended to refinance the financial liabilities and finance the operations of the Company natural gas transmission activity of LD, which pursuant to legal provisions will be unbundled from the Company through the establishment of a new Transmission System Operator company.

- On 21 November 2012, the NCCPE approved new natural gas transmission and distribution service tariffs as well as natural gas tariffs for household customers (as set by the Company's Board of Directors decision of 9 November 2012) with effect from 1 January 2013. Pursuant to the applicable provisions of the Law on the Liquefied Natural Gas (LNG) Terminal of the Republic of Lithuania as well as secondary legislation approved by the NCCPE, from 1 January 2013, all the gas transmission system users will be charged and required to pay the so-called Liquefied Natural Gas Terminal funds (hereinafter referred to as the "LNGT") to finance the Liquefied Natural Gas Terminal Project. From 2013 the LNGT surcharge in the amount as set by the NCCPE – LTL 37.53/1000 m^3 (excl. VAT) – will be required to be paid by all gas transmission system users. LD will be responsible for the administration of LNGT funds.

All public notices that in accordance with law are subject to publication are posted in the electronic publication of the Administrator of Register of Legal Persons. Notifications on convening a general meeting of shareholders of the Company as well as other material events are posted in accordance with procedure established by the Law on Securities of the Republic of Lithuania 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, notices to such shareholders on convening a general meeting of shareholders are dispatched in accordance with procedure established by the Bylaws of the Company.

MAJOR DEVELOPMENTS AFTER THE REPORTING PERIOD

- On 30 January 2013, the Company's Board of Directors approved the Terms and Conditions of the Spin-off of the Company. The Members of the Board of Directors of the Company Valery Golubev and Kirill Seleznev voted on the approval of the Terms and Conditions of the Spin-off "for" with reservation. The Terms and Conditions of the Spin-off were prepared pursuant to the decision of the Extraordinary General Meeting of Shareholders of the Company of 28 May 2012 and the NCCPE Resolution No. O3-145 of 15 June 2012. The Terms and Conditions of the Spin-off provide for the terms and conditions for spinning-off a part of the Company (which will continue its activity), and for establishing the New Company of the same legal form on the basis of the assets, rights and obligations attributed to such spin-off part. Pursuant to the applicable provisions of the Law on Implementation of the Law Amending the Law on Natural Gas of the Republic of Lithuania and secondary legislation, on 30 January 2013, the Terms and Conditions of the Spin-off were submitted to the NCCPE for coordination.

- Since following the sale of the main asset item of the LD subsidiary UAB Palangos Perlas – the hotel in Palanga – the scope of business activities of UAB Palangos Perlas became considerably narrower, therefore, on 30 January 2013, the Board of Directors of the Company decided to subject the aforesaid subsidiary to liquidation.

- On 28 February 2013, having reviewed the Terms and Conditions of the Spin-off of AB Lietuvos Dujos (as approved by the Board of Directors of AB Lietuvos Dujos on 30 January 2013) the NCCPE concluded that the aforesaid document provides conditions for the proper implementation of the unbundling of the natural gas transmission activity.

NATURAL GAS BUSINESS ENVIRONMENT

Legal basis

Pursuant to the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas transposing into the national law provisions of the Third Energy Package of the EU, in Quarter 4 of 2011, the Government of the Republic of Lithuania (hereinafter referred to as the "GoRL") passed respective resolutions providing for the Company's actions to be taken with regard to the transformation of the Company: the Resolution No. 1239 "On Approval of the Plan on Performing the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law on Natural Gas of the Republic of Lithuania" as adopted by the GoRL on 28 October 2011 and the Resolution No. 1417 "On approval of the description of the procedure for unbundling of the activities and control of natural gas undertakings that do not conform to the requirements of the Law on Natural Gas of the Republic of Lithuania" as adopted by the GoRL on 7 December 2011.

Pursuant to the provisions of the aforesaid legal acts, the Company must by 31 October 2014 implement the unbundling of the transmission activity and control and to complete the legal, functional and organizational unbundling of the natural gas distribution activity thus achieving compliance with the requirements of Article 8 of the Law on Natural Gas. In compliance with the provisions of the applicable legal acts of the Republic of Lithuania, the Company submitted to the NCCPE the Company's spin-off action plan (Transmission Plan) and the Company's activity's transformation action plan (Distribution Plan) as approved by the LD Board of Directors on 28 May 2012. On 15 June 2012, the NCCPE adopted the corresponding Resolution No. O3-145 "On AB Lietuvos Dujos Action Plans for the Unbundling of Transmission and Distribution Activities and Control".

In accordance with applicable provisions of the Law on Natural Gas, from 1 August 2011, natural gas supply activity became unregulated. The Law also created preconditions for the establishment of a natural gas exchange in Lithuania. On 4 July 2012, the Company's Board of Directors decided in cooperation with the Finnish natural gas company Gasum Oy to set up a joint venture, UAB GET Baltic, to perform the functions of a natural gas market operator. On 7 September 2012, the newly established joint venture was presented to the public and to potential customers.

On 12 June 2012, the Seimas (Parliament) passed the Law on Liquefied Natural Gas Terminal regulating the principles for the installation, operation and maintenance of the LNG Terminal. Even though the LNG Terminal is being developed as a commercial project of a state-controlled company, the provisions of the Law create a possibility of covering the costs of the installation and operation of the LNG Terminal with the funds of all system users irrespective of the fact whether or not such system user will actually use the services of the LNG Terminal. Moreover, this Law imposes a mandatory obligation for gas companies importing gas to Lithuania through gas pipelines to procure 25% of their gas supplies from the LNG Terminal Facility.

Following the adoption of the Law on LNG Terminal, the NCCPE amended the Natural Gas Transmission and Distribution Price Cap Calculation Methodology, introducing into the Methodology principles for the calculation of the so-called LNGT funds, i.e. the LNGT surcharge on the natural gas transmission price caps and adopted the Procedure for the Administration of the Funds to Cover the Costs or Part Thereof Related to Installation and Operations of the LNG Terminal, its Infrastructure and Connector, whereby the NCCPE obligated LD (as a licensed natural gas transmission system operator) to collect, administrate and transfer the LNGT funds to the LNGT funds beneficiary. By resolution as of 19 October 2012 the NCCPE set the total LNGT funds amount for the year 2013 – LTL 114.1 million.

Licensing

The Law on Natural Gas stipulates that the activities of natural gas transmission, distribution and supply carried out by the Company are subject to licensing. Licences are issued and the supervision of the licensed activities is executed by the NCCPE. LD has been granted a licence to engage in the natural gas transmission activities in all the administrative units of Lithuania. By the natural gas distribution licence the Company is granted the right to engage in the gas distribution activities in the territory of 41 municipalities (out of 60). The natural gas supply licence grants the Company the right to engage in the natural gas supply business in the territory of the Republic of Lithuania.

Pricing system and natural gas tariffs

Natural gas transmission and distribution service tariffs applicable to all customers are subject to regulation. Price caps of the regulated service tariffs are set for a five-year regulation period and by the NCCPE decision may be adjusted, however not more often than once a year and in cases provided for by the Law on Natural Gas. The activity of natural gas supply is not subject to regulation.

Specific 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. The tariffs for households are submitted to the NCCPE for approval.

On 1 January 2012, new natural gas transmission and distribution service tariffs (set by the Board of Directors of the Company and verified by the NCCPE) came into effect. As regards natural gas tariffs to household customers, in Half 1 of 2012 they did not change, i.e. from 1 January 2012, regardless of the gas imports price increase, the same tariffs as the ones that were in effect in Half 2 of 2011 were further applied. Based on the experts' forecasts, that the energy resource prices would start decreasing, the Company's Board of Directors decided not to raise tariffs for household customers applicable in Half 1 of 2012.

As the forecast failed to come true, in Half 1 of 2012 alone, from the natural gas sale to household customers the Company incurred a loss of approx. LTL 20 million, which accrued due to the negative difference between the factual gas import price and the gas import price included into the household customer tariff calculation.

In view of the fact that in 2012 gas import prices were further increasing, on 23 April 2012, the Company's Board of Directors adopted a decision on new natural gas tariffs for household customers effective from 1 July 2012. In order to mitigate the price increase impact on household customers, compensation of the losses through household tariffs for Half 2 of 2012 was not included into the calculation of the tariffs. Compared to the tariffs that were in effect in Half 1 of 2012, the variable tariff component for all household customers was raised by on average 42-46 ct/m^3. The constant tariff component remained unchanged. On 24 May 2012 these tariffs were approved by the NCCPE.

As regards natural gas prices for the non-household customers, these prices are subject to monthly recalculations and depend on the changes in the gas imports prices. Natural gas import price, in turn, depends on oil and gasoil prices in international market, the USD and EUR ratio set by the European Central Bank and the actual calorific value of natural gas. Due to the very significant increase in the energy resources prices, and also due to the decline in the value of EUR against USD, in Half 1 of 2012, natural gas prices for the non-household customers have been gradually rising, but since August of 2012, they started gradually decreasing.

The NCCPE by its Resolution No O3-330 as of 26 October 2012 set adjusted natural gas transmission and distribution price caps of the Company effective from 1 January 2013. By the same resolution the NCCPE also set the so-called LNG Terminal surcharge intended to finance the costs of the LNG Terminal, its infrastructure and construction of connector in 2013, which will have to be collected by the Company from the users of the gas transmission system.

On 9 November 2012, 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 2013. Depending on the market situation, the Company plans to recover part of the revenue (that has not been received from the household customers in 2012) in 2013. On 22 November 2012, the prices and tariffs for the new period were approved by the NCCPE.

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

Market

In 2012, there were five companies importing natural gas into Lithuania: LD, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haupas. In 2012, the total volume of natural gas imported into Lithuania via system operated by LD amounted to 3.3 billion m^3. UAB Haupas did not use the Company's Natural Gas System for its imports of natural gas.

In 2012, natural gas to household and non-household customers of Lithuania was supplied by the following companies: LD, UAB Fortum Heat Lietuva, UAB Druskininkų Dujos, AB agro firm Josvainiai and UAB Intergas. UAB Dujotekana and UAB Haupas were supplying gas only to non-household customers.

AB Achema and UAB Kauno Termofikacijos Elektrinė were importing 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 Risk Management Process is carried out according to a Methodology that has been prepared by the Company. The Risk Management working group has been set up by the Company to coordinate, monitor and supervise 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 and 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 Risk Management Process comprises the following steps: risk identification, analysis, assessment and establishing the risk control measures, developing the Risk Management Action Plan and implementation of measures of the Risk Management Action Plan, monitoring and supervision of the Risk Management Process.

The main risks faced by the Company as it pursues its business are as follows: organizational structure-related risk, regulation-related risk, competition-related risk, natural gas import price fluctuation risk, credit risk, technology-related risk, macroeconomic factors-related risk.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2012.

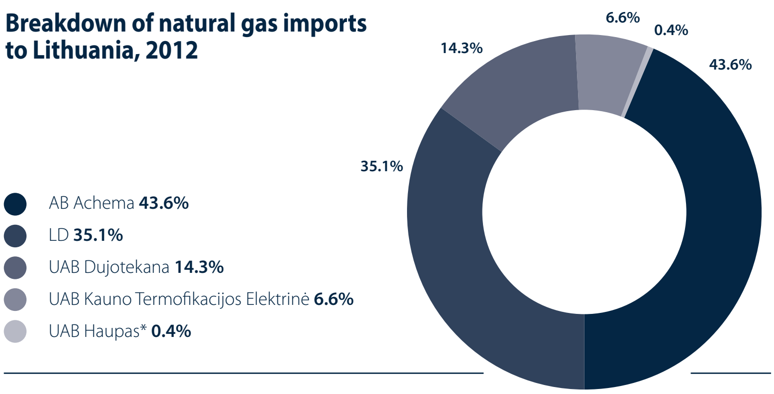
The organizational structure risk

The Company is currently implementing the legislative provisions regarding the unbundling of natural gas activities (see Chapter "Natural gas business environment. Legal basis" presented above), which are implemented by the Company according to the Description of the Method of the Unbundling of the Natural Gas Activities and Control (including Action Plans) as approved by the Board of Directors of the Company and coordinated with the NCCPE.

For this purpose, the Company has adopted an organizational structure, which ensures coordination of the necessary actions and their timely execution. With a view to a proper preparation and submission of all the required documentation, the Company's actions are coordinated with the external controlling bodies well in advance.

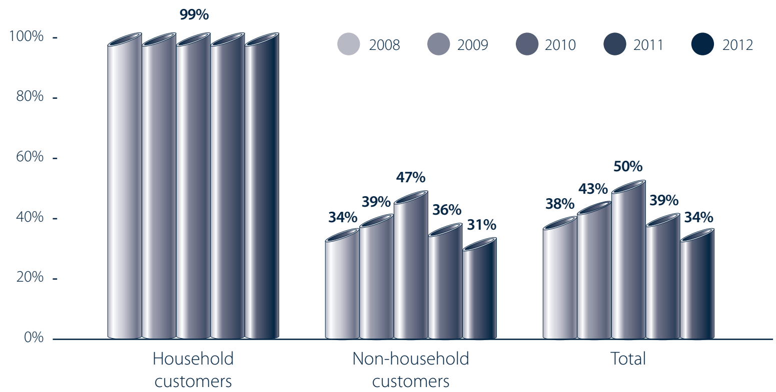
Alongside with other factors, the Company timely restructuring will also depend on whether or not all the authorities involved it this process will actually execute their duties related to the unbundling of the Company's activities sticking to statutory deadlines.

Breakdown of natural gas imports to Lithuania, 2012



* Data supplied by UAB Haupas.

LD market share, 2008-2012



comfort
safety
warmth
for home

The regulation-related risk

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

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

The Company spares no effort to maintain constructive relations with the regulatory authorities and to take an active part in the legal act drafting process.

The competition-related risk

In its activities the Company faces competition both in the Natural Gas Sector, and in the Fuel (Energy) Sector.

In the Natural Gas Supply Sector, LD competes with other companies supplying natural gas. The National Energy Strategy (Energy Independence Strategy) (hereinafter referred to as the "NES") provides for the construction by the end of the year 2014 a LNG Terminal Facility, which will provide opportunities for the diversification of natural gas imports.

On 12 June 2012, the Seimas (Parliament) of the Republic of Lithuania adopted the Law on the Liquefied Natural Gas Terminal, the provisions of which could adversely affect the Company's results in the future.

LD competes with suppliers of alternative fuels: heavy fuel oil and bio fuel. The NES provides for the increase of the share of renewable fuels in the primary energy balance at the expense of the fossil fuels (mainly at the expense of natural gas). Also LD competes with heat, power, and other energy companies operating in this sector (the end consumers of heating except the ones using the district heating service may choose among a variety of ways of heating and energy suppliers). The vast majority of the largest heat and power producing natural gas customers have dual-fuel systems and may use these alternative fuels replacing natural gas without any additional investments. Energy produced by using renewable resources is bought up in the priority order, its production is subsidized though the Public Service Obligations (PSO) mechanism.

In order to retain and expand its market share, to secure safe natural gas supplies to consumers, to meet the customer service quality standard requirements that have been set, the Company continuously implements gas system development projects, continuously carries out gas system maintenance, repair and modernization works, improves its sales and marketing strategies, carries out market research, upgrades its customer service and implements a consistent programme for business process optimization and cost-cutting. LD consistently follows the principles of transparency and fair competition in its business activities.

The technology-related risk

The technical condition of gas systems owned by the Company is passable, but quite a few of the Company's pipelines are 30-40 years old. One of the main objectives of the Company consists in ensuring the safety and reliability of its gas systems. The Company implements this objective by:

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

The macroeconomic factors-related risk

Lithuania's general economic situation is having a respective impact on gas transportation and sales volumes, on the natural gas system development and, accordingly, on the Company's activities results. The natural gas consumption downward trend still prevails, especially in the electricity generation sector, and demand for investments in projects for the connection of new gas consumers to the natural gas system is rather low.

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

By employing respective debt-management measures that have been implemented at the Company and due to active work with LD's customers, the customer debt level is kept at the level that is acceptable to the Company.

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) as adopted by the European Union. To ensure that consolidated financial statements are prepared correctly and timely, LD has adopted the Accounting Policies and Procedures Manual which regulates the principles, methods, and rules of accounting and preparation and presentation of consolidated financial statements.

FINANCIAL PERFORMANCE

Group's key performance indicators

	2012	2011	2010
Performance indicators			
Volume of transmitted natural gas, M m^3	3,266.9	3,360.9	3,068.8
Volume of natural gas transit, M m^3	2,167.4	2,043.6	1,387.2
Volume of distributed natural gas, M m^3	982.1	1,066.1	1,167.9
Volume of natural gas sales, M m^3	1,125.6	1,317.8	1,546.0
Number of customers that have concluded natural gas supply agreements as of the end of the year, thousand			
Household customers	550.3	548.2	546.2
Non-household customers	6.2	5.9	5.8
Length of gas pipelines operated, thousand km			
Transmission pipelines	1.9	1.9	1.9
Distribution pipelines	8.2	8.1	8.1
Employees			
Average number of employees	1,700	1,719	1,750

Group's key financial indicators

	2012	2011	2010
Financial results			
Sales, M LTL	1,872.7	1,840.0	1,746.8
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	183.4	213.9	245.2
Profit from operations, M LTL	69.2	122.1	146.2
Profit before tax, M LTL	70.7	104.3	148.9
Net profit, M LTL	74.5	95.8	159.5
Net cash flows from operating activities, M LTL	155.3	213.6	265.6
Investments, M LTL	158.3	62.3	178.5
Assets at the end of the year, M LTL	2,928.2	2,698.6	2,709.6
Equity at the end of the year, M LTL	2,057.8	2,055.3	2,079.6
Net financial debt	–95.7	–123.6	–110.1
Profitability ratios			
EBITDA margin, %	9.8	11.6	14.0
Profit from operations margin, %	3.7	6.6	8.4
Profit before tax margin, %	3.8	5.7	8.5
Net profit margin, %	4.0	5.2	9.1
Average return-on-assets ratio (ROA), %	2.7	3.5	6.1
Average return-on-equity ratio (ROE), %	3.6	4.6	7.8
Return on capital employed (ROCE), %	3.1	5.0	7.0
Liquidity			
Overall liquidity	1.9	1.3	1.3
Quick ratio	1.6	1.1	1.1
Leverage			
Equity to asset ratio, %	70.3	76.2	76.8
Financial debt to equity ratio, %	8.9	0.2	0.3
Net financial debt to equity ratio, %	–4.7	–6.2	–5.3
Market value ratios			
Price-earnings ratio (P/E)	12.06	10.34	7.41
Basic earnings per share, LTL	0.16	0.20	0.34
Dividend payment ratio, %	291.3	75.2	75.2
Dividends per share for the current year, LTL	0.46	0.15	0.26

The Consolidated Financial Statements for the year ended 31 December 2012 prepared by the Company also include the financial results of its subsidiary UAB Palangos Perlas and the UAB GET Baltic, a joint-venture controlled jointly with the Finnish gas company Gasum Oy. The overview of the financial results of AB Lietuvos Dujos Group (hereinafter referred to as "the Group") is presented below.

Revenues

In 2012, the revenues of the Group, compared with 2011, increased by 1.8% (by LTL 33.3 million) and amounted to LTL 1,879.2 million.

The sales accounted for the largest part of the revenues (99.7%).

