AKCINĖ BENDROVĖ „LIETUVOS DUJOS“
JOINT STOCK COMPANY LIETUVOS DUJOS
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CONFIRMATION OF RESPONSIBLE PERSONS

3 April 2015 No 7-31-346

Following Art. 21 of the Law on Securities of the Republic of Lithuania and the Rules for the Drawing up and the Submission of Periodic and Additional Information approved by the Board of the Bank of Lithuania, we, Liudas Liutkevičius, Chief Executive Officer and Giedrė Glinskienė, Finance and Treasury Director of AB Lietuvos Dujos, hereby confirm that to the best of our knowledge, the attached AB Lietuvos Dujos Company's Financial Statements for the Year Ended 31 December 2014 prepared according to International Financial Reporting Standards as adopted by the European Union presented together with Independent Auditor's Report presents a true and fair view of the assets, liabilities, financial position, profit or loss and cash flows of AB Lietuvos Dujos and Annual Report of AB Lietuvos for the Year Ended on 31 December 2014 presents a true and fair review of the business development and business activities, the Company's status including the description of the key risks and uncertainties.

Chief Executive Officer Liudas Liutkevičius

Finance and Treasury Director Giedrė Glinskienė

AB Lietuvos Dujos

2014 M. COMPANY'S FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORT
AND ANNUAL REPORT

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AB LIETUVOS DUJOS

COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

Building a better working world

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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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

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

Report on Financial Statements

We have audited the accompanying financial statements of AB Lietuvos dujos, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), which comprise the statement of financial position as of 31 December 2014, 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 (hereinafter - IFRS), 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

a) IFRS requires to stop calculation of depreciation and amortization of non-current assets attributable to the activity to be discontinued (transmission activity) starting from the moment it satisfies the definition of discontinued operations. For the purpose of financial reporting in accordance with IFRS, the Company should have ceased calculation of depreciation and amortization for above mentioned non-current assets starting 1 July 2013 instead of 31 July 2013 - the moment of transfer of transmission activity, as it is explained in more details in Note 5. The depreciation and amortization for July 2013 amounted to LTL 6.2 million. Had the Company ceased the depreciation and amortization as required by IFRS one month earlier the result for the year 2013 would be higher by LTL 6.2 million and due to discontinued operations accounting this adjustment would not have an effect on shareholders equity and net book value of non-current assets as of 31 December 2013. We qualify our opinion for the effect of this matter on the comparative result for the year 2013.

b) 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 Notes 1 and 5, the unbundling of transmission activity in 2013 indicated the need for impairment testing on separate activities level, however it was not performed by the Company's management due to high level of uncertainties involved at the end of 2012. Therefore, we were not able to assess reliably the effect of the above mentioned matter on the Company's non-current tangible assets related to transmission activity (the net book value of which amounted to LTL 1,567,000 thousand as of 31 December 2012) as well as on the Company's result for the year 2013. Due to discontinued operations accounting this adjustment would not have an effect on shareholders equity and net book value of non-current assets as of 31 December 2013. We qualify our opinion for the possible effect of this matter on the comparative result for the year 2013.

Qualified Opinion

In our opinion, except for the effect of the matter described in part a) and except for the possible effect of the matter described in part b) in section *Basis for Qualified Opinion* above, the accompanying financial statements present fairly, in all material respects, the financial position of AB Lietuvos dujos as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Without further qualifying our opinion, we draw your attention to the Note 3 Restatement of comparatives, which discloses the effect of LTL 199 million of impairment of property, plant and equipment, booked retrospectively restating the comparative financial information of the Company for the year 2013.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2014 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

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

Asta Štreimikienė
Auditor's license No. 000382

The audit was completed on 6 March 2015.

Statement of financial position

		Notes	As at 31 December 2014	As at 31 December 2013 (restated*)
ASSETS				
A.	**Non-current assets**		**616,189**	**598,219**
I.	Intangible assets	6	2,150	2,540
II.	Property, plant and equipment	3, 7	598,760	593,871
II.1.	Land		1	1
II.2.	Buildings		56,616	37,152
II.3.	Structures and machinery		4,250	4,515
II.4.	Distribution networks and related installations		489,878	502,979
II.5.	Technological gas equipment and structures		15,921	15,573
II.6.	Vehicles		10,948	10,420
II.7.	Computer, connections and other equipment		3,287	3,442
II.8.	Other property, plant and equipment		16,273	18,388
II.9.	Construction in progress		1,586	1,401
III.	Non-current financial assets		2,607	484
III.1.	Investment into joint venture	1	424	483
III.2.	Investment into other companies	1	2,183	-
III.3.	Non-current accounts receivable	8	-	1
IV.	Deferred income tax asset	21	12,672	1,324
B.	**Current assets**		**127,124**	**254,255**
I.	Inventories and prepayments		3,201	42,614
I.1.	Inventories	9	2,659	42,042
I.1.1.	Raw materials, spare parts and other inventories		1,928	1,618
I.1.2.	Goods for resale (including natural gas)		731	40,424
I.2.	Prepayments		542	572
II.	Accounts receivable	11	37,320	140,869
II.1.	Trade receivables		37,145	139,706
II.2.	Other receivables		175	1,163
III.	Prepaid income tax		16,954	3,732
IV.	Non-current assets held for sale	10	1,452	-
V.	Cash and cash equivalents	12	68,197	67,040
Total assets			**743,313**	**852,474**

(cont'd on the next page)

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

*Restatements are disclosed in Note 3.

Statement of financial position (cont'd)

		Notes	As at 31 December 2014	As at 31 December 2013 (restated*)
EQUITY AND LIABILITIES				
C.	**Equity**		**571,749**	**531,591**
I.	Share capital	1	290,686	290,686
II.	Reserves	13	45,201	357,082
II.1.	Revaluation reserve		16,132	-
II.2.	Legal reserve		29,069	29,069
II.3.	Other reserves		-	328,013
III.	Retained earnings		235,862	(116,177)
D.	**Liabilities**		**171,564**	**320,883**
I.	Non-current liabilities		147,192	143,836
I.1.	Grants (deferred revenue)	14	141,131	135,872
I.2.	Non-current employee benefits	15	6,061	7,964
II.	Current liabilities		24,372	177,047
II.1.	Trade payables	16	4,628	136,315
II.2.	Advances received		4,558	9,012
II.3.	Payroll related liabilities		6,745	8,919
II.4.	Other payables and current liabilities	17	8,441	22,801
Total equity and liabilities			**743,313**	**852,474**

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

*Restatements are disclosed in Note 3.

General Manager	Liudas Liutkevičius		6 March 2015
Chief Accountant	Žydrūnas Augutis		6 March 2015

Income statement

		Notes	2014	2013 (restated*)
I.	**Revenue**		**192,077**	**165,125**
I.1.	Sales	3, 4	188,222	161,908
I.2.	Other income	3	3,855	3,217
II.	**Expenses**		**(172,101)**	**(365,716)**
II.1.	Cost of natural gas	18	(15,128)	(24,914)
II.2.	Depreciation and amortisation	3, 6, 7	(27,528)	(39,460)
II.3.	Payroll and related social security tax expenses		(68,618)	(66,356)
II.4.	Repair and technical maintenance expenses		(22,300)	(20,472)
II.5.	Natural gas transmission service expenses	19	(2,006)	(970)
II.6.	Taxes, other than income tax		(6,312)	(5,566)
II.7.	Impairment of property, plant and equipment	3, 7	(21,655)	(199,361)
II.8.	Other expenses		(8,554)	(8,617)
III.	**Profit (loss) from operations**		**19,976**	**(200,591)**
IV.	**Financial activity**	20	**275**	**(301)**
IV.1.	Income		337	96
IV.2.	Expense		(62)	(397)
V.	**Profit (loss) before tax**		**20,251**	**(200,892)**
VI.	**Income tax**	21	**19**	**34,011**
VI.1.	Current period income tax		17,895	2,133
VI.2.	Deferred income tax		(17,876)	31,878
VII.	**Net profit (loss) from continuing operations**		**20,270**	**(166,881)**
VIII.	**Net profit from discontinued operations**	5	**125,966**	**60,700**
IX.	**Net profit (loss)**		**146,236**	**(106,181)**
	Basic and diluted earnings per share (LTL)	22	0.503	(0.282)
	Basic and diluted earnings per share (LTL) from continuing operations	22	0.070	(0.444)

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

*Restatements are disclosed in Note 3.

