

AB LIETUVOS DUJOS

**CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**



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

Report on Financial Statements

We have audited the accompanying financial statements of AB Lietuvos Dujos, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Lietuvos Dujos and its subsidiary and joint venture (hereinafter the Group), which comprise the statements of financial position as of 31 December 2012, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

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

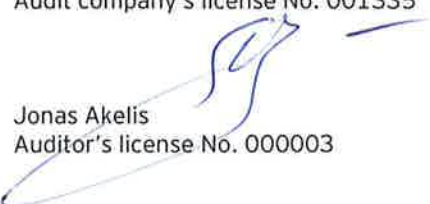
Qualified Opinion

In our opinion, except for the possible effect of the matter described in section *Basis for Qualified Opinion* above, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2012 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

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



Jonas Akelis
Auditor's license No. 000003

The audit was completed on 6 March 2013.

AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(all amounts are in LTL thousand unless otherwise stated)

Statements of financial position

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

(cont'd on the next page)



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

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(all amounts are in LTL thousand unless otherwise stated)

Statements of financial position (cont'd)

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

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

General Manager	Viktoras Valentukevičius		6 March 2013
Chief Accountant	Žydrūnas Augutis		6 March 2013

AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

Income statements

	Notes	Group		Company	
		2012	2011	2012	2011
I. Revenue		1,879,178	1,845,869	1,878,891	1,844,906
I.1. Sales	3	1,872,714	1,840,012	1,872,432	1,839,064
I.2. Other income	19	6,464	5,857	6,459	5,842
II. Expenses		(1,810,021)	(1,723,733)	(1,808,882)	(1,722,576)
II.1. Cost of natural gas		(1,517,813)	(1,435,881)	(1,517,813)	(1,435,881)
II.2. Depreciation and amortisation	4, 5	(114,331)	(111,803)	(114,144)	(111,535)
II.3. Payroll and related social security tax expenses		(99,527)	(98,093)	(99,150)	(97,641)
II.4. Repair and technical maintenance expenses		(47,906)	(47,277)	(47,904)	(47,274)
II.5. Taxes, other than income tax		(10,576)	(11,110)	(10,525)	(11,039)
II.6. Other expenses		(19,868)	(19,569)	(19,346)	(19,206)
III. Profit from operations		69,157	122,136	70,009	122,330
IV. Financial activity	20	1,543	(17,863)	1,528	(17,913)
IV.1. Income		2,208	2,467	2,143	2,417
IV.2. Expense		(665)	(20,330)	(615)	(20,330)
V. Profit before tax		70,700	104,273	71,537	104,417
VI. Income tax	21	3,806	(8,511)	4,427	(8,731)
VI.1. Current period income tax		(6,180)	(16,332)	(6,180)	(16,332)
VI.2. Deferred income tax		9,986	7,821	10,607	7,601
VII. Net profit		74,506	95,762	75,964	95,686
Basic and diluted earnings per share (LTL)	22	0.16	0.20		

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

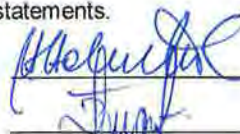

General Manager	Viktoras Valentukevičius		6 March 2013
Chief Accountant	Žydrūnas Augutis		6 March 2013

AB LIETUVOS DUJOS
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(all amounts are in LTL thousand unless otherwise stated)

Statements of comprehensive income

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

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

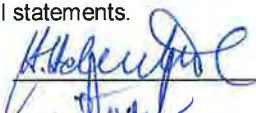
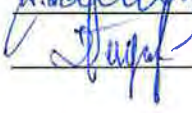
<u>General Manager</u>	<u>Viktoras Valentukevičius</u>		<u>6 March 2013</u>
<u>Chief Accountant</u>	<u>Žydrūnas Augutis</u>		<u>6 March 2013</u>

AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

Statements of changes in equity

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

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

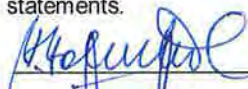
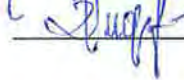
<u>General Manager</u>	<u>Viktoras Valentukevičius</u>		<u>6 March 2013</u>
<u>Chief Accountant</u>	<u>Žydrūnas Augutis</u>		<u>6 March 2013</u>