The increase of the sales (by LTL 32.7 million or 1.8%) was caused by the increase in the revenues in the supply activity (from LTL 1,490.8 million to LTL 1,526.6 million or by 2.4%), the increase of which, just as it was the case last year, was determined by the increase in the gas sales price. The gas sales price increase, in turn, came as a result of the increase in the natural gas imports price due to the oil and oil product price rise on the global markets. The gas sales volumes declined further. The gas transmission revenues (including transit) decreased by 3.6%, from LTL 175.5 million to LTL 169.3 million due to the lower gas volumes transmitted to customers of Lithuania. The revenues from gas transit increased by 7.4%. The distribution volumes also declined, but the revenues increased by 2.2%, from LTL 171.1 million to LTL 174.8 million, when from 1 January 2012, the adjusted distribution price cap went up by 5.0% and the concrete distribution service prices by customer groups were also raised.

Expenses

The Group's expenses, compared to 2011, increased by 5.0% (LTL 86.3 million) and amounted to LTL 1,810.0 million. Increase of expenses was determined by the increase in the natural gas cost by 5.7% (LTL 81.9 million) due to the higher natural gas import price. In the total expenses breakdown, cost of natural gas accounted for 83.9%.

In 2012, the remaining relatively fixed costs totalled LTL 292.2 million and accounted for 16.1% of total expenses, which represents an increase of LTL 4.4 million (1.5%). The largest rise was in the depreciation expenses in connection with the investments in individual infrastructure facilities (LTL 2.5 million or 2.3%). In 2012, the Company continued with the implementation of efficiency raising policies – improvement of the organizational structure, consistent implementation of cost optimization policies.

Activity results

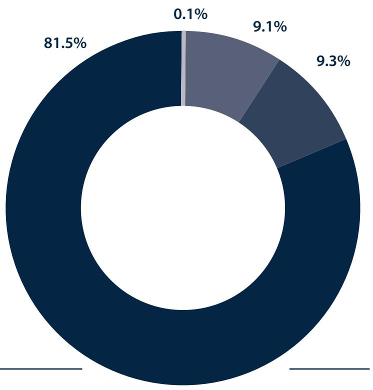
The decrease of the profit before tax from LTL 104.3 million (in 2011) to LTL 70.7 million (in 2012), or by 32.2%, was mainly determined by the worse results of the regulated transportation activity. The supply activity result also decreased. The earnings before interest, taxes, depreciation and amortization (EBITDA) of 2012 also decreased accordingly – by LTL 30.5 million (14.3%) – and amounted to LTL 183.4 million (in 2011 it amounted to LTL 213.9 million).

In 2012, the net profit decreased by LTL 21.3 million and amounted to LTL 74.5 million. The net profit reflects the income tax exemption for investments as provided for by the Law on Income Tax – LTL 14.3 million, including the deferred income tax assets formed on the unused income tax exemption balance (in the net profit of 2011 the income tax exemption amounted to LTL 10.0 million).

The Company is one of the biggest tax payers in Lithuania. According to the

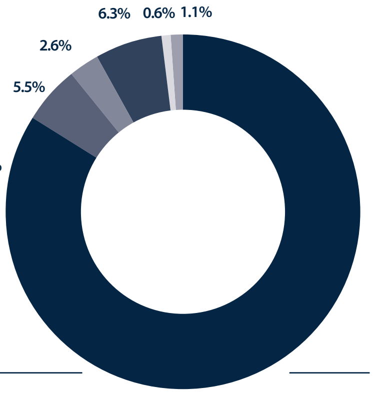
Sales structure, 2012

- Supply **81.5%**
- Distribution **9.3%**
- Transmission (incl. transit) **9.1%**
- Other **0.1%**

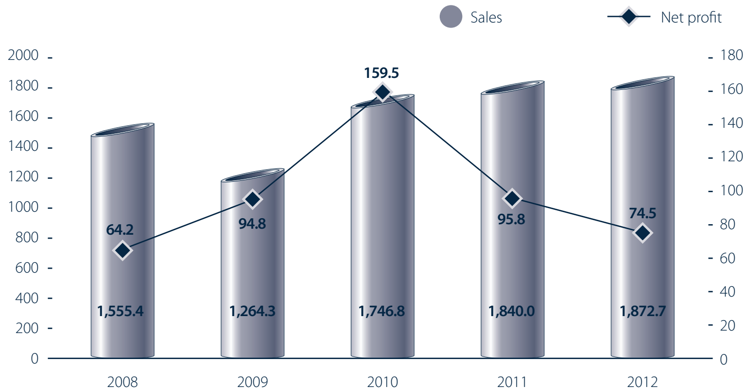


Structure of expenses, 2012

- Cost of natural gas **83.9%**
- Depreciation and amortization **6.3%**
- Payroll and related social security taxes **5.5%**
- Repairs and maintenance **2.6%**
- Other expenses **1.1%**
- Taxes (other than income tax) **0.6%**



Sales, net profit, M LTL



State Tax Inspectorate data of 2012, for a third consecutive year LD was the fourth-biggest tax payer in Lithuania. 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 1.9 billion. Out of it, dividends paid to the state, which controls 17.7% of the Company's shares, amounted to LTL 63.4 million.

Investments

Since the privatization back in 2002, the Company has invested in the construction of new gas systems, reconstruction of gas systems and modernization a total amount of LTL 1.3 billion.

In 2012, the Group's investments totalled LTL 158.3 million, i.e. by LTL 96.0 million (or 2.5 times) more than compared to 2011. In 2012, 65.1% of the total investment amount was invested in the construction of new gas system facilities, whereas 34.1% were invested in the reconstruction of gas systems and modernization and 0.8% was the Company's financial investment in the incorporation of UAB GET Baltic (which was set up together with a Finnish gas company). UAB GET Baltic is intended to operate as a natural gas exchange.

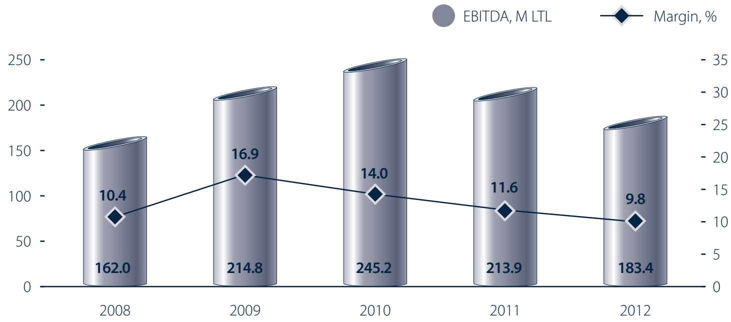
In 2012, the largest share of investments (LTL 81.7 million, of which LTL 33.9 million were covered by the EU Structural Funds assistance funds) was investments in the construction of the Šakiai–Klaipėda Gas Transmission Pipeline. The year 2012 marked the completion of the construction of the section of this pipeline from Jurbarkas to the gas pipeline branch to Tauragė.

Compared to 2011, the Company's investments in the development of its gas distribution system increased by more than 74% – to LTL 21.3 million, of which LTL 9.2 million were directed to the enhancement of the distribution system safety and supply reliability. In 2012, the Company's investments in the connection of new customers to the natural gas grid remained at the level of 2011.

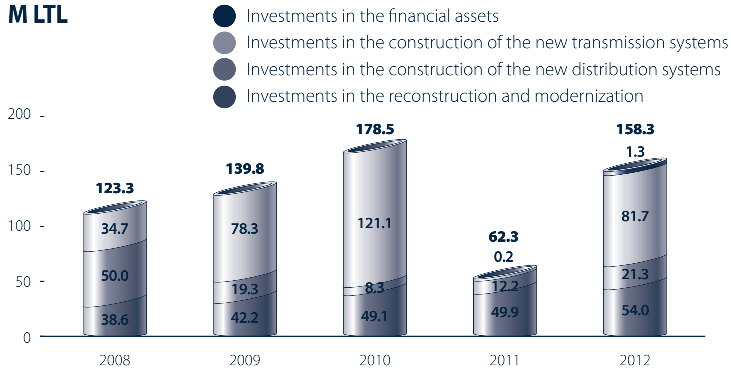
Assets

Over the year 2012, the value of assets increased by 8.5% (by LTL 229.6 million) and at the end of the year amounted to LTL 2,928.2 million. As of end of the year 2012, the non-current assets accounted for 80.5%, and the current assets accounted for 19.5% of the total assets of the Group.

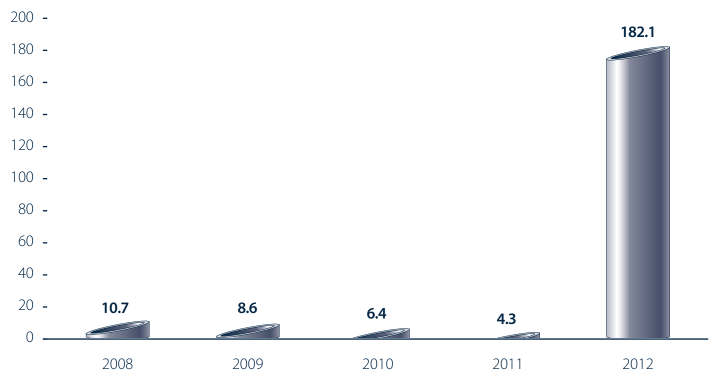
EBITDA



Investments, M LTL



Financial debt, M LTL



Over the year 2012, the value of the non-current assets increased by 1.7% (by LTL 39.9 million), which came as a result of significant investments. The value of the current assets increased by 49.9% (LTL 189.7 million) mainly due to the higher short-term investments, which increased by LTL 133.4 million, i.e. from LTL 32.0 million to LTL 165.4 million. Short-term investments are liquid 3 months–1 year investments in money market instruments, such as term deposits or securities (bonds).

Equity and liabilities

The Group's equity increased by 0.1% (by LTL 2.5 million) and at the end of the year amounted to LTL 2,057.8 million. The equity at the end of the reporting period accounted for 70.3% of the total assets of the Group.

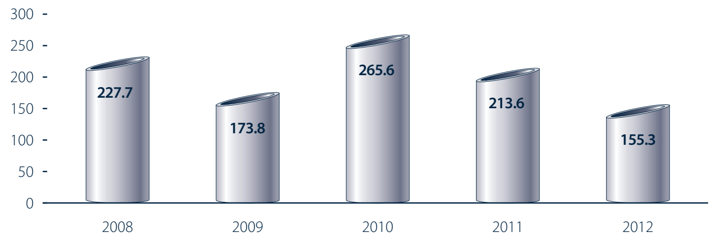
The liabilities increased by 35.3% (by LTL 227.0 million) and at the end of the year amounted to LTL 870.3 million. Over 2012, the financial debt of the Group increased by LTL 177.8 million: from LTL 4.3 million (end 2011) to LTL 182.1 million (end 2012). The Company received a loan for refinancing of financial liabilities and financing of the activity of the Company's transmission activity, which, in accordance with the requirements of legal acts, will be unbundled from AB Lietuvos Dujos by establishing a new transmission system operator company.

Cash flows

The Group's cash flows from its operating activities decreased by LTL 58.3 million (27.3%) and amounted to LTL 155.3 million.

For detailed information on the financial results of the Group, see the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2012.

Cash flows from operating activities, M LTL



RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

A pilot project has been implemented for a remote metering of natural gas consumption by LD household gas customers: installation of the necessary software enabled continuous monitoring of data on gas consumption by 125 household gas consumers. The analysis of the results of the pilot project will serve as a basis for a decision regarding further development prospects.

The internal condition of 227 km of gas transmission pipelines was checked by using the intelligent pigging procedures. Individual sections of the gas distribution pipelines were subjected to check the condition of the metal of these pipes.

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

In co-operation with the Polish Gas Transmission System Operator GAZ-SYSTEM S.A. LD participates in the preparation of a Feasibility Study of the Gas Interconnection, the aim of which is to establish the demand for gas transmission capacities in this direction, the infrastructure facilities that are necessary, the routing of the gas pipeline, to carry out an exhaustive environmental, economic, financial and legal analysis (due diligence). For the preparation of the Feasibility Study the European Union financial assistance according to the EU TEN–E programme has been granted. The EU financial assistance covers 50% of the costs related to the preparation of the Feasibility Study, whereas the balancing amount is financed in equal parts by LD and the GAZ-SYSTEM S.A.

BUSINESS PLANS AND FORECASTS

Special attention is paid to a proper and timely implementation of the provisions related to the restructuring of the Company laid down in the Law on Natural Gas, the Law on the Implementation of the Law on Natural Gas as well as other legislation. Stage 1 of the restructuring – establishment of a TSO company – is scheduled for completion on 1 August 2013. For details see other chapters of the present Consolidated Annual Report.

It is planned that in 2013 natural gas volume transportation to customers of Lithuania via the gas transmission system of LD will amount to approx. 2.9 BCM.

In 2013 there are plans to connect approx. 2.1 thousand new customers to the natural gas grid, but this number may be corrected by future developments in the economic situation of Lithuania. It is planned that the Company's investments in the construction of new gas systems in 2013 will be of a level comparable to the one of 2012. More detailed information on the prospective development of the gas transmission system is presented in the Natural Gas Transmission System Operator's Ten Year (2013–2022) Network Development Plan, which has been submitted for public consultation.

In 2013 there are plans to complete the implementation of a project that is part of the National Energy Strategy – the construction of the Šakiai–Klaipėda Gas Transmission Pipeline section from Tauragė to Klaipėda. In is estimated that the total value of the gas transmission pipeline from Jurbarkas to Klaipėda will amount to approx. LTL 165.0 million. The project implementation is co-financed with the European Union Structural Fund grant (up to LTL 77.06 million). The first section of this gas transmission pipeline of national importance, i.e. pipeline the section to the town of Jurbarkas, was constructed back in 2007 and is already fully operational – supplies gas to gas consumers of this town. 2012 saw the completion of the construction of the gas pipeline branch from Jurbarkas to Tauragė. This gas transmission pipeline will connect to the grid the LNG terminal facility, which is currently being constructed by AB Klaipėdos Nafta.

In 2011, in co-operation with the Polish Gas Transmission System Operator GAZ-SYSTEM S.A. the Poland-Lithuania Gas Interconnector Business Case Analysis Study was prepared, which presented comprehensive information about gas markets of Poland and the Baltic States. In continuation of the works that were started earlier, in Quarter 1 of 2013, there are plans to prepare a Feasibility Study of the Poland-Lithuania Gas Interconnector. The results of the Feasibility Study will constitute a basis for further steps with regard to the implementation of this Project.

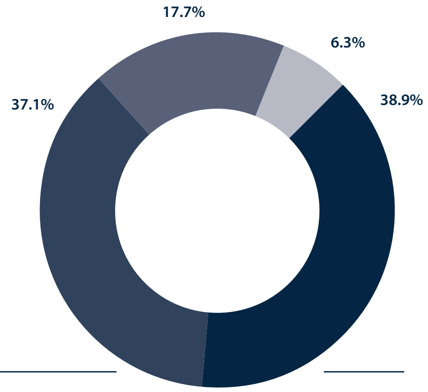
In 2013, the Company also intends to continue with the implementation of projects aimed at raising the operational efficiency and cost optimization.

MANAGEMENT OF THE COMPANY

Information on the observance of the Code of Governance

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

Structure of LD shareholders as of 31 Dec 2012



- 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**

Shareholders and shares

The authorized capital of the Company consists of 469,068,254 ordinary registered shares with par value of LTL 1 each. In 2012, the par value of a share did not change. All the shares are fully paid.

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 shall be adopted exclusively by a resolution of the General Meeting of Shareholders of LD.

In 2012, the value of the authorized capital and the structure of shareholders did not change.

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

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

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

In 2012, LD did not acquire its own shares and it did not make any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2012, LD was controlled by 2,803 shareholders holding LD shares by the right of ownership; the majority of them were small shareholders.

The shareholders of the Company E.ON Ruhrgas International GmbH, OAO Gazprom and the Republic of Lithuania, whose shares are held in trust by the Ministry of Energy of the Republic of Lithuania, together control 93.7% of the stock of LD, 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 LD activities. The agreement is confidential.

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

To the best of the Company's knowledge, there exist no shareholders arrangements that might serve as grounds for the securities disposal restrictions and/or voting right restrictions except the arrangements provided for by the shares purchase-sale (privatization) agreements and the shareholders' agreement.

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

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

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

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

Share price dynamics at NASDAQ OMX Vilnius, 2010-2012

	Period		
	2012	2011	2010
Highest price per share, LTL	2.244	2.828	2.555
Lowest price per share, LTL	1.830	1.730	1.970
Weighted average price per share, LTL	2.040	2.336	2.232
Price per share as of end of the period, LTL	1.930	2.068	2.521
Market capitalization as of end of the period, M LTL	905.4	970.1	1,182.3
Market capitalization of minority shareholders as of end of the period, M LTL	57.2	61.3	74.8

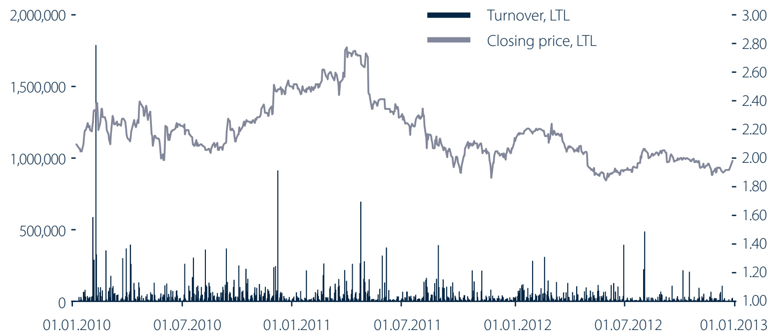
outlook

advancement

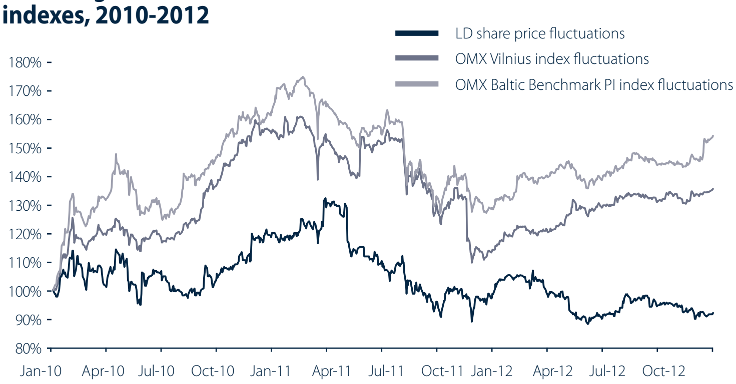
energy

future

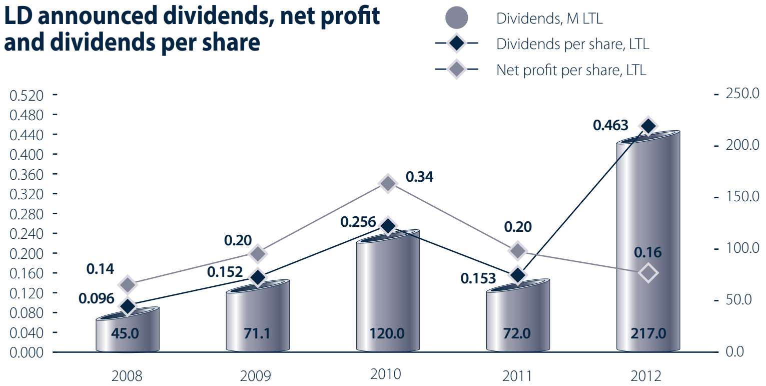
LD share price and turnover, 2010-2012



Value changes of LD share, OMX Vilnius and OMX Baltic Benchmark PI indexes, 2010-2012



LD announced dividends, net profit and dividends per share



In 2012, the turnover of the trading in LD shares amounted to LTL 8.6 million (2011: LTL 11.7 million). Through the transactions that were concluded 4,194,387 shares were disposed of (2011: 5,014,082).