General Manager	Liudas Liutkevičius		6 March 2015
Chief Accountant	Žydrūnas Augutis		6 March 2015

Statement of comprehensive income

	Notes	2014	2013 (restated*)
I. Net profit (loss)		**146,236**	**(106,181)**
II. Other comprehensive income that will not be reclassified subsequently to profit or loss		**16,967**	**-**
II.1. Revaluation of property, plant and equipment	7	18,979	-
II.2. Past service cost of defined benefit obligations	15	982	-
II.3. Deferred income tax		(2,994)	-
III. Total comprehensive income, net of tax		**163.203**	**(106,181)**

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

*Restatements are disclosed in Note 3.

General Manager	Liudas Liutkevičius		6 March 2015
Chief Accountant	Žydrūnas Augutis		6 March 2015

APROVED
by the General Meeting of Shareholders of AB Lietuvos dujos
on .... April 2015

Statement of changes in equity

	Notes	Share capital	Revalua-tion reserve	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2013		**469,068**	**-**	**43,692**	**1,469,537**	**75,964**	**2,058,261**
Transfer from other reserves		-	-	-	(160,000)	160,000	-
Transfer to legal reserve		-	-	3,215	-	(3,215)	-
Transfer to other reserves		-	-	-	15,749	(15,749)	-
Dividends declared	23	-	-	-	-	(217,000)	(217,000)
Total comprehensive income		-	-	-	-	(106,181)	(106,181)
Net loss for the year (restated)	3	-	-	-	-	*(106,181)*	*(106,181)*
Unbundling of transmission activity		(178,382)	-	(17,838)	(997,273)	(9,996)	(1,203,489)
Balance as at 31 December 2013 (restated)	3	**290,686**	**-**	**29,069**	**328,013**	**(116,177)**	**531,591**
Transfer from other reserves		-	-	-	(328,013)	328,013	-
Dividends declared	23	-	-	-	-	(123,045)	(123,045)
Total comprehensive income		-	16,132	-	-	147,071	163,203
Net profit for the year		-	-	-	-	*146,236*	146,236
Other comprehensive income		-	16,132	-	-	*835*	16,967
Balance as at 31 December 2014		**290,686**	**16,132**	**29,069**	**-**	**235,862**	**571,749**

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

General Manager	Liudas Liutkevičius		6 March 2015
Chief Accountant	Žydrūnas Augutis		6 March 2015

Statement of cash flows

		Notes	2014	2013 (restated)
	Cash flows from operating activities			
I.1.	Net profit (loss)		146,236	(106,181)
	Adjustments of non-cash items and other corrections:			
I.2.	Depreciation and amortisation	3, 6, 7	28,506	86,212
I.3.	(Gain) on property, plant and equipment, doubtful trade accounts receivable and inventories write-off and disposal		(130)	(313)
I.4.	Losses on revaluation of property, plant and equipment	7	8,423	-
I.5.	Impairment losses for property, plant and equipment, financial assets, allowance for doubtful trade accounts receivable and inventories		14,078	200,210
I.6.	Income tax expenses (benefit)		14,824	(28,343)
I.7.	Interest (income)		(539)	(776)
I.8.	Interest expenses		9	1,649
I.9.	Loss on foreign currency exchange		-	1
I.10.	(Amortisation) of the grants (deferred revenue)		(2,546)	(5,236)
I.11.	Elimination of Company's share of joint venture results		59	364
I.12.	Loss from sales of supply activity	5	196,548	-
I.13.	Elimination of other non-cash items*	24	(310,925)	255
			94,543	**147,842**
	Changes in working capital:			
I.14.	Decrease in inventories	9	5,559	11,143
I.15.	Decrease in trade accounts receivable		16,568	42,611
I.16.	Decrease (increase) in other accounts receivable and prepayments	24	1,018	(39,859)
I.17.	Increase (decrease) in trade accounts payable	24	138,386	(64,486)
I.18.	(Decrease) increase in other accounts payable and other current liabilities		(5,233)	51,057
I.19.	(Decrease) in other financial assets		-	(27,302)
I.20.	Income tax (paid)		(35,906)	(5,584)
	Total changes in working capital		**120,392**	**(32,420)**
	Net cash flows from operating activities		**214,935**	**115,422**
	Thereof attributable to discontinued operations		**158,220**	**79,652**
II.	**Cash flows from (to) investing activities**			
II.1.	(Acquisition) of property, plant and equipment and intangible assets	24	(41,143)	(130,884)
II.2.	Proceeds from sales of property, plant and equipment		1,247	505
II.3.	(Acquisition) of investments in other companies	1	(546)	-
II.4.	Cash received from investment in subsidiary		-	5,407
II.5.	Receipt of non-current receivables and loans granted		1	8
II.6.	Decrease in term deposits		-	102,264
II.7.	Interest received		571	945
II.8.	Disposal of other short-term investments		-	57,736
II.9.	Cash transferred to AB Amber Grid due to unbundling of transmission activity		-	(10,860)
II.10.	Cash flow due to sold activity (net of cash transferred)	30	(51,898)	-
	Net cash flows (to) from investing activities		**(91,768)**	**25,121**
	Thereof attributable to discontinued operations		**(134)**	**73,517**

(cont'd on the next page)

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

*Other non-cash items include the natural gas price discount received from OAO Gazprom that had a non-cash impact on the result of the Company, prepayments and trade payables and the effect of provision for onerous contracts.

Statement of cash flows (cont'd)

		Notes	2014	2013 (restated)
III.	**Cash flows from (to) financing activities**			
III.1.	Dividends (paid)		(122,969)	(216,849)
III.2.	Loans (repaid)		-	(1,072)
III.3.	Grants received	14	968	33,657
III.4.	Interest (paid)		(9)	(1,656)
	Net cash flows (to) financing activities		**(122,010)**	**(185,920)**
	Thereof attributable to discontinued operations		**(117,645)**	**(187,661)**
IV.	**Net increase (decrease) in cash and cash equivalents**		**1,157**	**(45,377)**
V.	**Cash and cash equivalents at the beginning of the year**		**67,040**	**112,417**
VI.	**Cash and cash equivalents at the end of the year**		**68,197**	**67,040**

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

General Manager	Liudas Liutkevičius		6 March 2015
Chief Accountant	Žydrūnas Augutis		6 March 2015

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.

Until the 31 October 2014 the Company was engaged in distribution and supply of natural gas. The Company's natural gas supply activity (supply segment) was sold to UAB Lietuvos dujų tiekimas according to the agreement dated 15 October 2014. In these financial statements the supply activity of the Company is disclosed as discontinued operations (Note 5). 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 2014 and 2013 the shareholders of the Company were as follows:

	As at 31 December 2014		As at 31 December 2013	
	Number of shares held	**Percentage of ownership (%)**	**Number of shares held**	**Percentage of ownership (%)**
E.ON Ruhrgas International GmbH	-	-	113,118,140	38.9
OAO Gazprom	-	-	107,734,925	37.1
Ministry of Energy of the Republic of Lithuania	-	-	51,454,638	17.7
Lietuvos Energija, UAB*	280,930,066	96.6	-	-
Other shareholders	9,755,674	3.4	18,378,037	6.3
	290,685,740	100.0	290,685,740	100.0

**Lietuvos Energija, UAB acquired additional shares*

Upon the implementation of Resolution No. 120 of the Government of the Republic of Lithuania On Investing of the State Property and Increasing the Companies' Share Capital as at 12 February 2014 by the Ministry of Energy and the Ministry of Finance, Lietuvos Energija, UAB became the owner of 17.7% of shares of AB Lietuvos dujos on 21 February 2014.

On 21 May 2014 Lietuvos Energija, UAB acquired 113,118,140 (one hundred thirteen million one hundred eighteen thousand one hundred fourty) shares of AB Lietuvos dujos from E.ON Ruhrgas International GmbH, which comprise 38.9 % share capital of AB Lietuvos dujos.

On 28 May 2014 AB Lietuvos dujos received a notification from the Company's shareholder Lietuvos Energija, UAB about the decision of the Bank of Lithuania to approve the circular of a mandatory official takeover bid to buy out the remaining ordinary registered voting shares of AB Lietuvos dujos.

The implementation of the mandatory takeover bid to buy out the shares of the AB Lietuvos dujos was completed on 16 June 2014. Lietuvos Energija, UAB acquired 107,734,925 (one hundred seven million seven hundred thirty four thousand nine hundred twenty five) shares from OAO Gazprom, 8,622,363 (eight million six hundred twenty two thousand three hundred sixty three) shares from minority shareholders of AB Lietuvos dujos.

After the mandatory official takeover bid Lietuvos Energija, UAB holds 96.6 % shares of AB Lietuvos dujos, minority shareholders – 3.4 %. Since then, Lietuvos Energija, UAB is the parent of AB Lietuvos dujos.

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 2014 and 2013. The Company did not hold its own shares.

The Company has 5 branches.

1 General information (cont'd)

The Company's shares in joint venture

The Company holds 34 % of shares of UAB GET Baltic, a jointly controlled entity with AB Amber Grid and Finnish gas company Gasum Oy (in 2013 – 34%).

