



CONSOLIDATED ANNUAL REPORT 2011

Vilnius
2012

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REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED

The Year 2011.

MAIN DATA ABOUT THE ISSUER

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

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

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

We are going to achieve it by:

- being a transparent, reliable and attractive to consumers, socially responsible company;
- increasing the value of the Company;
- attracting, sustaining and training the best employees;
- optimizing costs, ensuring an appropriate return on investment;
- expanding our activities in new segments;
- expanding our infrastructure (gas systems);
- ensuring a high IT, technical and technological level.

MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

- On 1 January 2011, new natural gas transmission and distribution service tariffs as well as new natural gas tariffs for household customers came into effect. The Board of Directors of the Company approved them on 19 November 2010, and the National Control Commission for Prices and Energy (hereinafter referred to as “the NCCPE”) approved them on 29 November 2010.

- On 28 January 2011, an official ceremony of the opening of the new Gas Compressor Station in Jauniūnai was held. The ceremony was attended by representatives of supervisory authorities, major shareholders of the Company the Municipality of the Širvintos District, the contractors of the construction and the Company. The new Jauniūnai Gas Compressor Station is the largest investment made by LD over the course of the past decade.

- On 5 April 2011, an agreement on the Business Case Analysis Study of the Poland-Lithuania Gas Interconnector was concluded. The agreement was signed by the gas companies AB Lietuvos Dujos and GAZ-SYSTEM S.A. and the winner of the tender – Ernst & Young Business Advisory LLC & PLP.

- On 20 April 2011, the Annual General Meeting of Shareholders of the Company took place at which the shareholders approved the Board of Directors' proposal for the Company's activity results of the Year 2010 to pay out dividends in amount of 25.6 Lithuanian cents per share with par value of one litas. The share of the profit appropriated to the payout of dividends amounted to LTL 120 million.
- On 20 April 2011, at the Board of Directors Meeting, according to the principle of rotation as provided for by the Shareholders' Agreement, the Chairman of the Board of Directors was elected (Dr Peter Frankenberg) as well as the Deputy Chairman of the Board of Directors (Dr Valery Golubev).
- On 27 May 2011, the NCCPE unilaterally set new natural gas tariffs for household customers. The new tariffs took effect on 1 July 2011.
- On 15 June 2011, the European Commission approved the special decision regarding the granting of financial assistance (according to the Trans-European Networks for Energy (TEN-E) Programme) to AB Lietuvos Dujos and GAZ-SYSTEM S.A. for the preparation of the Lithuania-Poland Gas Interconnector Business Case Analysis and Feasibility Study.
- On 22 June 2011, at the General Assembly of the European Network of Transmission System Operators for Gas (ENTSOG) held in Edinburgh (UK) AB Lietuvos Dujos was admitted to this organization as an Associated Partner.
- On 30 June 2011, the Seimas of the Republic of Lithuania passed the Law on Amending the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas. The Law on Natural Gas provides for the reorganization of the activities of AB Lietuvos Dujos through the employment of the most radical option of the all possible options provided for by the EU Third Energy Package. The implementation of the provisions of the Law will have a material impact on the Company's activities.
- On 29 July 2011, two historic gas street lights that were restored to new life were lit in front of the Klaipėda Youth Centre. The gas street lights were reinstated on the initiative of AB Lietuvos Dujos in order to commemorate two anniversaries: the 150th anniversary of gas business in Lithuania and the 50th anniversary of natural gas use in Lithuania.
- On 20 September 2011, after the adoption of the decision regarding the allocation of the EU Structural Fund financial assistance to the Project "Construction of the Jurbarkas–Klaipėda Gas Transmission Pipeline" and coordination with the European Commission the order and procedures of the allocation of the financial assistance, AB Lietuvos Dujos submitted to the Lithuanian Business Support Agency its financial assistance request.
- On 11 October 2011, the Member of the Board of Directors Romas Švedas, who represented the Ministry of Energy of the Republic of Lithuania, resigned.
- On 27 October 2011, the NCCPE set new adjusted AB Lietuvos Dujos natural gas transmission, distribution and supply price caps effective in the year 2012.
- On 28 October 2011, the Government of the Republic of Lithuania adopted Resolution No. 1239 "On Approval of the Plan of Performing the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law of the Republic of Lithuania on Natural Gas". The Plan that was approved by the Government of the Republic of Lithuania sets the key dates by which natural gas companies must perform main actions in order to conform to the requirements of Chapter Eight "Unbundling of Activities and Accounts" of the Law on Natural Gas.
- On 9 November 2011, LD and the Finnish natural gas company Gasum Oy signed a Memorandum of Understanding on cooperation aimed at setting up a joint venture to perform the

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

- On 30 November 2011, the NCCPE approved LD's natural gas transmission and distribution service tariffs and natural gas tariffs for household customers effective from 1 January 2012 (set by the LD Board of Directors decision of 18 November 2011). The household natural gas tariffs were not changed, i.e. from 1 January 2012 apply the same tariffs that were in effect in Half 2 of 2011.

- On 9 December 2011, the Extraordinary General Meeting of Shareholders of LD elected a new member of the LD Board of Directors Kęstutis Žilėnas (Vice Minister of the Ministry of Energy of the Republic of Lithuania) who will hold this position until the expiration of the term of office of the current Company's Board of Directors.

- On 21 December 2011, LD and the Ministry of Economy of the Republic of Lithuania and the public institution Lithuanian Business Support Agency entered into an agreement regarding the financial support of the EU Structural Funds amounting to LTL 77.1 million. The financial support will be received for the implementation of the second stage of the project for the construction of the Šakiai–Klaipėda transmission pipeline provided for by the National Energy Strategy of the Republic of Lithuania – for the construction of the gas pipeline from Jurbarkas to Klaipėda, including the construction of a new Gas Distribution Station in Klaipėda.

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

NATURAL GAS BUSINESS ENVIRONMENT

Implementation of the Third Energy Package

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

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

- unbundling of transmission activities and control through a "voluntary control reorganization procedure";

- unbundling of transmission activities and control through reorganization (unbundling) of natural gas undertakings opting for the “reorganization procedure”.

Setting up a Natural Gas Exchange

With the coming into effect of the new Law on Natural Gas, the natural gas supply activity was no longer regulated, which opened up a possibility for LD to get the Market Operator’s license and to establish a Natural Gas Exchange in Lithuania. LD and the Finnish gas company Gasum Oy established cooperation aiming to set up a joint venture which would perform functions of Market Operator and organize the trading process of the Natural Gas Exchange established thereby. The long-term goal of this cooperation is the formation of a Regional Gas Exchange covering Lithuania, Latvia and Estonia and the market integration.

Licensing

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

Pricing system and natural gas tariffs

Natural gas transmission and distribution service tariffs applicable to all customers are subject to regulation by the NCCPE. Price caps of the regulated tariffs are set for a five-year regulation period and by the NCCPE decision may be adjusted, however not more often than once per year and exclusively in cases provided for by the Law on Natural Gas of the Republic of Lithuania. In implementation of the provisions of the new Law on Natural Gas, the NCCPE by Resolution No. O3-284 of 24 October 2011 approved the amendments to the Natural Gas Transmission and Distribution Price Cap Calculation Methodology setting forth that the Natural Gas Transmission and Distribution Price Cap calculation shall include a reasonable return on investments, calculated on the basis of the WACC (weighted average cost of capital). Having taken into account this change as well as other changes, the NCCPE by Resolution No. O3-362 of 28 October 2011 set new adjusted gas transmission and distribution price caps for LD effective from 1 January 2012.

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

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

On 18 November 2011, the Board of Directors of the Company set the concrete natural gas transmission and distribution service tariffs as well as new natural gas tariffs for household customers with effect from 1 January 2012. On 30 November 2011, these tariffs were approved by the NCCPE. The natural gas tariffs applicable to the household customers were not changed, i.e. from 1 January 2012 the same tariffs that were in effect in Half 2 of 2011 will be further applied. Despite the fact that based on the trends for the oil product price and the currency exchange rate changes forecast for 2012, the variable component of the natural gas price should have gone up by 11-12%, nevertheless, having taken into account the economic situation in Lithuania and seeking to mitigate the situation on the market, the Company’s Board of Directors, acting in accordance with the applicable provision of the Law on Natural Gas, decided not to

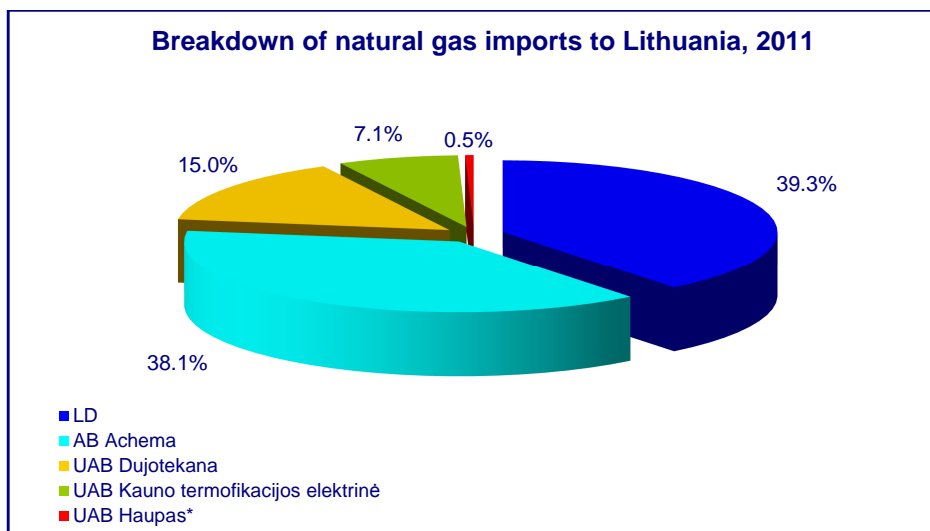
change the natural gas tariffs for the household customers, thus putting off the compensation for the gas imports price difference for Half 2 of 2011 and Half 1 of 2012 for a future period.

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

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

Market

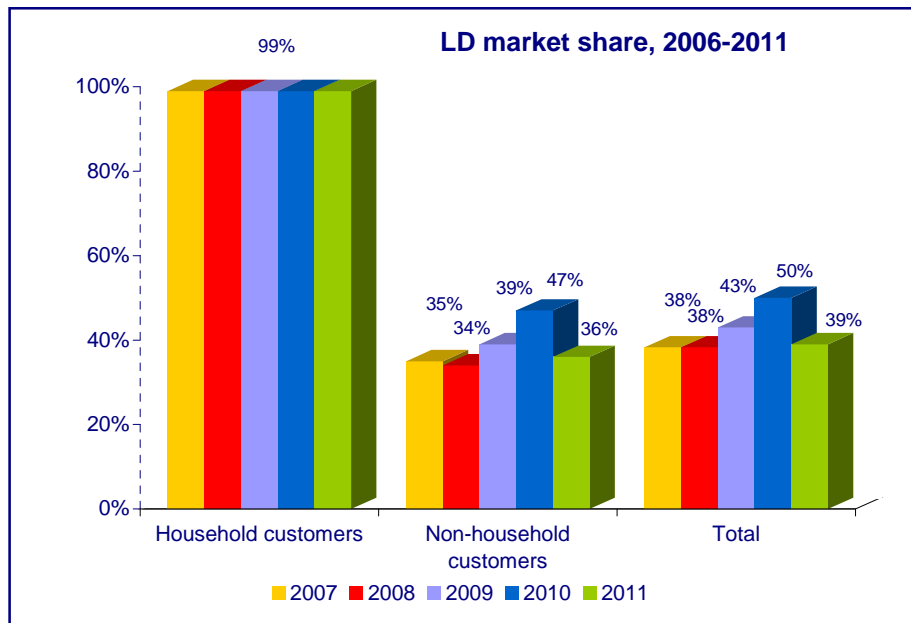
In 2011, there were five companies importing natural gas into Lithuania: LD, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haupas. In 2011, the total volume of natural gas imported into Lithuania via the system operated by LD amounted to 3.4 billion m³. UAB Haupas did not use the Company's Natural Gas System for its imports of natural gas.



