



# **CONSOLIDATED ANNUAL REPORT FOR 2008**

Vilnius  
2009

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## REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED

The year 2008.

## MAIN DATA ABOUT THE COMPANY

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

## MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

- From 1 January 2008, the Company’s shares are admitted to the Main List of the stock exchange NASDAQ OMX Vilnius.
- On 1 January 2008, new natural gas tariffs for the Company’s customers came into effect. The tariff increase was determined by the rise in the natural gas imports price and the flaws of the regulatory regime of the Natural Gas Sector.
- From 1 January 2008, the Company amended its Organization Chart in accordance with the applicable provisions of the European Union legislation regarding the functional separation of the Company’s gas transmission, distribution and supply business activities.
- On 16 April 2008, a regular general meeting of shareholders of the Company took place at which the shareholders decided for the results achieved in the Financial Year 2007 to pay out dividends in amount of LTL 50 million, i.e. LTL 0.11 per share.
- On 16 April 2008, granting their respective resignation requests, Stephan Kamphues and Dr Eike Benke were recalled from the membership of the Board of Directors and new members Dr Achim Saul and Marcus A. Soehrich were elected instead. Dr Achim Saul was elected Chairman of the Board of Directors.
- On 16 June 2008, the General Manager of the Company Viktoras Valentukevičius was elected President of the Lithuanian Gas Association for a four-year term.
- In July, the Company launched a brand-new service for its household customers “My Gas Account”. At the LD website [www.dujos.lt](http://www.dujos.lt) the Company’s household customers may access data on their current payment status (debts or overpayments) for the natural gas consumed and read relevant info notices.
- September marked the presentation of a newly released historic publication “The Guardians of the Sky-Blue Flame”. It is a unique book in which the history of the Natural Gas Sector is illustrated not merely through the presentation of plain facts and documents, but also through the interviews with both former and current Natural Gas Sector employees.

- On 18 September 2008, a presentation of the completed Project "Developing a Greenfield Investment Infrastructure in Panevėžys District" was held in Ramygala (Panevėžys District). LD contributed to the Project implementation by laying a 9.3-km gas pipeline to the Greenfield Investment Zone.

- On 19 September 2008, Klaipėda marked the 40<sup>th</sup> anniversary of the introduction of natural gas supplies to this town. To celebrate the anniversary, a number of various events were arranged for the residents and guests of the town of Klaipėda: the planting of pine-trees at the Neringa National Park, the Day of Donor Grants-in-aid, the Children's Drawing Competition for pupils of elementary schools, the Nautical Mile Race for older pupils, the Concert for the Residents of Klaipėda.

- November marked the introduction of natural gas supplies to Rietavas. The project cost LTL 4.2 million. The Project was implemented in 2007-2008.

- On 24 November 2008, the Board of Directors of LD approved the new natural gas transmission and distribution service tariffs and natural gas tariffs for the household customers applicable in 2009.

- With a view to improving the LD customer services, on 1 December 2008, a Call Centre was opened at the Company, supplying information to customers of the Vilnius District. From 1 July 2009, the general Call Centre number 1894 will cover all the natural gas customers of entire Lithuania, providing natural gas-related information.

- On 29 December 2008, the National Control Commission for Prices and Energy (hereinafter referred to as "the NCCPE") unilaterally set the Company's natural gas transmission, distribution tariffs and gas tariffs for the household customers applicable from 1 January 2009. The NCCPE decision is having a negative impact on the financial results of LD. The Company has lodged a complaint against this decision of the NCCPE with the Court.

All important data related to the Company's activities and information about the time, date and venue of the general meeting of shareholders as well as other notices to the shareholders and other persons were published in the Lietuvos Rytas daily newspaper. Information on all material events of the Company was also submitted to the Securities Commission of the Republic of Lithuania, the stock exchange NASDAQ OMX Vilnius, the news agencies BNS, ELTA and REUTERS and posted on the central regulated information database administered by the stock exchange NASDAQ OMX Vilnius and the Company website [www.dujos.lt](http://www.dujos.lt).

## **NATURAL GAS BUSINESS ENVIRONMENT**

### **The Law on Natural Gas**

On 20 March 2007, the Seimas of the Republic of Lithuania passed the new Law on Natural Gas which came into effect on 19 April 2007.

The Law amendment was initiated with a view to transposing the EU directives provisions into the legal framework of Lithuania. Nevertheless, the new Law on Natural Gas distorted the basic EU Gas Directive principles beyond recognition, individual provisions of the Law contradict each other. Instead of the market liberalization and the creation of the preconditions for the common EU internal market, the new Law on Natural Gas prescribes absolute regulation of the national Natural Gas Sector and market isolation and imposes restrictions on the new suppliers entering the market. A number of provisions of the Law are discriminatory and contradict the international gas industry practices, imposing restrictions on the continuation of the national Natural Gas System development and stalling the implementation of the National Energy Strategy projects aimed at the enhancement of the security of natural gas supplies.

Even though almost two years have passed from the adoption of the Law on Natural Gas, Secondary Legislation has not been prepared as yet without which the practical application of the Law is impossible.

As the flaws of the Law on Natural Gas are obvious, in 2008, amendments of certain provisions of the Law on Natural gas were initiated, but the Seimas of the Republic of Lithuania has not even started debating them.

### **New initiatives by the EU**

The main theme is the initiative by the European Commission (hereinafter referred to as “the EC”) regarding the further Energy Sector reform (liberalization), the so-called “third energy package”.

Given that Lithuania together with Finland, Estonia and Latvia are kind of “energy islands”, the EC proposed to grant them an exemption with regard to any further unbundling of their activities, i.e. further separation of their companies, until alternative gas supplies are secured. In the absence of alternative gas supplies sources, such unbundling of gas companies makes no sense and would lead to a more complicated management of the Natural Gas Sector, to the deterioration in the gas supplies security and reliability situation and a considerable increase in the consumer tariffs.

Finland, Estonia and Latvia expressed a wish to make use of this offer by the EC, whereas the politicians of Lithuania demonstrated their determination to implement the directive without delay and in full scope.

### **Licensing**

The Law on Natural Gas stipulates that the activities of natural gas transmission, distribution and supply are subject to licensing. The licences are issued and the supervision of the licensed activities is executed by the NCCPE. In 2001, the Company was granted by the NCCPE the licences for the activities of natural gas transmission and distribution and in 2002 the Company was granted the licence for the supply of natural gas.

The Government of the Republic of Lithuania by its Resolution of 5 December 2007 adopted the new Rules for Licensing Natural Gas Transmission, Distribution, Storage, Liquefaction and Supply, which revised the definitions of the licensed activities execution territories. In April of 2008, in accordance with the Rules, the NCCPE renewed the Company’s gas transmission and distribution licences and in March of 2008, the NCCPE renewed the Company’s gas supply licence.

LD was granted a licence to engage in the natural gas transmission activities in all the administrative units of Lithuania.

By the natural gas distribution licence the Company is granted the right to engage in the gas distribution activities in the territory of 41 municipalities.

The natural gas supply licence grants the Company the right to engage in the natural gas supply business in the territory of the Republic of Lithuania.

### **The pricing system and the natural gas tariffs**

The Company imports natural gas from the Russian company Gazprom OAO. Natural gas import price depends on oil and gasoline prices in international market, the USD and EUR ratio fixed by the European Central Bank and actual natural gas calorific value. Due to the changes in the aforesaid factors, the natural gas import prices and the selling prices for the non-household customers are subject to monthly recalculations.

The specific natural gas tariffs for household customers, however not exceeding the price caps set by the NCCPE, are set for a one-year-term. Since 1 January 2008, according to the new version of The Rules for Natural Gas Transmission, Distribution, Storage and Supply, all household customers pay for natural gas according to a two-component tariff.

The NCCPE by its Resolution of 8 August 2008 adopted The Natural Gas Transmission and Distribution Price Cap Calculation Methodology and by its Resolution of 29 August 2008 it adopted The Natural Gas Supply Price Cap Calculation Methodology regulating the principles of the setting of the natural gas transmission and distribution price caps and gas supply price caps as well as the setting differentiation principles of concrete tariffs. According to the Methodologies, the NCCPE sets price caps for a five-year regulation period. The price caps are subject to annual adjustments depending on the changes in the indicators specified by the Methodologies.

Pursuant to provisions of the new Methodologies, the NCCPE calculated and by its Resolution of 31 October 2008 set the Company's natural gas transmission and distribution price caps for a five-year regulation period, i.e. from 1 January 2009 till 31 December 2013. By the NCCPE Resolution of 31 October 2008 an adjusted natural gas supply price cap was set for the year 2009.

On 24 November 2008, the Company's Board of Directors set the specific natural gas transmission and distribution service tariffs and natural gas tariffs for the household customers applicable in 2009. The NCCPE declined to approve the proposed tariffs, and, on 29 December 2008, unilaterally set LD natural gas transmission and distribution service tariffs and natural gas tariffs for the household customers applicable from 1 January 2009.

This decision by the NCCPE is having a negative impact on the Company's financial results of 2009.

In the opinion of LD, the NCCPE declined the LD request for the approval of the proposed tariffs set by the Board of Directors without furnishing any legally sound arguments. On 28 January 2009, the Company, in defense of its lawful interests, lodged a complaint with the Vilnius District Administrative Court requesting the annulment of the aforesaid Resolution of the NCCPE.

The main problem still remains the instability and the unpredictability of the regulation of the Sector.

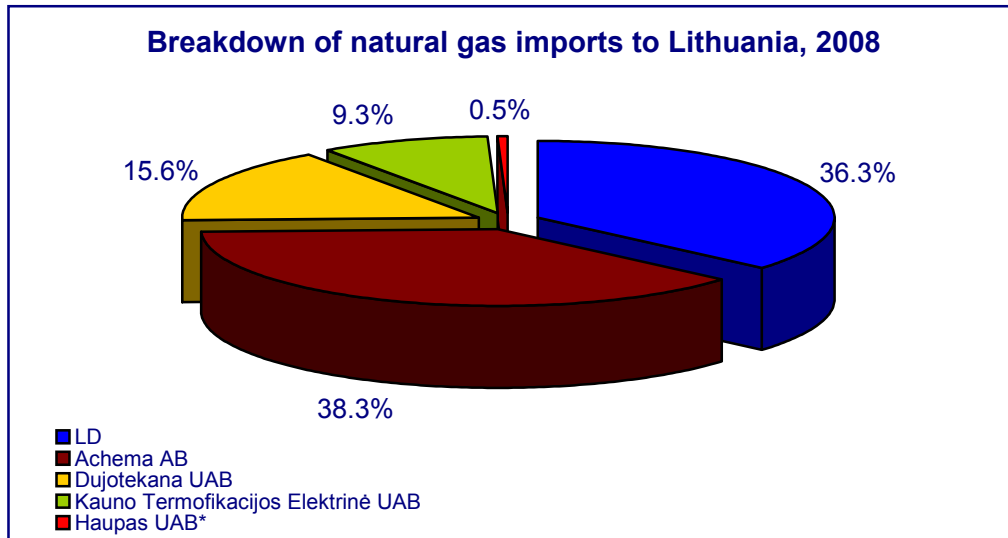
### **New Secondary Legislation**

On 28 June 2008, the Ministry of Economy of the Republic of Lithuania adopted The Rules for the Installation of New Natural Gas Systems in the Newly Connected Territories and for the Connection of New Customers' Systems to the Natural Gas Transmission and Distribution Systems. The Rules establish the procedure for the introduction of new natural gas supplies systems in the newly connected territories and for the connection of new customer gas systems to the gas transmission and distribution systems.

On 17 November 2008, the NCCPE adopted The Methodology for Calculating New Natural Gas Customers Connection Fees applicable for the calculation of fees of the new household and non-household customers' connection to the Natural Gas System (including the case when for the needs of a customer it is necessary to enhance the capacity through the Natural Gas System expansion).