The shares of UAB GET Baltic held by the Company as at 31 December 2014:

Company	Address of registered office	Part of shares controlled by the Company (%)	Share capital	Current year (loss) attributable to the Company	Equity	Main activity
UAB GET Baltic	Aguonų Str. 24, Vilnius	34	2,000	(59)	1,248	Licensed natural gas market operator – arranges trading on the Natural Gas Exchange

The shares of UAB GET Baltic held by the Company as at 31 December 2013:

Company	Address of registered office	Part of shares controlled by the Company (%)	Share capital	Current year (loss) attributable to the Company	Equity	Main activity
UAB GET Baltic	Aguonų Str. 24, Vilnius	34	2,000	(171)	1,422	Licensed natural gas market operator – arranges trading on the Natural Gas Exchange

The Company's shares in other companies

On 15 December 2014 the Company signed the shares acquisition contract with UAB Technologijų ir inovacijų centras for LTL 2,038 thousand and UAB Verslo aptarnavimo centras for LTL 145 thousand. The Company paid 25% of emission price: for UAB Technologijų ir inovacijų centras – LTL 510 thousand, for UAB Verslo aptarnavimo centras – 36 thousand. The part of shares signed but not fully paid by the Company comprised 9% of UAB Technologijų ir inovacijų centras shares and 7.25% of UAB Verslo aptarnavimo centras shares as at 31 December 2014.

In 2013 the subsidiary of the Company UAB Palangos perlas was liquidated, and due to insignificance of its operating results separate Group financial statements were not prepared, they coincided with Company's financial statements. Therefore further the Company's and the Group's financial information for the year 2014 and 2013 are referred to as "the Company's".

As at 31 December 2014 there were 1,136 employees in the Company (as at 31 December 2013 the number of employees of the Company was 1.364). Significant change of the employee number was caused by the sales of supply activity in 2014, implementing the Third Energy Package of the European Union and the requirements of legal acts of the Republic of Lithuania, and the optimization of the Company's processes.

Activities of AB Lietuvos dujos are regulated by the Law on Natural Gas (hereinafter referred as LNG) of the Republic of Lithuania, which currently requires the unbundling of the accounts of the Company's activities. The Company keeps accounts based on the requirements of the law. After the sale of supply activity on 31 October 2014 the Company has one activity segment - natural gas distribution.

According to the Law on Natural Gas the Company's distribution activity and supply activity carried until 31 October 2014 are subject to licensing. Licences are granted and licensed activities controlled by the National Control Commission for Prices and Energy (hereinafter – NCCPE). Natural gas distribution license grant the Company the right to distribute natural gas in 41 out of 60 municipalities. Natural gas supply license grants the Company the right to engage in natural gas supply activity in the territory of the Republic of Lithuania.

The prices for distribution of natural gas are regulated. The price caps are set by the NCCPE. The supply prices of natural gas are not regulated.

The management of the Company approved these financial statements on 6 March 2015. 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.

1 General information (cont'd)

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 of the European Union to the national legislation, the Government of the Republic of Lithuania adopted the respective resolutions, setting the Company's actions when re-organizing the Company.

The transmission activity was unbundled at 31 July 2013. Actions related to unbundling of the transmission activity carried out by the Company are described in detail in the financial statements of the Company and the Group for 2013.

Pursuant to the requirements of LNG and other legislation, the Company had to unbundle the natural gas distribution and supply activities, i.e. to perform legal, functional and organizational unbundling of the distribution activity no later than by 31 October 2014 and achieve the compliance with requirements of Chapter 8 of the LNG.

On 28 May 2012, the General Meeting of Shareholders had decided to perform the unbundling of the distribution activity by establishing a subsidiary of the Company and transferring the natural gas distribution activity (complex of assets) together with the assets, rights and obligations attributed to this activity as contribution in kind for shares of the subsidiary in accordance with the terms provided for by legal acts. On 28 May 2012, the Board of Directors of the Company approved the description of the method for unbundling the Company's distribution activity together with the unbundling action plan.

On 30 June 2014 the Extraordinary General Meeting of Shareholders adopted a decision to assign the Board of Directors of AB Lietuvos dujos to assess alternative methods to the method for unbundling the supply and distribution activities of the Company as approved by the decision of the General Meeting of Shareholders of AB Lietuvos dujos of 28 May 2012; and upon identifying more efficient unbundling method by the Board of Directors of AB Lietuvos dujos, to take, at its own discretion, all the required decisions needed to change the method for unbundling of natural gas distribution activity and to implement the method selected by the Board of Directors of AB Lietuvos dujos, including, but not limited to the decisions regarding the activity to be unbundled, its market value, unbundling method, etc.

On 21 July 2014 the Board of Directors of the Company approved that the distribution and supply activities of the Company will be unbundled by selling the Company's complex of assets (part of enterprise), i.e. the gas supply activity with the assets, rights and obligations attributed to this activity, to a company controlled by the main shareholder of the Company Lietuvos Energija, UAB under the purchase - sale agreement. The Board of Directors of the Company also approved a Description of the method for the unbundling of the gas distribution activity together with the unbundling action plan. In accordance with the requirements of legal acts of the Republic of Lithuania, the Company submitted this description to the National Control Commission for Prices and Energy for agreement. On 24 July 2014, NCCPE adopted a resolution regarding the amendment to AB Lietuvos dujos action plan for the unbundling of its distribution activity and instructed the Company to follow the methods and deadlines indicated in the amended unbundling plan in order to have legal, functional and organizational unbundling of the distribution activity carried out no later than by 31 October 2014.

On 15 October 2014 AB Lietuvos dujos concluded the purchase – sale agreement with UAB Lietuvos dujų tiekimas (controlled by Lietuvos Energija, UAB) and sold part of the Company, i.e. natural gas supply activity together with the assets, rights and obligations attributable to it. According to the purchase – sale agreement the ownership rights to the part of the Company were transferred to UAB Lietuvos dujų tiekimas on 31 October 2014. The transfer – acceptance act between AB Lietuvos dujos and UAB Lietuvos dujų tiekimas was signed on 3 November 2014.

2 Accounting principles

The principal accounting policies adopted in preparing the Company's financial statements for the year 2014 are as follows:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter - the EU). They are prepared based on a historical cost basis, except for property, plant and equipment, which on adoption of IFRS was evaluated at deemed cost, less accumulated depreciation and impairment losses and part of property, plant and equipment groups for which the accounting method was changed and they were accounted at revalued amounts in 2014 (Note 7).

2.1. Basis of preparation

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

The following new and/or amended IFRSs have been adopted by the Company as of 1 January 2014:

- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 10, IFRS 12 and IAS 27 - Investment Entities (Amended)

Whether the adoption of the standard or interpretation has an impact on the financial statements or performance of the Company, is described below:

- Amendment to IAS 27 *Separate Financial Statements* - 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. The Company presented additional disclosures in Note 1 as a result of adoption of this amendment.
- Amendment to IAS 28 *Investments in Associates and Joint Ventures* - 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. The Company accounts for its share in joint venture under the equity method.
- Amendment to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities - 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. This amendment will not have any effect on the financial statements of the Company, since the Company does not have settlement systems and does not perform offsetting of financial assets and liabilities.
- Amendment to IAS 36 *Impairment of Assets* - This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Company; however it resulted in additional disclosures (see Note 7).
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* - The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The amendment did not have any impact on the financial statements of the Company since the Company does not apply hedge accounting.
- IFRS 10 *Consolidated Financial Statements* - 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. 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. It did not have impact on the financial statements of the Company for the year 2014 since the Company did not have subsidiaries.
- IFRS 11 *Joint Arrangements* - 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 Company accounts for its share in joint venture under the equity method, disclosures are provided in Note 2.4.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRS 12 *Disclosures of Interests in Other Entities* - 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 are also required such as disclosing the judgments made to determine control over another entity. The Company accounts for its share in joint venture under the equity method, disclosures are provided in Note 1.
- *Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities* - 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 amendments will not have impact on the financial statements of the Company for the year 2014 since the Company is not an investment entity and is not planning to become one in the future.

Standards issued but not yet effective

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

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Company is currently evaluating the impact of these amendments on the financial position and results of the Company.

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Company, as the Company does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Company's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Company.

Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Company accounts for its share in joint venture under the equity method, and currently the Company does not have any subsidiaries or associates.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 will replace IAS 39 and will have effect on the classification and measurement framework for financial assets, impairment of financial assets and hedge accounting. The Company is currently evaluating the impact of these amendments on the financial position and results of the Company.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Company is currently evaluating the impact of these amendments on the financial position and results of the Company.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Company currently does not have intention to acquire an interest in a joint operation that constitutes a business; therefore the amendment of this standard will not have any effect on the financial position and the results of the Company.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company is currently evaluating the impact of these amendments on the financial position and results of the Company.