* Data supplied by UAB Haupas.

In 2011, the following companies supplied natural gas to household and non-household customers of Lithuania: LD, UAB Fortum Heat Lietuva, UAB Druskininkų Dujos, AB agro firm Josvainiai and UAB Intergas. UAB Dujotekana and UAB Haupas supplied gas only to non-household customers.

AB Achema and UAB Kauno Termofikacijos Elektrinė imported natural gas for their own needs.



RISK MANAGEMENT

The Company has implemented a Risk Management System, which is a constituent part of LD activities. The LD Risk Management Process is carried out in accordance with a methodology that has been adopted by the Company. The Risk Management working group has been set up at the Company to coordinate, monitor and secure the risk management process. The risk management activities are aimed at maintaining an adequate business process control level, at minimizing the probability of occurrence of events that may cause risks, at minimizing their possible negative effects, at ensuring that risks would not exceed the levels acceptable to LD and at implementing the Company's objectives.

The LD Risk Management Process comprises the following steps: risk identification; risk analysis, assessment and establishment of the risk control measures; development of the Risk Management Action Plan and implementation of measures of the Plan; monitoring and supervision of the Risk Management Process.

In pursuing its business activities, the Company is confronted with the following main risks: the organizational structure-related risk, the regulation-related risk, the competition-related risk, the natural gas import price fluctuation risk, the credit risk, the technology-related risk, the macroeconomic factors-related risk.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the AB Lietuvos Dujos Consolidated and Parent Company's Financial Statements for the year ended 31 December 2011.

The organizational structure-related risk

On 1 August 2011, the new versions of the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas came into effect. In implementation of the aforesaid laws, on 28 October 2011, the Government of the Republic of Lithuania adopted Resolution No. 1239 "On Approval of the Plan of Performing the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law of the Republic of Lithuania on Natural Gas" and on 7 December 2011 it adopted Resolution No. 1417 "On Approval of Description of Procedures for the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law on Natural Gas of the Republic of Lithuania ". In implementation of the provisions of the aforesaid legal acts, by 31 July 2013 the Company must perform the legal, functional and organizational unbundling of its natural gas transmission, distribution and supply

activities and by 31 October 2014 it must complete the activities control unbundling process, thus achieving compliance with provisions of Chapter Eight of the Law on Natural Gas of the Republic of Lithuania.

The regulation-related risk

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

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

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

The competition-related risk

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

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

In the Fuel (Energy) Sector, LD competes with suppliers of alternative fuels: heavy fuel oil and bio fuel. The NES provides for the increase of the share of renewable fuels in the primary energy balance at the expense of the fossil fuels (mainly at the expense of natural gas). Also LD competes with heat, power, and other energy companies operating in this sector (the end consumers of heating except the ones using the district heating service may choose among a variety of ways of heating and energy suppliers). A vast majority of the largest heat and power producing natural gas customers have dual-fuel systems and may use these alternative fuels replacing natural gas without any additional investments.

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

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

The technology-related risk

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

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

The macroeconomic factors-related risk

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

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

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

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

FINANCIAL PERFORMANCE

Group's key performance indicators

	2011	2010	2009
Performance indicators			
Volume of transmitted natural gas, M m ³	3,360.9	3,068.8	2,681.4
Volume of natural gas transit, M m ³	2,043.6	1,387.2	1,197.3
Volume of distributed natural gas, M m ³	1,066.1	1,167.9	1,030.9
Volume of natural gas sales, M m ³	1,317.8	1,546.0	1,150.9
Number of customers, that have concluded natural gas supply agreements as of the end of the year, thousand			
Household customers	548.2	546.2	544.2

Non-household customers	5.9	5.8	5.7
Length of operating gas pipelines, thousand km			
Transmission pipelines	1.9	1.9	1.9
Distribution pipelines	8.1	8.1	8.1
Employees			
Average number of employees	1,719	1,750	1,787

Group's key financial indicators

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

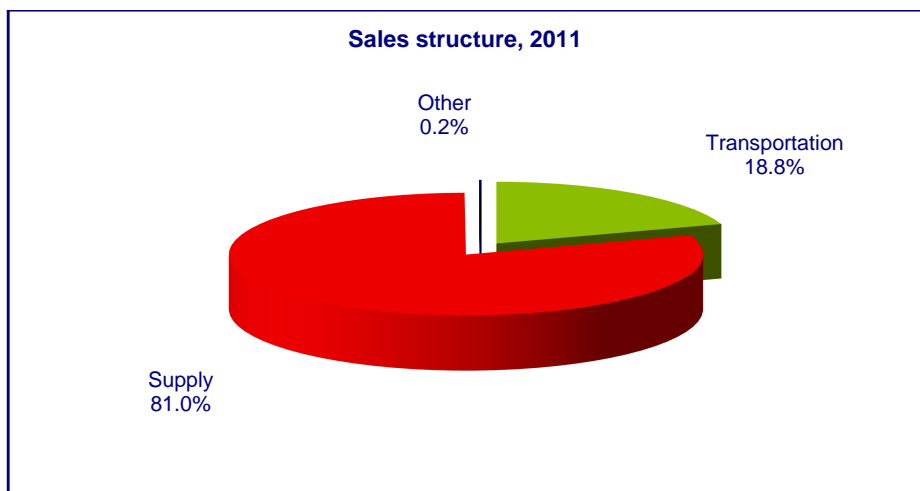
* Proposed for the approval at the general meeting of shareholders.

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

Revenues

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

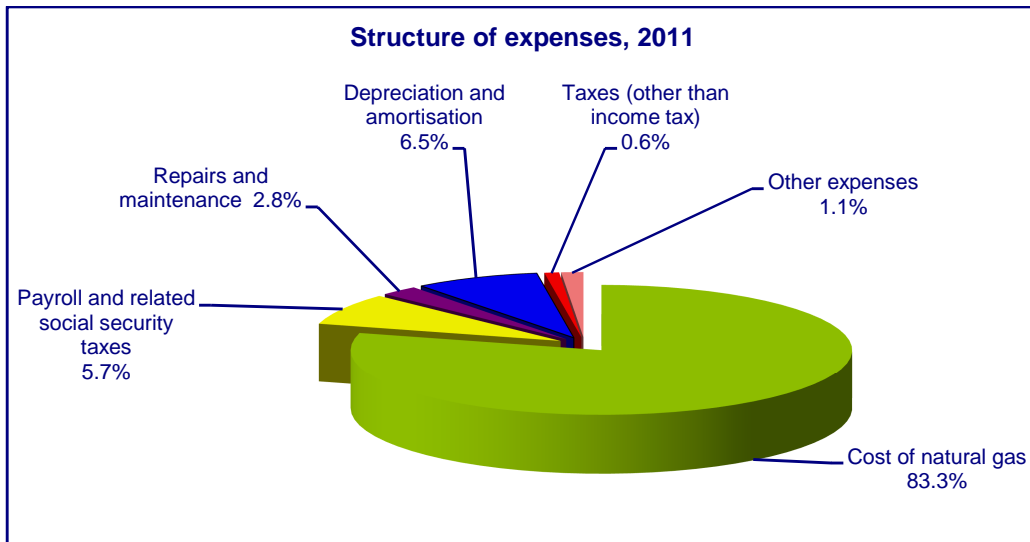
The 5.3% increase in the sales was determined by the increase in the gas supply activity revenues. This increase came as a result of the gas sales price increase, which was caused by the gas imports price growth which in turn was caused by the increase in the oil and oil product prices on the global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