In 2012, after the slump of 2011, the stock markets of all the three Baltic States recorded a growth. In 2012, the OMX Baltic Benchmark PI and OMXV indices of the stock exchange NASDAQ OMX Vilnius (reflecting stock price developments of securities of all companies listed on the Baltic States and Vilnius stock exchanges) showed respective rises by 20.6% and 18.8% (in 2011, there was a drop of 21.8% and 27.1%). Meawhile, the value of LD shares was still decreasing, and in 2012 it showed a decrease of 6.7% (in 2011: a drop of 18.0%).

The OMX Baltic Benchmark PI and OMXV indices are total return indices that include all the shares listed on the Main and Secondary lists of the stock exchange. The indices do not include the share prices of companies where one shareholder controls 90% or more of the shares. The aim of the indices is to reflect the current situation and developments on the Baltic States and Vilnius stock exchanges.

Dividends

In recent years, the Company has been pursuing a consistent dividend payout policy and every year it appropriates part of the profit to the payout of dividends. Assessing redistribution of the reserves formed in previous years, it is appropriated for the payout of dividends a total amount of LTL 217.0 million, or 46.3 Lithuanian cents per share (for the year 2011: LTL 72.0 million, or 15.3 cents per share).

Agreements with intermediaries of public trading in securities

At the beginning of the year 2012, the Company's securities accounting as well as the accounting of securities-related services were provided by AB FMĮ Finasta. The contract with the aforesaid company (originally concluded on 26 November 2003) was terminated on 31 March 2012.

On 16 March 2012, LD concluded an agreement with AB SEB Bankas regarding the accounting of securities issued by the Company and the provision of services related to securities accounts, with effect from 1 April 2012.

Management structure

The Company is a vertically integrated enterprise. The activities of the Company are governed by 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.

The Company has implemented a functional unbundling of its gas transportation and supply activities: the technical functions in the gas transmission, distribution and supply activities and the commercial functions in the transportation and supply activities were unbundled; nevertheless, the Company's general administrative and supporting functions as well as the planning and pricing functions in the transmission and distribution activities still remain integrated. In implementation of provisions of the Law on Natural Gas and other legal acts, since 2002 the Company has been keeping separate accounts for natural gas transmission, distribution, supply and other activities.

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

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

Company Particulars of AB FMĮ Finasta	
Company code	122570630
Licence category	B
Brokerage company's license number	B087 (on 28 March 2003 issued by the Securities Commission of the Republic of Lithuania, as subsequently amended)
Registered office	Maironio g. 11, Vilnius, Lithuania
Telephone number	+370 5 278 6833, +370 5 278 6844, short telephone number 1813
E-mail address	info@finasta.lt
Website	www.finasta.lt

Company Particulars of AB SEB Bankas	
Company code	112021238
Banking licence No	2 (on 29 November 1990 issued by the Bank of Lithuania, as subsequently amended)
Registered office	Gedimino pr. 12, Vilnius, Lithuania
Telephone number	+370 5 268 2800, short telephone number 1518
E-mail address	info@seb.lt
Website	www.seb.lt

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.

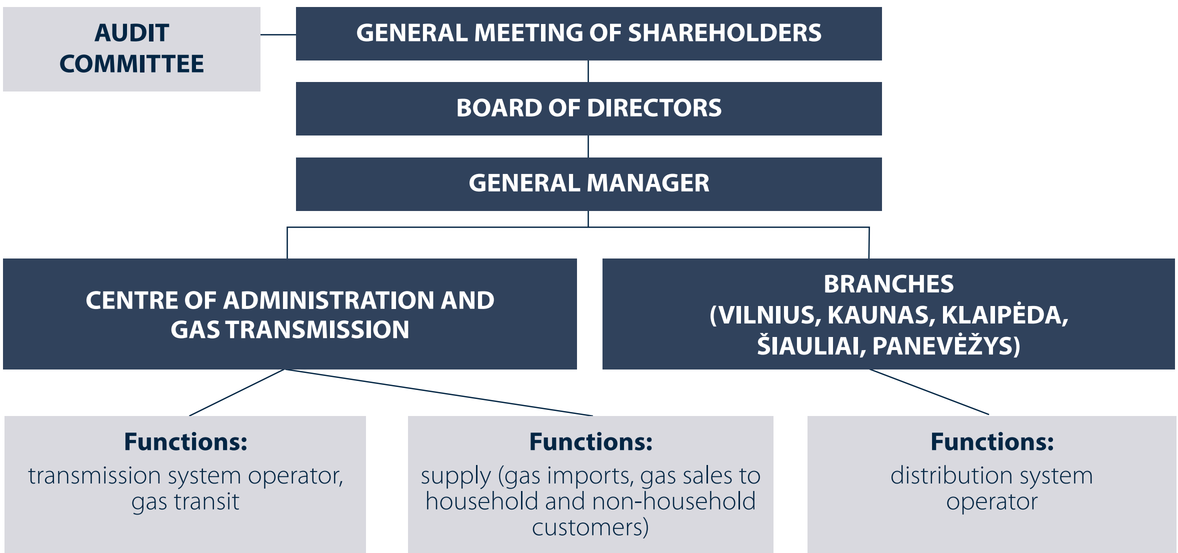
The Bylaws provide for the following governing bodies:

- 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. 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 20 April 2011 until 23 April 2012

No	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Peter Frankenberg	Chairman of the Board of Directors*	April 2010–June 2012
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors*	April 2010–April 2013
3.	Uwe Fip	Member of the Board of Directors	April 2010–April 2013
4.	Kirill Seleznev	Member of the Board of Directors	April 2010–April 2013
5.	Kęstutis Žilėnas	Member of the Board of Directors	December 2011–April 2013

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

Composition of the Board of Directors from 23 April 2012

No	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Peter Frankenberg*	Chairman of the Board of Directors***	April 2010–June 2012
2.	Dr Achim Saul**	Chairman of the Board of Directors***	July 2012–April 2013
3.	Dr Valery Golubev	Deputy Chairman of the Board of Directors***	April 2010–April 2013
4.	Uwe Fip	Member of the Board of Directors	April 2010–April 2013
5.	Kirill Seleznev	Member of the Board of Directors	April 2010–April 2013
6.	Kęstutis Žilėnas	Member of the Board of Directors	December 2011–April 2013

* Resigned with effect from 30 June 2012.

** Elected member of the Board of Directors with effect from 1 July 2012, elected Chairman with effect from 4 July 2012.

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

In 2012, tantiemes paid to the members of the Board of Directors totalled LTL 524 thousand, averaging LTL 104.8 thousand per member of the Board of Directors.

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

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

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

No	Full name	Position title	Start and end of term
Top executives:			
1.	Viktoras Valentukevičius	General Manager	From 28 June 2002; April 2010–April 2013*
2.	Dr Joachim Martin Hockertz	Deputy General Manager – Director of Commerce	From 1 July 2002
3.	Jonas Janiulionis	Deputy General Manager – Technical Director	From 13 September 2002
4.	Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	From 3 May 2004
5.	Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	(1 January 2004–1 January 2008: Chief Financial Officer) From 1 January 2008

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

In 2012, payouts to the top executives of the Company totalled LTL 2,611 thousand, averaging LTL 522.2 thousand per top executive.

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

Full name	Position title	Participation in the capital of the Issuer	
		Share of the authorized capital held, %	Share of the voting rights held, %
Board of Directors (as of 31 December 2012)			
Dr Peter Frankenberg*	Chairman of the Board of Directors	–	–
Dr Achim Saul**	Chairman of the Board of Directors	–	–
Dr Valery Golubev	Deputy Chairman of the Board of Directors	–	–
Uwe Fip	Member of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Kęstutis Žilėnas	Member of the Board of Directors	–	–
Audit Committee (as of 31 December 2012)			
Juozas Kabašinskas	Independent member	–	–
Agnė Žičiūtė	Member	0.000	0.000
Top executives (as of 31 December 2012)			
Viktoras Valentukevičius	CEO – General Manager	0.013	0.013
Dr Joachim Martin Hockertz	Deputy General Manager – Director of Commerce	–	–
Jonas Janiulionis	Deputy General Manager – Technical Director	0.001	0.001
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

* Resigned with effect from 30 June 2012.

** Elected member of the Board of Directors with effect from 1 July 2012, elected Chairman with effect from 4 July 2012.

The subsidiary and the joint venture

AB Lietuvos Dujos is a shareholder of two other companies. LD 100% controls UAB Palangos Perlas and jointly with the Finnish company Gasum Oy controls UAB GET Baltic.

Company Particulars	Companies	
	UAB Palangos Perlas	UAB GET Baltic
Legal form	Private limited company	
Date and place of registration	19 January 1998 State Enterprise Centre of Registers	13 September 2012 State Enterprise Centre of Registers
Company code	152681177	302861178
Registered office	Birutės g. 8, Klaipėda, Lithuania	Aguonų g. 24, Vilnius, Lithuania
Telephone number	+370 46 48 45 69	+370 5 236 0000
Fax number	+370 46 48 45 56	+370 5 236 0001
E-mail address	–	info@getbaltic.lt
Website	–	www.getbaltic.lt
Authorised capital	LTL 9,703,763	LTL 2,000,000
Share of the authorised capital controlled by LD	100%	66%
Average number of employees in 2012	15	2

UAB Palangos Perlas

In 2012, the authorized capital of UAB Palangos Perlas did not change, it is divided into 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. The main areas of the subsidiary's activities: hotel and other board and lodging services, organization of seminars and conferences. In June of 2012 UAB Palangos Perlas sold its main asset item the Žydroji Liepsna hotel in Palanga. Since following the sale of the main asset item of the LD subsidiary UAB Palangos Perlas – the hotel in Palanga – the scope of business activities of UAB Palangos Perlas became considerably narrower, therefore, on 30 January 2013, the Board of Directors of the Company decided to subject the aforesaid subsidiary to liquidation.

UAB GET Baltic

End 2011 the Finnish gas company Gasum Oy and LD engaged in a cooperation aimed at the incorporation of a joint venture to carry out functions of a natural gas market operator and to organize trade at a gas exchange set up thereby. The long-term goal of the cooperation consists in the formation of a regional natural gas exchange covering Lithuania, Latvia, Estonia and Finland, and the integration of the regional gas market. On 13 September 2012, the joint venture was registered with the Register of Legal Entities. The authorized capital of UAB GET Baltic consists of 2,000,000 ordinary shares (par value of each share is LTL 1). The ownership structure of the joint venture UAB GET Baltic is as follows: LD owns 66% and Gasum Oy owns 34%. On 9 November 2012 the NCCPE issued a natural gas market operator's license to UAB GET Baltic. 20 December 2012 marked the adoption of the Regulation of the Natural Gas Exchange of UAB GET Baltic, which is a document laying down the principles and rules of the trade on the Natural Gas Exchange and it was the last formal element that is necessary for the Exchange to become operational. In January of 2013 the trading at the gas exchange took off.

Transactions of associated parties

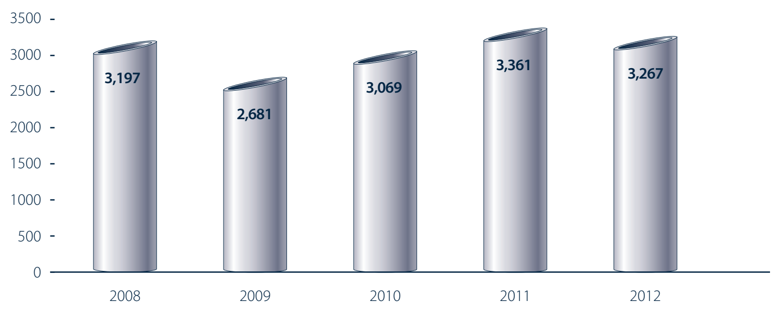
The information is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2012.

The Company's Natural Gas Transmission and Distribution System

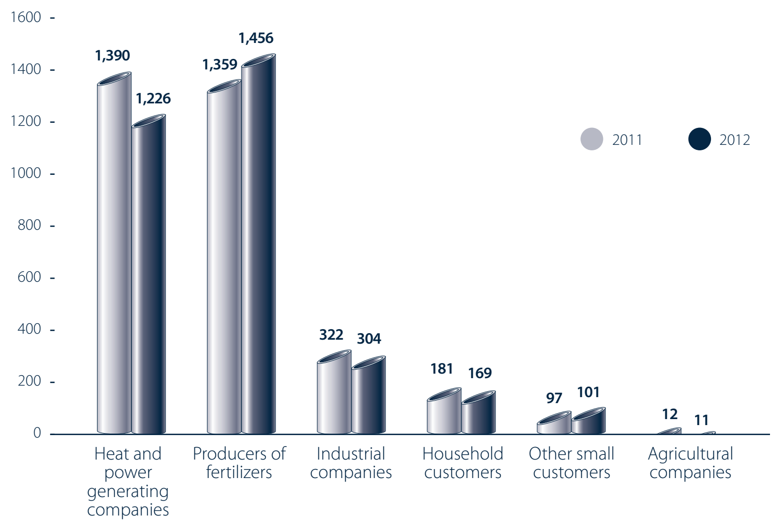
- Gas transmission pipelines
- Major gas distribution pipelines
- Gas metering stations
- Gas compressor stations
- Gas distribution stations
- Gas distribution station (projected)
- Major towns connected to the natural gas system
- Towns connected to the natural gas system
- Towns not connected to the natural gas system
- Gas pipelines (projected)
- Gas system controlled by other companies

Gas transmission pipelines	Gas distribution pipelines	Gas distribution stations	Gas metering stations	Gas compressor stations
1.9 thou km	8.2 thou km	65	3	2

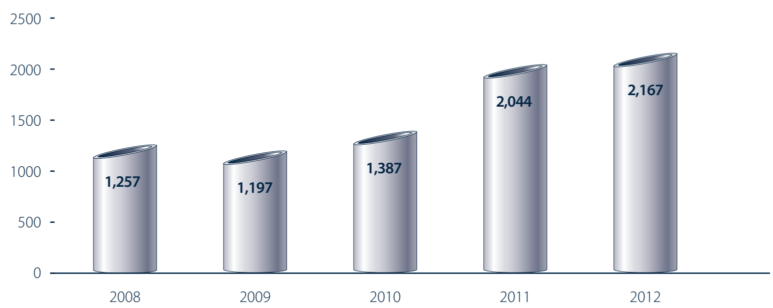
Natural gas transmission volumes, MCM



Natural gas transmission to the customers structure, MCM



Transit of natural gas to Kaliningrad Region of RF, MCM



Core business activity of the Company:

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

- **Distribution:** transportation of natural gas via gas distribution pipelines, designed for the delivery of natural gas to consumers, except for the supply.

- **Supply:** gas selling and/or reselling to customers and gas delivery to the natural gas system.

TRANSMISSION OF NATURAL GAS

In 2012, the volumes of natural gas transmitted to the customers of Lithuania via the transmission system totalled 3,266.9 million m^3. Compared to 2011, the natural gas transmission volumes decreased by 2.8%. The decrease in the natural gas transmission volumes was determined by the lower gas volumes consumed by energy companies.

The natural gas transmission and, accordingly, the distribution and supply volumes of 2012 decreased mainly due to the lower gas consumption by the heat and power generation plants, which came as a result of the increase in the use of alternative fuels, the electricity production quota reductions and a more economical consumption of gas. The Company has fully complied with its obligations to consumers under the gas purchase and transportation service contracts that were concluded with customers. LD imported 35.1% of total natural gas volumes imported to Lithuania. In implementation of the EU legislation on Third Party Access to natural gas networks, LD transported to third parties 2,141.3 million m^3 of natural gas or 64.9% of the total natural gas volumes consumed in Lithuania.

Transit

In 2012, the natural gas transit volumes to the Kaliningrad Region of Russian Federation totalled 2,167.4 million m^3, which represents an increase of 6.1% y/y.

Pursuant to legal acts, the assets and expenses of the transit activity have been unbundled from the ones of the regulated gas transmission activity since 2005. The transit activity has no effect whatsoever on the prices of the natural gas transmission service applicable to gas consumers of Lithuania.

Investments in the transmission system

In 2012, investments in the construction of new gas transmission systems and pipeline system development totalled LTL 81.7 million (2011: LTL 0.2 million).

In 2012, the Company continued with the implementation of a major investment project included into in the National Energy Strategy – the construction of the Šakiai–Klaipėda Gas Transmission Pipeline. In 2012 a 35 km gas pipeline section from Jurbarkas to Tauragė was constructed. Since the start of the implementation of the project, the investments in this gas pipeline section totaled LTL 34.1 million, of which LTL 32.1 million were the investments made in 2012. Another LTL 49.6 million in 2012 have already been invested in the construction of the gas pipeline section from Tauragė to Klaipėda and the Klaipėda Gas Distribution Station No 2. Since the inception of the Šakiai–Klaipėda project LD has already invested in this project a total amount of LTL 119.5 million.

Investments in the reconstruction of the gas transmission system totalled LTL 25.9 million (2011: LTL 29.4 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 was approved. The project is scheduled for completion in Quarter 1 of 2013. With a view to enhancing the safety and reliability of the gas transmission system with the financial assistance of the EU the following main works were carried out:

- As part of the reconstruction of the cathodic protection system, 2 couplings and 3 cathodic protection stations were installed;
- At the Panevėžys Gas Compressor Station works for the modernization of the gas compressors air supply systems, modernization of the operational parameters control systems and modernization of the valve units at the line block valve sites were continued.

The Company also carried out other main works:

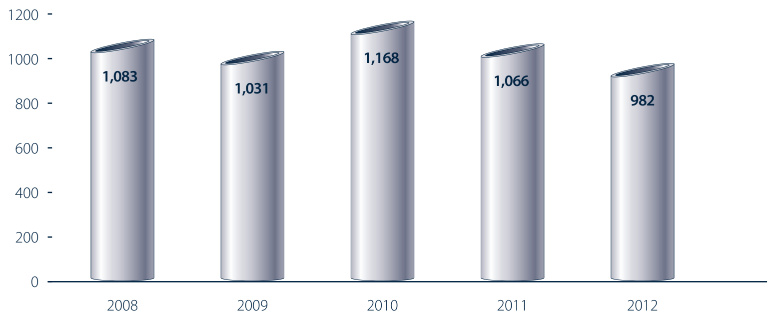
- Works for the reconstruction of GDSs were continued according to the plan. In 2012, the Girininkai GDS, Alksnupiai GDS and Raguva GDS were fully reconstructed and the Maišiagala GDS, Gegužinė GDS and Taujėnai GDS were started to be reconstructed. At present, out of the total 65 GDSs, 58 ones are either new or have been subjected to major overhauls;
- Installation of 3 line block valve remote control systems (SCADA) and modernization of 2 line block valve units has been completed;
- Installation of an intelligent pig launcher and receiver on the Minsk–Vilnius–Vievis Gas Transmission Pipeline and an intelligent pig launcher on the Vilnius–Kaliningrad Gas Transmission Pipeline and works for the preparation of the gas pipeline for the intelligent pigging procedures;
- Works (in accordance with the schedule) for the reconstruction of the gas pipeline cathodic protection system equipment;
- Works for the modernization of the telemetry, SCADA and telecommunication systems and the gas metering equipment;
- Procurement of equipment for the Dispatch Centre and the new Server Room, which will be used by the new Transmission System Operator company.