Improvements to IFRSs

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the IFRSs (effective for financial years beginning on or after 1 January 2015) and the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015).
In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU).

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

IFRIC Interpretation 21 *Levies* (effective for financial years beginning on or after 17 June 2014)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Company is currently evaluating the impact of these amendments on the financial position and results of the Company.

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

2 Accounting principles (cont'd)

2.2. Measurement and presentation currency

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

Starting from 2 February 2002 until 31 December 2014, Lithuanian Litas was 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.

Starting 1 January 2015 EUR becomes the currency of the Republic of Lithuania.

2.3. Principles of consolidation

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

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

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

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

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

2.4. Investment in a joint venture

The Company 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 Company recognizes 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 Company's share of net assets of the jointly controlled entity. The profit or loss of the Company includes the Company's share of the profit or loss of the jointly controlled entity. The unrealized Company's gain or loss which originates due to transactions between the Company and joint venture is eliminated.

2.5. Intangible assets

Intangible assets of 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 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 Company.

The Company does not have any intangible assets with indefinite useful live.

2 Accounting principles (cont'd)

2.6. Property, plant and equipment

Until 31 December 2014 the property, plant and equipment was stated at cost less accumulated depreciation and accumulated impairment losses. On 31 December 2014, the Company changed its accounting policy according to the accounting policy of Lietuvos Energija, UAB Group and part of the Company's property, plant and equipment - distribution networks and related installations, technological gas equipment and structures, computer, connections and other equipment and construction in progress remained accounted at cost, while remaining part of property, plant and equipment – at revaluation method. In the view of the management of the Company, the revaluation method is considered to better reflect the economic value of the property, plant and equipment. The Company applied the exemption foreseen in IAS 8 - not to account for the accounting policy change retrospectively.

For property, plant and equipment accounted at cost method, it 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 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	60 years
Distribution networks and related installations	18 - 55 years
Structures and machinery	5 - 19 years
Technological gas equipment and structures	18 - 25 years
Vehicles	6 years
Computer, connections and other equipment	4 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 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.

For property, plant and equipment accounted at revalued method, revalued amount will be determined based on periodical fair value valuations (regular enough that it would be ensured that the book value does not significantly differ from the fair value that would be determined at the balance sheet date). Increase in value, determined at initial valuation of property, plant and equipment is accounted in other comprehensive income as revaluation reserve. Decrease in value, determined at initial valuation of property, plant and equipment is recognized in the income statement.

The decrease in net book value determined during subsequent revaluation, which covers the previously accounted increase in value of the same asset, will be recognized in other comprehensive income and will decrease the revaluation reserve in equity. The decrease in net book value determined during subsequent revaluation, which exceeds previously accounted increase is included in the income statement. The increase in value which will cover previously accounted decreases will be recognized in the income statement. All other increases in net book value determined during revaluations are recognized in other comprehensive income and equity (revaluation reserve) is increased. Every year the difference between the depreciation of the revalued assets, accounted in income statement and depreciation, calculated based on initial cost, is transferred from revaluation reserve to retained earnings, net of deferred income tax effect.

Depreciation is computed on a straight-line basis, decreasing the revaluated value of property, plant and equipment to residual value during the estimated useful lives.

2 Accounting principles (cont'd)

2.7. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" 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.

The measurement categories relevant to the Company include:

<u>Financial assets at fair value through profit or loss</u>

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

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables categories. After initial recognition available-for-sale financial assets are measured at cost less impairment. Such assets include equity shares – the shares of other companies acquired by the Company (up to 20% of share capital of these companies).

<u>Loans and receivables</u>

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 identified 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.

2.8. Derecognition of financial assets and liabilities

<u>Financial assets</u>

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 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 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 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 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 Company could be required to repay.

<u>Financial liabilities</u>

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 Accounting principles (cont'd)

2.9. Inventories

Inventories of the Company, consisting of natural gas in pipelines at the year-end and until 31 October 2014 natural gas in storage 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. Non-current assets held for sale

Non-current assets are classified as held for sale if its carrying amount will be recovered principally through a sale transaction and its sale is highly probable. Non-current assets held for sale is accounted at the lower of its carrying amount and fair value less costs to sell.

2.11. 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.

2.12. 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.

2.13. 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 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.

2.14. 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. In 2014 the Company changed accounting principle for the presentation of the amortisation of grants related to assets (except for payments received from customers for the connection to the Company's gas systems) – amounts recognized as income are netted with the respective depreciation expenses of assets financed by grants in the income statement – and restated the comparative 2013 amounts accordingly (Note 3). Until the change of accounting principle the grant amounts recognized as income were included in other income in 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. This income is accounted as sales in income statement.

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 Accounting principles (cont'd)

2.15. 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. The actuarial gains and losses are recognized in the statement of other comprehensive income.

Starting from 1 January 2013 after the amendments to IAS 19 become effective, the past service costs are recognized 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.

2.16. Income tax

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.

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.

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.

Tax losses can be transferred between group companies if there is compliance with the Republic of Lithuania Law on corporate income tax requirements.

Starting from 1 January 2014 tax losses carried forward can be used to reduce the taxable income earned during the reporting year by a maximum of 70%.

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.

Due to adjustments of the value of property, plant and equipment on transition to IFRSs, evaluation of the recoverable value of property, plant and equipment and accounting for part of property, plant and equipment at revalued amount, temporary differences between the net book value of the assets and their tax (historical cost) value arose resulting in the recognition of deferred tax liabilities accounted.

2 Accounting principles (cont'd)

2.17. Revenue recognition

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

Revenues from distribution, supply until 31 October 2014 and transmission until 31 July 2013 for non-household customers are recognised monthly, based on meter readings provided by the customers or, if the customers did not provide the meter readings, based on gas quantities, counted according to the approved policy of Company's natural gas quantities accounting (accrual basis). Revenues from household customers are recognised monthly, based on the gas quantities, counted according to the approved policy of Company's natural gas quantities accounting, i.e. while accounting for income discrepancies between the quantities of declared and consumed gas are evaluated (accrual basis).

2.18. 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.

2.19. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Levels of fair value hierarchy:
Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2.20. 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 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 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)

2.21. Use of judgements and estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted in EU requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

Significant accounting judgments relates to:

- The recognition and presentation of a discount received from OAO Gazprom (Note 5)
- The recognition of provisions for onerous contracts (Note 5)

The significant areas of estimation used in the preparation of these financial statements relate to:

- deferred income tax asset (Note 2.16 and Note 21),
- impairment and revaluation of property, plant and equipment (Note 2.6 and Note 7)

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.

2.22. 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.

2.23. Events after the reporting period

Events after the reporting period that provide additional information about the Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

2.24. Offsetting

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

3 Restatement of comparatives

Statement of financial position

		As at 31 December 2013 before restatement	Reclassifications between asset groups*	Value increase/ decrease and deferred income tax effect**	As at 31 December 2013 restated
A	**Non-current assets**	**796,256**	**-**	**(198,037)**	**598,219**
I.	Intangible assets	2,540	-	-	2,540
II.	Property, plant and equipment	793,232	-	(199,361)	593,871
II.1.	Land	1	-	-	1
II.2.	Buildings	55,401	(4,288)	(13,961)	37,152
II.3.	Structures and machinery	-	4,457	58	4,515
II.4.	Other buildings and structures	2,103	(2,103)	-	-
II.5.	Distribution networks and related installations	685,959	-	(182,980)	502,979
II.6.	Technological gas equipment and structures	-	18,051	(2,478)	15,573
II.7.	Machinery and equipment	16,117	(16,117)	-	-
II.8.	Vehicles	10,420	-	-	10,420
II.9.	Other equipment, tools and devices	19,122	(19,122)	-	-
II.10.	Computer, connections and other equipment	-	3,442	-	3,442
II.11.	Other property, plant and equipment	2,708	15,680	-	18,388
II.12.	Construction in progress	1,401	-	-	1,401
III.	Non-current financial assets	484	-	-	484
IV.	Deferred income tax asset	-	-	1,324	1,324
B	**Current assets**	254,255	-	-	254,255
	Total assets	**1,050,511**	**-**	**(198,037)**	**852,474**
C.	**Equity**	**701,048**	**-**	**(169,457)**	**531,591**
I.	Share capital	290,686	-	-	290,686
II.	Reserves	357,082	-	-	357,082
II.1.	Legal reserve	29,069	-	-	29,069
II.2.	Other reserves	328,013	-	-	328,013
III.	Retained earnings	53,280	-	(169,457)	(116,177)
D.	**Liabilities**	349,463	-	(28,580)	320,883
I.	Non-current liabilities	172,416	-	(28,580)	143,836
I.1.	Grants (deferred revenue)	135,872	-	-	135,872
I.2.	Non-current employee benefits	7,964	-	-	7,964
I.3.	Deferred income tax liability	28,580	-	(28,580)	-
II.	Current liabilities	177,047	-	-	177,047
Total equity and liabilities		**1,050,511**	**-**	**(198,037)**	**852,474**

*Restatements between asset groups. Due to integration to Lietuvos Energija, UAB group, the groups of property, plant and equipment as at 31 December 2014 were reorganized and comparative information for 31 December 2013 adjusted. New items of property, plant and equipment were included in statement of financial position: structures and machinery, technological gas equipment and structures, computer, connections and other equipment. The movement of net book values between the groups is presented in the table above.