Expenses

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

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

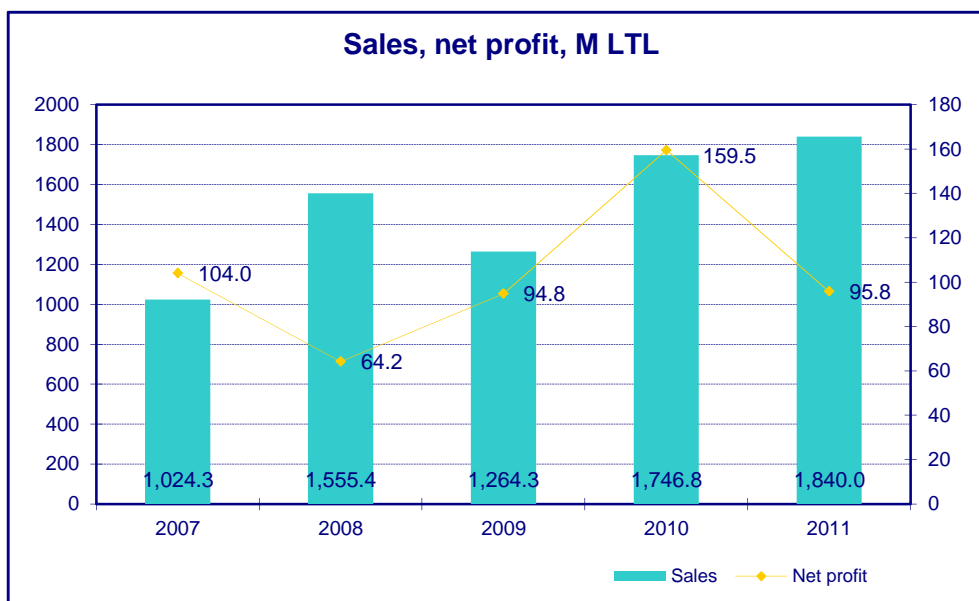


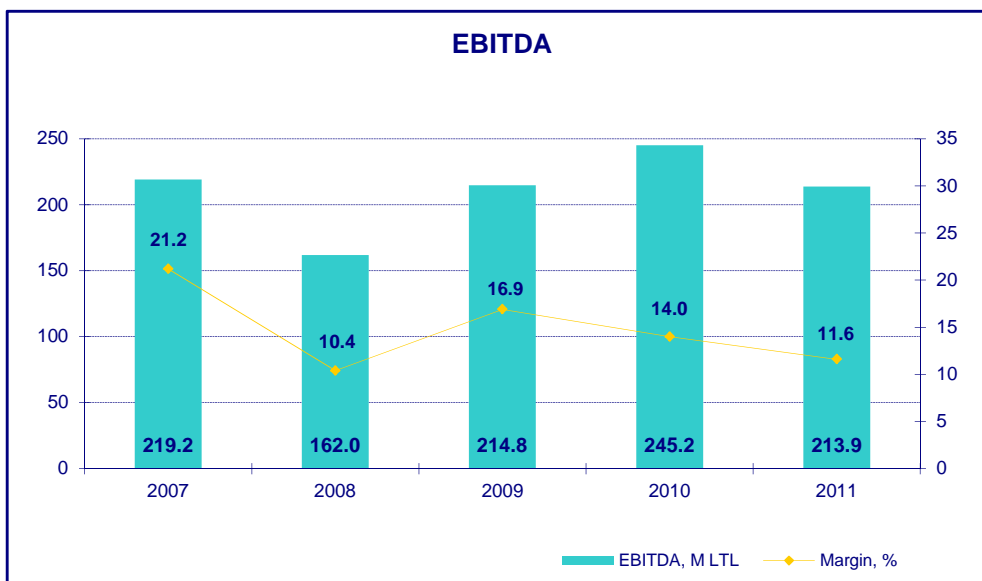
Activity results

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

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

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



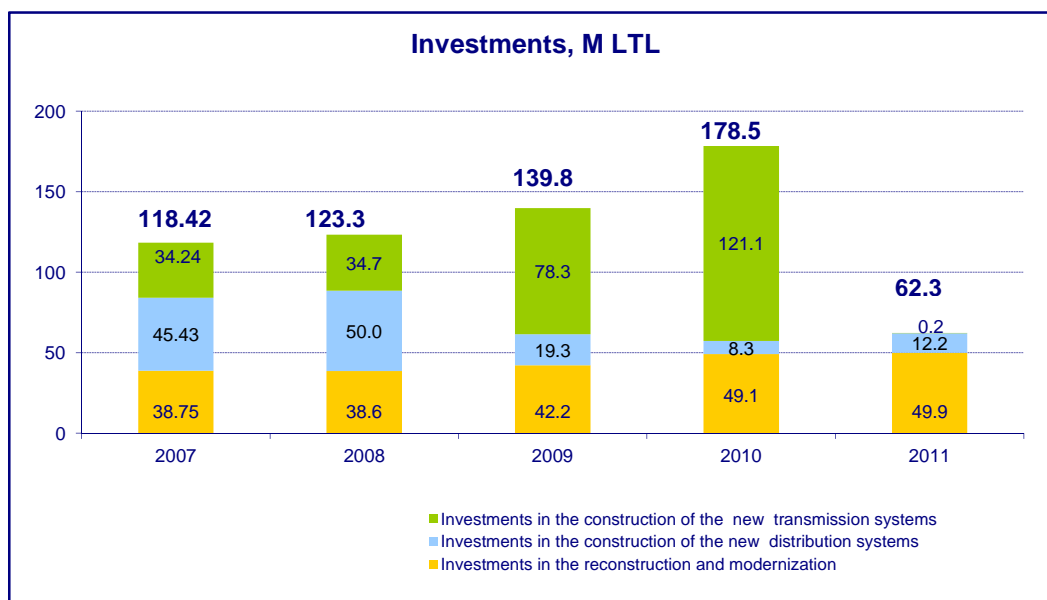


Investments

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

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

As the national economy, including the construction sector, was slightly bit of growing, in 2011 one could observe a growing interest of potential customers in natural gas. In 2011, the Company’s investments in the gas distribution system development, compared to 2010, rose by over 45%, nevertheless the investment amounts were well below the pre-crisis level. The Budget 2011 had provided for investments a much higher amount, nevertheless the larger part of the allocations was not used because in connection with late receipt of the European Union funds, the planned works for the construction of the Jurbarkas–Klaipėda gas transmission pipeline were not started. In 2010, the largest share of investments (LTL 120.8 million) was accounted for the investments in the construction of the Jauniūnai Gas Compressor Station. This facility that was provided for by the National Energy Strategy was the largest investment in the natural gas sector since regaining independence.



Assets

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

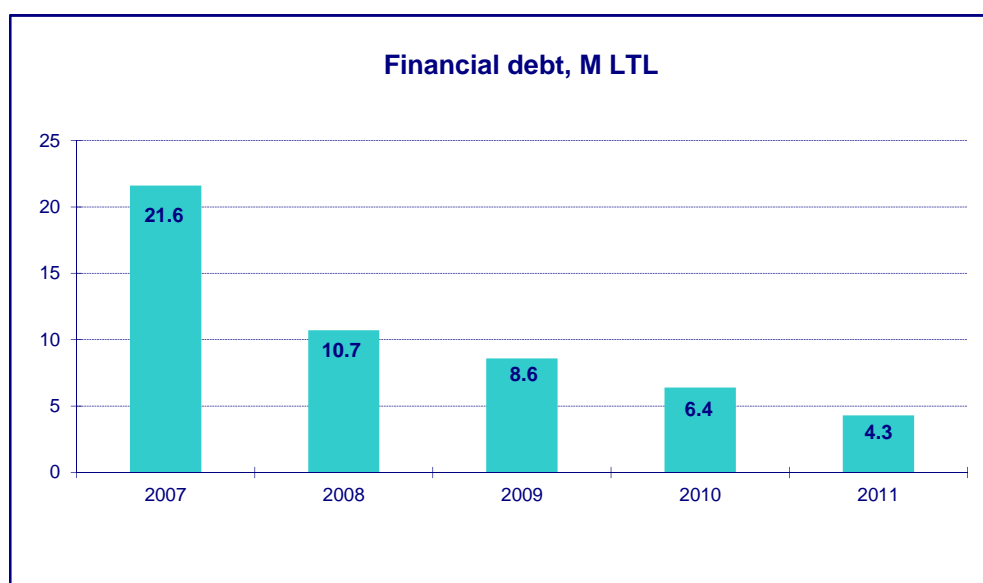
Over the year 2011, the value of the non-current assets decreased by 2.1% (LTL 50.0 million), due to depreciation exceeding the investments. The value of the current assets increased by 11.5% (LTL 39.1 million) mainly due to the higher value of the natural gas reserves resulting from the increase in the gas import price and the higher volumes of natural gas, which pursuant to provisions of applicable legislation, were stored at the Incukalns Underground Gas Storage Facility in order to secure uninterrupted natural gas supplies.

Equity and liabilities

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

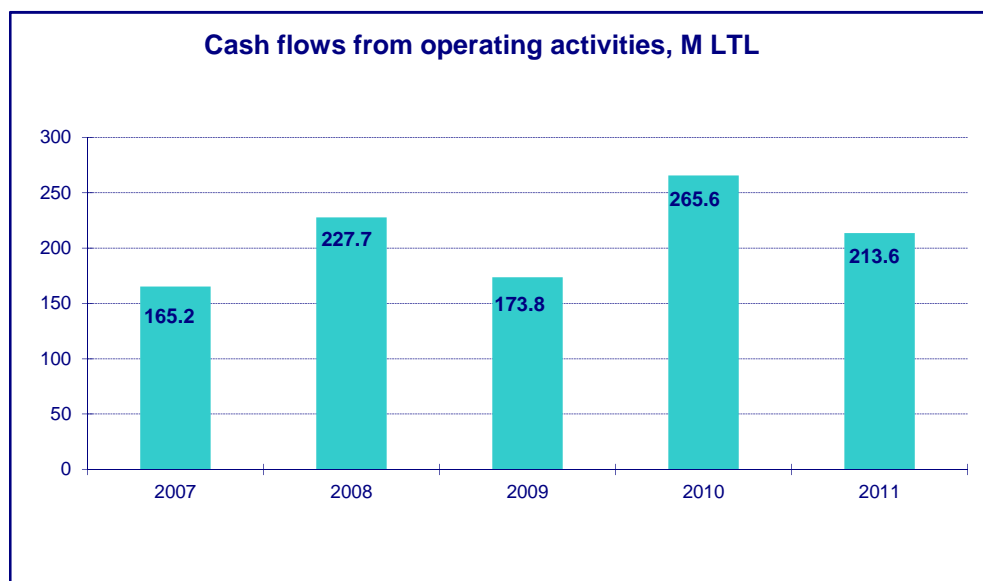
The liabilities increased by 2.1% (LTL 13.3 million) and at the end of the year amounted to LTL 643.3 million.

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



Cash flows

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



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

RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

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

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

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

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

BUSINESS PLANS AND FORECASTS

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

In 2012, the Company plans to connect approximately 1.9 thousand new customers, but this number might be corrected by future developments in the economic situation of Lithuania. The Company's investments in the construction of new gas systems of 2012 are planned to be significantly higher than the ones of 2011, because there are plans to continue with the implementation of the National Energy Strategy project – the construction of the Jurbarkas–Klaipėda section of the Šakiai–Klaipėda gas transmission pipeline. The estimated value of the Jurbarkas–Klaipėda section: approx. LTL 168.5 million. The project implementation is co-financed with the European Union Structural Fund grants, the projected grant amount: LTL 77.1 million. According to a tentative schedule, the gas pipeline construction is planned to be completed by the end of the year 2013. The Company started the implementation of the Šakiai–Klaipėda gas transmission pipeline project on its own initiative and has already invested in it approx. LTL 40 million of own funds. The first section to the town of Jurbarkas of this gas transmission pipeline was constructed back in 2007 and is fully operational. This project is also important in the light of the prospective implementation of another project that is included into the National Energy Strategy, i.e. gas pipeline connection to the Liquefied Natural Gas Terminal Facility.

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

MANAGEMENT OF THE COMPANY

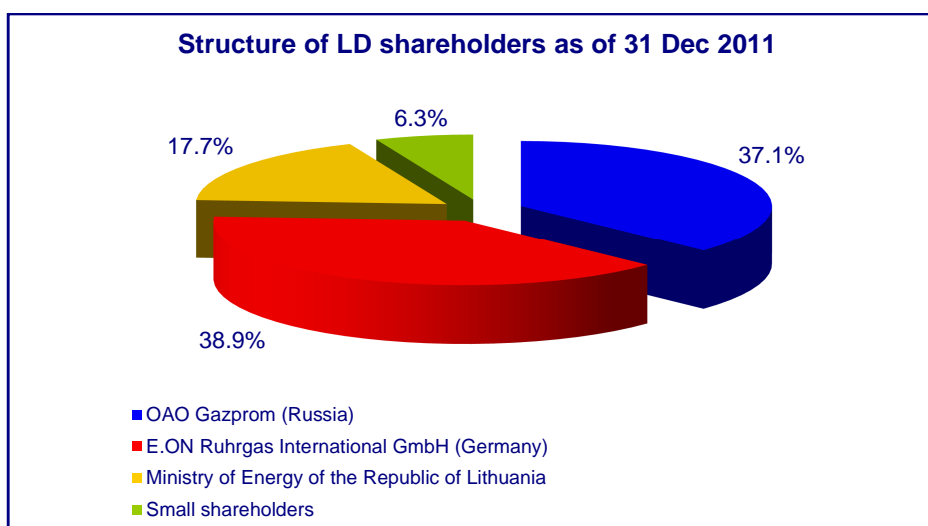
Information on the observance of the Code of Governance

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

Shareholders and shares

The authorized capital of the Company consists of 469,068,254 fully paid ordinary registered shares with par value of LTL 1 each. In 2011, the par value of shares, the value of the authorized capital and the structure of shareholders did not change.

AB Lietuvos Dujos shares entitle to equal property and non-property rights. In accordance with the Bylaws of LD, decisions on issuing new shares and on acquisition of own shares may be adopted exclusively by a resolution of the General Meeting of Shareholders of LD.



