# AB LIETUVOS DUJOS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

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

Report on Financial Statements

We have audited the accompanying financial statements of AB Lietuvos Dujos, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Lietuvos Dujos and subsidiary UAB Palangos Perlas (hereinafter the Group), which comprise the statements of financial position as of 31 December 2011, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

*Management's Responsibility for the Financial Statements*

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2011 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

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

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 6 March 2012.

## Statements of financial position

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

*(cont'd on the next page)*

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

## Statements of financial position (cont'd)

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

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

| | | | |
|---|---|---|---|
| General Manager | Viktoras Valentukevičius | | 6 March 2012 |
| Chief Accountant | Žydrūnas Augutis | | 6 March 2012 |

## Income statements

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

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

| | | | |
|---|---|---|---|
| General Manager | Viktoras Valentukevičius | | 6 March 2012 |
| Chief Accountant | Žydrūnas Augutis | | 6 March 2012 |

## Statements of comprehensive income

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

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

| | | | |
|---|---|---|---|
| General Manager | Viktoras Valentukevičius | | 6 March 2012 |
| Chief Accountant | Žydrūnas Augutis | | 6 March 2012 |

## Statements of changes in equity

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

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

| | | | |
|---|---|---|---|
| General Manager | Viktoras Valentukevičius | | 6 March 2012 |
| Chief Accountant | Žydrūnas Augutis | | 6 March 2012 |

## Statements of changes in equity (cont'd)

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

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

| | | | |
|---|---|---|---|
| General Manager | Viktoras Valentukevičius | | 6 March 2012 |
| Chief Accountant | Žydrūnas Augutis | | 6 March 2012 |

## Statements of cash flows

| | | Notes | Group 2011 | Group 2010 | Company 2011 | Company 2010 |
|---|---|---|---|---|---|---|
| **I.** | **Cash flows from (to) operating activities** | | | | | |
| I.1. | Net profit | | 95,762 | 159,494 | 95,686 | 159,715 |
| | **Adjustments of non-cash items and other corrections:** | | | | | |
| I.2. | Depreciation and amortisation | 4, 5 | 111,803 | 98,988 | 111,535 | 98,712 |
| I.3. | Loss (gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal | | (116) | 118 | (116) | 113 |
| I.4. | Impairment losses for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories | | 717 | 1,957 | 716 | 1,984 |
| I.5. | Income tax expenses (benefit) | | 8,511 | (10,564) | 8,731 | (10,571) |
| I.6. | Interest (income) | | (1,310) | (992) | (1,261) | (906) |
| I.7. | Interest expenses | | 320 | 447 | 320 | 447 |
| I.8. | Loss on foreign currency exchange | | 2 | 5 | 2 | 5 |
| I.9. | (Income) from change of value of investment units | | (1) | (868) | - | (862) |
| I.10. | (Amortisation) of the grants (deferred revenue) | | (4,654) | (4,076) | (4,654) | (4,076) |
| I.11. | Elimination of other investing activity results | 10 | 20,000 | - | 20,000 | - |
| I.12. | Elimination of other non-cash items | | (1,094) | (4,226) | (1,094) | (4,227) |
| | | | **229,940** | **240,283** | **229,865** | **240,334** |
| | **Changes in working capital:** | | | | | |
| I.13. | (Increase) in inventories | 8 | (31,176) | (3,149) | (31,177) | (3,147) |
| I.14. | Decrease (increase) in trade accounts receivable | | 364 | (38,023) | 361 | (38,051) |
| I.15. | Decrease (increase) in other accounts receivable and prepayments | | 472 | 75 | 459 | (221) |
| I.16. | Increase in trade accounts payable | 23 | 14,103 | 53,215 | 14,125 | 53,721 |
| I.17. | Increase in other accounts payable and other current liabilities | | 7,254 | 28,006 | 7,258 | 28,010 |
| I.18. | Income tax (paid) | | (7,362) | (14,810) | (7,362) | (14,810) |
| | **Total changes in working capital** | | **(16,345)** | **25,314** | **(16,336)** | **25,502** |
| | **Net cash flows from operating activities** | | **213,595** | **265,597** | **213,529** | **265,836** |
| **II.** | **Cash flows from (to) investing activities** | | | | | |
| II.1. | (Acquisitions) of property, plant and equipment and intangible assets | 4, 5, 23 | (66,873) | (170,806) | (66,858) | (170,502) |
| II.2. | Proceeds from sales of property, plant and equipment | | 673 | 151 | 659 | 151 |
| II.3. | Sale of investment units held for sale | 10 | 307 | 22,041 | - | 22,341 |
| II.4. | Receipt of non-current receivables and loans granted | | 7 | 25 | 7 | 25 |
| II.5. | Decrease (increase) in term deposits | 10 | (259) | 212 | - | - |
| II.6. | Interest received | | 965 | 969 | 916 | 883 |
| II.7. | (Acquisitions) of other short-term investments | 10 | (50,002) | - | (50,002) | - |
| | **Net cash flows (to) investing activities** | | **(115,182)** | **(147,408)** | **(115,278)** | **(147,102)** |