Maintenance of the transmission system

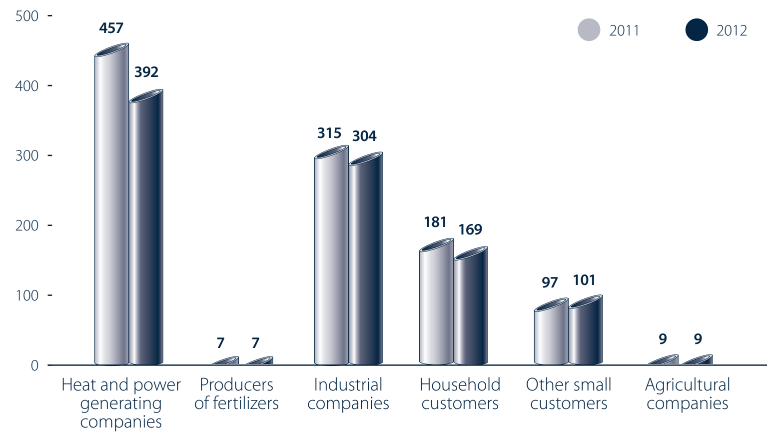
With a view to ensuring the reliability, efficiency and safety of the transmission pipelines, operations the gas repair and maintenance works that had been scheduled for the period were duly executed.

In 2012, the intelligent pigging procedures of Minsk–Vilnius Gas Transmission Pipeline (67 km section) and the Vilnius–Kaliningrad Gas Transmission Pipeline (two lines: 84 km and 81 km long) were carried out. The defects that were established as a result of these procedures are being eliminated.

Natural gas distribution volumes, MCM



Natural gas distribution to the customers structure, MCM



DISTRIBUTION OF NATURAL GAS

In 2012, the Company's gas volume distribution via its natural gas distribution system totalled 982.1 million m^3, which represents a drop of 7.9% y/y.

Investments in the distribution system

In 2012, the investments in the construction of new gas distribution systems totalled LTL 21.3 million (2011: LTL 12.2 million); 84.4 km of new distribution pipelines were constructed. In 2012, 2.2 thousand new customers were connected to the natural gas system (2011: 1.9 thousand). The year 2012 marked the implementation of a major investment project aimed at securing safety and reliability of the natural gas distribution systems as well as supply of natural gas to customers in the town and district of Kaunas – the construction of the Girininkai

GDS–Rokai–Garliava Gas Distribution Pipeline, total investments amounted to LTL 8.6 million (of which in 2012: LTL 8.5 million). The implementation of the project kicked off in 2011.

In 2012, investments in the reconstruction of the distribution system totalled LTL 11.3 million (2011: LTL 7.7 million). Of this total, the largest amount (LTL 6.2 million) was invested in the reconstruction of the distribution pipelines: 14.8 km of gas distribution lines were reconstructed, of which 5.8 km were reconstructed using the method of insertion of new polyethylene pipes into the old steel ones.

The investments in the gas pressure regulating stations totaled LTL 2.0 million. The technological equipment was modernized at 4 stationary gas pressure regulating stations, 5 container-type gas pressure regulating stations; and in 27 instances the stationary gas pressure regulating stations were replaced by container-type gas pressure regulating stations.

Works for the modernization of the cathodic protection, telemetry, telecommunications systems and gas metering devices were performed, on which the Company spent a total amount of LTL 3.1 million.

In accordance with the procedure that back in 2011 was approved by Order of the Minister of Energy of the Republic of Lithuania, the Company continued with the buyback of local natural gas systems of common use belonging to other legal and natural entities. In all, 65 local natural gas systems of common use (total length 54.8 km) were bought back. Since 2001, in all, 418 km of gas pipelines have been already bought back.

Maintenance of the distribution system

The Company operates a gas distribution system consisting of 8.2 thousand km of gas distribution lines. The Company, acting in accordance with applicable legal act provisions and performing the distribution system operator's functions, is in charge of securing adequate maintenance of gas systems and adequate quality of gas distribution services provided to customers.

In 2012, the Company devoted a lot of attention to the procurement of state-of-the-art equipment, instruments and tools used in the gas distribution system maintenance procedures and to the training/instructing LD staff how to use them. To facilitate the systematic upgrading of LD workforce skills and qualifications, at its Panevežys branch, the Company equipped an open-air real-world process simulation facility for hands-on training in natural gas.

Gas system maintenance works are carried out according to the repair works programme drawn up by the Company. Any defects established during the regular maintenance procedures are either eliminated forthwith, or, alternatively, included into the yearly distribution system repairs programme that is drawn up by the Company. On the basis of the equipment condition evaluation criteria and the economic feasibility calculations, the Company draws up programmes for the reconstruction of its natural gas systems. According the maintenance schedules and programmes, works for the maintenance of gas distribution systems are carried out in a systematic manner.

SUPPLY OF NATURAL GAS

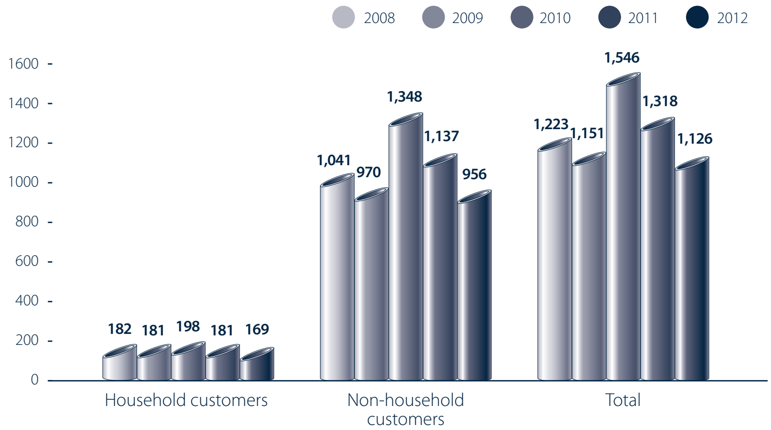
In 2012, LD purchased natural gas from OAO Gazprom according to a long-term (until 2015 incl.) natural gas supply agreement.

Pursuant to the Resolution of the Government of the Republic of Lithuania of 28 March 2012 No 325 "On amending 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. From 1 September 2012, in the event of incidents and/or extreme situations the accumulated gas volumes would ensure uninterrupted gas supplies to the so-called vulnerable consumers (all the household and non-household customers with annual gas consumption of up to 20,000 m^3) for at least 30 days.

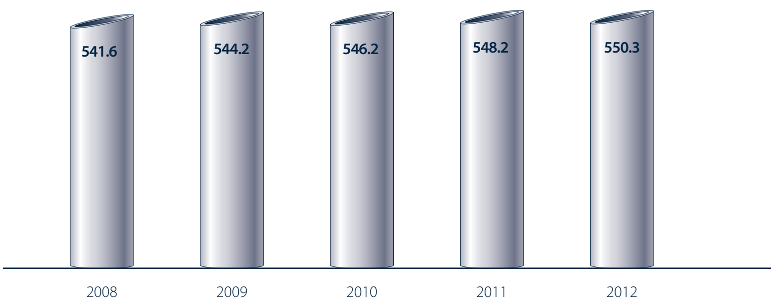
Customers

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 (legal persons). In 2012, on the non-household customers' market, the share of LD was 30.9%, and on the household customers' market, the share of LD was almost 100%.

LD sales, MCM



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



In 2012, LD supplied to gas consumers 1,125.6 million m^3 of natural gas, or by 14.6% less than in 2011, when the respective indicator stood at 1,317.8 million m^3. In 2012, the volume of natural gas supplied to the non-household consumers amounted to 956.4 million m^3 and the volume of natural gas supplied to the household consumers amounted to 169.2 million m^3.

According to data as of 31 December 2012, the Company was selling natural gas to 556.5 thousand non-household and household consumers (energy companies, industrial and other enterprises, organizations and households).

Customer service

In 2012, ensuring top quality and professional customer service has been and continues to be the field of utmost priority and one of the most important objectives of the Company. In 2012, natural gas customers located in various corners of Lithuania either called the Company's employees or were serviced by the Company's employees at their own premises more than 560 thousand times.

With a view to ensuring quality of services rendered by the Company to its customers, in 2012, LD continued with the customer service-related projects launched in previous years and it also launched new projects:

- In implementation of a continuous staff training programme in the field of rendering customer services, in 2012, further training was provided to over 200 LD employees. This stage of LD staff training programme is scheduled for completion in 2013.

- The Company has been continuing work for the improvement of processes of collection of payments from customers for natural gas supplies. LD uses services of 23 different partners rendering payment collection and data administration services.

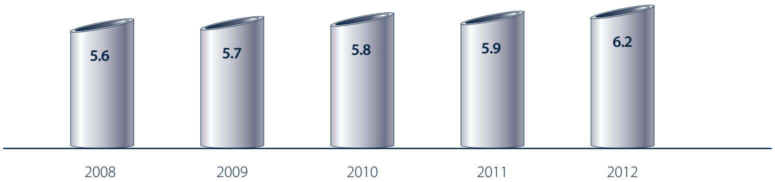
- For the third consecutive year, in autumn of 2012, the customer service quality survey action "Please Assess Our Services" was launched. The main aim of the action was to assess the quality of the customer services rendered by the Company's staff to the non-household customers and the level of customers' satisfaction. The results of the survey did not disappoint us – just as it was the case with our previous surveys covering the LD household customer segment, this time, too, LD non-household customers' approvement ratings of the Company's customers services rendered to them were high in case of the vast majority of respondents (94% of the total);

- In 2012, over 82.6% of the Company's non-household customers used the possibility of receiving gas bills by e-mail via the E-Pay system.

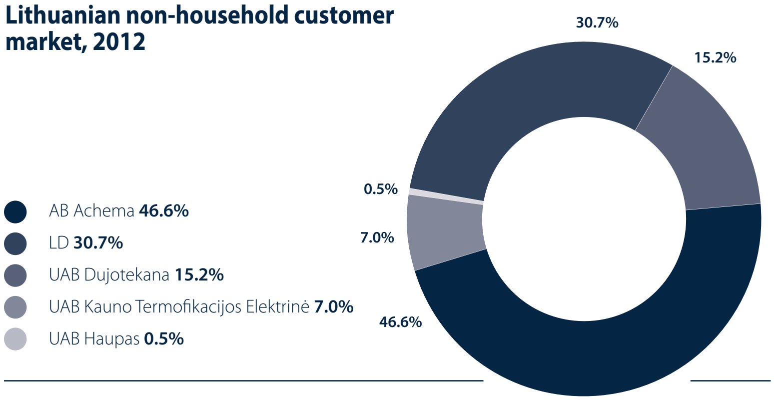
- In 2012, a total of 2.2 thousand new customers were connected to the natural gas system.

- In 2012, the Central Calibration and Testing Laboratory expanded the range of activities to which it is accredited in the field of gas volume metering, and increased the accuracy and reliability of with which it establishes natural gas quality parameters.

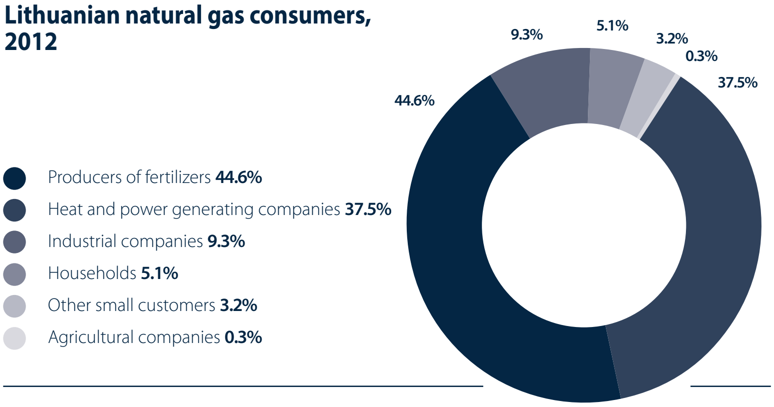
Number of non-household customers who have concluded supply contracts at the end of the period, thou



Lithuanian non-household customer market, 2012



Lithuanian natural gas consumers, 2012



Customer service at the Call Centre

- In 2012, the Call Centre answered almost 124 thousand calls.

- During the first contact, all the necessary information was supplied to as many as 97% of all the callers to the Hotline 1894. Other customers were supplied with the necessary information either during the course of the same day or next working day by forwarding the customer inquiry to the Company's specialists in charge of respective field of activity.

- The Automatic Voice System that has been implemented by LD enables the Company's customers to access respective data on their balance of payments and on gas tariffs by Hotline 1894 a 24 hour/7day a week basis. In 2012, the Automatic Voice System was resorted to 19 thousand times.

- In 2012, 107 thousand SMS messages were dispatched to the Company's customers notifying them on their payment irregularities (by 5% more than in 2011), and during the gas tariff change period in July the number of SMS messages to LD customers' amounted to 362 thousand containing information on new tariffs (by 8% more than in July of 2011).

- The number of inquiries received by the Company by e-mail has also seen a consistent rise. In 2012, the number of inquiries received and answered by e-mail was by 70% higher, compared with 2011. A surge in the number of LD customer e-mails is especially sharp twice a year when customers using the direct debit payment method declare their factual natural gas meter readings.

- In 2012, in order to improve the quality of LD customer service, an information system for customer inquiry management was installed at the Company, which facilitates faster dealing with customer queries and providing customer services.

- In 2012, on Hotline 1894, the average waiting time before the call was answered by a call manager was 12 seconds.

- In 2012, the vast majority of the customers who called to the Company's Call Centre via Hotline 1894 asked for information on payments and natural gas tariffs. For details see the figure below.

Customer service at the branches

- In 2012, the number of household customers' visits paid to the Company branches on various settlement and gas contract issues amounted to 95.8 thousand.

- In 2012, the number of applications requests for the connection to the LD natural gas grid amounted to 3,731 (i.e. by 11.6% more than in 2011).

Services rendered by LD staff at customers' premises

- In 2012, LD staff visited gas customers at their premises more than 327 thousand times. The overwhelming majority of such visits (274 thousand) were routine inspections of customers' natural gas meters, whereas the balancing share of LD staff visits (more than 53 thousand) were either related to rendering technical services to LD gas consumers or, alternatively, were related to the elimination of any natural gas system problems in response to natural gas consumers' calls.

- In 2012, over 140 gas customers were visited by LD staff in order to give advice on issues of efficient gas consumption, during which thermal images of premises were taken (to identify the areas with the highest loss of thermal energy).

ENVIRONMENTAL PROTECTION

In the light of LD environmental policy and consistently working on the reduction of environmental impact, LD has implemented an environmental management system, which on 15 February 2012, was assessed by an accredited institution, UAB Bureau Veritas, and LD was issued with a certificate of compliance with the Environmental Management System Standard ISO 14001. The audit also confirmed that the environmental protection system of the Company operates beyond reproach.

One of the main objectives of the Company in the field of control the minimization of atmospheric pollution consists in the control of any possible gas leaks in the process of natural gas transmission. In order to ensure the reliability of the gas systems, the Company has implemented a number of technical measures the most significant of which are as follows:

- reconstruction of the Girininkai, Alksnupiai, Raguva and Pakruojis DSSs;

- modernization of the line block valve functional assemblies (including bypass lines) on the Ivatsevichi–Vilnius–Riga Gas Transmission Pipeline;

- installation of intelligent pig launchers and receivers on the Minsk–Vilnius–Vievis Gas Transmission Pipeline section;

- installation of intelligent pig launchers on the Vilnius–Kaliningrad Gas Transmission Pipeline (for launching devices of internal gas pipeline purging and intelligent pigging).

In 2012, LD implemented systems for e-accounting of chemicals and for management of environmental indicators.

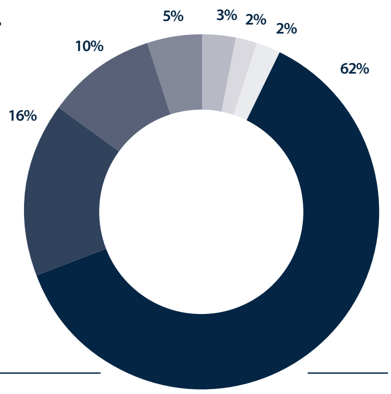
In 2012, there were no accidents in the natural gas systems resulting in high emissions of gas into the atmosphere or major environmental damage.

In 2012, due to the fact that demand for natural gas during the heating season was higher that it was the case in 2011, as well as due to the increase in the natural gas transit volumes, the Jauniūnai and Panevėžys Gas Compressor Stations were in operation longer hours, compared with the previous year, which resulted in higher gas emissions into the atmosphere, nevertheless the emissions were within the permissible value limits specified in the Integrated Pollution Prevention and Control permits. Pollution levels depend on the actual operation times of the gas systems, the load factor, number of start-ups and on other factors.

The Company monitors pollution emissions from its stationary sources – measures and records smoke emissions. The Jauniūnai Gas Compressor Station monitors (takes measurements and records) the quality of the ambient air.

Breakdown of calls via Hotline 1894 in 2012

- Information on payments **62%**
- Natural gas tariffs **16%**
- Miscellaneous questions **10%**
- Questions on reconstruction of gas systems or repairs of gas equipment **5%**
- Payment book issues **3%**
- Questions on verification or replacement of gas metering equipment **2%**
- Connections to the emergency service **2%**



Pollutant (tons)	2012	2011	2010
CO	30.04	17.6	26.7
NO_X	16.98	8.9	12.0

Recorded emissions of natural gas (MCM)		
2012	2011	2010
14.2	10.8	14.0

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 is emitted from the gas pipeline system into the atmosphere. The Company implements measures to minimize the emissions.

STAFF

The average age of the Group employees was 46.0 years (2011: 45.0 years) and the average work experience was 15.0 years (2011: 16.0 years).

As of 31 December 2012, the average number of employees on the roll of LD was 1,700. Of this total, 139 were in management positions, 1,001 were specialists and 560 were workers. 49% of the Company's employees have high education. The majority of the Company's employees are male (70%). Female employees account for 30%. Such male predominance results from the specifics of gas business: there is a long-standing tradition that engineering and technical jobs and jobs involving work outdoors (requiring physical strength and endurance) are mostly chosen by men. Most female employees work in customer service and administration departments.

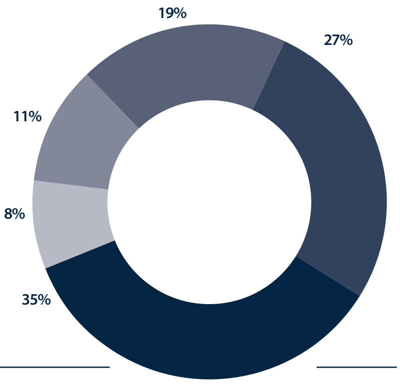
Average number of Group employees

Year	Average number of employees	Change compared to previous year
2011	1,719	–1.8%*
2012	1,700	–1.1%**

* Compared to 2010.
** Compared to 2011.

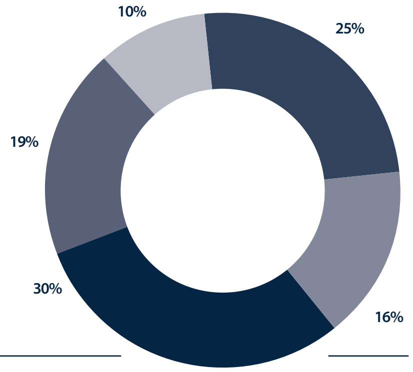
Age

- 50-60 years old **35%**
- 40-50 years old **27%**
- 30-40 years old **19%**
- Under 30 years old **11%**
- Over 60 years old **8%**



Work record

- 10-20 years **30%**
- Under 5 years **25%**
- 20-30 years **19%**
- 5-10 years **16%**
- Over 30 years **10%**



Employees

The key asset of the Company is its human capital – people with their experience and ability to meet top professional standards in discharging their job responsibilities, because it is their skills, knowledge, abilities that create all the products and services that determine the Company's future.