Shareholder	Number of shares held, pcs / share in the authorized capital, LTL
E.ON Ruhrgas International GmbH (Germany)	182,534,384
OAO Gazprom (Russia)	173,847,696
Ministry of Energy of the Republic of Lithuania	83,030,367
Small shareholders	29,655,807
Total:	469,068,254

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

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

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

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

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

The shareholders of AB Lietuvos Dujos E.ON Ruhrgas International GmbH, OAO Gazprom and the Republic of Lithuania whose shares are held in trust by the Ministry of Energy of the Republic of Lithuania together control 93.7% of the stock of AB Lietuvos Dujos, have the controlling interest and have a casting vote when taking decisions at the General Meeting of Shareholders. The aforesaid major shareholders have concluded a shareholders' agreement setting out the shareholders' common aims related to AB Lietuvos Dujos activities. The agreement is confidential.

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

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

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

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

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

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

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

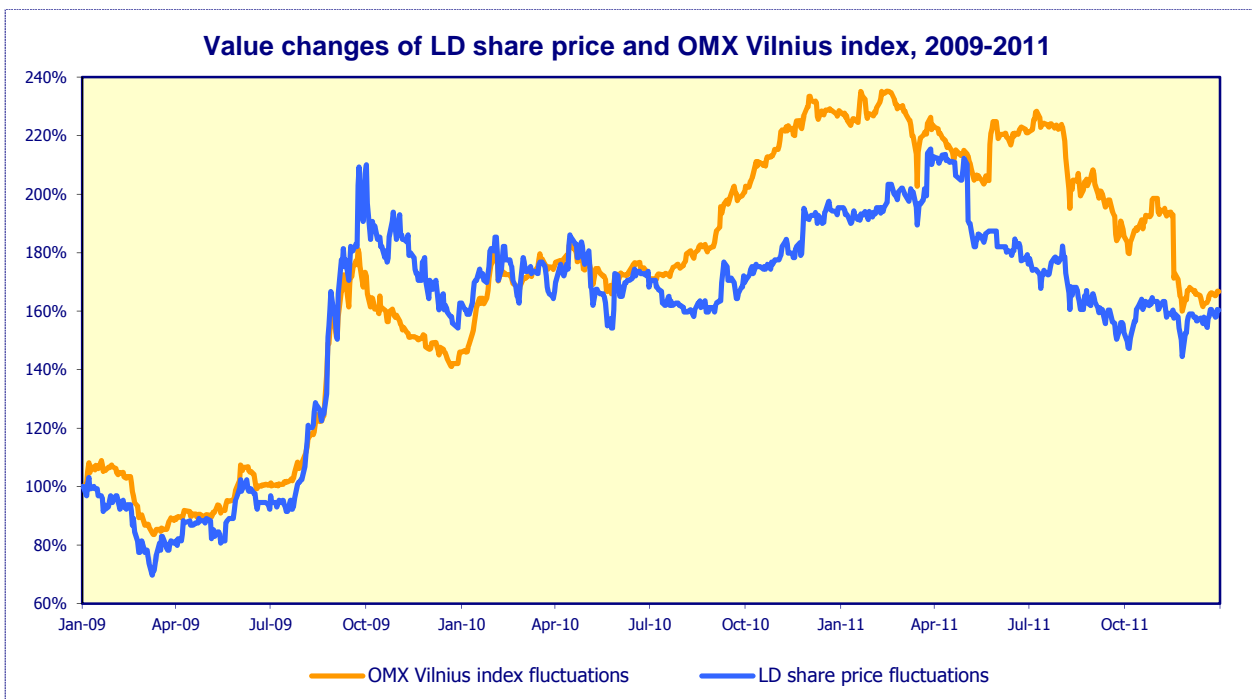
In 2011, after two consecutive years of growth, the stock markets of all three Baltic States recorded a drop. Aggregate capitalization of the Baltic market companies dropped by 24.0% (in 2010 there was a rise of 7.2%). In 2011, capitalization of companies listed at the stock exchange NASDAQ OMX Vilnius dropped by 25.6% (in 2010 there was a rise of 31.1%), the value of LD shares showed a decrease of 18.0% (in 2010 there was a rise of 20.0%). As of 31 December 2011, LD capitalization amounted to 9.0% of the aggregate capitalization of the companies listed at the stock exchange NASDAQ OMX Vilnius (as of 31 December 2010 it amounted to 8.1%).

Share price dynamics at NASDAQ OMX Vilnius, 2009–2011

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

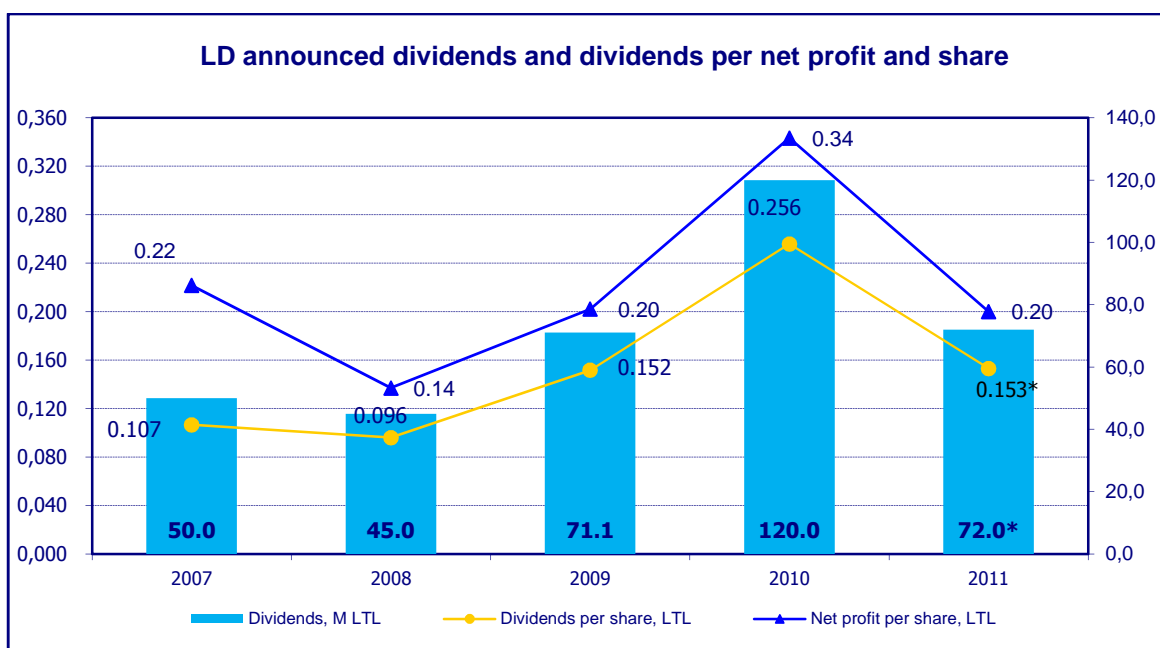


OMX Vilnius index is a total shares return index which includes all the shares listed on the Main and Secondary lists on the Vilnius stock exchange. This index does not include the share prices of the companies where one shareholder controls 90% or more of the shares issued. The aim of the index is to reflect the current status and changes on the Vilnius securities market.



Dividends

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



* Proposed dividends subject to approval by the general meeting of shareholders.

Agreements with intermediaries of public trading in securities

During 2011 financial brokerage company AB Finasta has provided to LD services concerned with accounting of securities issued by the Company and services related to accounting of securities. Agreement with mentioned company was concluded on 26 November 2003.

Particulars of the financial brokerage company AB Finasta	
Company code	122570630
Category of licence	B
Financial broker's licence No	B087 (issued by Securities Commission of the Republic of Lithuania on 28 March 2003 with latest adjustments)
Registered office	Maironio g. 11, Vilnius, Lithuania
Telephone No	+370 5 278 6833, +370 5 278 6844, short number 1813
E-mail	info@finasta.lt
Website	www.finasta.lt

Management structure

The Company is a vertically integrated enterprise. The Company acts pursuant to the Law on Companies of the Republic of Lithuania, the Law on Securities of the Republic of Lithuania, the Bylaws of the Company as well as other applicable legal acts of the Republic of Lithuania. The competence of the General Meeting of Shareholders of the Company, the shareholders rights and their implementation procedure are as prescribed by the Law on Companies and the Bylaws of the Company.

From 1 January 2008, the Company implemented the functional separation of the gas transportation and supply activities.

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

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

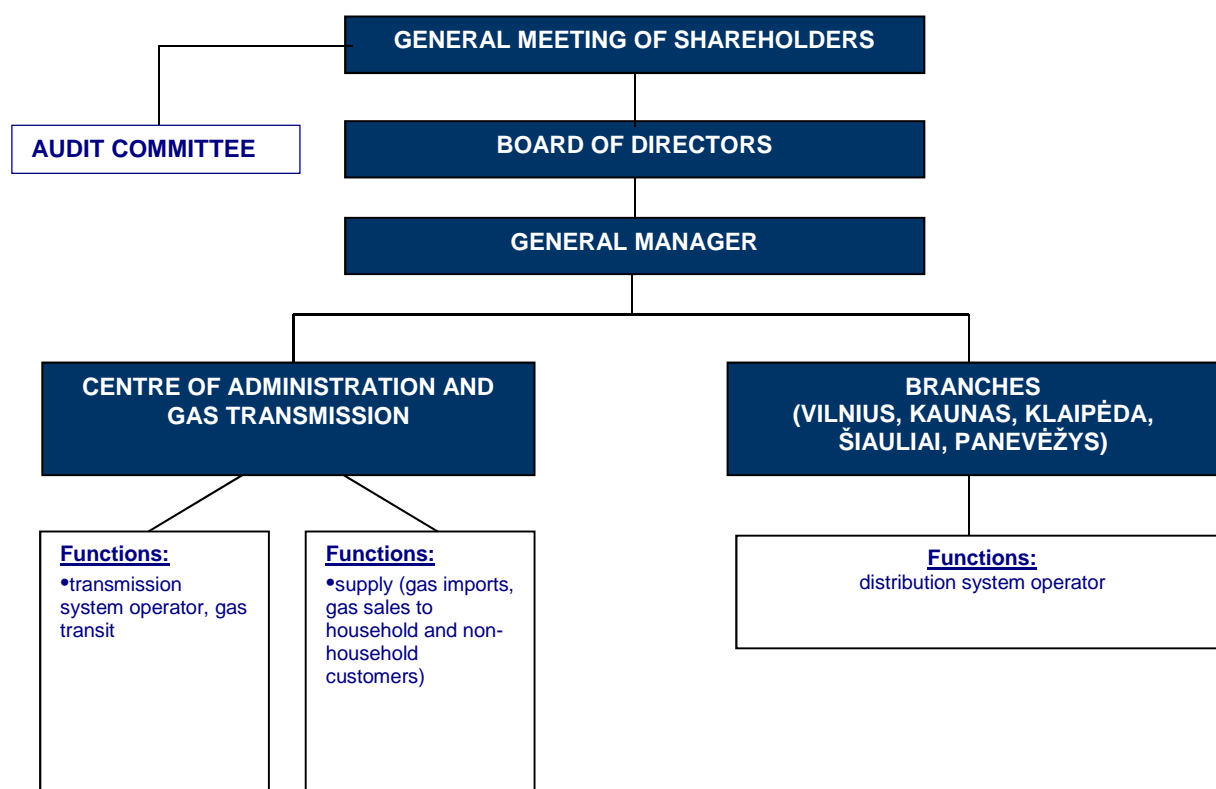
The Bylaws provide for the following governing bodies:

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

According to the Bylaws, the Company's Board of Directors consists of 5 (five) members elected for a period of three years in accordance with procedure provided for in the Law on Companies of the Republic of Lithuania. Members of the Board of Directors elect the Chairman of the Board of Directors. The Chairman of the Board of Directors and his Deputy are elected for a period of two years by rotation. Members of the Board of Directors may be re-elected for another term. The powers of the Members of the Board of Directors and the fields of activity of the Chief Executive Officer of the Company are as prescribed by the Law on Companies and the Bylaws of the Company, there are no exceptions with regard to any powers of the Members of the Board of Directors or the Chief Executive Office subject to additional notification.