### **Market**

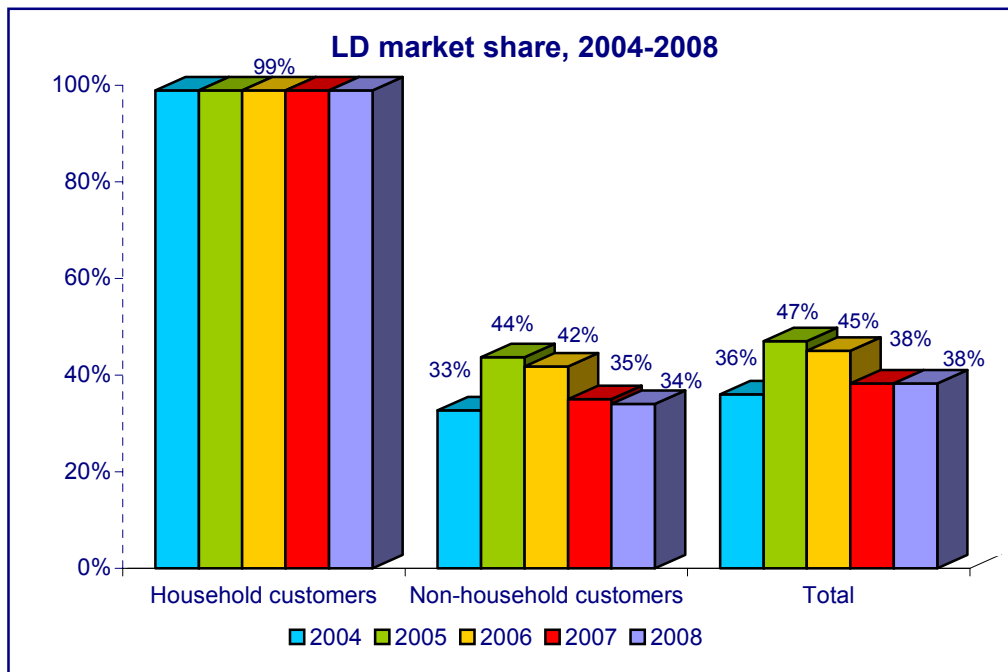
In 2008, there were five companies importing natural gas into Lithuania: LD, Achema AB, Dujotekana UAB, Kauno Termofikacijos Elektrinė UAB and Haupas UAB. The total volume of natural gas imported into Lithuania in 2008 amounted to 3.1 billion m<sup>3</sup>. Haupas UAB did not use the Company's Natural Gas System for its imports of natural gas.



\* Data supplied by Haupas UAB.

In 2008, the following companies supplied natural gas to household and non-household customers of Lithuania: LD, Fortum Joniškio Energija UAB, Druskininkų Dujos UAB, agro firm Josvainiai AB and Intergas UAB. Dujotekana UAB and Haupas UAB supplied gas only to non-household customers.

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



**RISK MANAGEMENT AND DESCRIPTION OF THE MAIN RISK FACTORS**

In the rapidly changing economic and legal regulation environment, the importance of risk management is growing. Risk management is a constituent part of LD economic activities. LD has implemented a Risk Management System. Risk factors are being identified, analyzed and evaluated as a constituent part of the Company’s objectives, activities and environment analysis process. The LD Risk Management Process is implemented in accordance with the methodology that has been developed and comprises the following steps:



1. Identification of the risk factors, review of the main activity indicators and risk indicators;
2. Risk analysis, assessment and establishing the risk control measures;
3. Taking decisions regarding the risk levels and developing the Risk Management Action Plan;
4. Implementation of measures of the Risk Management Action Plan;
5. Monitoring and supervision of the Risk Management Process.

The main risks having the greatest impact to the Company's activities are as follows: the natural gas import price fluctuation risk, the credit risk, the legal regulation-related risk, the competition risk, the macro-economic factors risk, the risk of disruptions of gas import (supply) and the technical-related risks.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

### **The legal regulation-related risk**

The core activities of the Company, i.e. the natural gas transmission, distribution and supply, are subject to licensing and regulation. The financial results and development prospects of LD are directly dependent on the NCCPE's decisions. The Company has lodged several complaints with the court of law regarding the NCCPE's decisions related to the setting of the regulated tariffs. Detailed information on the LD litigation with the NCCPE is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

The frequent changes in relevant legislation, the ill-timed adoption of the secondary legislation create uncertainty of the business environment, thus aggravating the Company's relations with its customers and impeding its ability to plan for long-term. A vivid example was the hasty adoption of the significant amendments to the tax-regulating legal acts at the end of 2008 which came into effect already from the beginning of 2009.

The Company spares no effort to maintain constructive relations with the regulatory authorities and to participate in the legal acts drafting process.

### **The competition-related risk**

In its activities the Company faces competition both in the Natural Gas Sector, and in the Fuel (Energy) Sector. In the Natural Gas Supply Sector, the Company competes with other companies supplying natural gas. In the Fuel (Energy) Sector, LD competes with suppliers of alternative fuels (heavy fuel oil, orimulsion, bio fuel, solid fuel) as well as heat, power, etc. companies operating in this Sector (when the end consumers choose among a variety of heating systems). A high percentage of natural gas customers have dual-fuel systems and may use these alternative fuels replacing natural gas.

### **The macro-economic risk**

The deteriorating macro-economic situation in Lithuania is determining the decrease in the sales volumes, the customers' settlement irregularities and, respectively, the worsening of the results of the activities of the Company.

### **The gas import (supply) disruption risk**

All the natural gas supplies are imported into Lithuania via the territory of Belarus. The gas imports (supplies) disruption risk is possible due to actions of third parties (e.g., actions analogous to the Russian-Ukrainian gas conflict). However, probability of such disruptions is very low, since Gazprom OAO is a shareholder of Beltransgaz OAO (the Belarus Gas Transmission System Operator), moreover, gas is transmitted by transit to the Russian



Federation Kaliningrad Region through the territory of Lithuania. In case of disruption of gas imports via Belarus, natural gas would be supplied to Lithuania via the territory of Latvia.

### The technical-related risk

With a view to ensuring a reliable operation of its natural gas systems, the Company carries out periodic maintenance check-ups of the systems, and on the basis of the defects established during the routine maintenance procedures and taking into account the general Gas System condition, it drafts and implements the Company's annual gas systems repair and reconstruction programmes.

All potentially hazardous equipment and facilities are subject to additional inspections by respective Potentially Hazardous Equipment Maintenance Supervision authorities.

The Company's gas equipment maintenance staff is subject to periodic certification procedures, all gas works are performed exclusively by certified (attested) employees.

With a view to ensuring a timely response to any possible disruptions, emergencies or accidents, the Company has set up its 24-hour Emergency Services and has drawn up Emergency Liquidation Plans.

## FINANCIAL PERFORMANCE

### Group's key financial indicators

	2008	2007	2006
<b>Financial results</b>			
Sales, M LTL	1,555.4	1,024.3	779.6
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	162.0	219.2	167.7
Profit from operations, M LTL	67.6	124.6	71.2
Profit before taxes, M LTL	73.3	125.3	71.7
Net profit, M LTL	64.2	104.0	57.3
<b>Investments and assets</b>			
Investments, M LTL	123.3	118.4	122.8
Assets at the end of the year, M LTL	2,529.3	2,459.0	2,303.1
Equity at the end of the year, M LTL	1,882.3	1,929.8	1,855.8
<b>Profitability ratios</b>			
EBITDA margin, %	10.4	21.2	21.2
Profit from operations margin, %	4.3	12.1	9.0
Profit before tax margin, %	4.7	12.2	9.1
Net profit margin, %	4.1	10.1	7.3
Average return-on-assets ratio (ROA), %	2.6	4.4	2.5
Average return-on-equity ratio (ROE), %	3.4	5.5	3.1
<b>Leverage</b>			
Debt to equity ratio*, %	34.4	27.4	24.1
Debt ratio*, %	25.6	21.5	19.4
<b>Market value ratios</b>			
Price-earnings ratio (P/E)	9.21	16.05	31.75
Basic earnings per share, LTL	0.14	0.22	0.12
Dividends per share for the current year, LTL	0.10	0.11	0.06

\* The debt covers all non-current liabilities (including grants (deferred revenue) and the deferred income tax payable) as well as the current liabilities.

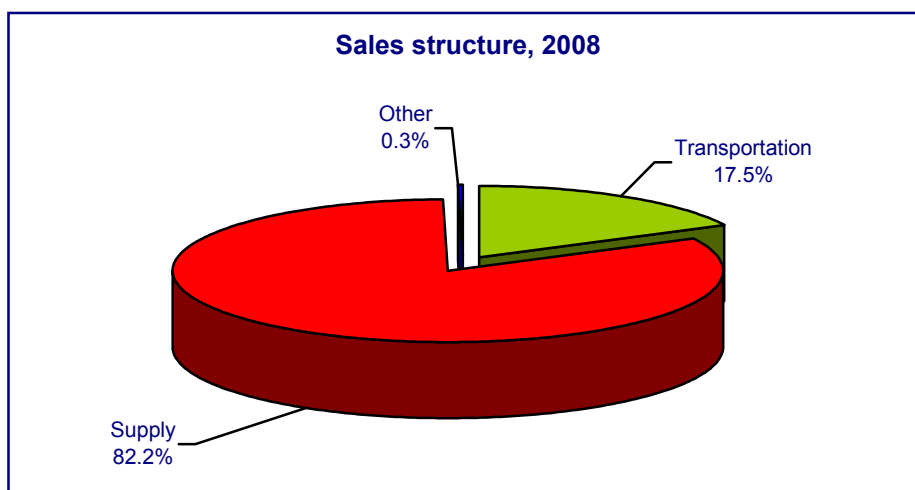
The consolidated financial statements prepared by the Company reflect the financial results of Lietuvos Dujos AB Group (hereinafter referred to as “the Group”) comprised of Lietuvos Dujos AB and Palangos Perlas UAB.

### Core activities

In 2008 the sales of the Group compared with 2007 increased significantly (51.9% y/y) and amounted to LTL 1,555.4 million. The basic part of the total sales (99.7%) composed of the revenue from the core activity (gas transmission, distribution and supply).

The change in the revenue was mostly impacted by the rise in the revenue from the supply activity, from LTL 777.8 million to LTL 1,278.9 million or by 64.4% y/y. This increase was mainly determined by the increase in the gas sales prices, which was impacted by the natural gas import price rise due to the oil and its products price growth on the global markets. The major part of the sales consisted of the supply activity revenue, 82.2%.

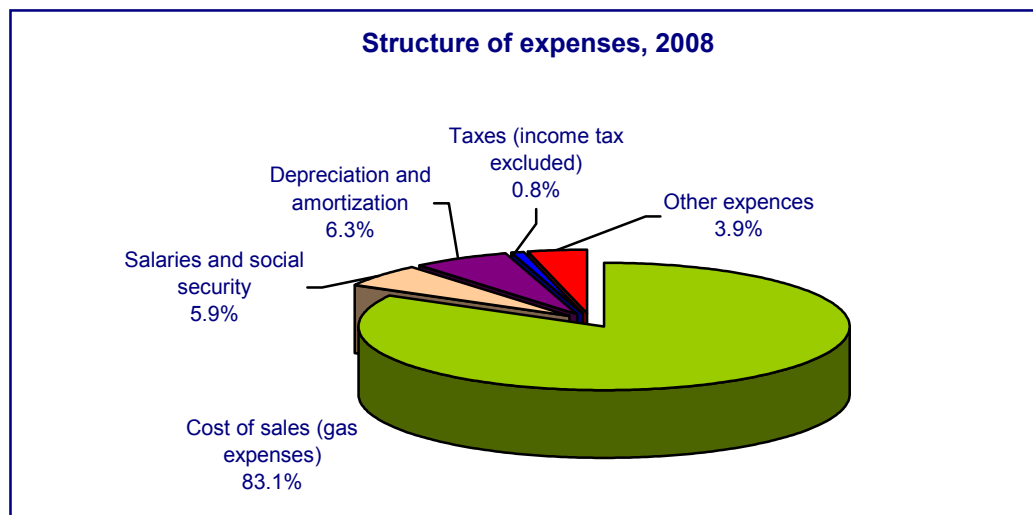
The revenue from the gas transportation activity, i.e. the gas transmission and distribution systems operator’s activity, amounted to 17.5% and rose by 12.9% compared with 2007 (from LTL 240.8 million to LTL 271.9 million) as a result of the increase in the average gas transmission and distribution service tariffs.



In 2008 the Group’s expenses (cost of sales and operating expenses) increased by 64.7% or by LTL 586.7 million compared with 2007 and amounted to LTL 1,493.6 million (LTL 906.9 million in 2007).