AB LIETUVOS DUJOS
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Statements of changes in equity (cont'd)

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

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

General Manager	Viktoras Valentukevičius		6 March 2013
Chief Accountant	Žydrūnas Augutis		6 March 2013

AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

Statements of cash flows

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

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

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(all amounts are in LTL thousand unless otherwise stated)

Statements of cash flows (cont'd)

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

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

	General Manager	Viktoras Valentukevičius		6 March 2013
	Chief Accountant	Žydrūnas Augutis		6 March 2013

AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

Notes to the financial statements

1 General information

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

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

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

As at 31 December 2012 and 2011 the shareholders of the Company were as follows:

	Number of shares held	Percentage of ownership (%)
E.ON Ruhrgas International GmbH	182,534,384	38.9
OAQ 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
	<u>469,068,254</u>	<u>100.0</u>

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

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

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

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

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

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

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

**AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

1 General information (cont'd)

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

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

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

The management of the Company approved these financial statements on 6 March 2013. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

Unbundling of the Company's activities

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

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

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

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

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

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

1 General information (cont'd)

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

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

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year 2012 are as follows:

2.1. Basis of preparation

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

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

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

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

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

Standards issued but not yet effective

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

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

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

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

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

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

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

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

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

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

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

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

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

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

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

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group and the Company is in the process of assessing the impact of this standard.

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

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

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

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

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

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

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

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

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

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

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

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

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

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

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

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

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

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

2.2. Measurement and presentation currency

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

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

2.3. Principles of consolidation

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

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

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

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

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

2 Accounting principles (cont'd)

2.4. Investment in a joint venture

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

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

2.5. Intangible assets

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

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

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

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

2.6. Property, plant and equipment

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

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

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

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

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

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

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

2 Accounting principles (cont'd)

2.7. Financial assets

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial assets

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

2 Accounting principles (cont'd)

2.8. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

2.9. Inventories

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

2.10. Cash and cash equivalents

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

2.11. Borrowings

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

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

2.12. Borrowing costs

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

2 Accounting principles (cont'd)

2.13. Grants (deferred revenue)

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

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

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

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

2.14. Non-current employee benefits

Defined benefit plan – post employment benefits

According to the collective agreement, each employee leaving the Company at the retirement age is entitled to a one-time payment. Employment benefits are recognised in the statement of financial position and reflect the present value of future payments at the date of the statement of financial position. The above mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised in the income statement as incurred. Starting from 1 January 2013 after the amendments to IAS 19 become effective, the actuarial gains and losses will have to be recognised in the statement of other comprehensive income.

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the income statement as incurred. Starting from 1 January 2013 after the amendments to IAS 19 become effective, the past service costs will have to be recognised in the income statement as incurred.

Other long-term employee benefits

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

2.15. Income tax

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

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

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

**AB LIETUVOS DUJOS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

(all amounts are in LTL thousand unless otherwise stated)

2 Accounting principles (cont'd)

2.15 Income tax (cont'd)

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

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

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

2.16. Revenue recognition

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

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

2.17. Foreign currencies

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

2.18. Impairment of assets

Financial assets

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

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

Other assets

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

2 Accounting principles (cont'd)

2.19. Use of estimates in the preparation of financial statements

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

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

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

2.20. Contingencies

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

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

2.21. Subsequent events

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

2.22. Offsetting

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

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3 Segment information

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

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

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

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

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

2012	Transmission	Distribution	Supply	Other activity	Total
Sales	169,291	174,778	1,526,577	2,068	1,872,714
Interest income	62	22	1,096	66	1,246
Interest expense	614	-	-	-	614
Profit before tax	21,060	11,206	38,212	222	70,700
Income tax	(7,898)	(1,555)	5,635	12	(3,806)
Total assets	1,655,971	799,075	463,648	9,489	2,928,183
Total liabilities	440,748	196,466	233,023	100	870,337
Other segment information					
Acquisition of non-current assets	110,741	45,959	274	8	156,982
Acquisition of investment into joint venture UAB GET Baltic	640	-	680	-	1,320
Depreciation and amortisation	74,302	38,420	1,263	346	114,331
2011	Transmission	Distribution	Supply	Other activity	Total
Sales	175,530	171,069	1,490,822	2,591	1,840,012
Interest income	1	40	1,218	51	1,310
Interest expense	320	-	-	-	320
Profit before tax	38,684	21,941	42,667	981	104,273
Income tax	(1,985)	723	9,867	(94)	8,511
Total assets	1,603,312	762,586	322,304	10,429	2,698,631
Total liabilities	224,064	180,896	238,804	(473)	643,291
Other segment information					
Acquisition of non-current assets	34,580	27,595	128	15	62,318
Depreciation and amortisation	72,365	37,643	1,341	454	111,803