In accordance with the Law on Audit, since 2009, the Company has an Audit Committee in place. The authority, powers and duties of the Audit Committee are as provided for by the regulations of the formation and activities of this supervisory body of the Company and are in compliance with legal provisions. The term of office of the Audit Committee coincides with the term of office of the Board of Directors by which the members of the Audit Committee were nominated. The main functions of the Audit Committee consist in the analysis of the correctness of the accounting methods applied by the Company, in monitoring the independence of the external audit company and the audit process, in the analysis of the efficiency of the internal control, the internal audit and the risk management systems.

Organization Chart



Composition of the Board of Directors from 23 April 2010 till 20 April 2011:

No	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Valery Golubev	Chairman of the Board of Directors*	April 2010–April 2013

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

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

Composition of the Board of Directors from 20 April 2011

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

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

** Resigned with effect from 11 October 2011.

*** Elected with effect from 9 December 2011.

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

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

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

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

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

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

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

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

Full name	Position title	Participation in the capital of the Issuer	
		Share of the authorized capital held, %	Share of the voting rights held, %
Board of Directors (as of 31 December 2011)			
Dr Peter Frankenberg	Chairman of the Board of Directors	–	–
Dr Valery Golubev	Deputy Chairman of the Board of Directors	–	–
Uwe Fip	Member of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Romas Švedas*	Member of the Board of Directors	–	–
Kęstutis Žilėnas**	Member of the Board of Directors		
Audit Committee (as of 31 December 2011)			
Juozas Kabašinskas	Independent member	–	–
Agnė Žičiūtė	Member	0.000	0.000
Top executives (as of 31 December 2011)			
Viktoras Valentukevičius	Chief Executive Officer – General Manager	0.013	0.013
Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	–	–
Jonas Janiulionis	Deputy General Manager – Technical Director	0.001	0.001
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

* Resigned with effect from 11 October 2011.

** Elected with effect from 9 December 2011.

Subsidiary

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

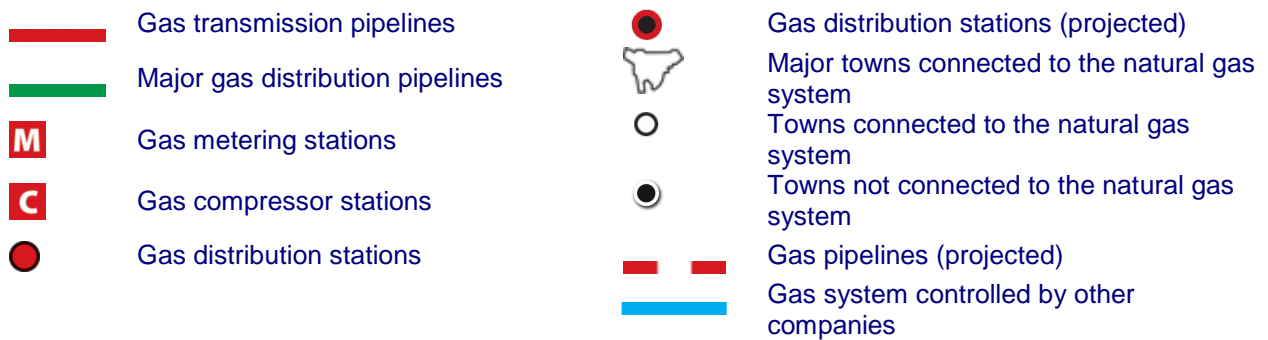
Main data about UAB Palangos Perlas	
Legal & organizational form	private company
Date and place of registration	19 January 1998, State Enterprise Centre of Registers
Company code	152681177
Registered office	Gintaro g. 36, Palanga, Lithuania
Telephone number	+370 460 52441
Fax number	+370 460 48250
E-mail address	info@zydrojiliepsna.lt
Website	www.zydrojiliepsna.lt

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

Transactions of associated parties

The information is presented in the AB Lietuvos Dujos Consolidated and Parent Company's Financial Statements for the year ended 31 December 2011.

The Company's Natural Gas Transmission and Distribution System



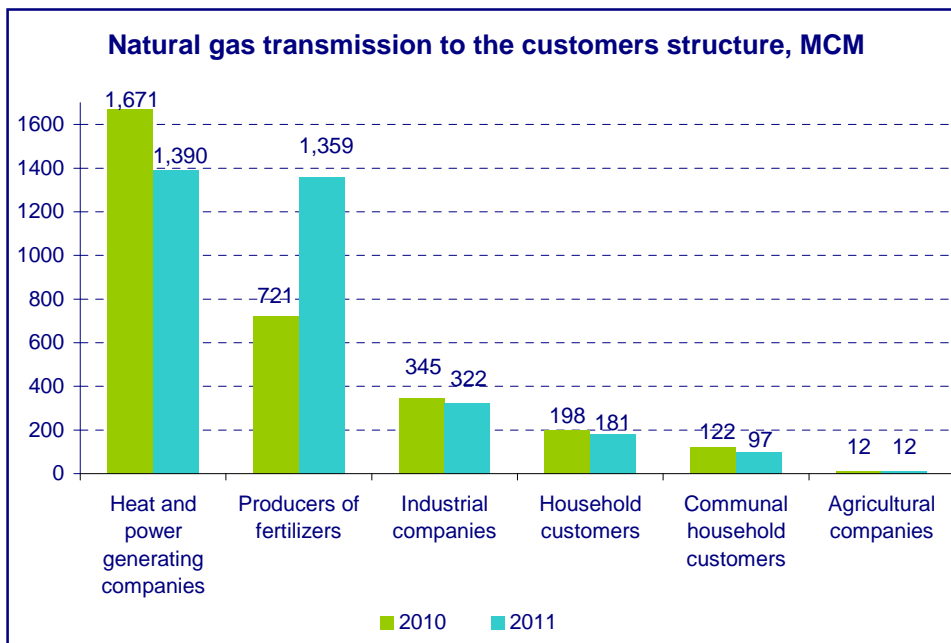
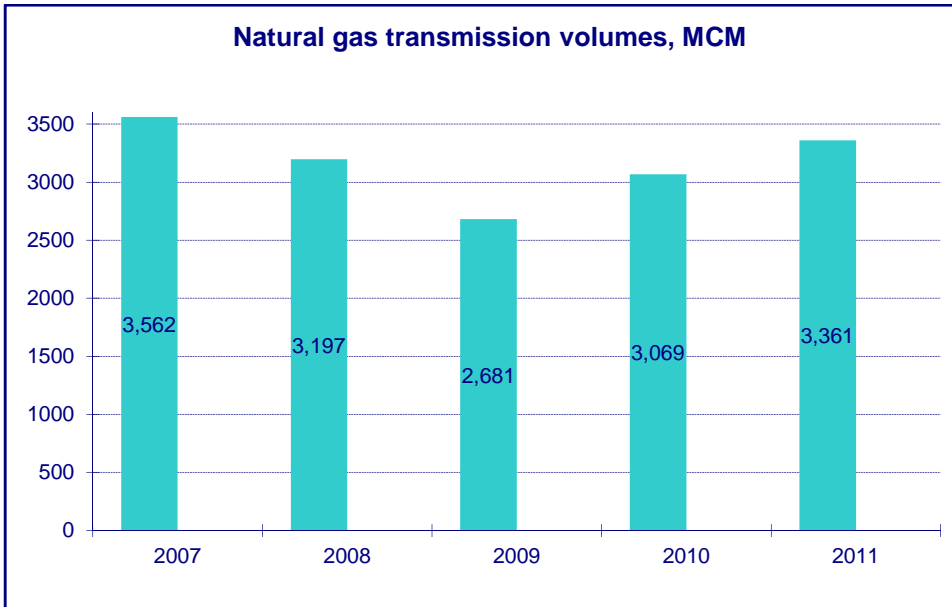
Core business activity of the Company:

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

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

TRANSMISSION OF NATURAL GAS

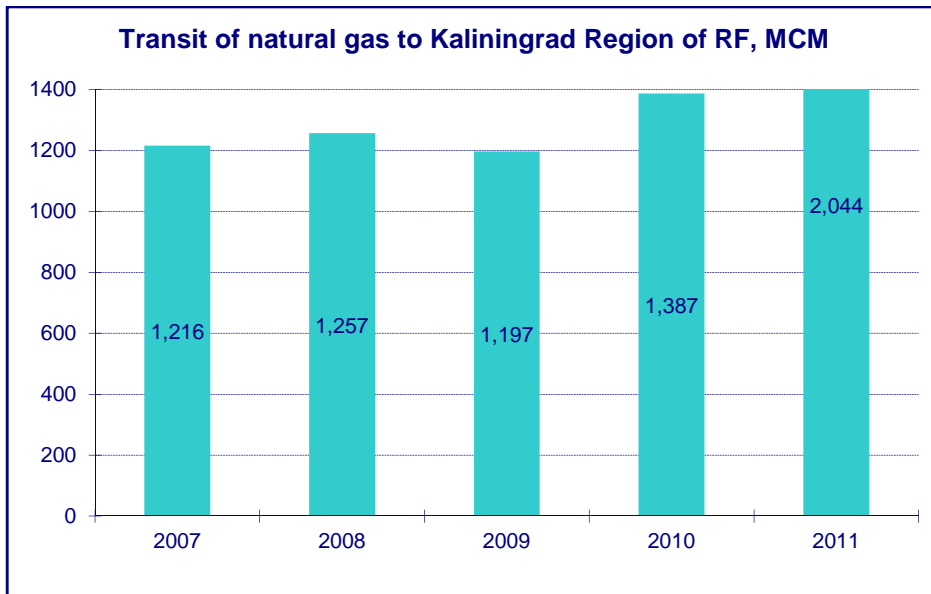
In 2011, the volumes of natural gas transmitted via the transmission system totalled 3,360.9 million m³. Compared to 2010, the natural gas transmission volumes increased by 9.5%. The increase in the natural gas transmission volumes was determined by the higher gas volumes consumed by AB Achema for fertilizer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



Transit

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

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



Investments in the transmission system

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

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

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

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

The Company also carried out other main works as follows:

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

- Works for the modernization of the telemetry, SCADA and telecommunication systems and the gas metering equipment.