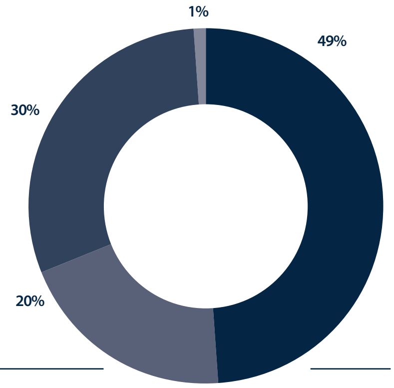
LD pays special attention to the creation of adequate working conditions for its employees, to securing employees' salaries and social guarantees in line with the market conditions. To ensure an adequate business efficiency level, a good work climate at the Company and successful team-work, we stick to the following values: competence and responsibility, mutual trust, fair assessment of both efforts and performance and continuous personal improvement.

Performance Appraisal Interviews (hereinafter referred to as the "PAI") is the most important part of the performance management system aimed at ensuring that employee performance targets are set according to the Company's strategic goals and the objectives of the units of the Company. The main objective of the PAI system is to achieve improved performance through the management of employee activities in line with the Company's objectives and standards, provide employees with feedback on their performance, improve employee motivation, to find out their expectations vis-à-vis the Company and its executives, to set employee training and career guidelines. Performance Appraisal Interviews cover managerial staff of all the levels and the specialists (white collars).

Collective Bargaining Agreement

LD branches have their trade union subunits that are united into a Lithuanian Gas Sector Employees Trade Union Association. The version of the Collective Bargaining Agreement of the Company (with subsequent amendments) signed on 23 May 2011 will be in effect until 31 December 2014. Neither the labor contracts, nor the Collective Bargaining Agreement provide for any extraordinary

Educational background



- High education **49%**
- Secondary education **30%**
- Higher education **20%**
- Unfinished secondary education **1%**

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

Employees	Average number of employees in 2011	Average monthly salary, LTL
Managing staff	136	8,326
Specialists	982	3,367
Workers	601	2,606
Total:	**1,719**	**3,493**
Employees	**Average number of employees in 2012**	**Average monthly salary, LTL**
Managing staff	139	8,405
Specialists	1,001	3,410
Workers	560	2,682
Total:	**1,700**	**3,578**

rights or duties for the Company's employees. The rights and duties that are provided by these documents are the ones usually applied in general practice.

Training, student placement and apprenticeship opportunities

In ensuring smooth and consistent operations of the Company, the crucial factor is the competencies of the staff. Therefore, a fair share of attention is paid to the formation of a motivating work environment at the Company.

The Company arranged for its employees trainings of several types, which were carried out in various forms, including the employment of state-of-the art technological innovations. In 2012, 1,562 LD employees participated in mandatory training programmes. Professional training courses, upon successful completion of which the participants are issued with a certificate, were provided to 798 employees.

To facilitate the LD staff training process and create the best possible conditions for the acquisition of professional expertise and skills, at its Panevežys branch, the Company equipped an open-air real-world process simulation facility for hands-on training in natural gas system operation and maintenance tasks. At the facility, LD staff can practice in 56 activities: various operation and maintenance tasks involving gas pipelines and gas appliances, elimination of gas leaks without an interruption of gas supply, hot-tapping (steel pipeline connection to the existing steel pipeline without an interruption of gas supply) and others. The quality of tasks performed by trainees is checked with modern devices.

In 2012, quite a few employees upgraded their managerial competencies. In all, conferences and seminars were attended by 421 employees. The Company's employees upgraded their knowledge in such fields as law, tax issues, public procurements, accounting, customer service, etc.

The Company is engaged in an active cooperation with educational institutions and invites university students to its student placement programmes, so that they can practice in the application of their theoretical knowledge and gain practical skills. In 2012, the Company admitted 18 students to such student placement programmes.

For the seventh consecutive year, LD participated in the Career Days events held by Vilnius Gediminas Technical University, Kaunas University of Technology and other universities. As part of LD collaboration with the ISM (University of Management and Economics), the Company granted support to their program "100 Talents of ISM". LD established the grant for the most talented student of the ISM.

MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- **The Lithuanian Gas Association** (www.dua.lt), is a voluntary alliance of legal entities of the Republic of Lithuania interested in economic and technical development of Lithuanian gas sector and comprising the largest companies engaged in natural gas supply, transmission, and distribution, UAB SG Dujos (engaged in the liquefaction of natural gas), and various associated members engaged in natural gas activities: the Association Lietuvos Dujotiekio Statyba (comprising 16 companies engaged in gas pipeline construction works) and educational and scientific research institutions. The General Manager of LD Viktoras Valentukevičius is the President of this Association since 16 June 2008.

- **The Association "Eurogas"** (www.eurogas.com). It is a non governmental non profit organization uniting European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions of the EU with respect to natural gas business as well as participating in the public opinion formation process. LD is its full member from 1 January 2009.

- **The association of gas transmission pipeline companies of the Baltic Sea Region "Baltic Gas"** (www.balticgas.org). "Baltic Gas" is an association of the Baltic Sea Region promoting use of natural gas in the Baltic Sea Region, development of an integrated natural gas consumer market, seeking to reduce the non-commercial obstacles in the way of natural gas business. Membership of LD in this association dates back to 1999. From 2006, LD has a representative in the Board of this association.

- **The European Network of Transmission System Operators for Gas (ENTSOG)** (www.entsog.eu) was established pursuant to the Regulation of the European Parliament and of the Council No 715/2009 as an organization promoting co-operation of gas transmission system operators at the level of the European Union. ENTSOG is also engaged in the elaboration of the European gas network codes, development of non-binding Community-wide ten-year network development plans, delivering common network operation tools, performing other functions. LD is an Associated Partner of ENTSOG since 22 June 2011.

- **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.

In 2012, LD and Latvijas Gaze A/S were 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 natural gas market of the EU.

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

SPONSORSHIP PROGRAMS

In 2012, just as in previous years, LD, in line with its well-articulated priorities, continued its participation in various sponsorship programmes, took part in social-impact projects, thereby creating new life or business opportunities for the needy segment of the community:

- Projects to improve the living environment of vulnerable social groups;

- Projects aimed at the preservation of Lithuanian national heritage;

- Projects that are part of a long-term cultural programme;

- Projects aimed at the improvement of public health;

- Project aimed at the popularization of the name of Lithuania all over the world.

In 2012, LD rendered support to more than 100 institutions, organizations or supported their individual projects and thus significantly contributed to the promotion of various communal initiatives:

- Support to festivals of town communities: to the Public Entity "Pažaislis Music Festival" (in organizing the 17th Pažaislis Music Festival), to the Administration of the Municipality of the Širvintos District (support for the main events organized by the cultural institutions of the Municipality); to the Public Entity "The Sea Festival" (support in organizing the Sea Festival 2012 in the town of Klaipėda); to the Administration of Municipality of Anykščiai District (support in organizing the horse festival "Run, Horse, Run" in the village of Niūronys, Anykščiai District), etc.;

- Support to creative and active children and young people: to Šiauliai Dagilėlis Singing School (participation of the boys' choir in international projects); to Klaipėda University (in organizing a scientific research conference of Lithuanian universities and colleges); to Public Entity ISM Foundation (merit-based scholarships to students who show high academic achievements, to cover in part the tuition fees thereof); to Public Entity "Enduro Club" (young bikers' participation in a European championship); to the Association for International Student Exchange (participation of academically gifted students in an international student exchange program); Association "Cambridge University Lithuanian Society" (in organizing the LINK interactive conference, aiming to promote the networking and cooperation of Lithuanian students in the UK), etc.;

- Support to improve public health: to the Vilnius University Hospital Santariškės Clinic (support aimed at improving the activities of the Family Medicine Centre as well as other units of the Hospital), to the Vilnius Maternity Hospital (for the partial refurbishment of the premises), to the Lithuanian Heart Specialists Association (support for the preparation of the doctors professional development programmes); Klaipėda St Francis of Assisi Convent (support to the construction of a spiritual support center for cancer patients), etc.;

- Support to sports societies: to the Lithuanian National Olympic Committee (support for the Lithuania's sportsmen's preparation for the Winter Olympic Games 2014); to the Lithuanian Olympic Sports Centre (support for the preparation of Lithuania's national tennis team for the FED-CUP 2013 (international tennis federation world ranking tournament); 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 2012), to the Baseball Club "Vilnius" (support to the club's sportsmen – children of various age groups and adults – for the participation in major baseball and softball tournaments abroad and in Lithuania for the improvement of their baseball skills and popularization of the name of Lithuania abroad); to the Ballooning Club "Audenis" (support in organizing the International Aeronautical Federation Congress 2014 to be held Lithuania); to the Lithuanian Biathlon Federation (support to Lithuania's biathlon teams' participation in various world and European championships and World and European Cup events), etc.;

- Support to representatives of socially vulnerable communities and children's foster homes: support to the Public Entity "Mažoji Guboja" (support for the disabled young people education and training programme), support to the Vilnius Youth School "Gija" (support to students of this school who because of various social, psychological or other reasons were the odd ones out at other schools), to the Public Entity St Joseph's

Foster Home (support to homeless children, the disabled and the elderly); to the Public Entity Vilnius Jonas Laužikas Consultative Centre (support to sick children who are both educated and treated for tuberculosis at the Centre); to the Alma Adamkus Charity and Support Fund (to the Fund-supported charity action for the acquisition of new books for rural schools and rural libraries and for the organization of a children's drawing contest); to the Charity Foundation "Mothers Union" (support to children – cancer patients and to their family members); to the Vilnius "Feniksas" Sports Club for the Disabled (support to the participation of the team in an international volleyball tournament in Latvia), etc.;

- Support to representatives of art and culture: the Kernavė State Culture Reservation (support to a photo exhibition to present the history of the experimental archeology festival "Days of Live Archaeology in Kernavė"); to the Lithuanian Press Photo Club (support for annual exhibition "Lithuanian Press Photo 2012"), to the Lithuanian Artists Union (support for an educational painting plain air event in Pervalka); the Lithuanian Glass Blowers Association (support to the glass artist Remigijus Kriukas, for his participation in international exhibitions in Estonia, Belgium, Russia, the Czech Republic, and Germany), etc.;

- Support to the preservation of the Lithuanian national heritage: the Public Entity the Cultural Heritage Conservation Force (support in publishing the book by Vilius Kavaliauskas "The Lithuanian Warriors", Volume 4); to the National Museum Palace of the Grand Dukes of Lithuania (support in organizing the exhibition "Portraits of the Grand Dukes and Noblemen of the Grand Duchy of Lithuania from Museums of Ukraine"); to the Public Entity Thomas Mann Culture Centre (support for the organization of the 16th International Thomas Mann Festival "The Enslaved Mind"); to the Public Entity "TV Europa" (support for creating a documentary film about one of the most prominent Lithuanian theater and cinema actors Vytautas Paukštė); to the Association "The Steponas Kairys Foundation" (support for the release of the memoir book about the President Algirdas Brazauskas "Selected by his Epoque for the Great Mission"), etc.;

- Support to religious communities: to the Ariogala St Michael the Archangel Parish (contribution to the construction of the parish house); to the Šeduva Discovery of the St Cross Parish (support for the maintenance and preservation of the cultural heritage – the buildings of the church); to the Vilnius All Saints Parish (support to social activities carried out by the Church).

SOCIAL RESPONSIBILITY

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

In pursuit of responsible business activities, at present, the Company is focused on the review of its routine processes and procedures, on the internal audit of certain specific areas of its activity. On an ongoing basis, the Company implements various projects related to environmental protection, employee motivation improvement, customer service upgrading, and 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 help the Company in the formation of tasks for the improvement of its activities.

care

harmony

nature

ecology

ERNST & YOUNG

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 its subsidiary and joint venture (hereinafter the Group), which comprise the statements of financial position as of 31 December 2012, 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 qualified audit opinion.

Basis for Qualified Opinion

According to the Group's and the Company's accounting policy (Note 2) property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The Group and the Company estimates the recoverable value of property, plant and equipment whenever there is an indication that the property, plant and equipment may be impaired. As described in Note 1 to the financial statements, recent developments in respect of the transmission activities unbundling, in our opinion, indicate the need for impairment testing on separate activities level, however it was not performed by the Group's and the Company's management due to high level of uncertainties involved (Note 2.19). Therefore, we were not able to assess reliably the effect of the above mentioned matter on the Group's and the Company's non-current tangible assets related to transmission activities (the book value of which amounted to LTL 1,567,000 thousand as of 31 December 2012) as well as on the Group's and the Company's financial results for the year 2012.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in section *Basis for Qualified Opinion* above,
the accompanying financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2012, 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 2012 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

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

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 6 March 2013.

(all amounts are in LTL thousand unless otherwise stated)

Statements of financial position

		Notes	Group As at 31 December 2012	Group As at 31 December 2011	Company As at 31 December 2012	Company As at 31 December 2011
ASSETS						
A.	**Non-current assets**		**2,358,438**	**2,318,573**	**2,364,314**	**2,320,412**
I.	Intangible assets	4	2,624	3,390	2,623	3,382
II.	Property, plant and equipment	5	2,354,535	2,315,167	2,351,181	2,307,833
II.1.	Land		388	223	388	223
II.2.	Buildings and structures		1,988,018	1,985,438	1,984,871	1,978,499
II.2.1.	Buildings		85,998	88,411	82,851	81,472
II.2.2.	Transmission networks and related installations		1,202,474	1,201,402	1,202,474	1,201,402
II.2.3.	Distribution networks and related installations		676,000	671,304	676,000	671,304
II.2.4.	Other buildings and structures		23,546	24,321	23,546	24,321
II.3.	Machinery and equipment		250,785	254,843	250,785	254,843
II.4.	Vehicles		15,437	15,605	15,376	15,528
II.5.	Other equipment, tools and devices		29,129	29,546	29,024	29,294
II.6.	Other property, plant and equipment		3,489	3,659	3,489	3,659
II.7.	Construction in progress		67,289	25,853	67,248	25,787
III.	Non-current financial assets		1,279	16	10,510	9,197
III.1.	Investment into subsidiary	1, 6	–	–	9,181	9,181
III.2.	Investment into joint venture	1, 7	1,270	–	1,320	–
III.3.	Non-current accounts receivable	8	9	16	9	16
B.	**Current assets**		**569,745**	**380,058**	**564,249**	**377,725**
I.	Inventories and prepayments		80,653	78,792	80,651	78,765
I.1.	Inventories	9	80,108	78,516	80,108	78,504
I.1.1.	Raw materials, spare parts and other inventories		6,998	7,182	6,998	7,181
I.1.2.	Goods for resale (including natural gas)		73,110	71,334	73,110	71,323
I.2.	Prepayments		545	276	543	261
II.	Accounts receivable	10	204,530	173,393	204,499	173,391
II.1.	Trade receivables		191,352	168,847	191,352	168,848
II.2.	Other receivables	15	13,178	4,546	13,147	4,543
III.	Prepaid income tax		6,682	–	6,682	–
IV.	Other current assets	11	165,423	31,989	160,000	30,000
V.	Cash and cash equivalents	12	112,457	95,884	112,417	95,569
	Total assets		**2,928,183**	**2,698,631**	**2,928,563**	**2,698,137**

(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 As at 31 December 2012	Group As at 31 December 2011	Company As at 31 December 2012	Company As at 31 December 2011
EQUITY AND LIABILITIES						
C.	**Equity**		**2,057,846**	**2,055,340**	**2,058,261**	**2,054,297**
I.	Share capital	1	469,068	469,068	469,068	469,068
II.	Reserves	13	1,513,844	1,491,640	1,513,229	1,489,543
II.1.	Legal reserve		43,884	39,100	43,692	38,908
II.2.	Other reserves		1,469,960	1,452,540	1,469,537	1,450,635
III.	Retained earnings		74,934	94,632	75,964	95,686
D.	**Liabilities**		**870,337**	**643,291**	**870,302**	**643,840**
I.	Non-current liabilities		567,057	359,435	567,036	360,035
I.1.	Non-current borrowings	14	180,000	2,144	180,000	2,144
I.2.	Grants (deferred revenue)	15	230,805	191,053	230,805	191,053
I.3.	Non-current employee benefits	16	9,097	9,097	9,097	9,097
I.4.	Deferred income tax liability	21	147,155	157,141	147,134	157,741
II.	Current liabilities		303,280	283,856	303,266	283,805
II.1.	Current portion of non-current borrowings	14	2,144	2,144	2,144	2,144
II.2.	Trade payables	17	238,947	215,569	238,943	215,562
II.3.	Advances received		9,739	9,445	9,738	9,445
II.4.	Income tax payable		–	2,413	–	2,413
II.5.	Payroll related liabilities		11,056	10,403	11,052	10,372
II.6.	Other payables and current liabilities	18	41,394	43,882	41,389	43,869
	Total equity and liabilities		**2,928,183**	**2,698,631**	**2,928,563**	**2,698,137**

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

(all amounts are in LTL thousand unless otherwise stated)

Income statements

		Notes	Group 2012	Group 2011	Company 2012	Company 2011
I.	**Revenue**		**1,879,178**	**1,845,869**	**1,878,891**	**1,844,906**
I.1.	Sales	3	1,872,714	1,840,012	1,872,432	1,839,064
I.2.	Other income	19	6,464	5,857	6,459	5,842
II.	**Expenses**		**(1,810,021)**	**(1,723,733)**	**(1,808,882)**	**(1,722,576)**
II.1.	Cost of natural gas		(1,517,813)	(1,435,881)	(1,517,813)	(1,435,881)
II.2.	Depreciation and amortisation	4, 5	(114,331)	(111,803)	(114,144)	(111,535)
II.3.	Payroll and related social security tax expenses		(99,527)	(98,093)	(99,150)	(97,641)
II.4.	Repair and technical maintenance expenses		(47,906)	(47,277)	(47,904)	(47,274)
II.5.	Taxes, other than income tax		(10,576)	(11,110)	(10,525)	(11,039)
II.6.	Other expenses		(19,868)	(19,569)	(19,346)	(19,206)
III.	**Profit from operations**		**69,157**	**122,136**	**70,009**	**122,330**
IV.	**Financial activity**	20	**1,543**	**(17,863)**	**1,528**	**(17,913)**
IV.1.	Income		2,208	2,467	2,143	2,417
IV.2.	Expense		(665)	(20,330)	(615)	(20,330)
V.	**Profit before tax**		**70,700**	**104,273**	**71,537**	**104,417**
VI.	**Income tax**	21	**3,806**	**(8,511)**	**4,427**	**(8,731)**
VI.1.	Current period income tax		(6,180)	(16,332)	(6,180)	(16,332)
VI.2.	Deferred income tax		9,986	7,821	10,607	7,601
VII.	**Net profit**		**74,506**	**95,762**	**75,964**	**95,686**
	Basic and diluted earnings per share (LTL)	22	0.16	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

		Group		Company	
		2012	2011	2012	2011
I.	Net profit	74,506	95,762	75,964	95,686
II.	Total comprehensive income	74,506	95,762	75,964	95,686