The significant growth in the expenses was mainly determined by the rise in the cost of sales which increased even by 83.7%, from LTL 675.6 million to LTL 1,240.9 million. The increase in the cost of sales was basically determined by the significant rise in the natural gas procurement cost, which composed 99.96% of the cost of sales. In 2008 the cost of sales composed 83.1% of all expenses structure.

In 2008 the operating expenses increased by 9.3% (LTL 21.4 million) and amounted to LTL 252.7 million (LTL 231.3 million in 2007). This change was mainly caused by the growth in the salaries including the social security contributions (LTL 12.4 million) due to the wages growth trends on the labor market, as well as the higher repairs and maintenance works expenses (LTL 4.2 million) due to the increase in the volume and cost of these works in 2008.



### Other activities

In 2008 the other operating activities income (net) amounted to LTL 5.9 million (LTL 7.3 million in 2007). The result decreased by LTL 1.4 million (19.2%) mainly due to the fact that a lower profit was received from the disposal of the non-current tangible assets unused in the activities of the Group.

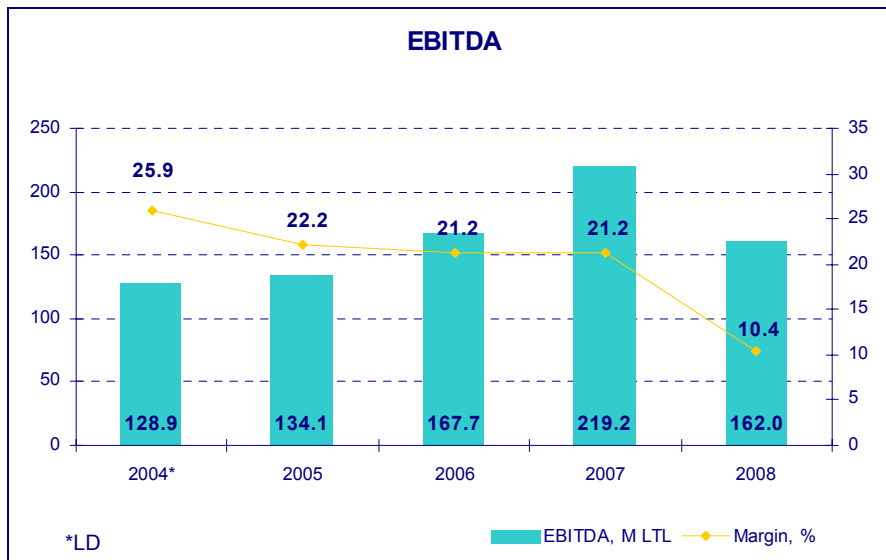
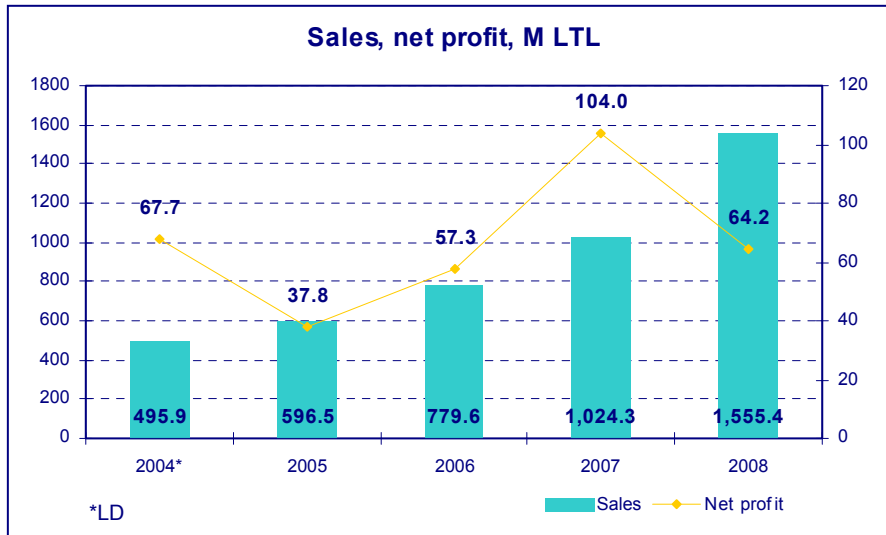
### Financial and investing activities

In 2008 the result from the financial and investing activities significantly increased – from LTL 0.7 million to LTL 5.7 million. The better result was determined by the effective short-term investing of funds and the smaller interest expenses.

### Activity results

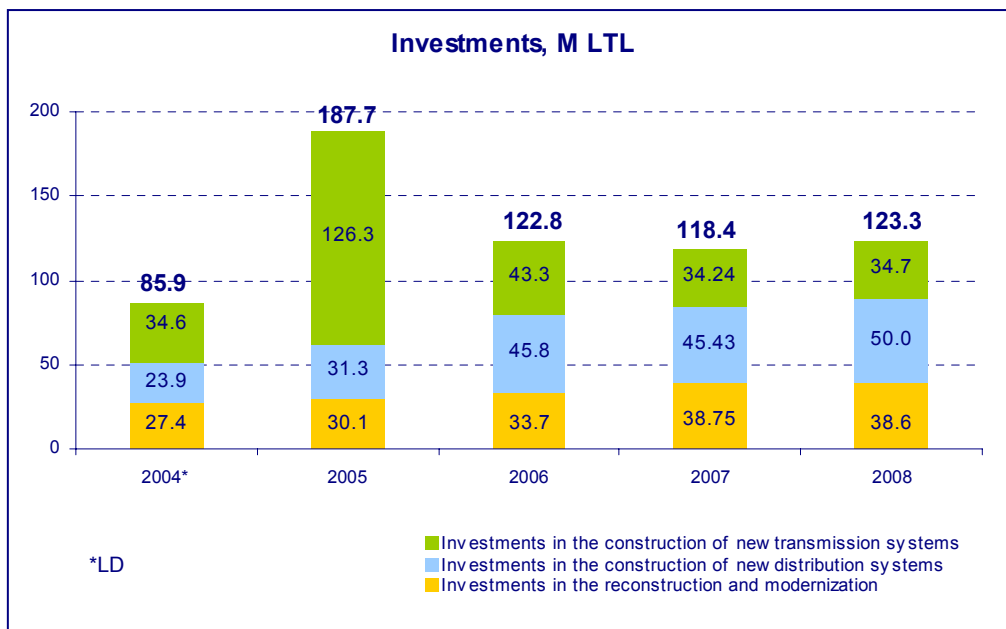
In 2008 the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 26.1% compared with 2007 and amounted to LTL 162.0 million (LTL 219.2 million in 2007). The profit before tax amounted to LTL 73.3 million, which represents a decrease of LTL 52.0 million (41.5%) compared with 2007 (LTL 125.3 million). The net profit decreased by LTL 39.8 million (38.3%) and amounted to LTL 64.2 million (LTL 104.0 million in 2007). The main reason of the decreased profit was decrease in the result of the supply activity. In the activity of gas supply to the household customers the Company incurred a significant loss due to the approved import price, when calculating the gas supply price, much lower than the actual gas import price (the price the household customers were paying for the natural gas since April 2008 was much lower than the actual gas import price). The situation is determined by the current legal basis, in which, irrespectively of the actual gas import price fluctuations, gas price for household consumers remains stable for the whole year.

The low profitability ratios in 2008 were affected by the regulation of the Company's activities: the gas transportation and supply tariffs are regulated by the NCCPE.



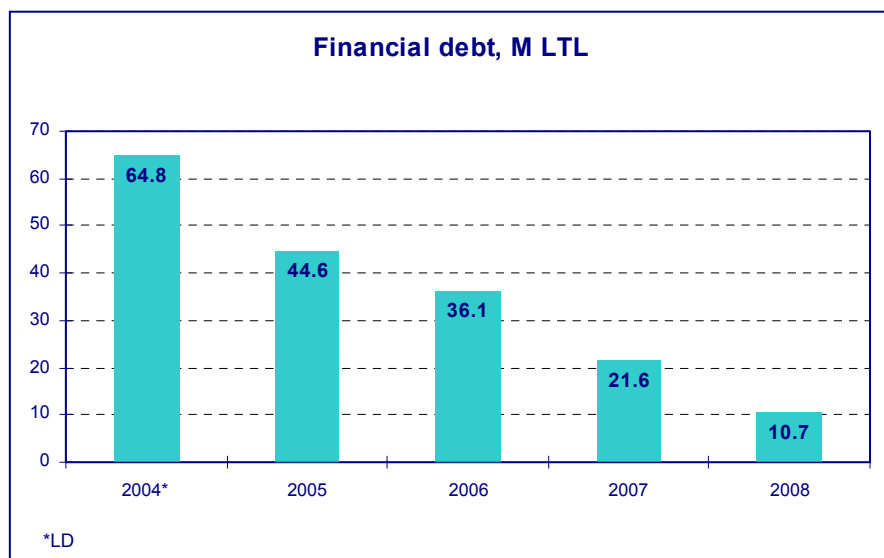
## Investments

In 2008 the Group's investments increased by LTL 4.9 million or by 4.1% compared with the previous year (from LTL 118.4 million to LTL 123.3 million).



## Financial debt

During the year 2008 the financial debt of the Group decreased by LTL 10.9 million (50.5%) and at the end of the period amounted to LTL 10.7 million. The major part of investments is financed by the Company's own funds.



## Balance structure

### Assets

The value of the assets owned by the Group increased by LTL 70.3 million (2.9%), from LTL 2,459.0 million in 2007 to LTL 2,529.3 million in 2008.

During 2008 the non-current assets increased by LTL 28.4 million and at the end of the period amounted to LTL 2,249.1 million (88.9% of the total assets). The change was determined by the large investments into the gas transmission and distribution systems (the implementation of a number of major investment projects included into the National Energy Strategy was started). The major part of the non-current assets (87.1%) consisted of the gas transmission and distribution pipelines and related installations.

In 2008 the value of the current assets (LTL 280.2 million) was larger by LTL 41.9 million compared to 2007 due to the significant increase (by LTL 42.5 million) in the accounts receivable, which composed the major part of the current assets (46.7%). The increase in the accounts receivable was impacted by growth in the gas sales prices in 2008.

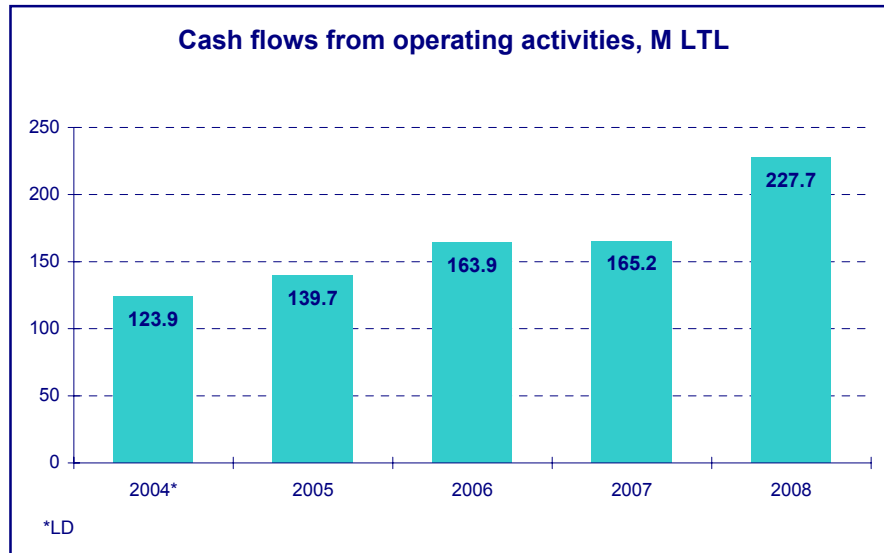
### Equity and liabilities

During 2008 the Group's equity decreased by 2.5% (LTL 47.5 million), i.e. from LTL 1,929.8 million in 2007 to LTL 1,882.3 million in 2008. The key factor that impacted this decrease is as follows: after the change in the income tax rate, the loss due to the recalculation of the deferred income tax (-LTL 61.7 million) was accounted in the Retained Earnings Item in the balance sheet.

