



## AKCINĖ BENDROVĖ „LIETUVOS DUJOS“

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To: as per list

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### **REGARDING THE CONCEPT OF AMENDMENT OF THE LAW ON NATURAL GAS OF THE REPUBLIC OF LITHUANIA**

Shares of AB Lietuvos Dujos are included into the Official Trade List of the Stock Exchange NASDAQ OMX Vilnius. The present letter of AB Lietuvos Dujos is addressed to the supervisory authorities of the securities market of the Republic of Lithuania, to investors, to the public, to our customers and to our business partners. The letter was prompted by the information disclosure provisions, as well as the unprecedented misleading public relations campaign that has been conducted for quite some time. On the basis of the being publicly disseminated information which is at odds with reality, the Government of the Republic of Lithuania adopts decisions the consequences of which are unpredictable for the natural gas market participants, customers and investors.

The Ministry of Energy of the Republic of Lithuania, presenting as grounds the necessity to implement Directive 2009/73/EC of the European Parliament and the Council of 13 July 2009 concerning common rules for the internal market in natural gas (hereinafter referred to as “the Gas Directive”), the so-called EU Third Energy Package, presented the Concept of the Law on Amendment of the Law on Natural Gas of the Republic of Lithuania (hereinafter referred to as “the Concept”), which was approved by the Government of the Republic of Lithuania on 19 May 2010. It was only from mass media that the Company learned of this.

About the Concept being drafted by the Ministry of Energy, neither Natural Gas Sector companies nor the associated structures acting in the Sector were duly informed, in defiance of the general principles of the European Union, the legislation of the Republic of Lithuania concerning the lawmaking process as well as of the legislation regulating the public companies operation and management.

Pursuant to the general principles of the European Union, the model of implementation of any of the EU directives should be selected exclusively upon completion of a comprehensive analysis of the *status quo*. The legislation of the Republic of Lithuania contains a mandatory provision to assess the effects of the directive implementation as well as of its impacts on consumers and on the service tariffs. In addition to this, it is necessary to make an analysis of Lithuania’s international agreements regarding investments and investment protection. For the sake of objectivity, publicity and transparency, it is necessary to consult with natural gas business experts and the shareholders of companies operating in the Sector.

AB Lietuvos Dujos shareholders: E.ON Ruhrgas International and Gazprom, approached the Prime Minister of the Republic of Lithuania and the Minister of Energy of the Republic of Lithuania and suggested arranging a meeting and having a matter-of-fact discussion with regard to the subject-matter of the proposals drafted. However, these requests were not heard. Not a

single expert of AB Lietuvos Dujos was invited to participate in the Concept drafting activities. Not a single public discussion or deliberation was held with the participation of the market players, consumers or regulatory authorities concerned.

The drafters of the Concept ignored the provisions of the Lawmaking Rules of the Government of the Republic of Lithuania and did not take into account the stance of the neighboring countries, i.e. Latvia, Estonia or Finland (which, just like Lithuania, are isolated gas markets) on the selection of the Gas Directive implementation model. The European Commission's decision regarding the application of derogation of the Gas Directive (Art. 49) by specifying the member states (Latvia, Estonia, Finland) was determined by the official stance of these respective member states. The drafters of the Concept furnished as an argument the data which is at odds with reality arguing that "so far not a single Baltic State (or Finland) has expressed an official stance to apply the Gas Directive derogation". On the contrary, in December of 2009, Latvia embedded the derogation into law: the gas company shall not be unbundled at least until April of 2014. The Concept contains another unjustified statement, namely that "Estonia has already expressed its official stance to waive the application of derogation and to implement the Gas Directive by the ownership unbundling method."

It may be concluded that the Concept, just like the public relations campaign, is directed at discrediting only one company's – AB Lietuvos Dujos – activities, staff, management and shareholders, as well as at impairing our relations with our customers and our business partners as well as at ruining the trust of investors and financial institutions.