**Retrospectively accounted impairment for property, plant and equipment is disclosed in Note 3 on income statement.

3 Restatement of comparatives (cont'd)

Income statement

	2013 (before restatement)	Supply activity attributed to discontinued operations *	Restated revenue items**	Restated accounting of deferred revenue **	Restated accounting of grants***	Impairment for property, plant and equipment accounted retrospectively****	2013 (restated)
Revenue	**1,537,267**	**(1,371,234)**	**-**	**-**	**(908)**	**-**	**165,125**
Sales	1,532,645	(1,371,234)	(1,946)	2,443	-	-	161,908
Other income	4,622	-	1,946	(2,443)	(908)	-	3,217
Expenses	**(1,480,998)**	**1,313,735**	**-**	**-**	**908**	**(199,361)**	**(365,716)**
Cost of natural gas	(1,310,429)	1,285,515	-	-	-	-	(24,914)
Depreciation and amortisation	(41,526)	1,158	-	-	908	-	(39,460)
Payroll and related social security tax expenses	(78,210)	11,854	-	-	-	-	(66,356)
Repair and technical maintenance expenses	(21,849)	1,377	-	-	-	-	(20,472)
Natural gas transmission service expenses	(7,318)	6,348	-	-	-	-	(970)
Taxes, other than income tax	(5,709)	143	-	-	-	-	(5,566)
Impairment of property, plant and equipment	-	-	-	-	-	(199,361)	(199,361)
Other expenses	(15,957)	7,340	-	-	-	-	(8,617)
Profit (loss) from operations	**56,269**	**(57,499)**	**-**	**-**	**-**	**(199,361)**	**(200,591)**
Financial activity	**863**	**(1,164)**	**-**	**-**	**-**	**-**	**(301)**
Income	1,457	(1,361)	-	-	-	-	96
Expense	(594)	197	-	-	-	-	(397)
Profit (loss) before tax	**57,132**	**(58,663)**	**-**	**-**	**-**	**(199,361)**	**(200,892)**
Income tax	**(3,852)**	**7,959**	**-**	**-**	**-**	**29,904**	**34,011**
Current period income tax	(7,969)	10,102	-	-	-	-	2,133
Deferred income tax	4,117	(2,143)	-	-	-	29,904	31,878
Net profit (loss) from continuing operations	**53,280**	**(50,704)**	**-**	**-**	**-**	**(169,457)**	**(166,881)**
Net profit from discontinued operations	**9,996**	**50,704**	**-**	**-**	**-**	**-**	**60,700**
Net profit (loss)	**63,276**	**-**	**-**	**-**	**-**	**(169,457)**	**(106,181)**
Basic and diluted earnings per share (LTL)	0.168					(0.450)	(0.282)
Basic and diluted earnings per share (LTL) from continuing operations	0.142					(0.586)	(0.444)

* The supply activity result is transferred to net profit from discontinued operations (Notes 1, 5).

** In 2014 the Company rearranged the income statement revenue items: in sales revenue accounted natural gas distribution service revenue and deferred revenue income from new user connections to natural gas system.

In 2014 income which is not directly bound to natural gas distribution service, including income from maintenance of gas systems, which do not belong to the Company, was accounted in other income. For comparability of information income statement revenue items for 2013 were restated.

*** The Company nets the amounts of grants related to assets (except for payments received from customers for the connection to the Company's gas systems) recognized as income with the respective depreciation expenses of assets financed by grants in the income statement. The 2013 income statement items were restated respectively. More information on grants (deferred revenue) is provided in Note 14.

3 Restatement of comparatives (cont'd)

****Retrospectively accounted impairment for property, plant and equipment.

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 at 31 December 2013 the Company performed calculation of recoverable value at the entity level.

On the adoption of the decisions of the Company's management bodies, related to the separation of activities, less uncertainty remained regarding the methods and ways of separation of distribution and supply activities. Both the distribution and supply activities are considered as separate cash generating units (CGU). The Company assessed the recoverable value of both activities as at 30 June 2014 for the first time, resulting in the impairment of property, plant and equipment of distribution activities. Discounted cash flows of distribution activity were calculated based on management's best estimate of the future tariff for distribution activity based on legal acts and methodologies in effect as at 30 June 2014 and an assumption that future tariff will remain stable over the estimation period. Cash flows used for impairment testing were projected for the period until 2050, because regulation of distribution activity is based on regulated asset base, which consists of assets with long service period. As for projected cash flows, the Company assumes stable cash flows. Pre-tax discount rate of 7,09 % was used in discounting cash flows.

Following the same assumptions and forecasts, the Company performed retrospective estimation of recoverable value, i.e. as at 31 December 2013. This resulted in an impairment loss in the amount of LTL 199 million, which the Company retrospectively recorded in the income statement for the year 2013. The Company also decreased the related deferred tax liability (Note 21) and reduced the carrying value of property, plant and equipment, by attributing the impairment loss to the asset groups as presented in the property, plant and equipment movement table.

Due to revaluation result accounted for certain property, plant and equipment groups as described in Note 7, assessment of recoverable value as at 31 December 2014 revealed an additional impairment loss of LTL 13,7 million, which was allocated to the groups of property, plant and equipment, carried at cost (Note 2.6).

4 Segment information

The Company's business activities are organised based on the legal requirements for regulated activities. 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 Company.

Until 31 July 2013 the Company had 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 Company's natural gas transmission activity (transmission segment) was unbundled from the Company as at 31 July 2013 (Note 1), and the natural gas supply activity (supply segment) was transferred on 31 October 2014 (Notes 1, 5).

As at 31 December 2014 the management changed the attribution of activities to segments and determined that there is one – distribution segment. As separately insignificant and related to distribution activity the other activities segment is no longer separated.

The Company's segment information for the years ended 2014 and 2013 is presented below:

	Discontinued operations*	**Continuing operations**	**Total**
2014	**Supply**	**Distribution**	
Sales	802,440	188,222	990,662
Interest income	353	186	539
Interest expense	(7)	(3)	(10)
Profit before tax	337,357	20,251	357,608
Result of sale of discontinued operations before tax	(196,548)	-	(196,548)
Income tax	(14,843)	19	(14,824)
Net profit	125,966	20,270	146,236
Total assets	311,004	743,313	1,054,317
Total liabilities	54,000	171,564	225,564
Other segment information			
Acquisition of non-current assets	451	39,588	40,039
Depreciation and amortisation	978	27,528	28,506
Investment in joint venture	-	424	424

* Information is provided until transfer of natural gas supply activity, i.e. 31 October 2014 (Notes 1 and 5).

4 **Segment information (cont'd)**

2013	Discontinued operations (restated**)		Continued operations (restated)	Total
	Transmission	Supply	Distribution	
Sales	93,146	1,371,234	161,908	1,626,288
Interest income	37	724	15	776
Interest expense	(1,649)	-	-	(1,649)
Profit before tax	7,705	58,663	(200,892)	(134,524)
Income tax	2,291	(7,959)	34,011	28,343
Net profit	9,996	50,704	(166,881)	(106,181)
Total assets	1,695,850	242,534	609,940	2,548,324
Total liabilities	492,361	156,785	164,098	813,244
Other segment information				
Acquisition of non-current assets	52,459	123	52,129	104,711
Depreciation and amortisation	42,924	1,158	39,460	83,542
Investment in to joint venture	472	-	483	955

**Information provided includes all discontinued operations, which were discontinued in 2014 and 2013 (i.e. natural gas transmission and supply activities) (Note 1).

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

In 2014 the Company earned all of its revenue from Lithuanian customers (in 2013 – 99%).

In 2014 revenue from one customer of the Company in supply and distribution activity segments represented more than 10 % of total Company's revenue and amounted to LTL 174,783 thousand. In 2013 revenue from one customer of the Company represented more than 10 % of total Company's revenue and amounted to LTL 213,208 thousand.