Accounts payable and liabilities increased by LTL 117.8 million and at the end of the year amounted to LTL 647.0 million. The main reasons of the accounts payables and liabilities increase are as follows: the increase in the current trade payables and the increase in the deferred tax liability due to the recalculation of deferred income tax, which composed the largest part (37.5%) of the liabilities structure in 2008.

## Cash flows

During 2008 the Group's net cash flows from its operating activities increased by LTL 62.5 million (37.8%) and amounted to LTL 227.7 million (LTL 165.2 million in 2007). The main reason of the increase in the cash flows was the decrease in the natural gas store.



The detailed information on the financial performance of the Group is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.

## BUSINESS PLANS AND FORECASTS

Given the deteriorating economic situation in Lithuania and with a view to stabilize the growing gas transmission and distribution prices, in 2009 the Company's attention will be focused on raising efficiency of operations and cost saving.

It is forecasted that in 2009, compared to 2008, the natural gas volume transmission to the customers of Lithuania via the transmission system of LD will drop and will amount to approximately 3 billion m<sup>3</sup>. The Company's natural gas sales volumes are projected at 1.2 billion m<sup>3</sup>, i.e. at a similar level to the ones of 2008. In 2009, the Company plans to connect approximately 5.4 thousand new customers, but this number might be corrected by the developments in the economic situation of Lithuania. In 2009, the Company's investments into the construction of new gas systems are planned at a higher level compared to the ones of 2008.

2009 will see the continuation of the implementation of a number of major investment projects. We will proceed with the construction project of the new Jauniūnai Gas Compressor Station. The completion of the construction of the Gas Compressor Station, which will open up a possibility to raise the natural gas transmission capacity and enhance the safety and reliability of the natural gas supplies to customers, following the decommissioning of the Ignalina Nuclear Power Plant, as well as to secure the increase in gas transit to the Kaliningrad Region of the Russian Federation, is scheduled for 2010.

It is planned that 2009 will mark the completion of the construction of the Gas Transmission Pipeline Šakiai–Kaliningrad (the state border with the Russian Federation) and of the works for the enhancing of the capacity of the Šakiai Gas Metering Station.

We are continuing our activities directed towards the improvement of the customer relations, the upgrading of the settlement systems and the customer information. From the beginning of 2009 the Company's non-household customers were offered a new service of the e-billing and accounting via the Internet. From the beginning of 2009, our non-household customers

with annual consumption up to 1 million m<sup>3</sup> have a possibility of e-declaring of consumed volumes. From 1 February 2009, all the household customers are offered a possibility to pay for gas supplies by Direct Debit.

## MANAGEMENT OF THE COMPANY

### Business vision

**The vision of the Company is to become the best Energy Sector company.**

We will achieve it by:

- Being a transparent, reliable, attractive to customer and socially responsible company;
- Raising corporate value;
- Attracting, retaining and training top employees;
- Optimizing costs, securing adequate return on investment;
- Expanding our activities to capture new segments;
- Developing our infrastructure (Natural Gas Systems);
- Securing a high IT, technical and technological level.

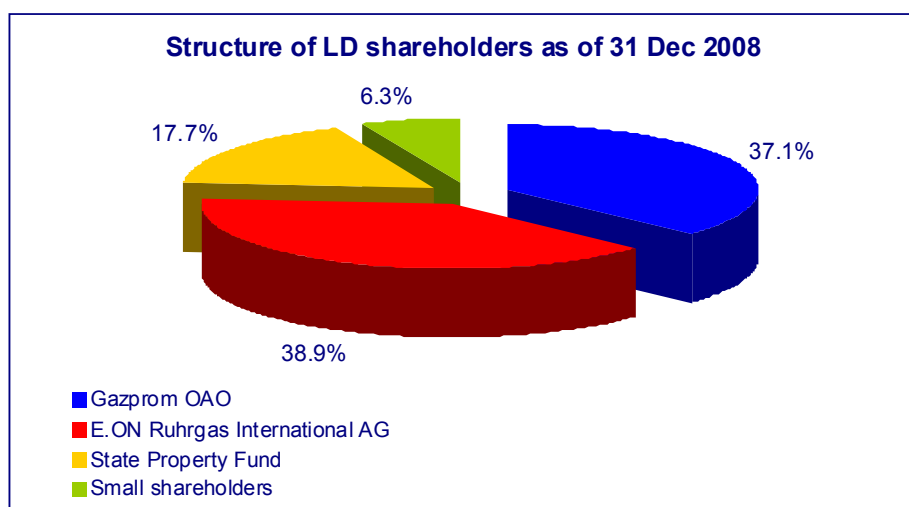
### Information on the observance of the Code of Governance

The Company observes the provisions of the Code of Governance.

### Shareholders and shares

The authorized capital of the Company is divided into 469,068,254 fully paid ordinary registered shares with par value of LTL 1 (one) each. In 2008, the par value of shares, the value of the authorized capital and the structure of shareholders did not change.

Shareholder	Number of shares held, pcs / share in the authorized capital, LTL	Votes at the general meeting of shareholders, %
E.ON Ruhrgas International AG	182,534,384	38.9%
Gazprom OAO	173,847,696	37.1%
State Enterprise State Property Fund	83,030,367	17.7%
Small shareholders	29,655,807	6.3%
<b>Total:</b>	<b>469,068,254</b>	<b>100.0%</b>



The Company has not acquired its own shares and in 2008 it did not make any transactions related either to the acquisition or disposal of its own shares.



As of 31 December 2008, LD was controlled by 2.373 shareholders holding its shares by the right of ownership.

The shareholders of the Company E.ON Ruhrgas International AG, Gazprom OAO and the state enterprise State Property Fund have the controlling interest and have a casting vote when taking decisions at the general meeting of shareholders. The aforesaid major shareholders have concluded a shareholders' agreement setting out the shareholders' common aims related to the Company's activities, development of the facility and the market. The agreement is confidential.

The Company's shareholders E.ON Ruhrgas International AG, Gazprom OAO and the state enterprise State Property Fund are not subject to any securities disposal restrictions except the ones provided for in the shares purchase–sale (privatization) agreements.

As far as the Company knows, there exist no shareholders arrangements that might serve as grounds for the securities disposal restrictions and/or voting right restrictions except the arrangements made in the shares purchase–sale (privatization) agreements and the shareholders' agreement.

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

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

The Company's shares are traded on the regulated market, they are quoted at the stock exchange NASDAQ OMX Vilnius. On 1 January 2008 LD shares were transferred from the Secondary List into the Main List.

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

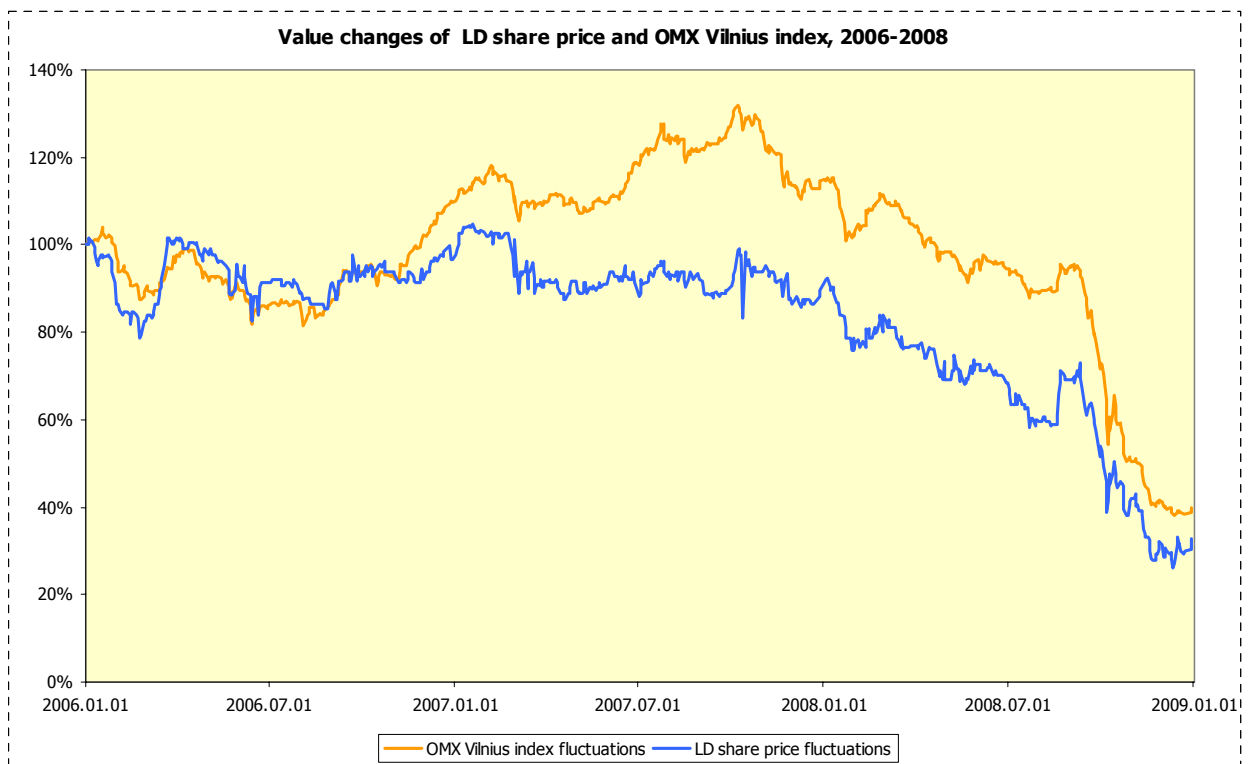
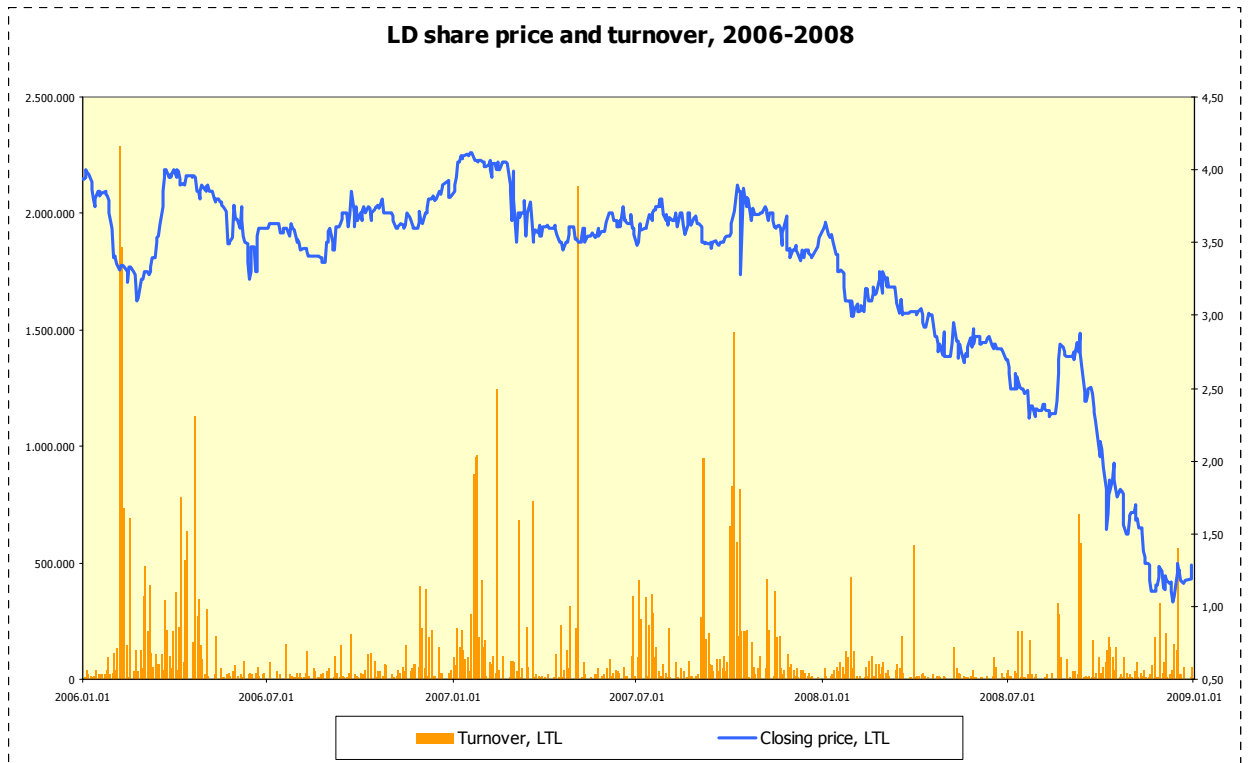
In 2008, the turnover of the trading in LD shares amounted to LTL 11.6 million (2007: LTL 29.2 million). Through the transactions concluded, 5,547,372 shares were disposed (2007: 7,754,250).