*(cont'd on the next page)*

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

## Statements of cash flows (cont'd)

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

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

| | | | |
|---|---|---|---|
| General Manager | Viktoras Valentukevičius | | 6 March 2012 |
| Chief Accountant | Žydrūnas Augutis | | 6 March 2012 |

## Notes to the financial statements

### 1 General information

AB Lietuvos Dujos (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

Aguonų Str. 24,
LT - 03212, Vilnius,
Lithuania.

The Company is engaged in transmission, distribution and supply of natural gas. The Company was registered on 23 November 1990. The Company's shares are traded on the NASDAQ OMX Vilnius Stock Exchange on the Main trade list.

As of 31 December 2011 and 2010 the shareholders of the Company were as follows:

| | Number of shares held | Percentage of ownership (%) |
|---|---|---|
| E.ON Ruhrgas International GmbH | 182,534,384 | 38,9 |
| 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 of 31 December 2011 and 2010. The Company did not hold its own shares.

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

The Group comprises AB Lietuvos Dujos and its subsidiary UAB Palangos Perlas (hereinafter the Group). The information of UAB Palangos Perlas as of 31 December 2011 is as follows:

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

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

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

On 28 October 2011 the Government of the Republic of Lithuania passed a Resolution No. 1239 Concerning the Approval of the Plan for the Execution of Unbundling Activities and Control of Natural Gas Companies That Do Not Comply with the Requirements of the Law on Natural Gas of the Republic of Lithuania, which set forth that the natural gas companies that do not comply with the requirements of the Law on Natural Gas of the Republic of Lithuania not later than by 31 July 2013 shall legally, functionally and organisationally unbundle their natural gas operations, and by 31 October 2014 they shall perform unbundling of their transmission and supply operations on the basis of ownership. Based on this resolution the Company till 31 March 2012 has to make the decision on the selected activity and control segregation method and together with the intended action plan provide to the National Control Commission for Prices and Energy (hereinafter the NCCPE). Currently there is considered the matter for the prolongation of this term in the Government of the Republic of Lithuania.
The implementation of the provisions of these laws will have a substantial effect on the activities of the Company. As of the date of preparation of these financial statements the Company's authorities have not yet taken a decision in respect of the selection for the activities and the control unbundling approach, and the impact on the Company's operational results was not assessed.

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

The Company's activities of transmission, distribution and supply of natural gas are subject to licensing. Licences are granted and licensed activities observed by NCCPE. The Company has licences for transmission, distribution and supply of natural gas.

The prices for transmission and distribution of natural gas are regulated. The price caps are set by the NCCPE, too. 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 2012. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

## 2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2011 are as follows:

### 2.1. Basis of preparation

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

Adoption of new and/or changed IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations

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

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

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

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

**Improvements to IFRSs**
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group and the Company.

- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. In the future the Group and the Company will amend the accounting policy when the component of other comprehensive income will appear.

- *IAS 34 Interim Financial Reporting:* This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group and the Company will include appropriate corrections in the interim financial statements.

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

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

**2.1. Basis of preparation (cont'd)**

**Standards issued but not yet effective**

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

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

- **IAS 12 Income Taxes (Revised) – Recovery of Underlying Assets**
  The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. This amendment has not yet been endorsed by the EU. On 31 December 2011 the Group and the Company had no investment property.

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

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

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

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

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**
  The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The Group and the Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group and the Company.

**2.1. Basis of preparation (cont'd)**

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

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

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

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

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

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

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

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

## 2 Accounting principles (cont'd)

### 2.2. Measurement and presentation currency

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

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

### 2.3. Principles of consolidation

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

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

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

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

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

### 2.4. Intangible assets

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

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

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

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

### 2.5. Property, plant and equipment

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

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

## 2 Accounting principles (cont'd)

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

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

| | |
|---|---|
| Buildings | 25 - 60 years |
| Transmission networks and related installations | 55 years |
| Distribution networks and related installations | 55 years |
| Machinery and equipment | 5 - 20 years |
| Other buildings and structures | 15 - 19 years |
| Vehicles | 6 - 8 years |
| Other equipment, tools and devices | 4 - 9 years |
| Other property, plant and equipment | 4 - 9 years |

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

The Group and the Company estimates the value of property, plant and equipment whenever there is an indication that the property, plant and equipment may be impaired. An impairment loss is recognised in the income statement, whenever estimated.