5 **Discontinued operations**

Implementing the regulations of the Third Energy Package of the European Union in relation to unbundling of transmission activity, the assets, rights and obligations of transmission activity, related to the unbundled part of the Company, were transferred to AB Amber Grid, the company established upon spin – off as at 31 July 2013, and the assets, rights and obligations of supply activity as at 31 October 2014, related to the unbundled part of the Company, were sold to UAB Lietuvos dujų tiekimas according to the purchase – sale agreement dated 15 October 2014. All the revenue earned and expenses incurred by supply activity during 2014 including the result of sale of supply activity and all the revenue earned and expenses incurred by transmission and supply activities in 2013 had been attributed to discontinued operations in income statement.

5 Discontinued operations (cont'd)

	2014	2013 (restated)***		
	Discontinued operations, supply	Total discontinued operations	Discontinued operations, supply	Discontinued operations, transmission
Sales	802,440	1,464,380	1,371,234	93,146
Other income	200	142	-	142
Expenses*	(466,079)	(1,397,671)	(1,313,735)	(83,936)
Profit from operations	336,561	66,851	57,499	9,352
Financial activity	796	(483)	1,164	(1,647)
Profit before tax	**337,357**	**66,368**	**58,663**	**7,705**
Income tax total	(49,364)	(5,668)	(7,959)	2,291
Current income tax	(52,987)	(10,684)	(10,102)	(582)
Deferred income tax	3,623	5,016	2,143	2,873
Net profit from discontinued operations	**287,993**	**60,700**	**50,704**	**9,996**
Loss from sale of discontinued operations before tax	**(196,548)****	**-**	**-**	**-**
Income tax	34,521	-	-	-
Current income tax	-	-	-	-
Deferred income tax	34,521	-	-	-
Net loss from sales of discontinued operations	**(162,027)**	**-**	**-**	**-**
Total net profit from discontinued operations	**125,966**	**60,700**	**50,704**	**9,996**

* *Expenses include natural gas price discount from OAO Gazprom*

On 7 May 2014 AB Lietuvos dujos entered into an agreement with the supplier of natural gas OAO Gazprom regarding a significant reduction in the price of natural gas imported by AB Lietuvos dujos for the period from 1 January 2013 till 31 December 2015, according to which the formula of imported natural gas price for the Company was adjusted retrospectively for the period from 1 January 2013 till 31 March 2014.

The Company accounted for the discount in full in the income statement of 2014. The major part of retrospective decrease of imported natural gas price was accounted for in the income statement for the year 2014 by decreasing the Company's natural gas purchase expenses by LTL 320.7 million, the remaining part was recognized as income and the inventory balance of natural gas was adjusted. The effect of reduction of imported natural gas price was taxed – therefore the income tax expenses increased. Due to the reduction of imported natural gas price the Company accounted for the prepayment for natural gas supplier, which is netted with the current natural gas supply payables, and the balance of the prepayment at the date of transfer of supply activities as at 31 October 2014 was LTL 72,961 thousand.

Since the Company and NCCPE agreed, that the natural gas tariffs for household consumers for the period from 2014 II half till the end of 2016 will be decreased to reflect the decrease of imported natural gas prices, the Company accounted for the provision of LTL 23.9 million for the onerous contracts relating to the loss making part of existing supply agreements subject to price reduction for the year 2015.

***The result of sale of supply activity*

According to the purchase – sale agreement dated 15 October 2014 the Company sold the part of operations, i.e. the natural gas supply activity together with the assets, rights and obligations attributable to it. The price of the sold activity is LTL 60,457,000 (EUR 17,509,557.46). The price corresponds to the market value determined by the independent appraisers. When determining the price of sold activity, independent appraisers took into account the Company's obligation to allocate the part of the imported natural gas discount received from OAO Gazprom for the reduction of prices for non-household customers in future periods (total amount – LTL 281.1 million).

5 Discontinued operations (cont'd)

According to the resolution No. 1121 adopted by the Government of the Republic of Lithuania on 20 October 2014, the gas supply company, receiving the discount for natural gas imported, has to include the price difference in the price of natural gas at least during the two following periods (decrease the price) for the non-household customers purchasing gas from the company. Although the obligation of the Company is set by the legislation, due to existing circumstances that discount provision is dependent on future supply of gas, according to IFRS, obligation (provision) cannot be accounted for. Since as at the date of the spin-off balance sheet (31 October 2014) the contracts with non–household customers for natural gas sales in 2015 and further periods were not signed, the spin-off balance sheet does not include obligation/provision related to the allocation of the effect of imported natural gas price discount for the reduction of prices for non-household customers.

Since the obligation/provision to non-household customers was not recorded, the sale of supply activity resulted in accounting loss. However, such obligation, transferred to UAB Lietuvos dujų tiekimas, legally and economically exists and was taken into account in calculating transaction price and therefore the sale of supply activity in substance is profitable.

***Revenue earned and expenses incurred by transmission activity during first seven months of 2013, until the unbundling of transmission activity as at 31 July 2013, and revenue earned and expenses incurred by supply activity in 2013.

Earnings per share

	2014	2013 (restated)
Net profit from discontinued operations attributable to the shareholders (in LTL thousand)	125,966	60,700
Weighted average number of shares (in thousands)	290,686	376,212
Basic earnings from discontinued operations per share (in LTL)	**0.433**	**0.161**

Reconciliation of cash flows from discontinued operations

	2014	2013 (restated)
Cash and cash equivalents at the beginning of the year	**67,040**	**112,392**
Net cash flows from operating activities	158,220	79,652
Net cash flows (to) from investing activities	(134)	73,517
Net cash flows (to) financing activities	(117,645)	(187,661)
Cash transferred to AB Amber Grid due to unbundling of transmission activity	-	(10,860)
Cash and cash equivalents at the end of the year	107,481	67,040

According to IFRS 5 Non-current assets held for sale and discontinued operations, starting from the moment the transmission activity satisfied the definition (criteria) of discontinued operations till the unbundling (1 month), the calculation of depreciation and amortization of the assets attributable to transmission activity should have been ceased. IFRS 5 does not provide any exceptions, disregarding the actual use of assets. Should the Company applied the requirements of IFRS 5, it should have eliminated depreciation and amortization expenses of discontinued activity, amounting to LTL 6.2 million, increased the value of non-current assets by this amount and prolonged the useful life of the non-current assets by one month.

The Company evaluated the actual use of transmission activity assets. These assets were continuously used in licensed transmission activity until unbundling, and generated the income from this activity. Therefore due to technical and economic reasons it was not possible to prolong the useful life of non-current assets and cease calculation of depreciation and amortization.

6 Intangible assets

Movement of intangible assets for the current and prior periods:

	Patents, licenses	Software	Other intangible assets	Total
Cost:				
Balance as at 1 January 2013	4,064	4,075	625	8,764
Additions	1,594	998	-	2,592
Additions from UAB Palangos perlas	-	7	-	7
Retirements	-	(150)	-	(150)
Transferred to AB Amber Grid	(1,087)	(1,452)	(145)	(2,684)
Reclassifications	(938)	938	-	-
Balance as at 31 December 2013	3,633	4,416	480	8,529
Additions	239	567	11	817
Retirements	(124)	(246)	(26)	(396)
Transferred to UAB Lietuvos dujų tiekimas due to sale of activity	-	(469)	-	(469)
Balance as at 31 December 2014	3,748	4,268	465	8,481
Accumulated amortisation:				
Balance as at 1 January 2013	2,490	3,139	512	6,141
Charge for the year	684	389	74	1,147
Additions of accumulated amortization from UAB Palangos perlas	-	6	-	6
Retirements	-	(150)	-	(150)
Transferred to AB Amber Grid	(232)	(805)	(118)	(1,155)
Reclassifications	(687)	687	-	-
Balance as at 31 December 2013	2,255	3,266	468	5,989
Charge for the year	577	358	12	947
Retirement	(124)	(246)	(26)	(396)
Transferred to UAB Lietuvos dujų tiekimas due to sale of activity	-	(209)	-	(209)
Balance as at 31 December 2014	2,708	3,169	454	6,331
Net book value as at 31 December 2014	**1,040**	**1,099**	**11**	**2,150**
Net book value as at 31 December 2013	**1,378**	**1,150**	**12**	**2,540**

Part of the non-current intangible assets of the Company with the acquisition value of LTL 2,345 thousand as at 31 December 2014 (LTL 2,387 thousand of the Company as at 31 December 2013) was fully amortised, but still in use.