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of changes in equity

Group	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2011		**469,068**	**31,114**	**1,421,016**	**158,380**	**2,079,578**
Transfer to legal reserve		–	7,986	–	(7,986)	–
Transfer to other reserves		–	–	31,729	(31,729)	–
Transfer from other reserves to cover the losses of subsidiary		–	–	(205)	205	–
Dividends declared	23	–	–	–	(120,000)	(120,000)
Total comprehensive income		–	–	–	95,762	95,762
Net profit for the year		–	–	–	*95,762*	*95,762*
Balance as at 31 December 2011		**469,068**	**39,100**	**1,452,540**	**94,632**	**2,055,340**
Transfer to legal reserve		–	4,784	–	(4,784)	–
Transfer to other reserves		–	–	18,902	(18,902)	–
Transfer from other reserves to cover the losses of subsidiary		–	–	(1,482)	1,482	–
Dividends declared	23	–	–	–	(72,000)	(72,000)
Total comprehensive income		–	–	–	74,506	74,506
Net profit for the year		–	–	–	*74,506*	*74,506*
Balance as at 31 December 2012		**469,068**	**43,884**	**1,469,960**	**74,934**	**2,057,846**

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

(all amounts are in LTL thousand unless otherwise stated)

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2011		**469,068**	**30,922**	**1,418,906**	**159,715**	**2,078,611**
Transfer to legal reserve		–	7,986	–	(7,986)	–
Transfer to other reserves		–	–	31,729	(31,729)	–
Dividends declared	23	–	–	–	(120,000)	(120,000)
Total comprehensive income		–	–	–	95,686	95,686
Net profit for the year		*–*	*–*	*–*	*95,686*	*95,686*
Balance as at 31 December 2011		**469,068**	**38,908**	**1,450,635**	**95,686**	**2,054,297**
Transfer to legal reserve		–	4,784	–	(4,784)	–
Transfer to other reserves		–	–	18,902	(18,902)	–
Dividends declared	23	–	–	–	(72,000)	(72,000)
Total comprehensive income		–	–	–	75,964	75,964
Net profit for the year		*–*	*–*	*–*	*75,964*	*75,964*
Balance as at 31 December 2012		**469,068**	**43,692**	**1,469,537**	**75,964**	**2,058,261**

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

Statements of cash flows

		Notes	Group 2012	Group 2011	Company 2012	Company 2011
I.	**Cash flows from (to) operating activities**					
I.1.	Net profit		74,506	95,762	75,964	95,686
	Adjustments of non-cash items and other corrections:					
I.2.	Depreciation and amortisation	4, 5	114,331	111,803	114,144	111,535
I.3.	Loss (gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal		175	(116)	(127)	(116)
I.4.	Impairment losses for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories		534	717	533	716
I.5.	Income tax expenses (benefit)		(3,806)	8,511	(4,427)	8,731
I.6.	Interest (income)		(1,246)	(1,310)	(1,181)	(1,261)
I.7.	Interest expenses		614	320	614	320
I.8.	Loss on foreign currency exchange		1	2	1	2
I.9.	(Amortisation) of the grants (deferred revenue)		(5,665)	(4,654)	(5,665)	(4,654)
I.10.	Elimination of other investing activity results	20	50	19,199	–	20,000
I.11.	Elimination of other non-cash items		(9)	(1,094)	(9)	(1,094)
			179,485	**229,940**	**179,847**	**229,865**
	Changes in working capital:					
I.12.	(Increase) in inventories	9	(1,561)	(31,176)	(1,572)	(31,177)
I.13.	Decrease (increase) in trade accounts receivable		(23,169)	364	(23,167)	361
I.14.	Decrease (increase) in other accounts receivable and prepayments	24	(317)	472	(301)	459
I.15.	Increase in trade accounts payable	24	10,526	14,103	10,529	14,125
I.16.	Increase in other accounts payable and other current liabilities		3,967	7,254	4,001	7,258
I.17.	Income tax (paid)		(13,598)	(7,362)	(13,598)	(7,362)
	Total changes in working capital		**(24,152)**	**(16,345)**	**(24,108)**	**(16,336)**
	Net cash flows from operating activities		**155,333**	**213,595**	**155,739**	**213,529**
II.	**Cash flows from (to) investing activities**					
II.1.	(Acquisition) of property, plant and equipment and intangible assets	4, 5, 24	(142,499)	(66,873)	(142,491)	(66,858)
II.2.	Proceeds from sales of property, plant and equipment	5	3,871	673	364	659
II.3.	Acquisition of investment in joint venture	7	(1,320)	–	(1,320)	–
II.4.	Sale of investment units held for sale		–	307	–	–
II.5.	Receipt of non-current receivables and loans granted		7	7	7	7
II.6.	(Increase) in term deposits	11	(105,697)	(259)	(102,264)	–
II.7.	Interest received		1,420	965	1,355	916
II.8.	(Acquisition) of other short-term investments	11	(27,736)	(50,002)	(27,736)	(50,002)
	Net cash flows (to) investing activities		**(271,954)**	**(115,182)**	**(272,085)**	**(115,278)**

(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 2012	Group 2011	Company 2012	Company 2011
III.	**Cash flows from (to) financing activities**					
III.1.	Dividends (paid)		(72,093)	(119,875)	(72,093)	(119,875)
III.2.	Loans received	14	180,000	–	180,000	–
III.3.	Loans (repaid)	14	(2,144)	(2,144)	(2,144)	(2,144)
III.4.	Grants received	15, 24	28,069	5,297	28,069	5,297
III.5.	Interest (paid)		(638)	(343)	(638)	(343)
	Net cash flows from (to) financing activities		**133,194**	**(117,065)**	**133,194**	**(117,065)**
IV.	**Net increase (decrease) in cash and cash equivalents**		**16,573**	**(18,652)**	**16,848**	**(18,814)**
V.	**Cash and cash equivalents at the beginning of the year**		**95,884**	**114,536**	**95,569**	**114,383**
VI.	**Cash and cash equivalents at the end of the year**		**112,457**	**95,884**	**112,417**	**95,569**

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 at 31 December 2012 and 2011 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
	469,068,254	100.0

All the shares of the Company are ordinary registered shares with a par value of LTL 1 each and were fully paid as at 31 December 2012 and 2011. The Company did not hold its own shares.

The Company consists of the centre of administration and gas transmission and 5 branches.

As at 31 December 2012 the Group comprised AB Lietuvos Dujos, its subsidiary UAB Palangos Perlas and UAB GET Baltic, a jointly controlled entity established with Finish gas company Gasum Oy (hereinafter the Group). The information of UAB Palangos Perlas and UAB GET Baltic as at 31 December 2012 is as follows:

Company	Address of registered office	Part of shares controlled by the Group (%)	Share capital	Share of current year (loss) directly attributable to the Group	Equity	Main activity
UAB Palangos Perlas	Birutės Str. 8, Klaipėda	100	9,704	(1,409)	8,910	Accommodation and restaurant facilities
UAB GET Baltic	Aguonų Str. 24, Vilnius	66	2,000	(50)	1,924	Licensed natural gas market operator – arranges trading on the Natural Gas Exchange

As at 31 December 2011 the Group comprised AB Lietuvos Dujos and its subsidiary UAB Palangos Perlas. The information of UAB Palangos Perlas as at 31 December 2011 is as follows:

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

The average number of employees of the Group and the Company in 2012 was 1,700 and 1,685, respectively (1,719 and 1,696 in 2011, respectively).

(all amounts are in LTL thousand unless otherwise stated)

1 General information (cont'd)

Activities of AB Lietuvos Dujos are regulated by the Law on Natural Gas of the Republic of Lithuania, which currently requires the unbundling of the accounts among each of the Company's main activities: transmission, distribution and supply. The Company keeps accounts based on the requirements of the law. The Company's activity segments are transmission, distribution, supply and other activity (Note 3).

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

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

The management of the Company approved these financial statements on 6 March 2013. 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.

Unbundling of the Company's activities

In order to fulfil the Law on Natural Gas and the Law on the Implementation of the Law on Natural Gas transferring the provisions of the Third Energy Package, in 2011 the Government of the Republic of Lithuania adopted the respective resolutions that provide for the Company's actions to be taken with regards to the transformation of the business undertaking: on 28 October 2011 Resolution No. 1239 Concerning the Approval of the Plan for the Execution of Unbundling Activities and Control of Natural Gas Companies That Do Not Comply with the Requirements of the Law on Natural Gas of the Republic of Lithuania and on 7 December 2011 Resolution No. 1417 Concerning the Approval of the Procedure for the Execution of Unbundling Activities and Control of Natural Gas Companies That Do Not Comply with the Requirements of the Law on Natural Gas of the Republic of Lithuania.

In order to fulfil the requirements of these legal acts, until 31 October 2014 the Company must perform the unbundling of transmission activity and control, perform the legal, functional and organisational unbundling of the natural gas distribution activity in compliance with the requirements of section eight of the Law on Natural Gas.

Pursuant to the above legal acts, on 28 May 2012 the General Meeting of Shareholders of AB Lietuvos Dujos decided the following:

1. To perform the unbundling of transmission activity of AB Lietuvos Dujos according to the methods provided for in Article 4 of the Law on the Implementation of the Law Amending the Law on Natural Gas and Paragraph 8 of the plan approved by the Resolution No. 1239 of 28 October 2011 Concerning the Approval of the Plan for the Execution of Unbundling Activities and Control of Natural Gas Companies That Do Not Comply with the Requirements of the Law on Natural Gas of the Republic of Lithuania by separating a part (i.e. the Company's gas transmission activity) from the Company that continues operations in accordance with the terms provided for in the legal acts and by establishing a new company as provided for in Article 71 of the Law on Companies of the Republic of Lithuania on the basis of the assets, rights and obligations attributed to the Company's natural gas transmission activity.

2. To perform unbundling of AB Lietuvos Dujos distribution activity by establishing a subsidiary of the Company and transferring the Company's natural gas distribution activity (asset complex) to it together with the assets, rights and obligations attributable thereto as non-monetary contribution for the subsidiary's shares in accordance with the terms set forth by legal acts.

On 28 May 2012 the Board of AB Lietuvos Dujos approved the description of the methods for unbundling activity and control of the Company's gas transmission activity and the unbundling of the distribution activity with the unbundling action plans (hereinafter, the Description). The Company's Board members V. Golubev and K. Seleznev voted in favour of the approval of the Description with a reservation. It is provided for in the Description that until 31 July 2013 the Company's natural gas transmission activities will be unbundled in legal, functional and organisational respect by establishing a new transmission system operator company and that until 31 October 2014 the transmission activity control unbundling will be performed and the Company's natural gas distribution will be unbundled in the legal, functional and organisational respect by establishing a distribution system operator subsidiary. In accordance with the requirements of the legal acts of the Republic of Lithuania, the Company submitted the Description to the NCCPE at the established terms, i.e. on 31 May 2012.

By the Resolution No O3-145 of 15 June 2012 Concerning the Action Plans for the Unbundling of AB Lietuvos Dujos Transmission and Distribution Activities and Controls NCCPE instructed the Company to perform the unbundling of activities and controls following the methods and terms specified in the Company's action plans provided.

1 General information (cont'd)

In accordance with the decision of 28 May 2012 of the General Meeting of Shareholders of the Company and NCCPE decision of 15 June 2012 and following Article 71 of the Law on Companies, the Board of the Company prepared and on 30 January 2013 approved AB Lietuvos Dujos unbundling terms (hereinafter, the Unbundling Terms). The Company's Board members V. Golubev and K. Seleznev voted in favour of the approval of the Unbundling Terms with a reservation. On 30 January 2013 the Unbundling Terms were submitted to NCCPE for approval as required by the Law on the Implementation of the Law Amending the Law on Natural Gas and subordinate legal acts. On 28 February 2013 the NCCPE by Resolution No O3-64 Concerning AB Lietuvos Dujos Unbundling Terms and Composition of the Assets to be Transferred to the Transmission System Operator stated that the Company's Unbundling Terms provides conditions for the proper implementation of the unbundling of the natural gas transmission activity.

Seeking to implement the requirements of the legal acts and perform the unbundling of the transmission activity, the respective decision regarding unbundling of the part of the Company's activities has to be adopted by the General Meeting of Shareholders' of the Company. The unbundling of the transmission activity will be performed substantially in line with the data of transmission segment. The implementation of the provisions of these laws will have a substantial effect on the activities of the Company and the Group, because after the implementation of transmission activity unbundling the volume of operational activities of the Company's/Group as well as assets, liabilities, equity, income and expenses captions will change significantly.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2012 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 IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Group and the Company has adopted the following IFRS amendments:

- amendment to IFRS 7 *Financial Instruments* - Enhanced Derecognition Disclosure Requirements,
- amendment *to IAS 12 Income tax* - Deferred tax - Recovery of Underlying Assets.

The amendments did not impact the financial statements of the Group and the Company, because the Group and the Company did not have items or transactions addressed by these changes.

Standards issued but not yet effective

The Group and the Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

Amendment to IAS 1 *Financial Statement Presentation* - Presentation of Items of Other Comprehensive Income (effective for financial years beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation of the items in OCI only and has no impact on the Group's and the Company's financial position or performance.

Amendment to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 January 2013)

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group and the Company is in the process of assessing the impact of this amendment.

Amendment to IAS 27 *Separate Financial Statements* (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. Since the requirements for separate financial statements will not change, the amendment will have no impact to the Group's and the Company's financial statements.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Amendment to IAS 28 *Investments in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. Since the requirements for application of equity method will not change and the Group already accounts for its investment into joint venture using equity method, the amendment will have no impact to the Group's and the Company's financial statements.

Amendment to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment will have no impact to the Group's and the Company's financial statements as they have neither clearing systems nor they offset Financial Assets and Financial Liabilities.

Amendment to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2013)

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Group and the Company is in the process of assessing the impact of this amendment.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The 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 is in the process of assessing the impact of this standard.

IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Group and the Company is in the process of assessing the impact of this standard.

IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Group and the Company is in the process of assessing the impact of this standard.

IFRS 12 *Disclosures of Interests in Other Entities* (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group and the Company is in the process of assessing the impact of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after 1 January 2013)

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The Group and the Company is in the process of assessing the impact of this standard.

Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 *First-time adoption of IFRS*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 32 *Financial instruments: Presentation*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or results of the Group and the Company.

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for financial years beginning on or after 1 January 2013)

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Interpretation will have no impact on the Group's and the Company's financial statements, as the Group and the Company is not involved in mining activity.

The Group and the Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.2. Measurement and presentation currency

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

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

2.3. Principles of consolidation

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

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

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

Companies acquired or sold during a year are included into the consolidated financial statements from the date of acquisition or until the date of sale. Inter-company balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances. In separate financial statements of the Company investments into subsidiaries are accounted for applying the cost method.

2 Accounting principles (cont'd)

2.4. Investment in a joint venture

The Group has an interest in a joint venture UAB GET Baltic, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the equity method. Applying the equity method an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the jointly controlled entity. The profit or loss of the Group includes the Group's share of the profit or loss of the jointly controlled entity. The Company's share of unrealized gain or loss which originate due to transactions between Group companies is eliminated.

In separate financial statements of the Company investment into joint venture is accounted for at cost, less impairment, if any. The impairment test of the investment into joint venture is performed when there are indications of impairment or indications that previously recognised impairment does not exist.

2.5. Intangible assets

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

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

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

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

2.6. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised as profit or loss as incurred.

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

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	25-60	years
Transmission networks and related installations	55	years
Distribution networks and related installations	55	years
Machinery and equipment	5-20	years
Other buildings and structures	15-19	years
Vehicles	6	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 Accounting principles (cont'd)

2.7. Financial assets

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

2.8. Derecognition of financial assets and liabilities

Financial assets

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

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

When the Group and the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.9. Inventories

Inventories of the Group and the Company, consisting of natural gas in pipelines and storage at the year-end and other inventories, are valued at the lower of cost or net realisable value. Cost of natural gas is determined on the basis of weighted average cost, and the cost of the remaining inventories is determined on the basis of the first-in, first-out (FIFO) method. Inventories that cannot be realised are written off.

2.10. Cash and cash equivalents

Cash includes cash on hand, cash in 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.

2.11. Borrowings

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings.

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

2.12. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective 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)

2.13. 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.

2.14. 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 above mentioned 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. Starting from 1 January 2013 after the amendments to IAS 19 become effective, the actuarial gains and losses will have to be recognised in the statement of other comprehensive income.

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. Starting from 1 January 2013 after the amendments to IAS 19 become effective, the past service costs will have to be 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.

2.15. Income tax

The Group companies are taxed individually, irrespective the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

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

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. Since 2010 tax losses can be transferred between the group companies if there is compliance with the Republic of Lithuania Law on corporate income tax requirements. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.15. Income tax (cont'd)

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax asset and liability is measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax asset have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

On transition to IFRSs, the Group and the Company treated revalued amounts of property, plant and equipment as a deemed cost. As the tax base of the asset carried at deemed cost on transition to IFRSs remains at original cost (or an amount based on original cost), the pre-transition revaluation gave rise to a temporary difference associated with the deferred tax liability has been accounted for. If, after transition, the deferred tax is required to be remeasured (e.g. because of a change in tax rate, or change in asset carrying value and tax base), the Group and the Company accounts for this change in the statement of other 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.

2.16. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the Company and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

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

2.17. 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.

2.18. 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)

2.19. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Group and the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation (Note 2.6 and Note 5), deferred income tax asset (Note 2.15 and Note 21), non-current employee benefits (Note 2.14 and Note 16), accrued revenue from household customers (Note 2.16) and impairment evaluation of property, plant and equipment (Note 2.6 and Note 5), investments into subsidiaries – only the Company (Note 1 and Note 6), accounts receivable (Note 2.7, Note 8 and Note 10), inventories (Note 2.9 and Note 9), financial assets (Note 2.7, Note 2.18 and Note 11). 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.

If indications for impairment of property, plant and equipment exist, evaluation of the non-current assets' value based on the discounted cash flow projections of an integrated Company is performed, while there is no reliable basis to separate out individual cash generating units. During the shareholders' meeting dated 28 May 2012, it was decided to execute the unbundling of the transmission activity of the Company. The Board of the Company prepared the Unbundling terms and approved them on 30 January 2013. Due to unstable regulatory environment and other uncertainties related to unfinished unbundling of the Company's activity, the Company did not prepare cash flow at individual cash generating unit level and prepared cash flows at an integrated Company level. The assumptions used in determination of the discount rate for the evaluation of the discounted cash flows in principle correspond to the assumptions applied by the NCCPE for the rate of return in the price regulation. The changes in the discount rate and quantity of gas to be sold mostly affect the recoverable value of the Company's property, plant and equipment.

The Company performed an impairment test which did not result in any impairment charge. However when it becomes possible to estimate the value in use at individual cash generating unit level, the value of the property plant and equipment of the transmission activity could be significantly lower after the unbundling is performed, if no sufficiently positive regulatory regime improvements are adopted in the future.

2.20. 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.