As of 31 December 2008, LD capitalization amounted to LTL 605.1 million (as of 31 December 2007: LTL 1,655.8 million).

The securities markets of the Baltic States did not manage to escape intact the general downturn related to the global finance and securities market crisis. Over 2008, the capitalization of the companies quoted at the stock exchange NASDAQ OMX Vilnius decreased by 62.2%. The LD shares were no exception: they decreased in value by 63.5%.

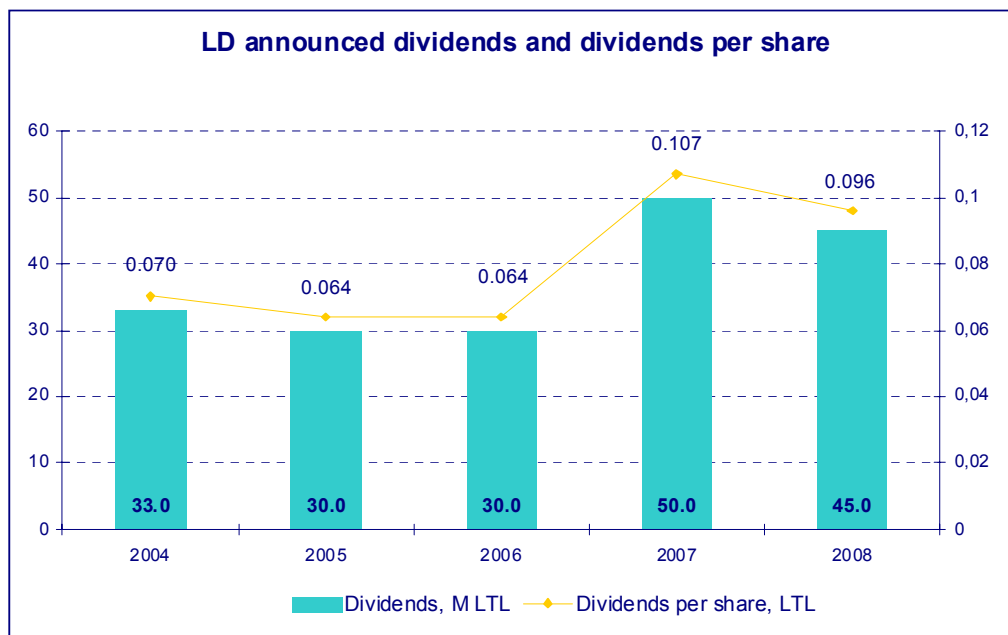
#### Share price dynamics NASDAQ OMX Vilnius, 2006-2008

	Period		
	2006	2007	2008
Highest price per share	4.02	4.12	3.65
Lowest price per share	3.10	3.28	1.01
Weighted average price per share	3.58	3.76	2.08
Price per share as of end of the period	3.81	3.53	1.29



## Dividends

The Company is consistently pursuing its dividend payout policy and every year it appropriates part of the profit to the payout of dividends. For 2008, it was allocated to pay in dividends a total amount of LTL 45.0 million, or 9.6 cents per share. (2007: LTL 50.0 million or 10.7 cents per share).



### Agreements with intermediaries of public trading in securities

On 26 November 2003, the Company concluded an agreement with the financial brokerage company Finasta AB (address of the registered office Maironio str. 11, Vilnius, Company Code 122570630, License No A087) regarding the provision of services whereby the Company assigned the financial brokerage company Finasta AB the management of securities issued by the Company as well as the administration of personal securities accounts.

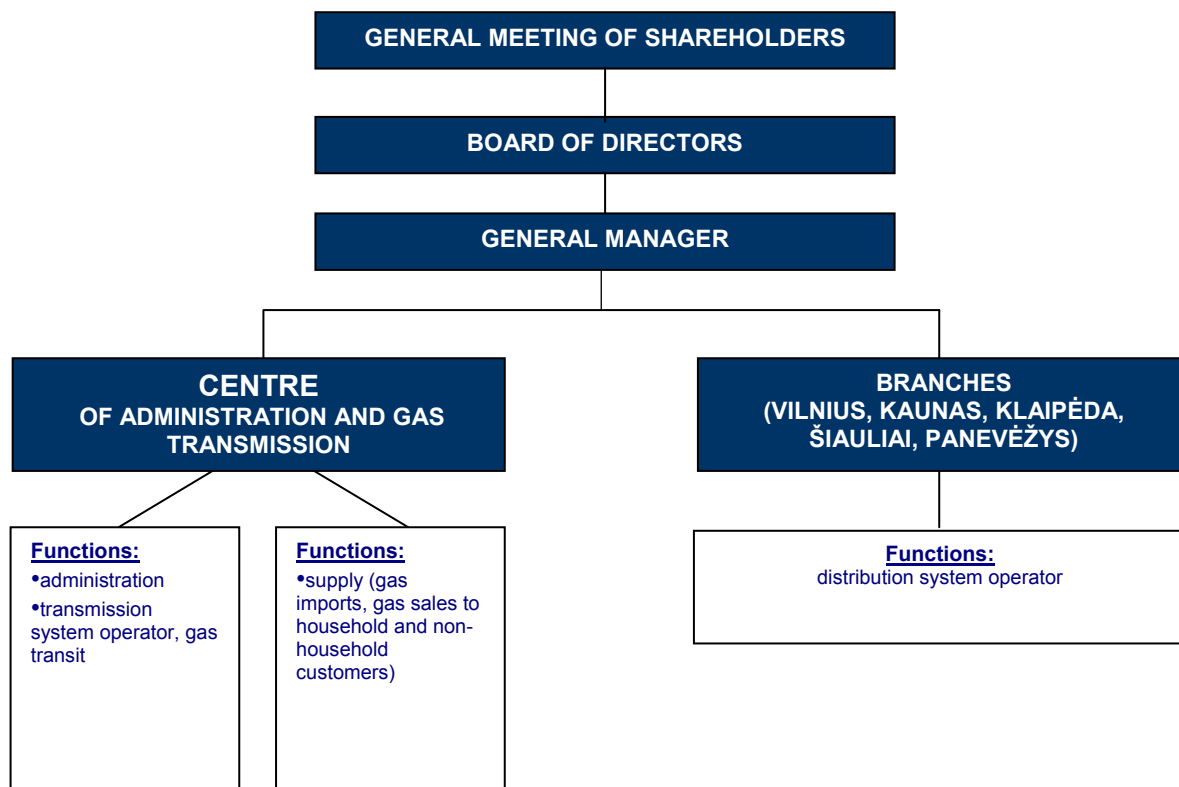
### Management of the Company

The Company is a vertically integrated enterprise. The Company acts pursuant to the Company Law of the Republic of Lithuania, the Law on Securities of the Republic of Lithuania, the Bylaws of the Company as well as other applicable legal acts of the Republic of Lithuania.

On 1 January 2008, the Company changed its Organization Chart in accordance with the provisions of the applicable European Union legislation regarding the separation of the Company's gas transmission, distribution and supply activities. It was the last reorganization of the Company that was relatively low-cost. Any further separation would be associated with significant cost that ultimately will have to be paid by gas customers.

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

### Organizational management structure



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

According to the Company's Bylaws registered with the Register of Legal Persons on 14 May 2008 the Company has the following managing bodies:

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

According to the Bylaws, the Company's Board of Directors consists of 5 (five) members elected for a period of three years in accordance with The Company Law of the Republic of Lithuania. Members of the Board of Directors elect the Chairman of the Board of Directors. The Chairman of the Board of Directors and his Deputy are elected for a period of two years by rotation. Members of the Board of Directors may be re-elected for another term.

#### Composition of the Board of Directors from 18 April 2007 to 16 April 2008:

No.	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Stephan Kamphues	Chairman of the Board of Directors	18 April 2007 – 16 April 2008
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors	18 April 2007 – 18 April 2010
3.	Dr Eike Benke	Member of the Board of Directors	18 April 2007 – 16 April 2008
4.	Vladas Kazimieras Gagilas	“	18 April 2007 – 18 April 2010
5.	Kirill Seleznev	“	18 April 2007 – 18 April 2010

**Composition of the Board of Directors from 16 April 2008:**

No.	Full name	Position title	Start and end of term
Members of the Board of Directors:			
1.	Dr Achim Saul	Chairman of the Board of Directors	16 April 2008 – 18 April 2010
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors	18 April 2007 – 18 April 2010
3.	Vladas Kazimieras Gagilas	Member of the Board of Directors	18 April 2007 – 18 April 2010
4.	Kirill Seleznev	“	18 April 2007 – 18 April 2010
5.	Marcus A. Soehrich	“	16 April 2008 – 18 April 2010

In 2008, tantiemes totaling LTL 79.0 thousand were disbursed to the members of the Board of Directors, i.e. LTL 15.8 thousand per member of the Board of Directors on average. Other payouts to the members of the Board of Directors totaled LTL 326.9 thousand, i.e. LTL 65.4 thousand per member of the Board of Directors on average.

**Information on the start and end of the term of executive directorship:**

No.	Full name	Position title	Start and end of term
Executive directorship			
1.	Viktoras Valentukevičius	General Manager	19 April 2007 – 18 April 2010
2.	Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	From 1 July 2002
3.	Jonas Janulionis	Deputy General Manager – Technical Director	From 13 September 2002
4.	Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	From 3 May 2004
5.	Giedrė Gliniskienė	Deputy General Manager – Chief Financial Officer (till 31 December 2007: Chief Financial Officer)	19 April 2007 – 18 April 2010

In 2008, payouts to the Executive directorship of the Company totaled LTL 2,018.1 thousand, i.e. LTL 403.6 thousand per director on average.

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

Full name	Position title	Participation in the capital of the Issuer	
		Share of the authorized capital held, %	Share of the voting rights held, %
<b>Board of Directors (as of 31 Dec 2008)</b>			
Dr Achim Saul	Chairman of the Board of Directors	–	–
Dr Valery Golubev	Vice Chairman of the Board of Directors	–	–
Vladas Kazimieras Gagilas	Member of the Board of Directors	–	–
Kirill Seleznev	“	–	–
Marcus A. Soehrich	“	–	–
<b>Executive directorship (as of 31 Dec 2008)</b>			
Viktoras Valentukevičius	CEO – General Manager	0.003	0.003
Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	0.006	0.006
Jonas Janulionis	Deputy General Manager – Technical Director	0.001	0.001
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

**Subsidiary**

LD has one subsidiary, Palangos Perlas UAB. 100% of Palangos Perlas UAB shares are held by LD.

**Main data about Palangos Perlas UAB**

Date and place of registration: 19 January 1998, Register of Legal Persons of the Republic of Lithuania  
Company code: 152681177  
Registered office: Gintaro str. 36, LT-00133 Palanga, Lithuania  
Telephone number: +370 460 52441  
E-mail address: zydroji\_liepsna@is.lt  
Website: www.zydrojiliepsna.lt

In 2008, the authorized capital of Palangos Perlas UAB did not change. It is divided into 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. The main areas of the company activities: hotel and other board and lodging services, organization of seminars and conferences. In 2008, the average number of employees amounted to 29 (2007: 30 employees)

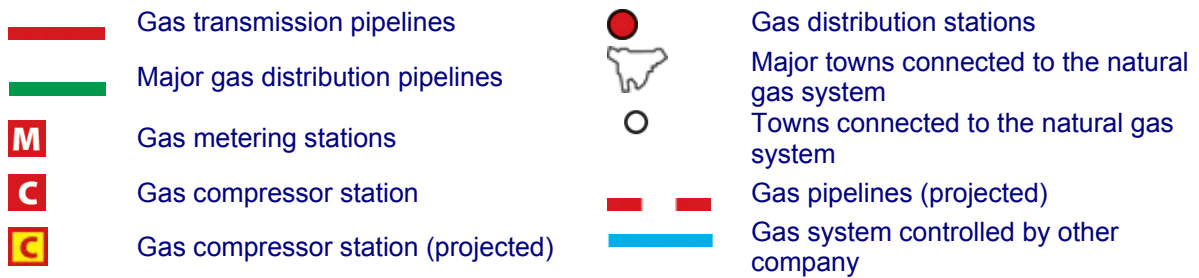
In 2008, Palangos Perlas UAB earned a net profit of LTL 0.3 million (2007: LTL 0.2 million).