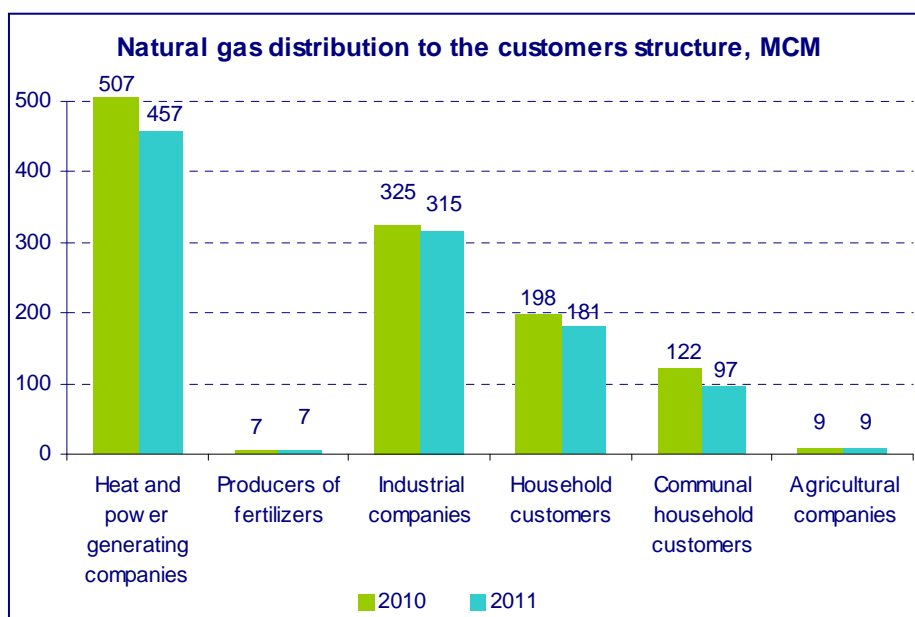
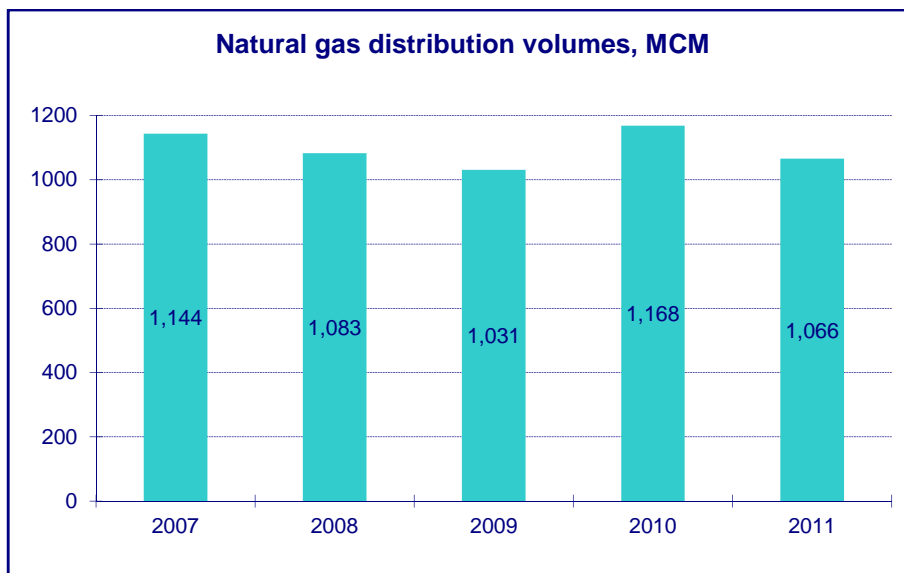
Maintenance of the transmission system

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

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

DISTRIBUTION OF NATURAL GAS

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



Investments in the distribution system

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

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

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

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

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

Maintenance of the distribution system

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

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

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

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

SUPPLY OF NATURAL GAS

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

From 2008, pursuant to the Resolution of the Government of the Republic of Lithuania of 26 February 2008 No 163 "On approval of the list of measures to guarantee security of natural gas supplies", the Company stores contingency gas reserve volumes specified in the legal acts in the

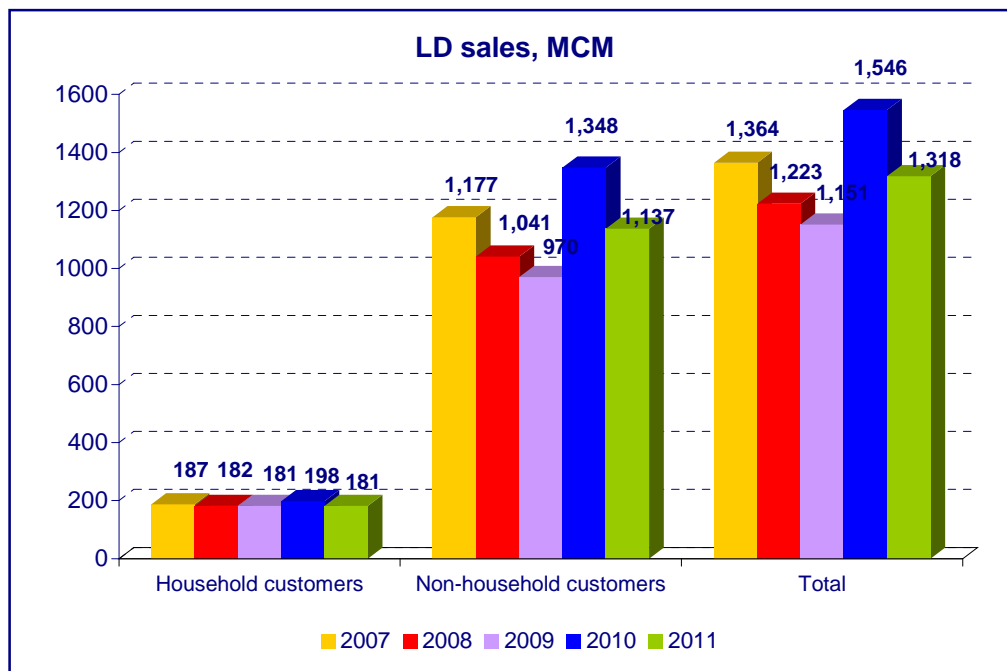
Incukalns (the Republic of Latvia) Underground Gas Storage Facility in order to meet the demand of the household customers. In 2011, in the event of incidents and/or extreme situations these accumulated gas volumes would have ensured uninterrupted gas supplies to the household customers for at least 40 days.

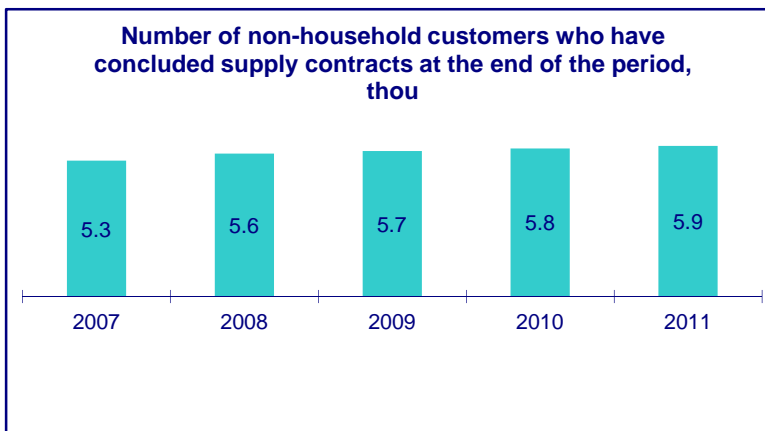
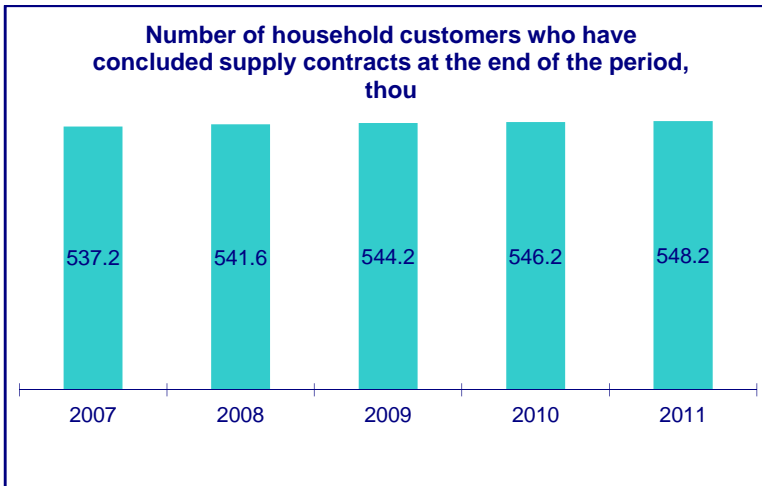
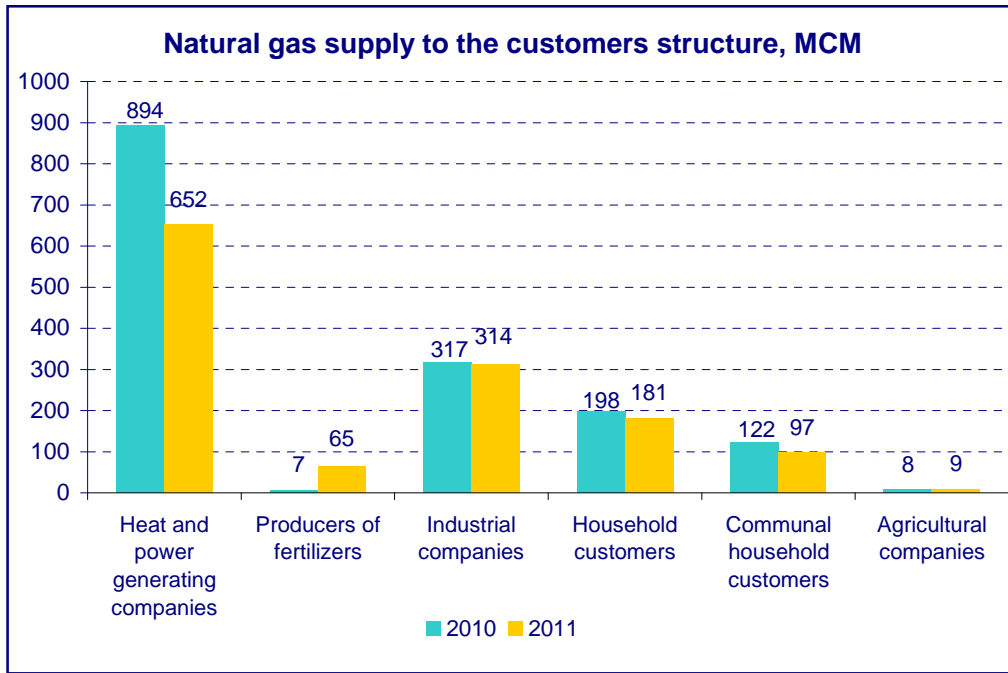
Customers