For your judgement, we would like to present just a few most striking samples of this disinformation campaign:

**- Regarding investments.** The Ministry of Energy, representing the interests of the Government of the Republic of Lithuania at the public company AB Lietuvos Dujos and participating in the management of the Company, both when presenting the Concept for approval, and in the public space, disseminates misleading information that the Company, allegedly, is not implementing the investment projects, the feasibility studies of which have not been completed by the Ministry itself and the assessment of their impact on tariffs has not been carried out, not to mention the absence of any legal or financial grounds for the implementation of such projects. Over the last five years, AB Lietuvos Dujos invested into infrastructure almost LTL 700 million, implementing all the projects included into the National Energy Strategy (hereinafter referred to as "the NES"). Meanwhile, the EU funds resources envisaged for projects of national importance included into the Plan of Measures of the implementation of the NES as approved by the Government as far back as in 2007, have not been granted yet. The multiple requests by the Company regarding granting of the funds were left unanswered and we are still in the dark as to where the resources actually disappeared.

The accusation of the reluctance to participate in the construction of the LNG Terminal Facility is unfounded, since the Government of the Republic of Lithuania itself so far has not made its mind as to the most expedient location or the type of the prospective terminal, and the previously undertaken non-transparent attempts to establish the Liquefied Natural Gas Terminal Facility Joint Venture with one exclusive business group and without any public tender ended in a scandalous way.

Quite a few odd announcements of all kinds are being released via mass media, as for instance, the specialized publication "Heren European Spot Gas Markets" (issue of 20 May 2010) reads: "The energy ministry said it had made numerous attempts to convince Lietuvos dujos to build <...> a link to a proposed LNG terminal, but had been unsuccessful". We are making a responsible statement that the Ministry has never asked the Company to do this.

The accusations of the reluctance to invest in the interconnection of the gas networks of Lithuania and Poland are baseless, too. On the initiative of AB Lietuvos Dujos and the Polish natural gas transportation company Gaz System SA an application for the financing the preparation of the Lithuania's and Poland's gas systems interconnection feasibility study has

been submitted to the European Commission. The Government of the Republic of Lithuania is well informed about it. The construction of such an interconnection between the two countries, contingent upon economic viability, is also provided for by the Shareholders' Agreement concluded by the Government of the Republic of Lithuania and E.ON Ruhrgas International and Gazprom.

- **Regarding tariffs.** Populist declarations void of any economical logic are being made that the proposed reform will create conditions for the decrease of the customer gas tariffs. By itself, the proposed company unbundling model will never guarantee the decrease of the tariffs: on the contrary, especially taking into account the requirements for the implementation of the proposed model it will inevitably increase the costs and the tariffs.

- **Regarding third party access to the network.** The Ministry of Energy is making unfounded accusations against AB Lietuvos Dujos of customer discrimination with respect to granting them access to the gas transportation network (TPA). Already in 1993, free third party access to the network was created in Lithuania, and currently around 60% of gas volumes consumed in the Republic of Lithuania are transported by AB Lietuvos Dujos for third parties. There exist no instances discrimination, and there is no possibility for them to occur, since TPA to the gas network has been implemented by transposing the previously adopted EU legal acts into the legislation of the Republic of Lithuania, and the economic conditions for the access are determined by the independent regulator: the National Control Commission for Prices and Energy. Moreover, the implementation of TPA in practice has been officially presented to the EC during the EU membership negotiations as implemented in full scope and as establishing conditions for the creation of a competitive natural gas market.

AB Lietuvos Dujos has not received any justified complaints regarding the aforesaid accusations from market players or warnings from the authorities of the Republic of Lithuania or the European Union.

By such manipulations of false allegations the implementation of the recommendations of the EU Third Energy Package is being discredited. The main objective of the EU is to create a competitive common gas market. In Lithuania, though, the provisions of the EU Third Energy Package are employed for the drastic revision of the AB Lietuvos Dujos privatisation agreement, for the splitting of the efficiently operating company and its nationalisation.

Such approach does not comply with the civilised principles of creation business environment and investment protection, and it cannot be tolerated. The main shareholders in AB Lietuvos Dujos, its management cannot accept the non-transparent and hasty decisions which, undoubtedly, would have a negative effect on the steady operation of the company: on securing safe and reliable gas supply, on the financial abilities of the company to implement infrastructure projects planned in the NES and market development projects, and which would make the company less attractive to the investors. These decisions would determine the growth of administrative costs and would affect gas prices for customers.

We believe that this letter will help you to better understand the business environment of AB Lietuvos Dujos and the Company's position in respect of the undergoing processes. We do believe that State authorities will change their attitude regarding the public and private partnership and will manage to impartially evaluate the proposals of the Company's specialists and shareholders.

General Manager

*/Signature/*

Viktoras Valentukevičius

Deputy General Manager-Commercial Director

*/Signature/*

Joachim Hockertz