2.21. Subsequent events

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

2.22. Offsetting

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

3 Segment information

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

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

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

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

The Group's segment information for the years ended 2012 and 2011 is presented below:

2012	Transmission	Distribution	Supply	Other activity	Total
Sales	169,291	174,778	1,526,577	2,068	1,872,714
Interest income	62	22	1,096	66	1,246
Interest expense	614	–	–	–	614
Profit before tax	21,060	11,206	38,212	222	70,700
Income tax	(7,898)	(1,555)	5,635	12	(3,806)
Total assets	1,655,971	799,075	463,648	9,489	2,928,183
Total liabilities	440,748	196,466	233,023	100	870,337
Other segment information					
Acquisition of non-current assets	110,741	45,959	274	8	156,982
Acquisition of investment into joint venture UAB GET Baltic	640	–	680	–	1,320
Depreciation and amortisation	74,302	38,420	1,263	346	114,331

2011	Transmission	Distribution	Supply	Other activity	Total
Sales	175,530	171,069	1,490,822	2,591	1,840,012
Interest income	1	40	1,218	51	1,310
Interest expense	320	–	–	–	320
Profit before tax	38,684	21,941	42,667	981	104,273
Income tax	(1,985)	723	9,867	(94)	8,511
Total assets	1,603,312	762,586	322,304	10,429	2,698,631
Total liabilities	224,064	180,896	238,804	(473)	643,291
Other segment information					
Acquisition of non-current assets	34,580	27,595	128	15	62,318
Depreciation and amortisation	72,365	37,643	1,341	454	111,803

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 9).

In 2012 and 2011 the Group and the Company earned over 98 % of its revenue from Lithuanian customers.

In 2012, the revenue of transmission, supply and other activity segments from one customer of the Group constituted more than 10 % of total Group's revenue – LTL 217,660 thousand. In 2011, the revenue of transmission and supply segments from one customer of the Group constituted more than 10 % of total Group's revenue – LTL 310,409 thousand.

(all amounts are in LTL thousand unless otherwise stated)

4 Intangible assets

Movement of intangible assets for the current and prior periods:

Group	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as at 1 January 2011	4,931	6,297	1,738	12,966
Additions	848	256	–	1,104
Retirements	(530)	(1,399)	(773)	(2,702)
Balance as at 31 December 2011	5,249	5,154	965	11,368
Additions	433	288	–	721
Retirements	(1,618)	(1,360)	(340)	(3,318)
Balance as at 31 December 2012	4,064	4,082	625	8,771
Accumulated amortisation:				
Balance as at 1 January 2011	2,776	4,890	1,433	9,099
Charge for the year	921	564	96	1,581
Retirements	(530)	(1,399)	(773)	(2,702)
Balance as at 31 December 2011	3,167	4,055	756	7,978
Charge for the year	882	506	96	1,484
Retirements	(1,559)	(1,416)	(340)	(3,315)
Balance as at 31 December 2012	2,490	3,145	512	6,147
Net book value as at 31 December 2012	**1,574**	**937**	**113**	**2,624**
Net book value as at 31 December 2011	**2,082**	**1,099**	**209**	**3,390**

(all amounts are in LTL thousand unless otherwise stated)

4 Intangible assets (cont'd)

Company	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as at 1 January 2011	4,931	6,264	1,738	12,933
Additions	848	256	–	1,104
Retirements	(530)	(1,393)	(773)	(2,696)
Balance as at 31 December 2011	5,249	5,127	965	11,341
Additions	433	288	–	721
Retirements	(1,618)	(1,340)	(340)	(3,298)
Balance as at 31 December 2012	4,064	4,075	625	8,764
Accumulated amortisation:				
Balance as at 1 January 2011	2,776	4,872	1,433	9,081
Charge for the year	921	557	96	1,574
Retirements	(530)	(1,393)	(773)	(2,696)
Balance as at 31 December 2011	3,167	4,036	756	7,959
Charge for the year	882	502	96	1,480
Retirements	(1,559)	(1,399)	(340)	(3,298)
Balance as at 31 December 2012	2,490	3,139	512	6,141
Net book value as at 31 December 2012	**1,574**	**936**	**113**	**2,623**
Net book value as at 31 December 2011	**2,082**	**1,091**	**209**	**3,382**

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 2,948 thousand as at 31 December 2012 (LTL 3,960 thousand as at 31 December 2011) was fully amortised, but still in use.

5 Property, plant and equipment

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

Group	Land	Buildings	Transmission networks and related installations	Distribution networks and related installations	Other buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Other property, plant and equipment	Construction in progress	Total
Cost:											
Balance as at 1 January 2011	183	113,604	1,513,220	817,634	29,460	316,367	37,395	107,608	10,978	17,236	2,963,685
Additions	40	–	–	1,584	12	716	4,576	2,858	1,326	50,102	61,214
Disposals and retirements	–	(565)	(85)	(103)	–	(208)	(1,601)	(1,763)	(241)	–	(4,566)
Reclassifications	–	2,701	8,724	14,242	358	11,640	–	3,659	161	(41,485)	–
Balance as at 31 December 2011	223	115,740	1,521,859	833,357	29,830	328,515	40,370	112,362	12,224	25,853	3,020,333
Additions	–	4	–	1,726	–	762	4,426	4,205	929	144,209	156,261
Disposals and retirements	–	(10,438)	–	(38)	(12)	(711)	(2,215)	(3,648)	(585)	(25)	(17,672)
Reclassifications	165	4,784	49,196	27,833	827	13,977	–	5,734	232	(102,748)	–
Balance as at 31 December 2012	388	110,090	1,571,055	862,878	30,645	342,543	42,581	118,653	12,800	67,289	3,158,922
Accumulated depreciation:											
Balance as at 1 January 2011	–	19,041	273,410	137,562	3,942	56,103	21,833	74,546	7,459	–	593,896
Charge for the year	–	3,374	47,131	24,509	1,584	17,849	4,530	9,900	1,345	–	110,222
Disposals and retirements	–	(132)	(84)	(18)	–	(190)	(1,598)	(1,762)	(239)	–	(4,023)
Reclassifications	–	(25)	–	–	(17)	(90)	–	132	–	–	–
Balance as at 31 December 2011	–	22,258	320,457	162,053	5,509	73,672	24,765	82,816	8,565	–	700,095
Charge for the year	–	3,449	48,124	24,840	1,597	18,680	4,593	10,247	1,317	–	112,847
Disposals and retirements	–	(1,939)	–	(15)	(8)	(662)	(2,214)	(3,531)	(579)	–	(8,948)
Reclassifications	–	(69)	–	–	1	68	–	(8)	8	–	–
Balance as at 31 December 2012	–	23,699	368,581	186,878	7,099	91,758	27,144	89,524	9,311	–	803,994
Impairment losses:											
Balance as at 1 January 2011	–	5,071	–	–	–	–	–	–	–	–	5,071
Balance as at 31 December 2011	–	5,071	–	–	–	–	–	–	–	–	5,071
Disposals and retirements	–	(4,678)*	–	–	–	–	–	–	–	–	(4,678)
Balance as at 31 December 2012	–	393	–	–	–	–	–	–	–	–	393
Net book value as at 31 December 2012	**388**	**85,998**	**1,202,474**	**676,000**	**23,546**	**250,785**	**15,437**	**29,129**	**3,489**	**67,289**	**2,354,535**
Net book value as at 31 December 2011	**223**	**88,411**	**1,201,402**	**671,304**	**24,321**	**254,843**	**15,605**	**29,546**	**3,659**	**25,853**	**2,315,167**

*The decrease in impairment in 2012 is due to disposal of the assets owned by the subsidiary.

(all amounts are in LTL thousand unless otherwise stated)

5 Property, plant and equipment (cont'd)

Company	Land	Buildings	Transmission networks and related installations	Distribution networks and related installations	Other buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Other property, plant and equipment	Construction in progress	Total
Cost:											
Balance as at 1 January 2011	183	99,215	1,513,220	817,634	29,460	316,367	37,178	106,061	10,978	17,171	2,947,467
Additions	40	–	–	1,584	12	716	4,576	2,843	1,326	50,102	61,199
Disposals and retirements	–	(565)	(85)	(103)	–	(208)	(1,534)	(1,584)	(241)	–	(4,320)
Reclassifications	–	2,701	8,724	14,242	358	11,640	–	3,660	161	(41,486)	–
Balance as at 31 December 2011	223	101,351	1,521,859	833,357	29,830	328,515	40,220	110,980	12,224	25,787	3,004,346
Additions	–	4	–	1,726	–	762	4,426	4,197	929	144,209	156,253
Disposals and retirements	–	(202)	–	(38)	(12)	(711)	(2,157)	(2,488)	(585)	–	(6,193)
Reclassifications	165	4,784	49,196	27,833	827	13,977	–	5,734	232	(102,748)	–
Balance as at 31 December 2012	388	105,937	1,571,055	862,878	30,645	342,543	42,489	118,423	12,800	67,248	3,154,406
Accumulated depreciation:											
Balance as at 1 January 2011	–	16,807	273,410	137,562	3,942	56,103	21,711	73,335	7,459	–	590,329
Charge for the year	–	3,229	47,131	24,509	1,584	17,849	4,512	9,802	1,345	–	109,961
Disposals and retirements	–	(132)	(84)	(18)	–	(190)	(1,531)	(1,583)	(239)	–	(3,777)
Reclassifications	–	(25)	–	–	(17)	(90)	–	132	–	–	–
Balance as at 31 December 2011	–	19,879	320,457	162,053	5,509	73,672	24,692	81,686	8,565	–	696,513
Charge for the year	–	3,346	48,124	24,840	1,597	18,680	4,577	10,183	1,317	–	112,664
Disposals and retirements	–	(70)	–	(15)	(8)	(662)	(2,156)	(2,462)	(579)	–	(5,952)
Reclassifications	–	(69)	–	–	1	68	–	(8)	8	–	–
Balance as at 31 December 2012	–	23,086	368,581	186,878	7,099	91,758	27,113	89,399	9,311	–	803,225
Impairment losses:											
Balance as at 1 January 2011	–	–	–	–	–	–	–	–	–	–	–
Balance as at 31 December 2011	–	–	–	–	–	–	–	–	–	–	–
Balance as at 31 December 2012	–	–	–	–	–	–	–	–	–	–	–
Net book value as at 31 December 2012	**388**	**82,851**	**1,202,474**	**676,000**	**23,546**	**250,785**	**15,376**	**29,024**	**3,489**	**67,248**	**2,351,181**
Net book value as at 31 December 2011	**223**	**81,472**	**1,201,402**	**671,304**	**24,321**	**254,843**	**15,528**	**29,294**	**3,659**	**25,787**	**2,307,833**

5 Property, plant and equipment (cont'd)

A part of the property, plant and equipment of the Group and the Company with the acquisition cost of LTL 78,229 thousand and LTL 78,202 thousand, respectively, were fully depreciated as at 31 December 2012 (LTL 69,237 thousand and LTL 68,415 thousand as at 31 December 2011, respectively), but were still in use.

As at 31 December 2012 and 2011 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 2012 and 2011 related to qualifying assets.

Major objects of construction in progress of the Group and the Company as at 31 December 2012 and 2011 were as follows:

	Group		Company	
Object	**2012**	**2011**	**2012**	**2011**
Construction of gas transmission pipeline Jurbarkas – Klaipėda:	55,758	8,308	55,758	8,308
Construction of gas transmission pipeline from Jurbarkas to the branch to gas distribution station (hereinafter – GDS) in Tauragė	–	*1,969*	–	*1,969*
Construction of gas transmission pipeline from the branch to GDS in Tauragė to the branch to GDS in Šilutė	*33,340*	*3,209*	*33,340*	*3,209*
Construction of gas transmission pipeline from the branch to GDS in Šilutė to the branch to GDS-2 in Klaipėda, the branch to GDS-2 in Klaipėda and GDS-2 in Klaipėda	*22,418*	*3,130*	*22,418*	*3,130*
Reconstruction of GDS in Girininkai village, Kaunas district	–	4,593	–	4,593
Acquisition of intelligent pig launcher and receiver chambers for the Vilnius - Vievis gas transmission pipeline	–	2,012	–	2,012
Procurement of equipment and replacement works of line block valves with bypasses No. 19, 41, 40 by new ones on the Ivatsevichi-Vilnius-Riga gas transmission pipeline (DN 500)	–	1,524	–	1,524
Reconstruction of GDS in Alksnupių village, Radviliškio district	–	1,024	–	1,024
Acquisition of container-type GDS	3,780	–	3,780	–
Other (including UAB Palangos Perlas)	7,751	8,392	7,710	8,326
Net book value as at 31 December 2012	**67,289**	**25,853**	**67,248**	**25,787**

6 Investment in subsidiary

As at 31 December 2012 the Company's investment in subsidiary consisted of the investment into UAB Palangos Perlas and amounted to LTL 9,181 thousand (LTL 9,181 thousand in 2011) (Note 1). On 30 January 2013 the Board of the Company made a decision to liquidate UAB Palangos Perlas.

7 Investment into joint venture

On 13 September 2012 AB Lietuvos Dujos and Gasum Oy established a joint venture. On 9 November 2012 the NCCPE issued a market operator license for UAB GET Baltic and on 21 December 2012 approved the trading regulations on the natural gas exchange and the service tariffs thereof by resolutions No. O3-425 and No. O3-426. Trading on the natural gas exchange started in January 2013.

During the year 2012 the results of the activity of the joint venture were immaterial (Note 1).

8 Non-current accounts receivable

	Group		Company	
	2012	**2011**	**2012**	**2011**
AB Guartis (former AB Warta Glass Panevėžys; earlier - AB Panevėžio Stiklas) debt	6,356	6,373	6,356	6,373
Other non-current accounts receivable	9	16	9	16
	6,365	6,389	6,365	6,389
Less: allowance for non-current accounts receivable	(6,356)	(6,373)	(6,356)	(6,373)
	9	**16**	**9**	**16**

Receivable from AB Guartis (former AB Warta Glass Panevėžys; earlier - AB Panevėžio Stiklas) debt is related to the mentioned entity's debt for the supply of natural gas for the period 2000 - 2002. Due to solvency problems a debt restructuring agreement was signed with AB Guartis creditors on 30 August 2002, according to it the debt to the Group and the Company in the amount of LTL 6.356 thousand should be repaid during the years 2014 – 2024.

(all amounts are in LTL thousand unless otherwise stated)

9 Inventories

	Group		Company	
	2012	2011	2012	2011
Raw materials, spare parts and other inventories	7,104	7,321	7,104	7,320
Goods for resale (including natural gas)	73,110	71,334	73,110	71,323
Inventories, gross	80,214	78,655	80,214	78,643
Less: allowance for inventories	(106)	(139)	(106)	(139)
	80,108	**78,516**	**80,108**	**78,504**

The Group's and the Company's cost of inventories accounted for at net realisable value amounted to LTL 1,292 thousand as at 31 December 2012 (LTL 1,624 thousand as at 31 December 2011). Changes in the allowance for inventories in 2012 and 2011 were included into other expenses.

10 Accounts receivable

	Group		Company	
	2012	2011	2012	2011
Receivables for natural gas, transmission and distribution of natural gas from non-household customers	180,794	159,792	180,796	159,803
Receivables for natural gas, transmission and distribution of natural gas from household customers	18,648	16,949	18,648	16,949
Other trade receivables	516	529	514	514
Total trade accounts receivable	199,958	177,270	199,958	177,266
Other accounts receivable	13,190	4,560	13,159	4,557
	213,148	181,830	213,117	181,823
Less: allowance for accounts receivable	(8,618)	(8,437)	(8,618)	(8,432)
	204,530	**173,393**	**204,499**	**173,391**

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

As at 31 December 2012 receivables for natural gas, transmission and distribution of natural gas from non-household customers increased due to increased level of receivables past due. The main part of the consumers' past due debt was repaid at the beginning of January 2013.

As at 31 December 2012 trade and other receivables of the Group and the Company with the nominal value of LTL 6,847 thousand (as at 31 December 2011 – LTL 6,086 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 2011	**3,858**	**3,987**	**7,845**	**3,853**	**3,987**	**7,840**
Charge for the year	4,043	1,902	5,945	4,043	1,902	5,945
Utilised	–	(159)	(159)	–	(159)	(159)
Unused amounts reversed	(4,223)	(971)	(5,194)	(4,223)	(971)	(5,194)
Balance as at 31 December 2011	**3,678**	**4,759**	**8,437**	**3,673**	**4,759**	**8,432**
Charge for the year	1,743	1,930	3,673	1,743	1,930	3,673
Utilised	(60)	(342)	(402)	(60)	(337)	(397)
Unused amounts reversed	(2,088)	(1,002)	(3,090)	(2,088)	(1,002)	(3,090)
Balance as at 31 December 2012	**3,273**	**5,345**	**8,618**	**3,268**	**5,350**	**8,618**

Changes in the allowance for accounts receivable in 2012 and 2011 were included into other expenses.

10 Accounts receivable (cont'd)

The ageing analysis of the Group's trade and other accounts receivable which are not impaired as at 31 December 2012 and 2011 is as follows:

	Trade and other receivables which is not past due	Trade and other receivables past due					Total
		Less than 30 days	31 – 90 days	91 – 180 days	181 – 360 days	More than 360 days	
2011	164,021	7,917	967	252	198	–	173,355
2012	173,880	29,018	1,100	268	218	–	204,484

The ageing analysis of the Company's trade and other accounts receivable which are not impaired as at 31 December 2012 and 2011 is as follows:

	Trade and other receivables which is not past due	Trade and other receivables past due					Total
		Less than 30 days	31 – 90 days	91 – 180 days	181 – 360 days	More than 360 days	
2011	164,031	7,917	965	246	197	–	173,356
2012	173,882	29,018	1,099	268	217	–	204,484

11 Other current assets

As at 31 December 2012 the Group's and the Company's other current assets – current investments – consisted of the Group's and the Company's investments into debt securities amounting to LTL 57,736 thousand and the Group's and the Company's term deposits amounting to LTL 107,687 thousand and LTL 102,264 thousand, respectively (as at 31 December 2011 – LTL 30,000 thousand of debt securities and LTL 1,989 thousand of deposits). The term of current investments is 3 – 12 months. The weighted average annual interest rate of the Group's and the Company's current investments was 0.67 percent as at 31 December 2012 (2.24 % as at 31 December 2011).

12 Cash and cash equivalents

	Group		Company	
	2012	2011	2012	2011
Cash at bank, in transit and on hand	81,919	5,294	81,879	4,979
Deposits with the term of less than three months	30,538	90,590	30,538	90,590
	112,457	**95,884**	**112,417**	**95,569**

The original term of all deposits is less than three months, the weighted average annual interest rate as at 31 December 2012 was 0.42 % (0.75 % as at 31 December 2011). Cash at banks is invested into short-term deposits, the interest rate depending on the term may be fixed or floating. Overnight deposits are with fixed or floating interest rate, which depends on a published daily interbank interest rates. Other deposits with the term of less than three months are with fixed interest rate. The fair value of cash and current deposits of the Group and the Company as at 31 December 2012 was LTL 112,457 thousand and LTL 112,417 thousand, respectively (LTL 95,884 thousand and LTL 95,569 thousand, respectively as at 31 December 2011).

(all amounts are in LTL thousand unless otherwise stated)

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of not less than 5 % of net profit are compulsory until the reserve reaches 10 % of the share capital. The amount of LTL 3,215 thousand of the Company's net profit for 2012 must be allocated for a transfer to the legal reserve in 2013, in which case the legal reserve would comprise 10% of the share capital. 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 are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting for the corporate business development.

14 Borrowings

On 22 October 2012 AB Lietuvos Dujos and bank AB Swedbank signed a long term loan agreement for the amount up to EUR 72 million. The purpose of the loan is to refinance the financial liabilities and finance the operations of the transmission activity, which according to the prevailing law requirements will be unbundled by establishing a new entity - transmission system operator (Note 1). As at 31 December 2012 the outstanding balance of the loan taken from AB Swedbank amounted to LTL 180 million (EUR 52.1 million).