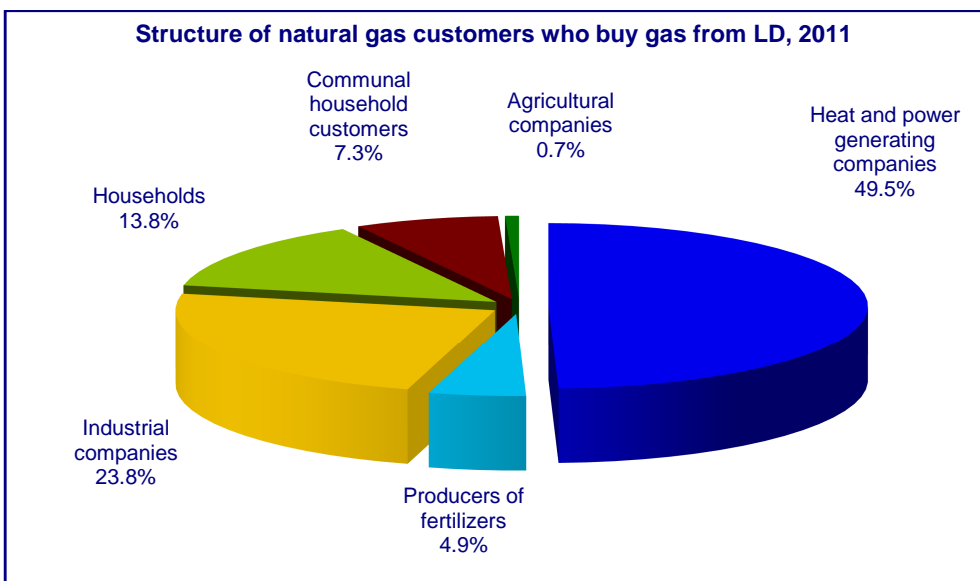
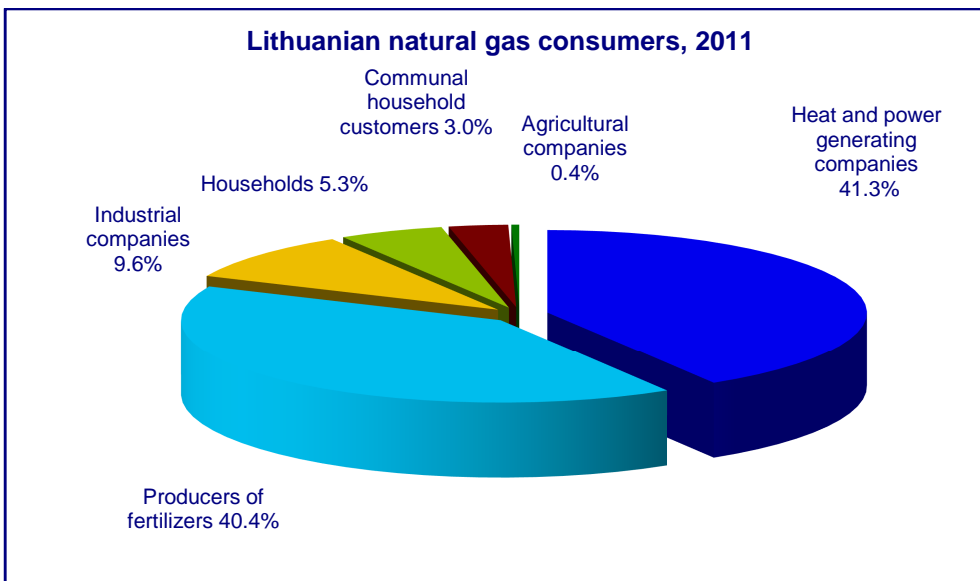
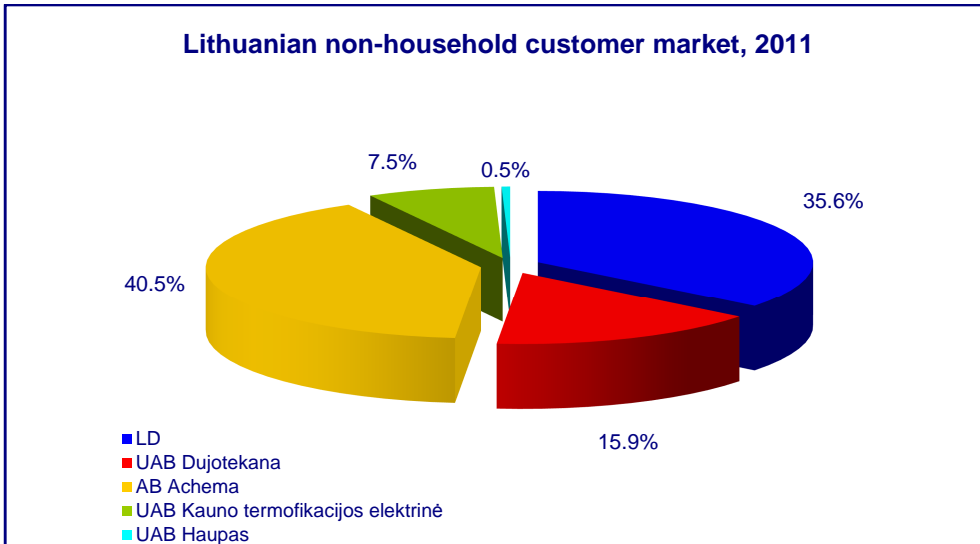
All natural gas consumers are divided into the household consumers (natural persons buying gas for their private needs, for their family or household needs) and the non-household consumers. From 1 July 2007, all natural gas consumers became free customers and are free to choose their gas suppliers at their own discretion, however, almost 100% of the household customers still chose LD as their favourite supplier. On the non-household customers' market, the share of LD was 35.6%.

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

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







Customer service

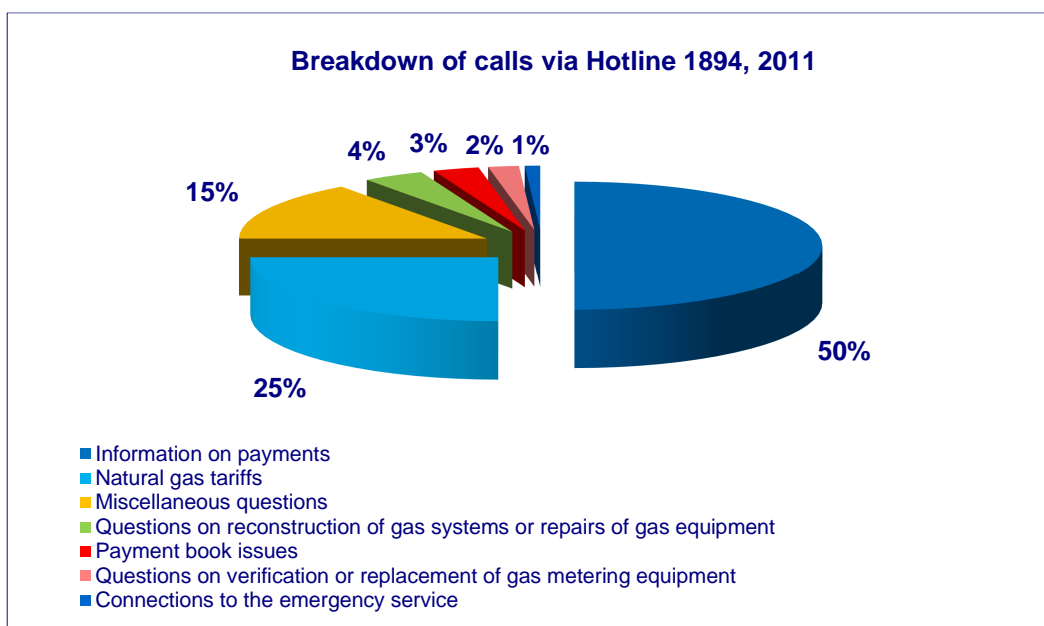
With a view to the improvement of the quality of services rendered by the Company to its customers, in 2011, LD continued with the customer service-related projects launched in previous years and it also launched new projects:

- In 2011, the main goals of LD in this field consisted in the upgrading of the quality of the customer service and achieving a higher level of customer satisfaction with services provided by the Company. In all, the Company's employees rendered services to customers located all over Lithuania as many as almost 570 thousand times.
- In implementation of the continuous staff training programme, in 2011, further training was provided to LD employees directly involved in rendering customer services.
- In 2011, for the convenience of customers, the Company concluded agreements regarding collection of payment for natural gas supplies with the following new partners: UAB Kauno Spauda, UAB Mažeikių Butų Ūkis and UAB Sollo. The latter partner provides the possibility of paying for gas at the supermarket MAXIMA checkstands. By now, LD has concluded agreements with 23 different partners rendering aforesaid payment collection services.
- For the second consecutive year, in autumn of 2011, the action "Please Assess Our Services" was launched. The main aim of the action was to assess the quality of the customer services rendered by the Company's staff, the level of customers' satisfaction and to ask the customers' opinion as to what could be improved in the customer service procedures and what innovations could be introduced. The results of the action revealed that, just as it was the case last year, the overall customers assessment rating of the Company's services was high – such was the opinion of the vast majority of the respondents (over 93% of the total). In 2011, the customers' assessment rating of the quality of the services provided by the company was slightly higher than it was in 2010.
- In 2011, the Company launched a pilot project aimed at installing remote data acquisition equipment (enabling remote access to gas meter readings) at the premises of part of LD household customers. The project is scheduled for completion 2012.
- In 2011, over 80% of the Company's non-household customers used the possibility of receiving gas bills by e-mail via the E-Pay system.
- In 2011, a total of 1.9 thousand new customers were connected to the natural gas system.

Customer service via Hotline 1894

- In 2011, the LD Hotline 1894 received a total of 150 thousand calls of the Company's customers.
- During the first contact, all the necessary information was supplied to as many as 96% of all the callers to the Hotline 1894. Other customers were supplied with the necessary information either during the course of the same day or next working day by forwarding the customer inquiry to the Company's specialists in charge of respective field of activity.
- The Automatic Voice System that has been implemented by LD enables the Company's customers to access respective data on their balance of payments and on gas tariffs by Hotline 1894 a 24 hour/7day a week basis. In 2011, the Automatic Voice System was resorted to by a total of 34 thousand customers. The system becomes very popular and is especially actively used during the periods when there is a change in tariffs.

- Following the implementation by the Company of the possibility of the household customer notification by SMS messages on any changes in the gas tariffs, any payment irregularities, and other important issues, the numbers SMS messages circulated by the Company is constantly rising. During each gas tariff change period the number of SMS messages to LD customers' amounts up to 350 thousand; and in 2011 the number of such SMS messages was by 30% higher than in 2010. LD customers are active in updating their contact data and they appreciate this service, and the Company considers it to be an effective and economical customer information channel.
- In 2011, on Hotline 1894, the average waiting time before the call was answered by a call manager was 14 seconds.
- The vast majority of the customers who called to the Company's Call Centre via Hotline 1894, in 2011, asked for information on payments and natural gas tariffs. For details see the figure below.



Customer service at LD branches

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

On-site customer service visits

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

house to establish the places of the house where there is possibility of the greatest heat loss.