All the assets of the Group and the Company are located in the territory of Lithuania where the Group and the Company are operating, except for a part of natural gas accounted for in inventories (Note 9).

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

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

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4 Intangible assets

Movement of intangible assets for the current and prior periods:

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

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4 Intangible assets (cont'd)

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

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

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

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

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5 Property, plant and equipment (cont'd)

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

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5 Property, plant and equipment (cont'd)

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

As at 31 December 2012 and 2011 the Group and the Company had no property, plant and equipment, acquired under financial lease agreements.

The Group and the Company did not have any borrowing costs in 2012 and 2011 related to qualifying assets.

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

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

6 Investment in subsidiary

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

7 Investment into joint venture

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

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

8 Non-current accounts receivable

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

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

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9 Inventories

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

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

10 Accounts receivable

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

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

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

As at 31 December 2012 trade and other receivables of the Group and the Company with the nominal value of LTL 6,847 thousand (as at 31 December 2011 – LTL 6,086 thousand) were fully provided for.

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

	Group			Company		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
Balance as of 1 January 2011	3,858	3,987	7,845	3,853	3,987	7,840
Charge for the year	4,043	1,902	5,945	4,043	1,902	5,945
Utilised	-	(159)	(159)	-	(159)	(159)
Unused amounts reversed	(4,223)	(971)	(5,194)	(4,223)	(971)	(5,194)
Balance as at 31 December 2011	3,678	4,759	8,437	3,673	4,759	8,432
Charge for the year	1,743	1,930	3,673	1,743	1,930	3,673
Utilised	(60)	(342)	(402)	(60)	(337)	(397)
Unused amounts reversed	(2,088)	(1,002)	(3,090)	(2,088)	(1,002)	(3,090)
Balance as at 31 December 2012	3,273	5,345	8,618	3,268	5,350	8,618

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

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10 Accounts receivable (cont'd)

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

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

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

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

11 Other current assets

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

12 Cash and cash equivalents

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

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

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13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of not less than 5 % of net profit are compulsory until the reserve reaches 10 % of the share capital. The amount of LTL 3,215 thousand of the Company's net profit for 2012 must be allocated for a transfer to the legal reserve in 2013, in which case the legal reserve would comprise 10% of the share capital. This amount may change depending on the final decision of the shareholders of the Company to be made after the issue of these financial statements.

Other reserves

Other reserves are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting for the corporate business development.

14 Borrowings

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

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

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

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>Fixed interest bearing loans</u>	<u>Fixed interest bearing loans</u>	<u>Floating interest bearing loans</u>	<u>Floating interest bearing loans</u>
2012	-	2,144	-	-
2013	2,144	2,144	-	-
2014	-	-	45,000	-
2015	-	-	45,000	-
2016	-	-	45,000	-
2017	-	-	45,000	-
	2,144	4,288	180,000	-

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14 Borrowings (cont'd)

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

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

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

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

15 Grants (deferred revenue)

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

Increase in grants (deferred revenue) in 2012 was influenced by received capital grants, out of which LTL 33,860 thousand comprised construction of gas transmission pipeline Jurbarkas – Klaipėda, the project financed by EU structural funds. Grants also include the corresponding fair value of property, plant and equipment received free of charge and charged to the income statement in portions on a straight-line basis over the assets' estimated useful life.

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

16 Non-current employee benefits

As at 31 December 2012 and 2011 the Group's and the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 7,546 thousand, other non-current employee benefits resulting from bonuses for long work experience in the Company were equal to LTL 1,551 thousand.