	Group		Company	
	2012	**2011**	**2012**	**2011**
Non-current borrowings				
Borrowings from Lithuanian credit institutions	180,000	2,144	180,000	2,144
Current borrowings				
Current portion of non-current borrowings	2,144	2,144	2,144	2,144
	182,144	**4,288**	**182,144**	**4,288**

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

	2012	2011	2012	2011
	Fixed interest bearing loans	**Fixed interest bearing loans**	**Floating interest bearing loans**	**Floating interest bearing loans**
2012	–	2,144	–	–
2013	2,144	2,144	–	–
2014	–	–	45,000	–
2015	–	–	45,000	–
2016	–	–	45,000	–
2017	–	–	45,000	–
	2,144	**4,288**	**180,000**	**–**

14 Borrowings (cont'd)

Actual interest rates are close to effective interest rates. As at 31 December 2012 the weighted average annual interest rate of the Group's and the Company's borrowings outstanding was 1.54 % (5.65 % as at 31 December 2011). Borrowings at the end of the year in national and foreign currencies expressed in LTL were as follows:

	Group		Company	
Borrowings denominated in:	**2012**	**2011**	**2012**	**2011**
EUR	182,144	4,288	182,144	4,288
	182,144	**4,288**	**182,144**	**4,288**

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

In addition as at 31 December 2012 the Group and the Company had available LTL 2,900 thousand (LTL 2,900 thousand as at 31 December 2011) of unutilized credit limit facility in respect of which all conditions precedent have been met.

15 Grants (deferred revenue)

Group and Company	2012			2011		
	Deferred revenue	**Grants**	**Total**	**Deferred revenue**	**Grants**	**Total**
Balance at the beginning of the period	**120,747**	**70,306**	**191,053**	**115,066**	**62,776**	**177,842**
Received during the year	7,175	29,418	36,593	7,966	9,478	17,444
Change in grants receivable	–	8,833	8,833	–	560	560
Amortisation during the year	(2,439)	(3,189)	(5,628)	(2,285)	(2,291)	(4,576)
Grants used for compensation of expenses	–	(46)	(46)	–	(217)	(217)
Balance at the end of the period	**125,483**	**105,322**	**230,805**	**120,747**	**70,306**	**191,053**

Increase in grants (deferred revenue) in 2012 was influenced by received capital grants, out of which LTL 33,860 thousand comprised construction of gas transmission pipeline Jurbarkas – Klaipėda, the project financed by EU structural funds. 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.

The grants receivable are accounted under caption other receivables in the statements of financial position.

16 Non-current employee benefits

As at 31 December 2012 and 2011 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.

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

	2012	**2011**
Discount rate	4.59 %	5.66 %
Annual employee turnover rate	2 %	2 %
Annual salary increase	2 %	2 %

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

(all amounts are in LTL thousand unless otherwise stated)

17 Trade payables

	Group		Company	
	2012	2011	2012	2011
Suppliers of natural gas	189,851	192,122	189,851	192,122
Other	49,096	23,447	49,092	23,440
	238,947	**215,569**	**238,943**	**215,562**

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.

The Group's and the Company's other trade payables increased comparing to 2011 mainly due to increased payables to contractors for construction and reconstruction works.

18 Other payables and current liabilities

The Groups and the Company's other payables and current liabilities mainly consist of VAT payable, which amounted to LTL 36,853 thousand as at 31 December 2012 (LTL 39,362 thousand as at 31 December 2011).

19 Other income

In 2012 the major part of the Group's and the Company's other income consists of grants (including deferred revenues) amortisation amounting to LTL 5,628 thousand (LTL 4,576 thousand in 2011).

20 Financial activities

	Group		Company	
	2012	2011	2012	2011
Interest income	1,246	1,310	1,181	1,261
Other income from financial activities	962	1,157	962	1,156
Total income from financial activities	2,208	2,467	2,143	2,417
Interest expenses on borrowings	(614)	(320)	(614)	(320)
Share of losses of joint venture directly attributable to the Company	(50)	–	–	–
Impairment of financial assets	–	(20,000)	–	(20,000)
Other expenses from financial activities	(1)	(10)	(1)	(10)
Total expenses from financial activities	(665)	(20,330)	(615)	(20,330)
Result from financial activities, net	**1,543**	**(17,863)**	**1,528**	**(17,913)**

As at 31 December 2011 the Group and the Company estimated 100% impairment for AB bankas SNORAS certificate of deposit (LTL 20,000 thousand), which was accounted as the expenses from financial activities.

21 Income tax

	Group		Company	
	2012	2011	2012	2011
Income tax:				
Profit before tax	70,700	104,273	71,537	104,417
Changes in temporary differences	46,704	50,585	50,864	50,673
Permanent differences	(2,962)	14,792	(7,959)	14,560
Taxable income for the year	114,442	169,650	114,442	169,650
Current year income tax	17,166	25,448	17,166	25,448
Current year income tax incentive	(8,954)	(9,638)	(8,954)	(9,638)
Current year income tax after applying income tax incentive	8,212	15,810	8,212	15,810
Prior year income tax incentive	(2,316)	(334)	(2,316)	(334)
Other prior years' income tax adjustments	284	856	284	856
Change in deferred income tax during the year	(9,986)	(7,821)	(10,607)	(7,601)
Income tax expense (income) charged to the income statement	**(3,806)**	**8,511**	**(4,427)**	**8,731**

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 applied for investments into qualifying property, plant and equipment. When calculating current income tax for the year 2012, the Group and the Company used the benefit of the above mentioned incentive for the investments (including used income tax incentive of previous year) and reduced income tax expenses for the year 2012 by a total amount of LTL 11,270 thousand (LTL 9,972 thousand in 2011).

	Group		Company	
	2012	2011	2012	2011
Deferred tax asset:				
Impairment losses on property, plant and equipment and vacation accrual	932	1,604	876	926
Accrual for non-current employee benefit	1,365	1,365	1,365	1,365
Unused income tax incentive	3,057	–	3,057	–
Deferred revenue from connection fees	1,985	2,028	1,985	2,028
Deferred tax asset before valuation allowance	**7,339**	**4,997**	**7,283**	**4,319**
Less: valuation allowance	(108)	(108)	(108)	(108)
Less: deferred tax asset netted with deferred tax liability	(7,231)	(4,889)	(7,175)	(4,211)
Deferred tax asset, net	**–**	**–**	**–**	**–**
Deferred tax liability:				
Difference in tax base of property, plant and equipment	(154,386)	(162,030)	(154,309)	(161,952)
Deferred tax liability, net	**(147,155)**	**(157,141)**	**(147,134)**	**(157,741)**

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 2012 and 2011 the Group and the Company has used income tax rate of 15 %.

(all amounts are in LTL thousand unless otherwise stated)

21 Income tax (cont'd)

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

	Group		Company	
	2012	2011	2012	2011
Profit before tax	70,700	104,273	71,537	104,417
Tax (expense) at the applicable standard tax rate	(10,605)	(15,641)	(10,731)	(15,663)
Non-deductible items	444	(2,219)	1,194	(2,184)
Income tax incentive	11,270	9,972	11,270	9,972
Other	2,981	(9)	2,978	(242)
Effect of prior periods income tax adjustment	(284)	(614)	(284)	(614)
Income tax gain (expense)	3,806	(8,511)	4,427	(8,731)

22 Earnings per share

Basic earnings per share reflect the Group's and the Company's net income, divided by the weighted average number of shares. There are no diluting instruments, therefore basic and diluted earnings per share are equal. Calculations of the basic earnings per share are presented below:

	Group	
	2012	2011
Net profit attributable to the shareholders (in LTL thousand)	74,506	95,762
Weighted average number of shares (in thousands)	469,068	469,068
Basic earnings per share (in LTL)	0.16	0.20

As there were no changes in the share capital of the Company during 2012 and 2011, therefore the weighted average number of shares equals to the total number of shares at the end of the year.

23 Dividends declared

	2012	2011
Dividends declared (in LTL thousand)*	72,000	120,000
Number of shares at the date when dividends were declared (in thousands)	469,068	469,068
Dividends per share (in LTL)	0.15	0.26

* In the year when the dividends are declared.

24 Cash flows from investing and financing activities

When calculating cash flows from investing activities in 2012, the change in accounts payable for non-current assets of the Group and the Company of LTL 12,852 thousand and gas pipeline reallocation grant received in kind LTL 1,631 thousand (change in accounts payable for non-current assets LTL 4,555 thousand of the Group and the Company in 2011), was taken into account.

When determining the grants received in cash flows from financing activities of 2012 there were evaluated the annual changes of prepayments received of LTL 282 thousand and gas pipeline reallocation grant received in kind of LTL 1,631 thousand (in 2011 the annual changes of prepayments received were equal to LTL 4,181 thousand).

25 Capital investment commitments

As at 31 December 2012, 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 71,160 thousand (LTL 21,446 thousand as at 31 December 2011). The contractual obligations of the construction of gas transmission pipeline Jurbarkas – Klaipėda agreements amounted to LTL 63,560 thousand out of total capital investment commitments as at 31 December 2012.

26 Financial assets and liabilities and risk management

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011 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	–	672	4,289	185,612	–	190,573
Other current liabilities	–	1,128	–	–	–	1,128
Trade payables	–	238,947	–	–	–	238,947
Balance as at 31 December 2012	**–**	**240,747**	**4,289**	**185,612**	**–**	**430,648**
Interest bearing loans and borrowings	–	–	2,356	2,235	–	4,591
Other current liabilities	–	1,997	–	–	–	1,997
Trade payables	–	215,564	5	–	–	215,569
Balance as at 31 December 2011	**–**	**217,561**	**2,361**	**2,235**	**–**	**222,157**

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2012 and 2011 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	–	672	4,289	185,612	–	190,573
Other current liabilities	–	1,128	–	–	–	1,128
Trade payables	–	238,943	–	–	–	238,943
Balance as at 31 December 2012	**–**	**240,743**	**4,289**	**185,612**	**–**	**430,644**
Interest bearing loans and borrowings	–	–	2,356	2,235	–	4,591
Other current liabilities	–	1,994	–	–	–	1,994
Trade payables	–	215,557	5	–	–	215,562
Balance as at 31 December 2011	**–**	**217,551**	**2,361**	**2,235**	**–**	**222,147**

Credit risk

The Group's and the Company's management believes that the maximum credit risk is equal to the trade receivables, other receivables, cash and short term investments less impairment losses recognised at the date of the statement of financial position. As the Group and the Company are working with big number of customers, they do not face a significant credit concentration risk. Credit risk is managed through regular monitoring procedures (individual debtors' supervision, especially monitoring and analysis of major customers, seeking to anticipate the potential solvency problems in the future and other) and the use of appropriate credit conditions. Every month debts of the individual customers and their groups are valued and in accordance with the procedures of the Company the decision about formation of allowance for accounts receivable is accepted. Using installed debt management tools and by working with customers in an effective way, the Company managed to sustain acceptable indebtedness level of the customers.

The Group and the Company face the risk when keeping the funds in bank accounts or investing it in short term instruments. To manage this risk the Company has approved the cash investment regulations. These regulations set (1) the reliability limits of the banks selected for cooperation (2) the limits of diversification for deposing or investing cash to investment products of banks or their subsidiaries, other securities etc. The reliability level is assessed based on the publicly available information.

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

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

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 at 31 December 2012 were as follows (stated in LTL thousand):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	350,755	345,672	110,512	110,499
EUR	131,617	131,238	372,095	372,095
USD	1	1	31	31
Total	**482,373**	**476,911**	**482,638**	**482,625**

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

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

Interest rate risk

As at 31 December 2012 the Group and the Company had one loan with fixed interest rate and one loan with floating interest rate.

The Group's and the Company's loan subject to floating interest rate is related to EURIBOR and creates interest rate risk. This loan comprised 98.8 % of the total Group's and Company's financial debt as at 31 Dec 2012. As at 31 December 2012 the Group and the Company did not have any financial instruments used for the management of interest rate risk.

The following table demonstrates the sensitivity of the Group's and the Company's 2012 profit before tax (through the impact on floating rate borrowings) to a reasonably possible change in interest rates, with all other variables held constant. There is no impact on the Group's equity, other than that on current year profit.

	EURIBOR increase in basis points	Effect on the profit before the income tax
As at 31 December 2012	+100	(1,800)

Gas import price fluctuation risk

Natural gas import price depends on heavy fuel oil and gasoline prices in international market, the USD and EUR ratio fixed by the European Central Bank and actual natural gas calorific value. Management of the Group and the Company believes that this risk is managed effectively in the following way:

- for non-household customers – by setting the gas price depending on the same variable component values;
- for household customers – through the regulated price-setting mechanism, defined in the Natural Gas Law.

Fair value of financial instruments

The Group's and the Company's principal financial assets and liabilities not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

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

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 of financial assets and liabilities are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate (Level 1 valuation technique).

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

(a) The carrying amount of current trade and other accounts receivable, current trade and other 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 interest rates approximates their carrying amounts.

27 Commitments and contingencies

Legal disputes

(i) On 25 March 2011 the Ministry of Energy of the Republic of Lithuania, which holds 17.7 % of the Company's shares by the right of trust, applied to Vilnius Regional Court with an action for an investigation of activities of a legal person and indicated AB Lietuvos Dujos, the Company's board members delegated by OAO Gazprom and the general manager as defendants. This action requests initiation of an investigation of AB Lietuvos Dujos activities and satisfaction of the respective claims specified in the action, provided that the activities of the company AB Lietuvos Dujos and/or the above board members and/or the general manager are found inadequate. Having considered the request of the plaintiff the Ministry of Energy of the Republic of Lithuania to initiate an investigation of AB Lietuvos Dujos activities, by the ruling of 3 September 2012 Vilnius Regional Court satisfied the plaintiff's request and decided to initiate an investigation of AB Lietuvos Dujos activities. The Company did not agree with the decision of the court of first instance and appealed against it to the Court of Appeal of Lithuania. The Court of Appeal of Lithuania kept the decision of Vilnius Regional Court unchanged. The Company is now considering the possibility to lodge an appeal against the ruling of 21 February 2013 of the Lithuanian Court of Appeal to the Supreme Court of Lithuania in a cassation procedure. The outcome of this legal case is uncertain and cannot be reliably estimated.

(ii) On 28 October 2011 AB Lietuvos Dujos applied to Vilnius Regional Administrative Court with a request to partially annul the Resolution of the NCCPE No. O3-283 of 30 September 2011 Regarding a Planned Target Inspection of AB Lietuvos Dujos, where violations of AB Lietuvos Dujos licensed activities' regulations were identified and requirements applicable for providing the data for adjusting the upper price margin of transmission and distribution for 2012, for determination of the property, plant and equipment depreciation expenses as well as for the other obligations were imposed for the Company. On 20 February 2012 Vilnius Regional Administrative Court rejected the Company's claim. The Company did not agree with the decision of the first instance court and appealed against it to the Supreme Administrative Court. By the ruling of 10 September 2012 the Supreme Administrative Court rejected the Company's appeal and kept the decision of 20 February 2012 of Vilnius Regional Administrative Court unchanged. The ruling of the court is final and not subject to appeal.

Taking into account that the procedure of imposing a fine on the Company was initiated based on the above NCCPE Resolution No O3-283 of 30 September 2011, though the Company, within the limits established by legal acts, had rectified all the violations specified in the aforementioned Resolution of the NCCPE and had fulfilled its obligations. On 28 November 2011 AB Lietuvos Dujos applied to Vilnius Regional Administrative Court with a complaint and requested annulment of the Resolution of the NCCPE No. O3-347 of 27 October 2011 Regarding Violation of Regulated Activities of AB Lietuvos Dujos, based on which AB Lietuvos Dujos was imposed a fine of LTL 350 thousand. By the decision of 17 December 2012, taking into account the fact that the Company had timely rectified the violations and therefore no harm was caused, Vilnius Regional Administrative Court satisfied the appeal of AB Lietuvos Dujos and decided to annul the Resolution No. O3-347 of 27 October 2011 Regarding Violation of Regulated Activities of AB Lietuvos Dujos. The NCCPE did not agree with the decision passed by Vilnius Regional Administrative Court and submitted an appeal to the Supreme Administrative Court on 31 December 2012. Currently, the case is undergoing hearings at the appeal instance.

28 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions.

The related parties of the Group and the Company, transaction amounts and debts as at 31 December 2012 and 2011 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);
- UAB GET Baltic (joint venture);
- AS Latvijas Gaze (the same shareholders);
- E.ON IS GmbH (same ultimate shareholder);
- OAO Beltransgaz (same ultimate shareholder);
- UAB Kauno termofikacijos elektrinė (same ultimate shareholder);
- Open Grid Europe GmbH, related party until 23 July 2012 (same ultimate shareholder).

The tables below represent the Company's transactions and outstanding balances with related parties in 2012 and 2011. The Group's transactions and outstanding balances with related parties in 2012 and 2011 are the same as the Company's, except the transactions and outstanding balances with UAB Palangos perlas which are not included.

2012	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	1,519,603	40,967	9,388	189,851
OAO Beltransgaz	16	–	–	–
UAB Palangos Perlas	69	41	2	–
AS Latvijas Gaze	1,518	–	–	11
UAB Kauno termofikacijos elektrinė	–	14,353	388	–
UAB GET Baltic	–	4	2	–
	1,521,206	55,365	9,780	189,862

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

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

AB Lietuvos Dujos does not treat the Government controlled companies as one client because there is no significant economic integration between these companies. AB Lietuvos Dujos supply gas to the Government controlled companies; the transactions with them are concluded on the arms length principle.

Dividends to the shareholders have been paid in 2012 and 2011.

28 Related party transactions (cont'd)

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash in 15 - 30 days term. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the receivables from related parties by the Group and the Company.

Management remuneration

In 2012 payments to the administration management of the Group and the Company amounted to LTL 2,676 thousand and LTL 2,611 thousand, respectively (in 2011 respectively LTL 2,437 thousand and LTL 2,381 thousand). The annual payments (tantieme) paid for the Company's Board members amounted to LTL 524 thousand in 2012 (LTL 540 thousand in 2011). In 2012 and 2011 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

29 Capital management

The primary objective 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 2012 and 2011.

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 at 31 December 2012 and 2011 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.

30 Subsequent events

On 30 January 2013 the Board of the Company made a decision to liquidate UAB Palangos Perlas (Note 6).

On 30 January 2013 the Board of the Company prepared and approved the Unbundling Terms of AB Lietuvos Dujos. On 28 February 2013 NCCPE by Resolution No O3-64 Concerning AB Lietuvos dujos Unbundling Terms and Composition of the Assets to be Released to the Transmission System Operator stated that the Company's Unbundling terms provides conditions for the proper implementation of the unbundling of the natural gas transmission activity (Note 1).

In accordance with the law of Liquid natural gas (hereinafter – LNG) terminal of the Republic of Lithuania and the secondary acts approved by NCCPE, starting from 1 January 2013 the Company started collecting funds, which will be used to finance the implementation of the LNG terminal project. Since 2013 the LNG terminal related additional tariff component, approved by NCCPE, amounting to LTL 37.53/1000 m3 has to be paid by all users of the gas transmission system. The Company will be in charge of the administration of the LNG terminal funds.

LIETUVOS DUJOS

Aguonų g. 24
LT-03212 Vilnius, Lithuania
Tel.: +370 5 236 0210
Fax: +370 5 236 0200
ld@lietuvosdujos.lt, www.dujos.lt
Vilnius, 2013

Editorial work was completed on 25 April, 2013.
Design: LĮ Kriventa
Printed: UAB Regrafas