### 2.6. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's and the Company's financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus (except for the financial assets at fair value through profit or loss) transaction costs.

Financial assets at fair value through profit or loss

The category financial assets at fair value through profit or loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivables are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts and accounts receivable are derecognised (written-off) when they are assessed as uncollectible.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale which are not classified in any of these three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

## 2 Accounting principles (cont'd)

### 2.7. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

### 2.8. Inventories

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

### 2.9. Cash and cash equivalents

Cash includes cash on hand, cash in banks and cash in transit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### 2.10. Borrowings

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

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

### 2.11. Borrowing costs

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

## 2 Accounting principles (cont'd)

### 2.12. Grants (deferred revenue)

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

Payments received from customers for the connection to the Company's gas systems are accounted for as deferred revenue and recognised as income over the expected useful life of the related capitalised assets.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilised grants is shown under caption of "Grants (deferred revenue)" in the statement of financial position.

### 2.13. Non-current employee benefits

Defined benefit plan – post employment benefits

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

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

Other long-term employee benefits

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

### 2.14. Income tax

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

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

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

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.

## 2 Accounting principles (cont'd)

### 2.14 Income tax (cont'd)

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

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

### 2.15. Revenue recognition

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

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

### 2.16. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the income statement. Such balances are translated at period-end exchange rates.

### 2.17. Impairment of assets

Financial assets

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

For financial assets carried at amortised cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement in the same caption, where the impairment losses have been recognised. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets of the Group and the Company are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased significantly. The reversal is accounted in the same caption of the income statement as the impairment loss.

## 2 Accounting principles (cont'd)

### 2.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Group and the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation (Note 2.5 and Note 5), deferred income tax asset (Note 2.14 and Note 20), non-current employee benefits (Note 2.13 and Note 15), accrued revenue from household customers (Note 2.15) and impairment evaluation of property, plant and equipment (Note 2.5 and Note 5), investments into subsidiaries – only the Company (Note 1 and Note 6), accounts receivable (Note 2.6, Note 7 and Note 9), inventories (Note 2.8 and Note 8), financial assets (Note 2.6, Note 2.17 and Note 10). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. The management of the Group and the Company do not expect any significant changes in accepted decisions and estimates related to the Group's and the Company's activity for the upcoming financial year.

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

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

### 2.19. Contingencies

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

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

### 2.20. Subsequent events

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

### 2.21. Offsetting

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

## 3 Segment information

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

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

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

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

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

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

| 2010 | Transmission | Distribution | Supply | Other activity | Total |
|---|---|---|---|---|---|
| **Sales** | 153,579 | 194,161 | 1,396,450 | 2,568 | 1,746,758 |
| **Interest income** | 38 | 25 | 841 | 88 | 992 |
| **Interest expense** | 447 | - | - | - | 447 |
| **Profit before tax** | 43,534 | 45,642 | 60,819 | (1,065) | 148,930 |
| **Income tax** | (23,209) | 3,648 | 8,886 | 111 | (10,564) |
| **Total assets** | 1,634,195 | 772,663 | 292,100 | 10,627 | 2,709,585 |
| **Total liabilities** | 232,231 | 172,943 | 225,087 | (254) | 630,007 |
| **Other segment information** | | | | | |
| Acquisition of non-current assets | 156,412 | 21,582 | 188 | 303 | 178,485 |
| Depreciation and amortisation | 60,557 | 36,585 | 1,366 | 480 | 98,988 |

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

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

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

## 4 Intangible assets

Movement of intangible assets for the current and prior periods:

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

## 4 Intangible assets (cont'd)

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

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 3,960 thousand as of 31 December 2011 (LTL 5,812 thousand as of 31 December 2010) was fully amortised, but still in use.