**Transactions of associated parties**

The information is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2008.



### The Company's Natural Gas Transmission and Distribution System



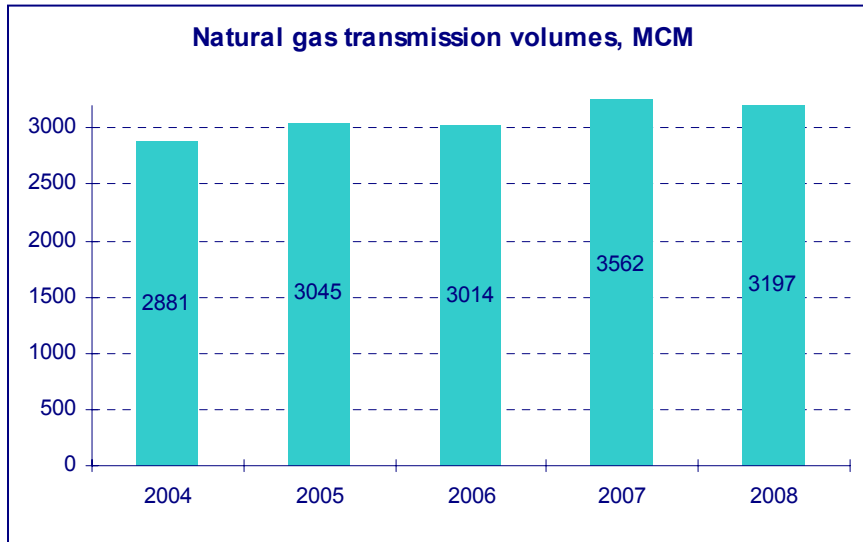
Core business activity of the Company:

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

Gas transmission pipelines 1.8 thou km	Gas distribution pipelines 7.9 thou km	Gas distribution stations 65	Gas metering stations 3	Gas compressor station 1
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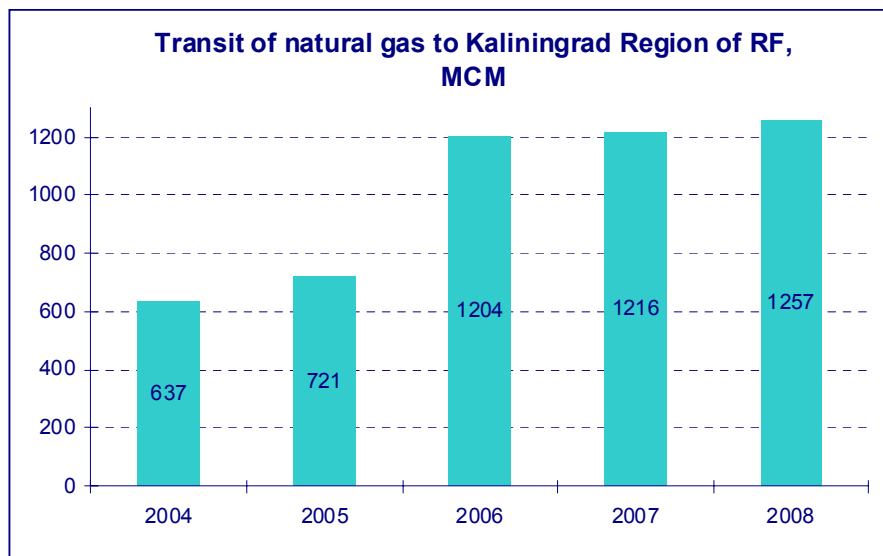
## TRANSMISSION OF NATURAL GAS

In 2008, the volumes of natural gas transmitted via the transmission system totaled 3,197.0 million m<sup>3</sup>. Of this total, 1,223.3 million m<sup>3</sup> were transmitted to the customers of LD and 1,973.7 million m<sup>3</sup> of natural gas were transmitted to customers purchasing gas not from LD, but from other suppliers. Compared to 2007, the natural gas transmission volumes decreased by 10.2%, mainly due to the decrease in the volumes transmitted for Achema AB and other large customers.



## Transit

In 2008 the natural gas transit volumes to the Kaliningrad Region of Russian Federation totaled 1,256.7 million m<sup>3</sup>, which represents an increase of 3.4% y/y.



## Investments in the transmission system

In 2008, investments into the construction of new transmission systems totaled LTL 34.7 million. In 2007, investments into the construction of new transmission systems amounted to LTL 34.24 million. 2008 saw the implementation of the following major projects: the Engineering Design of a new Gas Compressor Station in Jauniūnai, Širvintos District, The Construction of a Transmission Pipeline Branch to the Town of Rietavas and the Construction of Rietavas Gas Distribution Station (LTL 1.8 million). Part of the investment funds were devoted to the construction of the transmission pipeline section from the Šakiai Gas Metering

Station to the Kaliningrad Region of the Russian Federation and the Šakiai Gas Metering Station capacity expansion engineering design and preparatory works projects.

The investments in the reconstruction of the transmission system totaled LTL 14.5 million, the lion's share of these funds were spent on the reconstruction of the gas distribution stations (LTL 9.0 million). The remaining share of the funds was spent on the necessary works for the reconstruction of the linear part of the transmission pipelines, and on the renovation of the telemetry, the SCADA, the Gas Compressor Station equipment and the gas metering devices.

On order to enhance the safety and reliability of natural gas transmission via the transmission system, LD plans to test the internal part of the transmission pipelines using specialized intelligent pigging devices. In 2008, we installed the equipment necessary for the execution of these works.

### Maintenance of the transmission system

In 2008, the maintenance of the transmission system was carried out in accordance with the provisions of the applicable legal acts, so we managed to avert accidents, major disruptions or malfunctions. With a view to enhancing the reliability, efficiency and safety of the transmission pipelines operations we executed all the gas repair and maintenance works that had been scheduled for the period.

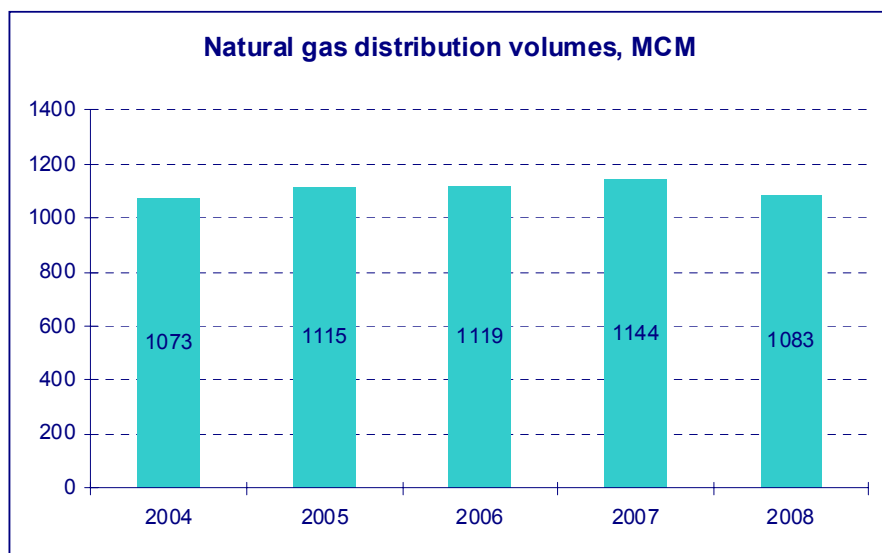
As regards the linear part of the transmission system, we carried out the repairs of a 50 km-long section of the Panevėžys–Šiauliai Gas Transmission Pipeline. As part of the repair works programme, we renovated two line block valves, we replaced 17 above-ground gas pipeline crossings with the underground ones, we carried out the pressure tests and the purging works.

We prepared the engineering design of the repairs and pressure tests of the linear part of the Ivacevičiai–Vilnius–Riga Gas Transmission Pipeline. On the linear part of the gas transmission pipeline, the line block valve units were either repaired or replaced.

The scheduled repairs of the technological equipment and the buildings and structures of the Panevėžys Gas Compressor Station and the gas distribution stations were also successfully executed.

### DISTRIBUTION OF NATURAL GAS

In 2008, the volumes of natural gas distributed via the gas distribution system by the Company totaled 1,082.7 million m<sup>3</sup>, which represents a drop of 5.4% y/y.



### **Investments into the distribution system**

In 2008, the investments into the construction of new gas distribution systems totaled LTL 50.0 million; 239.0 km of new distribution pipelines were constructed. In 2007, the investments totaled LTL 45.43 million.

The major projects implemented in 2008 were as follows: The Construction of the Gas Distribution Pipeline to the Town of Rietavas and in the Town of Rietavas (LTL 2.0 million) and The Construction of the Gas Distribution Pipeline to Connect Ramygala (also LTL 2.0 million). In all, 5.9 thousand new customers were connected to the gas system in 2008.

In 2008, the investments in the reconstruction of the distribution system totaled LTL 8.3 million. We invested into the renovation of the distribution pipelines and gas pressure regulation units.

### **Maintenance of the distribution system**

The Company runs a gas distribution system consisting of 7.9 thousand km of gas distribution lines and, being the owner of the distribution system, is responsible for its reliable, efficient and safe operation. The Company spares no effort to ensure proper maintenance of the gas systems: the gas pipelines are subjected to leakage tests, the system is inspected and technical tests are performed on a regular basis. Any defects diagnosed when carrying out the routine technical maintenance tasks are either eliminated immediately or are included into the gas systems repair works programme or the reconstruction works programme on the basis of which the Company eliminates the defects so that the gas system is kept in good working order. In 2008, in accordance of the aforesaid programmes, we carried out works related to the repairs or reconstruction of the Company's gas pressure regulation units, pipelines, valves, service lines, etc.

### **The buy out of gas pipelines**

In accordance with the Law on Natural Gas of the Republic of Lithuania and pursuant to the procedure approved by the order of the Ministry of Economy dated 20 June 2001, in 2002 the Company started the process of buying out natural gas supply systems of common use owned by other legal entities and natural persons. During 2002-2008 the Company has bought out 313 km pipelines for the total value of LTL 5.0 million. In accordance with the regulation of the Order, the owners of the natural gas common use systems could make the requests till 31 December 2007. As of 31 December 2008 the Company has unsatisfied requests to buy out 115 km pipelines with the estimated price of approximately LTL 1 million according to the Company's calculation.

Through the buy out of gas pipelines belonging to other owners the Company seeks to ensure the integrity of the gas system, to secure its safe and reliable operation as well as the possibly of its further development so that new customers can be connected to it.