7 Property, plant and equipment

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

	Land	Buildings	Structures and machinery	Transmission networks and related installations	Distribution networks and related installations	Technological gas equipment and structures	Vehicles	Computer, connections and other equipment	Other property, plant and equipment	Construction in progress	Total
Cost:											
Balance as at 1 January 2013	**388**	**80,652**	**40,966**	**1,571,055**	**862,878**	**357,507**	**42,489**	**18,408**	**112,815**	**67,248**	**3,154,406**
Additions	-	6	529	-	1,975	1	4,104	2,385	2,056	87,665	98,721
Additions form UAB Palangos perlas	-	3,815	50	-	-	-	92	14	215	41	4,227
Disposals and retirements	-	(114)	(93)	(508)	(646)	(542)	(1,513)	(1,124)	(729)	-	(5,269)
Transferred to AB Amber Grid	(387)	(15,311)	(31,992)	(1,572,534)	(412)	(331,174)	(16,017)	(6,741)	(46,516)	(107,486)	(2,128,570)
Reclassifications	-	367	194	1,987	34,059	2,706	-	2,242	4,512	(46,067)	-
Balance as at 31 December 2013	**1**	**69,415**	**9,654**	**-**	**897,854**	**28,498**	**29,155**	**15,184**	**72,353**	**1,401**	**1,123,515**
Additions	-	-	546	-	1,292	-	3,027	1,597	1,211	31,549	39,222
Disposals and retirements	-	(321)	(98)	-	(893)	(389)	(3,504)	(2,097)	(2,178)	-	(9,480)
Transferred to UAB Lietuvos dujų tiekimas due to sale of activity	-	-	-	-	-	-	(1,028)	(836)	(3)	-	(1,867)
Reclassifications	-	38	111	-	26,480	1,972	-	(257)	3,020	(31,364)	-
Increase due to revaluation	-	14,730	547	-	-	-	3,702	-	-	-	18,979
(Decrease) due to revaluation		(6,620)	(560)	-	-	-	(1,242)	-	-	-	(8,422)
Reclassified as held for sale	-	-	-	-	-	-	(4,894)	-	-	-	(4,894)
Balance as at 31 December 2014	**1**	**77,242**	**10,200**	**-**	**924,733**	**30,081**	**25,216**	**13,591**	**74,403**	**1,586**	**1,157,053**
Accumulated depreciation:											
Balance as at 1 January 2013	**-**	**18,167**	**12,266**	**368,581**	**186,878**	**91,510**	**27,113**	**13,394**	**85,316**	**-**	**803,225**
Charge for the year	-	2,672	2,064	28,752	25,634	11,921	4,119	1,971	7,932	-	85,065
Additions of accumulated depreciation from UAB Palangos perlas	-	623	29	-	-	-	37	9	132	-	830
Disposals and retirements	-	(34)	(85)	(507)	(588)	(363)	(1,513)	(1,123)	(726)	-	(4,939)
Transferred to AB Amber Grid	-	(3,129)	(9,077)	(396,826)	(29)	(92,618)	(11,021)	(2,509)	(38,689)	-	(553,898)
Reclassifications	-	3	-	-	-	(3)	-	-	-	-	-
Balance as at 31 December 2013	**-**	**18,302**	**5,197**	**-**	**211,895**	**10,447**	**18,735**	**11,742**	**53,965**	**-**	**330,283**
Charge for the year	-	2,428	870	-	13,175	1,487	3,035	1,677	5,879	-	28,551
Disposals and retirements	-	(104)	(94)	-	(430)	(151)	(3,453)	(2,096)	(2,163)	-	(8,491)
Transferred to UAB Lietuvos dujų tiekimas due to sale of activity	-	-	-	-	-	-	(607)	(568)	(2)	-	(1,177)
Reclassifications	-	-	(23)	-	-	23	-	(451)	451	-	-
Reclassified as held for sale	-	-	-	-	-	-	(3,442)	-	-	-	(3,442)
Balance as at 31 December 2014	**-**	**20,626**	**5,950**	**-**	**224,640**	**11,806**	**14,268**	**10,304**	**58,130**	**-**	**345,724**
Impairment:											
Balance as at 1 January 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment charge for the year	-	(13,961)	58	-	(182,980)	(2,478)	-	-	-	-	(199,361)
Balance as at 31 December 2013	**-**	**(13,961)**	**58**	**-**	**(182,980)**	**(2,478)**	**-**	**-**	**-**	**-**	**(199,361)**
Impairment charge for the year	-	-	-	-	(13,669)	-	-	-	-	-	(13,669)
Disposals and retirements	-	(61)	1	-	397	124	-	-	-	-	461
Reclassifications	-	14,022	(59)	-	(13,963)	-	-	-	-	-	-
Balance as at 31 December 2014	**-**	**-**	**-**	**-**	**(210,215)**	**(2,354)**	**-**	**-**	**-**	**-**	**(212,569)**
Net book value as at 31 December 2014:	**1**	**56,616**	**4,250**	**-**	**489,878**	**15,921**	**10,948**	**3,287**	**16,273**	**1,586**	**598,760**
thereof:											
Cost excluding revaluation	1	69,132	10,213	-	924,733	30,081	22,756	13,591	74,403	1,586	**1,146,496**
Revaluation	-	8,110	(13)	-	-	-	2,460	-	-	-	**10,557**
Accumulated depreciation	-	(20,626)	(5,950)	-	(224,640)	(11,806)	(14,268)	(10,304)	(58,130)	-	**(345,724)**
Impairment	-	-	-	-	(210,215)	(2,354)	-	-	-	-	**(212,569)**
Net book value as at 31 December 2013:	**1**	**37,152**	**4,515**	**-**	**502,979**	**15,573**	**10,420**	**3,442**	**18,388**	**1,401**	**593,871**
thereof:											
Cost excluding revaluation	1	69,415	9,654	-	897,854	28,498	29,155	15,184	72,353	1,401	**1,123,515**
Accumulated depreciation	-	(18,302)	(5,197)	-	(211,895)	(10,447)	(18,735)	(11,742)	(53,965)	-	**(330,283)**
Impairment	-	(13,961)	58	-	(182,980)	(2,478)	-	-	-	-	**(199,361)**

A part of the property, plant and equipment of the Company with the acquisition cost of LTL 49,833 thousand was fully depreciated as at 31 December 2014 (LTL 51,606 thousand as at 31 December 2013), but was still in use.

As at 31 December 2014 and 2013 the Company had no property, plant and equipment, acquired under financial lease agreements.

The Company did not have any borrowing costs related to qualifying assets in 2014 and 2013.

7 Property, plant and equipment (cont'd)

Impairment of property, plant and equipment

Due to revaluation result accounted for certain property, plant and equipment groups as described below, assessment of recoverable value as at 31 December 2014 revealed an additional impairment loss of LTL 13,7 million, which was reallocated and accounted for the groups of property, plant and equipment, carried at cost (Note 2.6).

Revaluation of property, plant and equipment as at 31 December 2014

As at 31 December 2014 the fair value of the Company's respective property, plant and equipment groups was determined in the following way:

- buildings and related structures and machinery – according to the values determined by independent appraisers UAB Korporacija Matininkai and UAB Ober-Haus nekilnojamas turtas. Comparative prices method was used for the valuation;
- value of vehicles – Company's internal valuation, using average market prices announced in publication Emprekis;
- other not mentioned above asset groups – due to assets' specifics and absent active market – applying replacement cost method and adjusting by the value assessed by discounted cash flow method.

Before accounting for the result of the revaluation of property, plant and equipment, the impact of impairment accounted in previous periods was eliminated. The increase in the net book value determined during the revaluation of property, plant and equipment was accounted in other comprehensive income as revaluation reserve under equity. The decrease in the net book value was accounted in the income statement. The results of increase and decrease according to the respective groups of property, plant and equipment, determined during revaluation, are provided below:

Group of property, plant and equipment	Recognised in other comprehensive income as revaluation reserve	Recognised in income statement	Total revaluation profit (loss)
Buildings	14,731	(6,621)	8,110
Structures and machinery	547	(560)	(13)
Vehicles (including non-current assets held for sale)	3,702	(1,242)	2,460
Total	18,980	(8,423)	10,557

Revaluation effect on the basic earnings (loss) per share and the profit of the year 2014 is calculated below:

	2014
Revaluation loss recognised in income statement	(8,423)
Deferred income tax	1,263
Net revaluation loss	(7,160)
Weighted average number of shares (in thousands)	290,686
Revaluation effect on the basic earnings (loss) per share (in LTL)	(0.025)

If the respective groups of property, plant and equipment of the Company were not revalued, their net book values as at 31 December 2014 would be as follows:

Group of property, plant and equipment	Buildings	Structures and machinery	Vehicles (including non-current assets held for sale)
Net book value as at 31 December 2014	35,154	4,315	9,940

7 Property, plant and equipment (cont'd)

The information on the Company's fair value of property, plant and equipment according to the levels of hierarchy as at 31 December 2014 is provided below:

Group of property, plant and equipment	Level 1 Quoted prices	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Buildings		56,616		56,616
Structures and machinery		2,669	1,581	4,250
Vehicles (including non-current assets held for sale)		12,400		12,400
Other property, plant and equipment			16,273	16,273
Total		71,685	17,854	89,539

The values of the Company's property, plant and equipment, determined according to directly or indirectly observable inputs are attributed to Level 2 and determined using comparative prices method. The assets valued using this method include buildings, except for power buildings, structures and machinery related to the buildings and vehicles, i.e. assets, for which sales prices were available in active market. The property, plant and equipment attributed to Level 3 was valued using replacement cost method, adjusting the price determined by value determined by discounted cash flow method or using only discounted cash flow method.