## 5 Property, plant and equipment

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

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

## 5 Property, plant and equipment (cont'd)

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

## 5 Property, plant and equipment (cont'd)

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

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

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

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

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

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

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

## 6 Investments in subsidiaries

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

## 7 Non-current accounts receivable

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

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

## 8 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Raw materials, spare parts and other inventories | 7,321 | 5,594 | 7,320 | 5,593 |
| Goods for resale (including natural gas) | 71,334 | 41,885 | 71,323 | 41,873 |
| Inventories, gross | 78,655 | 47,479 | 78,643 | 47,466 |
| Less: allowance for inventories | (139) | (172) | (139) | (172) |
| | **78,516** | **47,307** | **78,504** | **47,294** |

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

## 9 Accounts receivable

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

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

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

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

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

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

## 9 Accounts receivable (cont'd)

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

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

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

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

## 10 Other current assets

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

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

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

## 11 Cash and cash equivalents

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

The original term of all deposits is less than three months, the weighted average annual interest rate as of 31 December 2011 was 0,75 % (0,49 % as of 31 December 2010). Cash at banks is invested into short-term deposits, the interest rate depending on the time limit may be fixed or floating. Overnight deposits are with floating interest rate, which depends on daily published interbank interest rates. The other deposits with the term less than three months are with fixed interest rate. The fair value of cash and current deposits of the Group and the Company as of 31 December 2011 was LTL 95,884 thousand and LTL 95,569 thousand, respectively (LTL 114,536 thousand and LTL 114,383 thousand as of 31 December 2010).

## 12 Reserves

Legal reserve

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of not less than 5 % of net profit are compulsory until the reserve reaches 10 % of the share capital. At least an amount of LTL 4,784 thousand of the Company's net profit for 2011 must be allocated for a transfer to the legal reserve in 2012. This amount may change depending on the final decision of the shareholders of the Company to be made after the issue of these financial statements.

Other reserves

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

Profit distribution

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

## 13 Borrowings

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

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

| | 2011<br>Fixed interest bearing loans | 2010<br>Fixed interest bearing loans |
|---|---|---|
| 2011 | - | 2,144 |
| 2012 | 2,144 | 2,144 |
| 2013 | 2,144 | 2,144 |
| | **4,288** | **6,432** |

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

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

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

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

## 14 Grants (deferred revenue)

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

Increase in grants (deferred revenue) in 2011 and 2010 is influenced by the payments received for new connections of customers to the Group's and the Company's natural gas system and received capital grants. Grants also include the corresponding fair value of property, plant and equipment received free of charge and charged to the income statement in portions on a straight-line basis over the assets' estimated useful life.

## 15 Non-current employee benefits

As of 31 December 2011 and 2010 the Group's and the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 7,546 thousand; other non-current employee benefits resulting from bonuses for long work experience in the Company were equal to LTL 1,551 thousand. In 2011 the non-current employee benefit amount remained the same (the change of the benefits amount in 2010 is included in the caption of payroll and related social security tax expenses (LTL 1,399 thousand) and financial expenses caption (LTL 415 thousand) in the income statements for 2010 of the Group and the Company).

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

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

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

## 16 Trade payables

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

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

## 17 Other payables and current liabilities

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

## 18 Other income

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

## 19 Financial activities

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

## 20 Income tax

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

According to the provisions of the Law on Corporate Income Tax (hereinafter – the Law), which came into effect starting 1 January 2009, the income tax incentive may be used for investments into qualifying property, plant and equipment if the non-current assets qualifying for the tax incentive are used in the Group's and the Company's activities for at least three years (hereinafter – the Requirement). When calculating current income tax for the year 2009, the Group and the Company did not use the benefit of the income tax incentive because of existing uncertainties related with the Requirement. In 2010 the uncertainty has decreased and the Group and the Company used the benefit of the abovementioned incentive for the investments accomplished in 2010 and 2009 and reduced income tax expenses for the year 2010 by a total amount of LTL 32,991 thousand.

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

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. Deferred income tax asset and deferred income tax liability are netted off in the statement of financial position of the Company, as they both are related to the same tax authority. In the Group's statement of financial position the deferred tax asset and deferred tax liability of the Company and its subsidiary are netted to the extent they are realised simultaneously.

While assessing deferred income tax asset and liability components in 2011 and 2010 the Group and the Company has used income tax rate of 15 %.

## 20 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 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Profit before tax | 104,273 | 148,930 | 104,417 | 149,144 |
| Tax (expense) at the applicable standard tax rate | (15,641) | (22,340) | (15,663) | (22,372) |
| Non-deductible items | (2,219) | 61 | (2,184) | 100 |
| Income tax incentive | 9,972 | 15,149 | 9,972 | 15,149 |
| Other | (9) | (127) | (242) | (127) |
| Effect of prior periods income tax adjustment | (614) | 17,821 | (614) | 17,821 |
| **Income tax (expense)** | (8,511) | 10,564 | (8,731) | 10,571 |

## 21 Earnings per share

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

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

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

## 22 Dividends declared

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

* In the year when the dividends are declared.