### **SUPPLY OF NATURAL GAS**

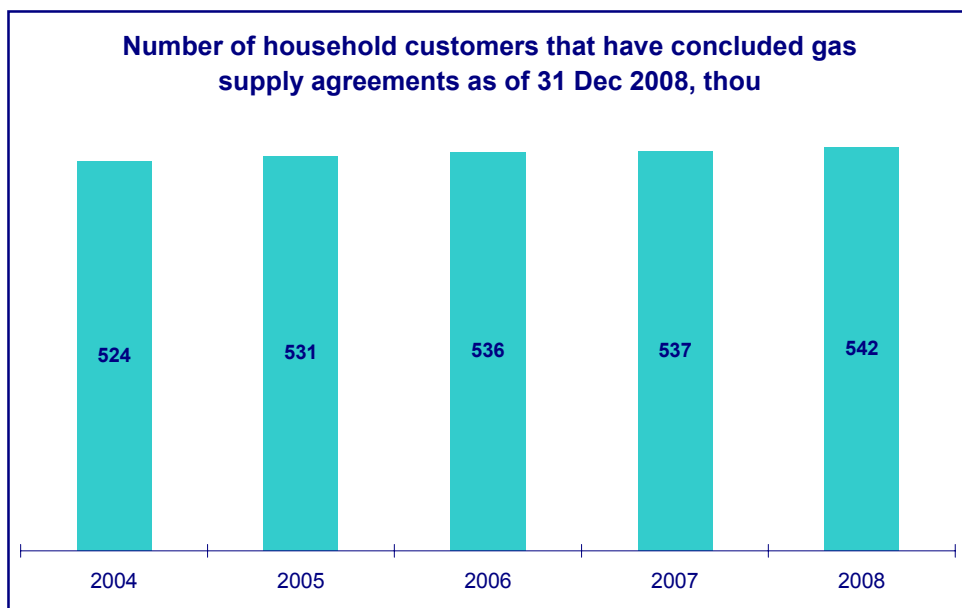
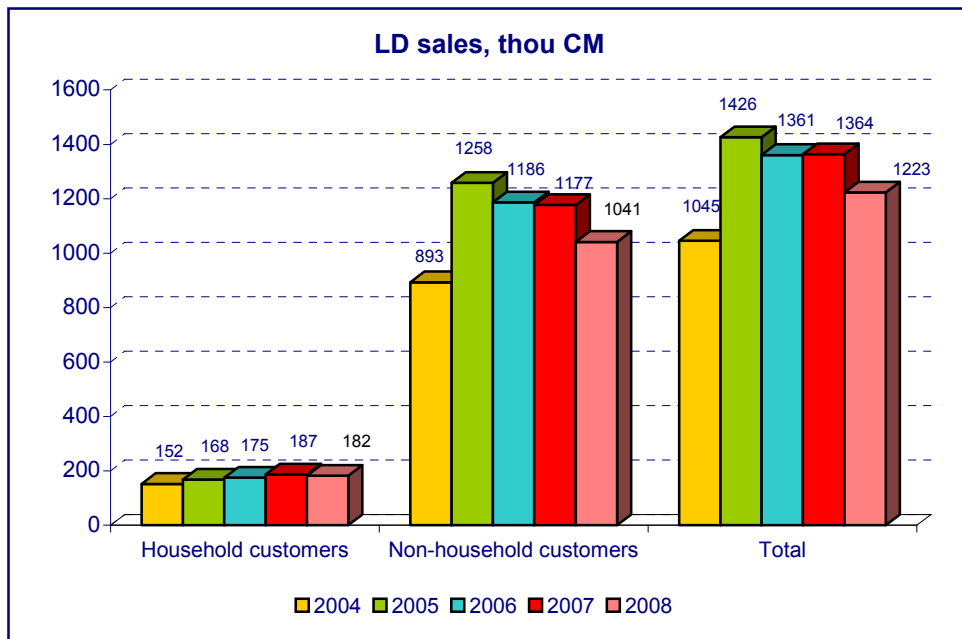
In 2008, LD purchased natural gas from Gazprom OAO according to a long-term (until 2015) natural gas supply agreement.

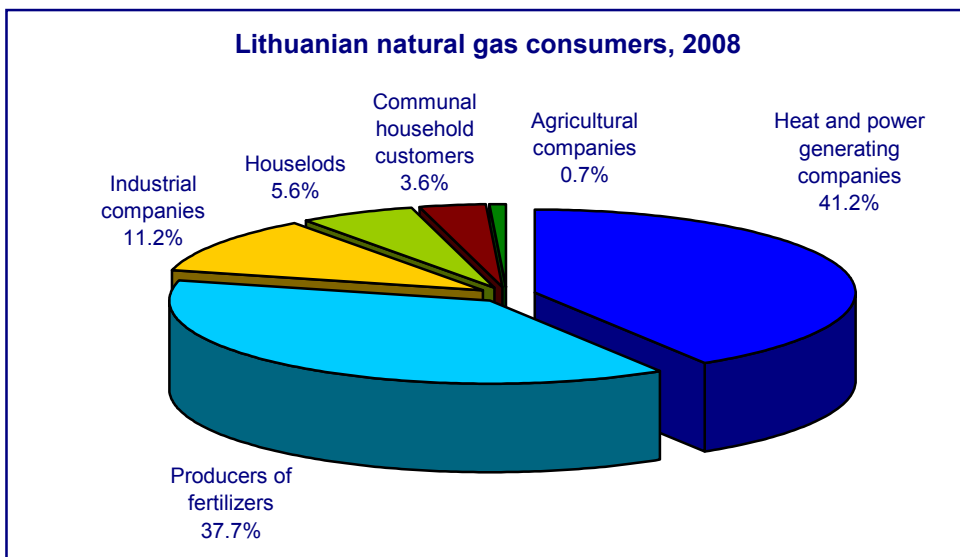
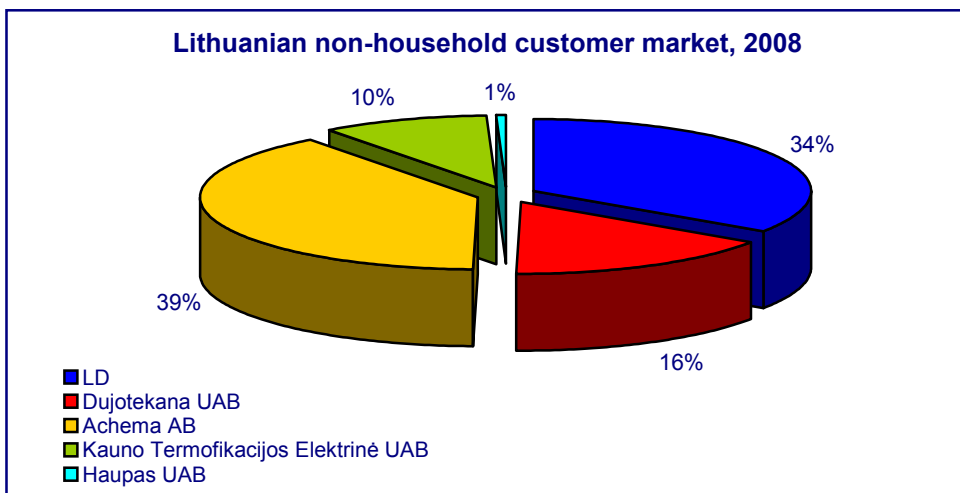
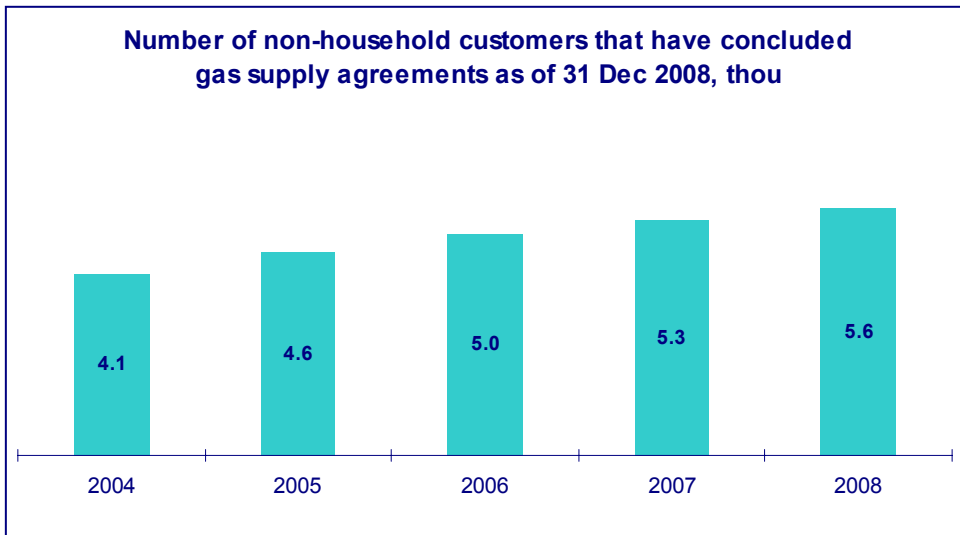
Pursuant to the National Energy Strategy and in order to secure safe and uninterrupted supplies of natural gas to customers, the Company has been accumulating contingency gas reserves in the Incukalna (the Republic of Latvia) Underground Gas Storage Facility. For detailed information on the contingency gas reserve volumes and the accumulation schedule see the Resolution of the Government of the Republic of Lithuania of 26 February 2008 "On approval of the list of measures that guarantee security of natural gas supplies".

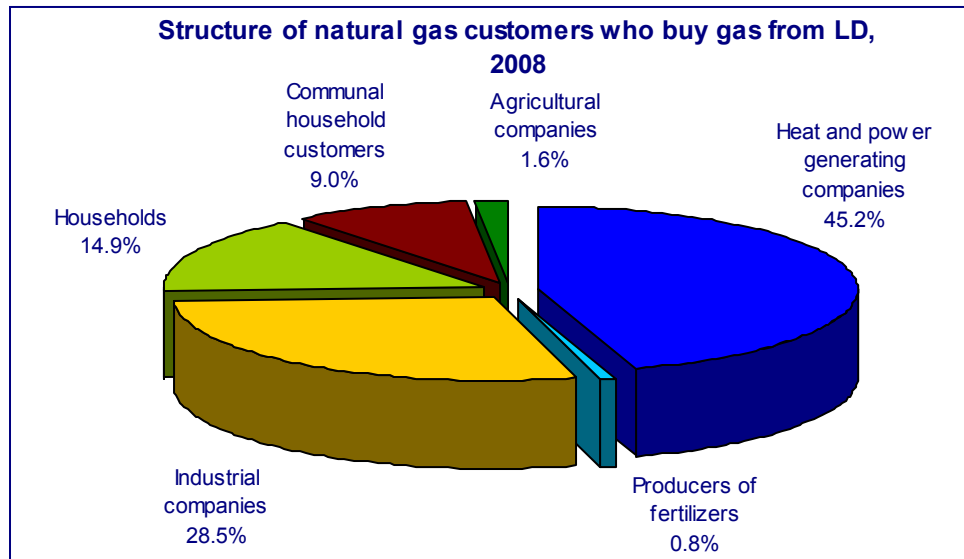
## Customers

All natural gas customers are divided into the household customers (natural persons buying gas for their private needs, for their family or household needs) and the non-household customers. Already from 1 July 2007, all non-household customers became eligible customers and are free to choose their gas suppliers at their own discretion. However, almost 100% of the household customers still choose LD as their favorite supplier, thus demonstrating their loyalty to the Company. On the non-household customers' market, the share of LD is 34%.

In 2008, LD supplied to its customers 1,223.3 million m<sup>3</sup> of natural gas: the volume of natural gas supplied to the non-household customers amounted to 1,041.0 million m<sup>3</sup> and the volume of natural gas supplied to the household customers amounted to 182.3 million m<sup>3</sup>. In 2007, the gas volume supplies totaled 1,364.1 million m<sup>3</sup>, i.e. they were by 10.3% higher.







In 2008, Lithuania's natural gas transportation and sell volumes, compared to 2007, decreased. The decrease was mainly determined by the slowdown of the national economic growth, the natural gas imports price rise in the second half of 2008 and the warmer weather temperatures during the heating season.

## ENVIRONMENTAL PROTECTION

Being a socially responsible company, LD spares no effort to minimize the negative impact of its activities upon the environment.

The priority areas of the environmental protection activities remain unchanged and are as follows:

- *protection of the natural environment at the gas facility sites*: industrial facilities and gas supplied to customers are heated using state of the art appliances with minimum environment pollution effect;
- *ensuring industrial and ecological safety during the construction and maintenance of gas facilities*: every endeavor is made to minimize the negative impact of these activities on the environment;
- *ensuring industrial and ecological safety at the gas facility sites*: gas system repairs and tests are carried out employing state of the art technologies with the view of minimizing the pollutant emissions into the environment. The Company has implemented a programme of measures to collect and utilize the materials that were used in the operation, waste, scrap and effluent. In the staff training process, a fair amount of attention is devoted to the ecological education.

With the help of the measures implemented by the Company the environmental safety situation is improving and the environmental pollution is being reduced. In 2008, LD started the drafting and in 2009 is planning to implement the Environmental Management System in accordance with the ISO 14000 standard requirements.

In order to reduce the environmental pollution, the Company has been systematically modernizing its gas distribution stations. In 2008, the new Jauniūnai Gas Compressor Station engineering design was started. The new Gas Compressor Station will be much more advanced, economical and environment-friendly than the Panevėžys Gas Compressor Station which has been in operation since 1974.