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

ENVIRONMENTAL PROTECTION

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

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

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

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

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

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

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

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

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

STAFF

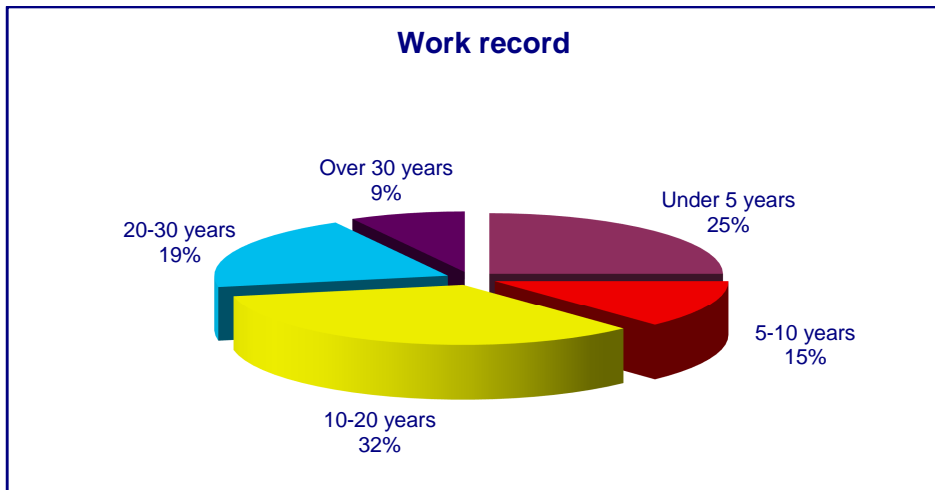
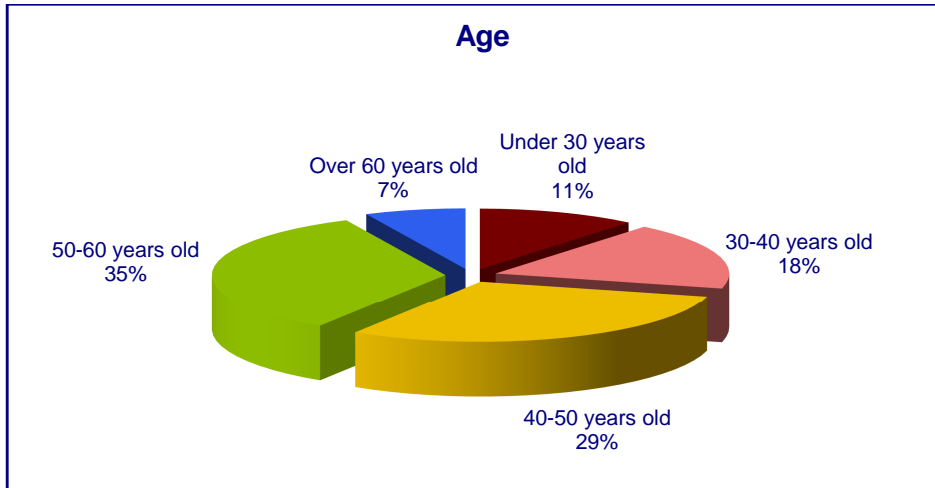
Average number of Group employees

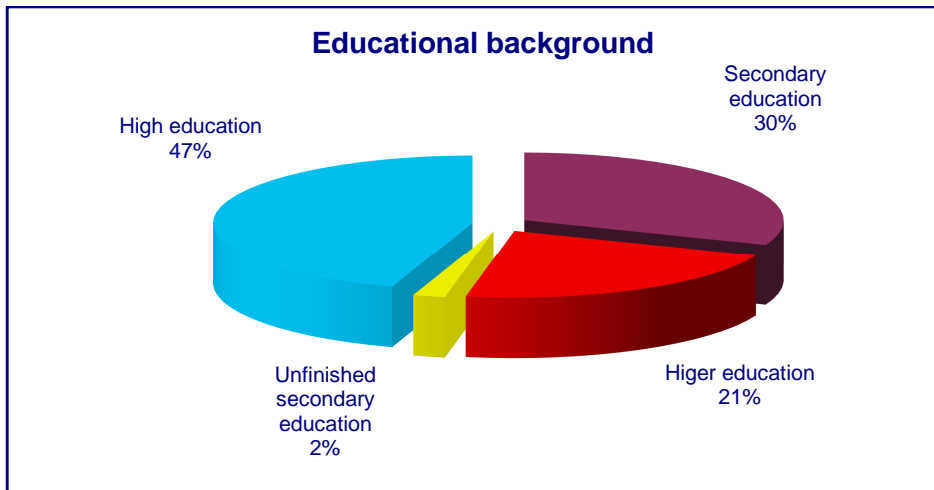
Year	Average number of employees	Change compared to previous year
2010	1,750	-2.1%*
2011	1,719	-1.8%**

* compared to 2009.

** compared to 2010.

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





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

Employees	Average number of employees in 2010	Average monthly salary, LTL
Managing staff	136	8,162
Specialists	997	3,305
Workers	617	2,583
Total:	1,750	3,428
Employees	Average number of employees in 2011	Average monthly salary, LTL
Managing staff	136	8,326
Specialists	982	3,367
Workers	601	2,606
Total:	1,719	3,493

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

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

LD devotes special attention to the creation of adequate working conditions for the personnel and to ensuring remuneration and social guarantees conforming to the market situation. At LD branches there are local units of trade unions united into the Lithuanian Association of Gas Industry Trade Unions. In 2011, the Company Management and representatives of the trade unions closely cooperated in handling the employees’ social, cultural, health, etc. issues and held joint meetings on a regular basis. The validity term of the Collective Bargaining Agreement of the Company (with subsequent amendments) signed on 6 December 2006 was extended until 28 May 2012. Neither the labour contracts of the Company, nor the Collective Bargaining Agreement provide for any extraordinary Company employees rights or duties. The rights and duties that have been established are the ones that are usually applied in general practice.

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

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

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

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

MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- The Lithuanian Gas Association (www.dua.lt), is a voluntary alliance of legal entities of the Republic of Lithuania interested in economic and technical development of Lithuanian gas sector and comprising the largest companies engaged in natural gas supply, transmission, and distribution, UAB SG Dujos (engaged in the liquefaction of natural gas), and various associated members engaged in natural gas activities: the Association Lietuvos Dujotiekio Statyba (comprising 16 companies engaged in gas pipeline construction works) and educational and scientific research institutions. The General Manager of LD Viktoras Valentukevičius is the President of this Association since 16 June 2008.
- The Association "Eurogas" (www.eurogas.com). It is a non governmental non profit organization uniting European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions of EU with respect to natural gas business as well as participating in the public opinion formation process. LD is its full member from 1 January 2009.
- The association of gas transmission pipeline companies of the Baltic Sea Region "Baltic Gas" (www.balticgas.org). "Baltic Gas" is an association of the Baltic Sea Region promoting use of natural gas in the Baltic Sea Region, development of an integrated natural gas consumer market, seeking to reduce the non-commercial obstacles in the way of natural gas business. Membership of LD in this association dates back to 1999. From 2006, LD has a representative in the Board of this association.
- On 22 June 2011, at the General Assembly of the European Network of Transmission System Operators for Gas (ENTSO) (www.entso.eu) held in Edinburgh (UK) LD was admitted to this organization as an Associated Partner. ENTSOG was established pursuant to the Regulation of the European Parliament and of the Council as an organization promoting co-operation of gas transmission system operators at the level of the European Union. ENTSOG is also engaged in the elaboration of the European gas network codes, development of non-binding Community-wide ten-year network development plans, delivering common network operation tools, performing other functions.
- The Chamber of Commerce of Germany and the Baltic countries in Estonia, Latvia and Lithuania (www.ahk-balt.org).
- The association of the largest and most active investors in the economy of Lithuania "Investors' Forum" (www.investorsforum.lt).

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

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

The year 2011 saw a continuation of the tradition of holding meetings of the managers and specialists the gas companies of the three Baltic States (LD, Latvijas Gaze A/S and Eesti Gaas AS) aimed at resolving common issues with respect to securing safe and reliable natural gas supplies in the Baltic States Region.

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

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

SPONSORSHIP PROGRAMS

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

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

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

1) Support to festivals of town communities: to the Public Entity “Pažaislis Music Festival” (support to the town of Kaunas in organizing the XVI Pažaislis Music Festival), to the Administration of the Municipality of Kretinga District (support to the Kretinga town historical and anniversary events), to the Administration of the Municipality of the Širvintos District (support for the international folklore festival “The Sparrow Invited...”), to the Public Entity “The Sea Festival” (support in organizing the Sea Festival 2011 in Klaipėda), to the Administration of Municipality of Anykščiai District (support in organizing the horse festival “Run, Horse, Run” in Niūronys, Anykščiai District), to the Board of the Žagarė Regional Park (support to the traditional Žagarė Cherry Festival “Hello, Brother”, etc.

2) Support to creative and active children and young people: to the Lithuanian National Radio and Television (support to the LTV project Lithuania’s Millenium Children), to the Lithuanian Youth Council “(LIJOT) (support to the project “Mission Siberia 2011”), to Association Xclub (support to the popularization among young people of extreme sports: roller skating, skateboard, bmx bicycles, snowboard), etc.

3) Support to improve the public health: to the Vilnius University Hospital Santariškės Clinic (support aimed at improving the activities of the Family Medicine Centre), to the Vilnius Maternity Hospital (for the partial refurbishment of the premises), to the Lithuanian Heart Association (support for the preparation of the doctors professional development programmes), to the Public

Entity VIRTUS LT (support for the project of this Public Entity “Company Facilitates Convalescence”), etc.

4) Support to sports societies: to the Lithuanian National Olympic Committee (support for the Lithuania’s sportsmen’s preparation for the Winter Olympic Games 2014), to the Lithuanian Olympic Sports Centre (support for the preparation of Lithuania’s sportsmen for the Summer Olympic Games 2012), support to the Public Entity “Šarūnas Marčiulionis Basketball Academy” (programme for the development of young basketball players), to the Lithuanian Sports Society “Zalgiris” (support to society sports events programme 2011), to the Baseball Club “Vilnius” (support to the club’s sportsmen – children of various age groups and adults – for the participation in major baseball tournaments abroad and in Lithuania for the improvement of their baseball skills and popularization of the name of Lithuania abroad), etc.

5) Support to the representatives of the socially vulnerable communities and children’s foster homes: to the Šiauliai Children’s Foster Home “Šaltinis” (support for the activities of the foster home), support to the Public Entity “Mažoji Guboja” (support for the disabled young people education and training programme), support to the Vilnius Youth School “Gija” (support to students of this school who because of various social, psychological or other reasons were the odd ones out at other schools), to the Public Entity St Joseph’s Foster Home (support for the acquisition of goods required for social care); to the Public Entity Vilnius Jonas Laužikas Consultative Centre (support to sick children who are both educated and treated at the Centre); Sports and Day Care Centre for the Disabled “Draugystė” (support to the disabled members of the Club for the development of their sports and health improvement activities), etc.

6) Support to representatives of art and culture: the Kernavė State Culture Reservation (support to the festival “Days of Live Archaeology in Kernavė”) to the Lithuanian Press Photo Club (support for annual exhibition “Lithuanian Press Photo 2011”), to the Lithuanian Artists Union (support for an educational painting plain air event in Pervalka), to the Embassy of Lithuania in Estonia (support for the organization of the Lithuanian National Opera days in Estonia), etc.

7) Support to the preservation of the Lithuanian national heritage: support to the Public Entity TV Europa (support for the creation of the documentary “The Children of the Ice” telling the true stories of Lithuanian residents who fell victims of the massive deportations (before or after World War II), who were deprived of their homes and were deported either to Siberia or to the Laptev Sea in Russia), to the Lithuanian Art Museum (support for the preparatory works for the exposition of Lithuanistic heritage in Lithuania from the museums of the Louvre (France), the Hermitage (the Russian Federation), the Warsaw National Art Museum (Poland), the Latvian Art Museum and other foreign museums); to the Anykščiai Culture Society “Meno Atodangos” (support for the publication of the art album “Mons. Albertas Talačka: Art Collections”), etc.

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

SOCIAL RESPONSIBILITY

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

In pursuit of responsible business activities, at present, the Company is focused on the review of its routine processes and procedures, on the internal audit of certain specific areas of its activity.

On an ongoing basis, the Company implements various projects related to environmental protection, employee motivation improvement, customer service upgrading, participation in communal activities which were disclosed in greater detail in other chapters of the present Consolidated Annual Report.

In order to get an objective and representative assessment of LD performance by its customers and various social groups, on an annual basis, the Company conducts a representative public opinion survey. The survey includes questions on the Company's activities, limits of responsibility, social influence, on the efficient or inefficient support of the community. The responses of the various social groups and their analysis result in the formation of the tasks for the improvement of LD activities.