## 23 Cash flows from investing and financing activities

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

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

## 24 Capital investment commitments

As of 31 December 2011, the Group and the Company had the contracts for non-current assets acquisition, which are not recognised in these financial statements and amount to LTL 21,446 thousand.

## 25 Financial assets and liabilities and risk management

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2011 and 2010 based on contractual undiscounted payments (scheduled payments including interest).

| | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | - | - | 2,356 | 2,235 | - | 4,591 |
| Other current liabilities | - | 1,997 | - | - | - | 1,997 |
| Trade payables | - | 215,564 | 5 | - | - | 215,569 |
| **Balance as of 31 December 2011** | | **217,561** | **2,361** | **2,235** | **-** | **222,157** |
| Interest bearing loans and borrowings | - | - | 2,477 | 4,591 | - | 7,068 |
| Other current liabilities | - | 1,177 | - | - | - | 1,177 |
| Trade payables | - | 206,006 | - | - | - | 206,006 |
| **Balance as of 31 December 2010** | **-** | **207,183** | **2,477** | **4,591** | **-** | **214,251** |

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2011 and 2010 based on contractual undiscounted payments (scheduled payments including interests).

| | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | - | - | 2,356 | 2,235 | - | 4,591 |
| Other current liabilities | - | 1,994 | - | - | - | 1,994 |
| Trade payables | | 215,557 | 5 | - | - | 215,562 |
| **Balance as of 31 December 2011** | | **217,551** | **2,361** | **2,235** | **-** | **222,147** |
| Interest bearing loans and borrowings | - | - | 2,477 | 4,591 | - | 7,068 |
| Other current liabilities | - | 1,177 | - | - | - | 1,177 |
| Trade payables | - | 205,992 | - | - | - | 205,992 |
| **Balance as of 31 December 2010** | **-** | **207,169** | **2,477** | **4,591** | **-** | **214,237** |

Credit risk

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

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

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

Foreign currency risk

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

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

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

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

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

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

Interest rate risk

As of 31 December 2011 the Group and the Company had one loan with fixed interest rate. The sensitivity analysis for changes in interest rates is not disclosed, as the Group and the Company had no borrowings with variable interest rates as of 31 December 2011 and 2010.

Gas import price fluctuation risk

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

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

Fair value of financial instruments

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

Investment units classified as held for trading are carried at fair value. Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, and these parties intend to purchase (sell) assets or net off the liabilities. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate (Level 1 valuation technique).

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

(a) The carrying amount of current trade and other accounts receivable, investments into subsidiary (in the Company), current accounts payable and short-term borrowings approximates fair value;
(b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with fixed interest rates approximates their carrying amounts.
(c) The fair value of investment units held for trading is obtained from the quoted market prices (Level 1 valuation technique).

## 26 Commitments and contingencies

Legal disputes

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

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

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

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

## 27 Related party transactions

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

The related parties of the Group and the Company, transaction amounts and debts as of 31 December 2011 and 2010 were as follows:

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

## 27 Related party transactions (cont'd)

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

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

With one of the major AB Lietuvos Dujos shareholders OAO Gazprom on 16 December 1999 there was concluded an Agreement No. 1Г Ли-2000 between Open Joint Stock Company Gazprom and Public Limited Liability Company Lietuvos Dujos for the natural gas supply into Republic of Lithuania quantities and terms in 2000-2015. The object of the agreement is import of part of natural gas into Republic of Lithuania and natural gas transit service through the Republic of Lithuania to the Russian Federation Kaliningrad Region. Natural gas import price depend on heavy fuel oil and gasoline prices in the international market, US dollar and EUR exchange rate set by the European Central Bank and actual natural gas 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. The transactions, which are material separately, are disclosed in Note 3. One of the major Company shareholders is the Ministry of Energy of the Republic of Lithuania.

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

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

Payments to management

In 2011 payments to the administration management of the Group and the Company amounted to LTL 2,437 thousand and LTL 2,381 thousand, respectively (in 2010 respectively LTL 2,470 thousand and LTL 2,412 thousand). The annual payments (tantieme) paid for the Company's Board members amounted to LTL 540 thousand in 2011 (LTL 490 thousand in 2010). In 2011 and 2010 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

## 28 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value. For capital management purposes, capital includes share capital, reserves and retained earnings.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2011 and 2010.

The Group and the Company is obliged to upkeep its equity ratio not less than 50 % of its share capital, as imposed by the Law on Companies of Republic of Lithuania. As of 31 December 2011 and 2010 the Group and the Company were in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Group and the Company.