Of all the activities pursued by LD, the facility giving highest pollutant emissions is the Panevėžys Gas Compressor Station. The pollution levels depend on the operation-use time



of the Compressor units, their load factors, the number of their start-ups, etc. In 2008, the operation-use time of the Gas Compressor Station was two times longer than in 2007, which resulted in almost two times higher pollutant emissions (CO and NO<sub>x</sub>).

Pollutant (tons)	2008	2007
CO	29.0	17.6
NO <sub>x</sub>	13.8	7.9

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

Recorded emissions of natural gas (MCM)	
2008	2007
13.2	15.1

In the future, through the modernization of its gas systems and planning the procurement of new equipment and new construction, LD will follow the aforesaid strategic environmental protection guidelines.

## STAFF

### Average number of Group employees on the roll

Year	Average number of employees on the roll	Change compared to previous year
2007	1.813	-0,8%*
2008	1.821	+0,4%**

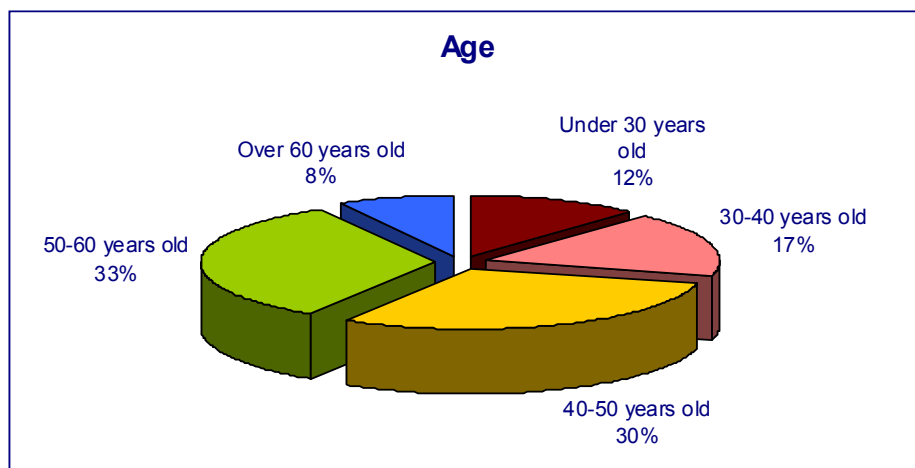
\* compared to 2006

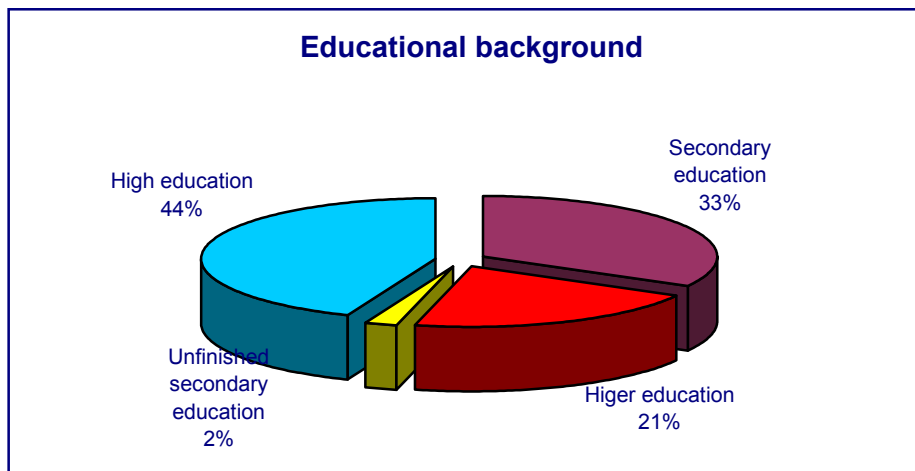
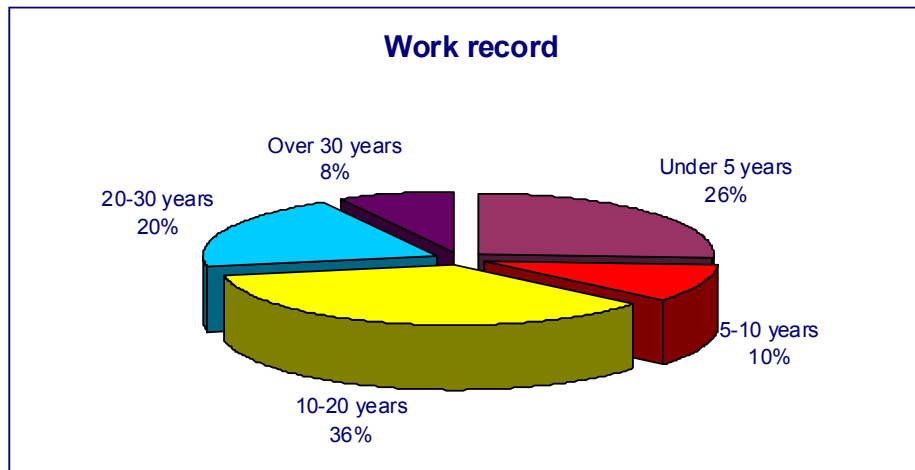
\*\* compared to 2007

The turnover of employees made up 8.7% (2007: 9.5%).

Workers (blue-collar) made up 39.4% of all Group employees on the roll (2007: 40.7%). Managing staff, specialists and white-collar office employees comprised 60.6% of the staff (2007: 59.3%). In 2008, 66% of the Group employees were male and 34% of the Group employees were female.

The average age of the Group employees was 45.2 years (2007: 46.5 years) and the average work experience was 12.2 years (2007: 15.3 years). The number of employees with university education increased by 6%.





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

Employees	Average number of employees on the roll in 2007	Average monthly salary, LTL
Managing staff, specialists and white-collar employees	1,076	3,027
Workers	737	1,934
Total:	1,813	2,582
Employees	Average number of employees on the roll in 2008	Average monthly salary, LTL
Managing staff, specialists and white-collar employees	1,104	3,469
Workers	717	2,243
Total:	1,821	2,986

Great attention was devoted to the training of the Company employees and the improvement of their qualifications. The resources of the European Union Structural Funds allocated for the training of the professional competences and the general skills of the middle level managers and specialists and their reserve have been successfully invested.

As a result of the general trainings arranged by the Company, LD employees improved their leadership/management skills, project management skills, and other general skills, deepened their understanding of the legal, accountancy-related matters, improved their foreign language and computer skills, etc. LD employees also participated in professional trainings.

With the aim of raising the efficiency of the implementation of the Company strategy and its main goals, the employee motivation system and improving the career planning, in 2008, Human Resource Management System was implemented at the Company. The Company updated its Human Resources Management Policies description aimed at establishing a uniform human resources management system and uniform human resources management principles.

At LD branches there were local units of trade unions united into the Lithuanian Association of Gas Industry Trade Unions. The Company Management and representatives of the trade unions closely cooperated in handling the employees' social, cultural, health, etc. issues and held joint meetings on a regular basis.

The Company's Collective Bargaining Agreement, signed on 6 December 2006, remains in effect until 20 May 2010. Neither the labor contracts, nor the Collective Bargaining Agreement provide for any extraordinary Company employees rights or duties. The rights and duties usually applied in general practice have been established.

Even though the work of LD employees often involves dangerous and complicated operations, as a result of the ongoing implementation of preventive measures, in 2008, LD succeeded in averting severe industrial injuries.

## **MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION**

The Company is a member of the following organizations:

- The Lithuanian Gas Association. The General Manager of LD Viktoras Valentukevičius is the President of this Association from 16 June 2008. Website: [www.dua.lt](http://www.dua.lt).
- The Association "Eurogas". It is a non profit organization uniting the European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions with respect to natural gas business as well as participating in the public opinion formation process. LD is its full member from 1 January 2009. Website: [www.eurogas.com](http://www.eurogas.com).
- The association of transmission pipeline companies of the Baltic Sea Region "Baltic Gas". Website: [www.balticgas.org](http://www.balticgas.org). Membership of LD in this association dates back to 1999. From 2006, LD has a representative in the Board of this association. "Baltic Gas" is an association of the Baltic Sea Region promoting use of natural gas in the Baltic Sea Region, development of an integrated natural gas consumer market, seeking to eliminate or reduce the non-commercial obstacles in the way of natural gas business, e.g. related to tax policy, etc.
- The Chamber of Commerce of Germany and the Baltic countries in Estonia, Latvia and Lithuania. Website: [www.ahk-balt.org](http://www.ahk-balt.org).
- The association of the largest and most active investors in the economy of Lithuania "Investors' Forum". Website: [www.investorsforum.lt](http://www.investorsforum.lt).

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

The member of the association "Baltic Gas" and The Chamber of Commerce of Germany and the Baltic countries E.ON Ruhrgas International AG and the member of the association "Baltic Gas" OAO Gazprom each hold over 5% of shares of the Company.

2008 saw the continuation of the tradition of holding meetings of the managers and specialists the gas companies of the three Baltic States (LD, Latvijas Gaze A/S and Eesti Gaas AS) aimed at resolving common issues with respect to securing safe and reliable natural gas supplies in the Baltic States Region.

## SPONSORSHIP PROGRAMS

With a view to promoting social development and welfare, every year LD supports a vast number of social welfare projects, including the ones of social patronage and care, health protection, preservation of cultural heritage, art and sport, education and science. In 2008, LD rendered support to more than 50 institutions, organizations or supported their projects. The most significant ones are as follows:

- support to the institutions and organizations of disabled children: Public Body "Mažoji Guboja", Lithuanian Welfare Society for Persons with Mental Disability "Viltis", Vilnius J. Laužikas General Education Consultation Centre, Kaunas Caritative Society for Blind & Partially Sighted Children "Akių Šviesa", Sport Club "Draugystė";
- support to Vilnius University Hospital Santariškės Clinic and Vilnius Maternity Hospital;
- support to the Direction of the Kuršių Nerija National. Not only did LD render material assistance for the replanting of the pine trees following the forest fire in Smiltynė, but also arranged a voluntary reforestation work action for 400 of its employees including their family members. On 12 April 2008, the LD employees planted 32 thousand saplings;
- support to Lithuanian Institute, the Lithuanian Art Museum and the Lithuanian Artists' Union in organizing various cultural events;
- support in organizing the XIII Pažaislis Music Festival that has already become traditional, the festival that is famous not merely for being the longest, the largest and the most popular with the public, but also the most democratic one, for its programmes represent a cross-section of genres of music and cater to diverse tastes. Support to Public Body Science Research Institute, Public Body J. Ivanauskaitė Literary & Artistic Heritage Centre to erect a memorial to the Lithuanian writer Jurga Ivanauskaitė;
- support to V. Alekna's Club for the organization of the international sports festival at Kaunas Darius & Girėnas Stadium; support to the Association of Lithuanian Women and the Lithuanian Sports Society "Žalgiris";
- support to Vilnius Gediminas Technical University and Kaunas University of Technology in organizing their Student Career Days. Support to Vilnius University for the procurement of equipment for the German Philology Studies Auditorium;
- support for projects aimed at reducing business restrictions, bureaucracy and corruption and for building civil society.

## SOCIAL RESPONSIBILITY

Almost 100% of the total gas volumes demanded by Lithuania's customers is supplied through the Natural Gas System operated by the Company. Natural gas has already reached more than one remote corner of Lithuania, an ever increasing number of enterprises and social institutions start using natural gas. Natural gas contributes to business development in the provincial towns and settlements of Lithuania. The Company is consistently increasing its investments in order to minimize the number of towns and settlements that are still not connected to the natural gas grid.

The Company through its trade in the cleanest fossil fuel, natural gas, and through the natural gas transmission and distribution activities is contributing to a cleaner environment of Lithuania. The Company supplies, transmits and distributes an environmentally friendly fuel, the promotion of which reduces the environmental pollution. At the same time the Company promotes economical and rational use of this non renewable natural resource.

In pursuing socially responsible business practices, the Company lays a stress on the environmental protection, human rights and the Company's employees' rights, promotion of economic development and active participation in social life. Primarily focusing on the environmental protection and the Company's human resources management policies, in 2008, LD launched two major projects: started the implementation of a new environmental standard solution and initiated the formation of new updated Human Resource Policies.

Seeking to continue its pursuit of the socially responsible business practices, the Company is focusing on the review of its routine processes and the audit of specific areas of activity of the Company. In this way, LD is directing its activities towards the socially responsible business practices.