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

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

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

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17 Trade payables

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

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

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

18 Other payables and current liabilities

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

19 Other income

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

20 Financial activities

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

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

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21 Income tax

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

According to the provisions of the Law on Corporate Income Tax (hereinafter – the Law), which came into effect starting 1 January 2009, the income tax incentive may be applied for investments into qualifying property, plant and equipment. When calculating current income tax for the year 2012, the Group and the Company used the benefit of the above mentioned incentive for the investments (including used income tax incentive of previous year) and reduced income tax expenses for the year 2012 by a total amount of LTL 11,270 thousand (LTL 9,972 thousand in 2011).

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

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

While assessing deferred income tax asset and liability components in 2012 and 2011 the Group and the Company has used income tax rate of 15 %.

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21 Income tax (cont'd)

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

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

22 Earnings per share

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

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

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

23 Dividends declared

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

* In the year when the dividends are declared.

24 Cash flows from investing and financing activities

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

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

25 Capital investment commitments

As at 31 December 2012, the Group and the Company had the contracts for non-current assets acquisition, which are not recognised in these financial statements and amount to LTL 71,160 thousand (LTL 21,446 thousand as at 31 December 2011). The contractual obligations of the construction of gas transmission pipeline Jurbarkas – Klaipėda agreements amounted to LTL 63,560 thousand out of total capital investment commitments as at 31 December 2012.

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26 Financial assets and liabilities and risk management

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments (scheduled payments including interest).

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	672	4,289	185,612	-	190,573
Other current liabilities	-	1,128	-	-	-	1,128
Trade payables	-	238,947	-	-	-	238,947
Balance as at 31 December 2012	-	240,747	4,289	185,612	-	430,648
Interest bearing loans and borrowings	-	-	2,356	2,235	-	4,591
Other current liabilities	-	1,997	-	-	-	1,997
Trade payables	-	215,564	5	-	-	215,569
Balance as at 31 December 2011	-	217,561	2,361	2,235	-	222,157

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments (scheduled payments including interests).

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	672	4,289	185,612	-	190,573
Other current liabilities	-	1,128	-	-	-	1,128
Trade payables	-	238,943	-	-	-	238,943
Balance as at 31 December 2012	-	240,743	4,289	185,612	-	430,644
Interest bearing loans and borrowings	-	-	2,356	2,235	-	4,591
Other current liabilities	-	1,994	-	-	-	1,994
Trade payables	-	215,557	5	-	-	215,562
Balance as at 31 December 2011	-	217,551	2,361	2,235	-	222,147

Credit risk

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

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

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

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

Foreign currency risk

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

Monetary assets and liabilities denominated in local and foreign currencies as at 31 December 2012 were as follows (stated in LTL thousand):

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

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

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

Interest rate risk

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

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

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

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

Gas import price fluctuation risk

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

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

Fair value of financial instruments

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

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

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

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

- (a) The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value;
- (b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with interest rates approximates their carrying amounts.

27 Commitments and contingencies

Legal disputes

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

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

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

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28 Related party transactions

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

The related parties of the Group and the Company, transaction amounts and debts as at 31 December 2012 and 2011 were as follows:

- E.ON Ruhrgas International GmbH (one of the major shareholders of the Company);
- OAO Gazprom (one of the major shareholders of the Company);
- Ministry of Energy of the Republic of Lithuania (one of the major shareholders of the Company);
- UAB Palangos Perlas (subsidiary of the Company);
- UAB GET Baltic (joint venture);
- AS Latvijas Gaze (the same shareholders);
- E.ON IS GmbH (same ultimate shareholder);
- OAO Beltransgaz (same ultimate shareholder);
- UAB Kauno termofikacijos elektrinė (same ultimate shareholder);
- Open Grid Europe GmbH, related party until 23 July 2012 (same ultimate shareholder).

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

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

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

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

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

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

28 Related party transactions (cont'd)

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

Management remuneration

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

29 Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2012 and 2011.

The Group and the Company is obliged to upkeep its equity ratio not less than 50 % of its share capital, as imposed by the Law on Companies of Republic of Lithuania. As at 31 December 2012 and 2011 the Group and the Company were in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Group and the Company.

30 Subsequent events

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

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

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