8 Non-current accounts receivable

	As at 31 December 2014	As at 31 December 2013
AB Guartis debt	-	5,641
Other non-current accounts receivable	-	1
	-	5,642
Less: allowance for non-current accounts receivable	-	(5,641)
Total	**-**	**1**
Thereof attributable to continuing operations	-	1

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 Company in the amount of LTL 5,641 thousand should be repaid during the years 2015 – 2024. On 31 October 2014 the receivable from AB Guartis and related allowance was transferred to UAB Lietuvos dujų tiekimas.

9 Inventories

	As at 31 December 2014	As at 31 December 2013
Raw materials, spare parts and other inventories	2,161	1,657
Goods for resale (including natural gas)	731	40,424
Inventories, gross	2,892	42,081
Less: allowance for inventories	(233)	(39)
Total	**2,659**	**42,042**
Thereof attributable to continuing operations	2,659	2,515

Inventories amounting to LTL 33,625 thousand, including LTL 33,613 thousand natural gas stock stored in Inčukalns natural gas storage facility in the Republic of Latvia were transferred with the transfer of activity to UAB Lietuvos dujų tiekimas (Note 30).

The Company's cost of inventories accounted for at net realisable value amounted to LTL 1,888 thousand as at 31 December 2014 (LTL 1,191 thousand as at 31 December 2013). Changes in the allowance for inventories in 2014 and 2013 were included into other expenses.

10 Non-current assets held for sale

The Company's non-current assets held for sale comprise of vehicles with the net book value (revaluated) of LTL 1,452 thousand as at 31 December 2014. Before reclassifying the property, plant and equipment to non-current assets held for sale, the Company performed the revaluation of these assets and accounted for revaluated amount as book value. The Company's general manager on December 2014 approved the list of property, plant and equipment (vehicles) which are not planned to be used in the Company's activity and are planned to be sold in the first quarter of 2015 in a tender or an auction.

11 Accounts receivable

	As at 31 December 2014	As at 31 December 2013
Receivables from system users - non-household customers for distribution of natural gas	36,754	-
Receivables for natural gas, transmission and distribution of natural gas from non-household customers	-	138,632
Receivables for natural gas, transmission and distribution of natural gas from household customers	-	9,152
Other trade receivables	622	538
Total trade accounts receivable	37,376	148,322
Other accounts receivable	181	1,188
	37,557	149,510
Less: allowance for accounts receivable	(237)	(8,641)
Total	**37,320**	**140,869**
Thereof attributable to continuing operations	37,320	9,449

Trade receivables are non-interest bearing and are generally due in 15 days.

Trade accounts receivable in the amount of LTL 85,182 thousand were transferred to UAB Lietuvos dujų tiekimas (Note 30). Other accounts receivable in the amount of LTL 3 thousand were transferred to UAB Lietuvos dujų tiekimas (Note 30).

The accounts receivable attributable to continuing operations as at 31 December 2014 increased due to sales of distribution service to system user UAB Lietuvos dujų tiekimas after the transfer of supply activity and respective accounts receivable capturing.

As at 31 December 2014 trade and other receivables of the Company with the nominal value of LTL 230 thousand (as at 31 December 2013 – LTL 7,027 thousand) were fully provided for.

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

	Individually impaired	Collectively impaired	Total
Balance as of 1 January 2013	**3,268**	**5,350**	**8,618**
Charge for the year	1,583	1,963	3,546
Utilised	(945)	(379)	(1,324)
Unused amounts reversed	(1,704)	(1,071)	(2,775)
Transferred to AB Amber Grid	(139)	-	(139)
Reclassified from long-term receivables	715	-	715
Balance as at 31 December 2013	**2,778**	**5,863**	**8,641**
Thereof attributable to continuing operations	**150**	**54**	**204**
Charge for the year	714	1,517	2,231
Utilised	-	(227)	(227)
Unused amounts reversed	(520)	(1,064)	(1,584)
Transferred to UAB Lietuvos dujų tiekimas	(2,812)	(6,012)	(8,824)
Balance as at 31 December 2014	**160**	**77**	**237**

11 Accounts receivable (cont'd)

Changes in the allowance for accounts receivable in 2014 and 2013 were included into other expenses, except for the allowance for accounts receivable transferred to UAB Lietuvos dujų tiekimas and AB Amber Grid and amounts reclassified from long term receivables to short term receivables.

The ageing analysis of the Company's trade and other accounts receivable as at 31 December 2014 and 2013 is as follows:

		Trade and other receivables past due but not impaired					
	Trade and other receivables neither past due nor impaired	Less than 30 days	31 – 90 days	91 – 180 days	181 – 360 days	More than 360 days	Total
2013	104,894	34,287	1,122	271	270	-	140,844
Thereof attributable to continuing operations	8,755	644	28	4	-	-	9,431
2014	37,236	61	3	4	-	-	37,304

12 Cash and cash equivalents

	As at 31 December 2014	As at 31 December 2013
Cash at bank, in transit and on hand	68,197	36,725
Deposits with the term of less than three months	-	30,315
Total	**68,197**	**67,040**
Thereof attributable to continuing operations	68,197	-

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 the fixed or floating interest rate, which depends on published daily interbank interest rates. Other deposits with the term of less than three months are with fixed interest rate.

LTL 112,355 thousand were transferred to UAB Lietuvos dujų tiekimas (Note 30). The fair value of Company's cash as at 31 December 2014 was LTL 68,197 thousand. As at 31 December 2013, all the cash in the amount of LTL 67,040 thousand were attributed to supply activity, the continued distribution activity did not have a cash balance.

13 Reserves

Revaluation reserve

The revaluation reserve of the Company was formed after performing the revaluation of part of property, plant and equipment. As at 31 December 2014 it amounted to LTL 16,132 thousand.

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. As at 31 December 2014 the legal reserve of the Company comprises of 10% of the share capital.

Other reserves

Other reserves are formed based on the decision of the General Shareholder's Meeting on appropriation of distributable profit. Other reserves of the Company are comprised of business development reserve.

Profit distribution

The Company did not have a draft proposal of profit distribution for 2014 on the date of issue of these financial statements. Dividends were declared for interim results of 2014 as disclosed in Note 23.

14 Grants (deferred revenue)

	2014			2013		
	Deferred revenue	Grants	Total	Deferred revenue	Grants	Total
Balance at the beginning of the period	**122,802**	**13,070**	**135,872**	**125,483**	**105,322**	**230,805**
Received during the year	7,198	1,676	8,874	5,536	34,053	39,589
Change in grant receivable	-	-	-	-	(7,092)	(7,092)
Amortisation during the year	(2,546)	(996)	(3,542)	(2,512)	(2,672)	(5,184)
Grants used for compensation of expenses	-	(73)	(73)	-	(193)	(193)
Transferred to AB Amber Grid	-	-	-	(5,705)	(116,348)	(122,053)
Balance at the end of the period	**127,454**	**13,677**	**141,131**	**122,802**	**13,070**	**135,872**
Thereof attributable to continuing operations	127,454	13,677	141,131	122,802	13,070	135,872

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.

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. The income is accounted as sales revenue in income statement.

Additional information on the changes of grants and deferred revenue accounting is presented in Note 3.

Grants also include the corresponding fair value of property, plant and equipment received free of charge and charged to the income statement in portions on a straight-line basis over the assets' estimated useful life.

15 Non-current employee benefits

The Company's non-current employment benefit obligation to employees leaving the Company at the retirement age 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. Starting from 1 January 2013 after the amendments to IAS 19 become effective, the actuarial gains and losses are recognized in the statement of other comprehensive income.

In 2014 LTL 627 thousand of non-current employee benefit obligation were transferred to UAB Lietuvos dujų tiekimas (Note 30). As at 31 December 2014 the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 4,946 thousand, other non-current employee benefits resulting from bonuses for long work experience in the Company were equal to LTL 1,115 thousand. The past service cost amounting to LTL 982 thousand was accounted in other comprehensive income in 2014. As at 31 December 2013 the Company's employee benefits resulting from one-time payments to employees leaving the Company at the retirement age were equal to LTL 6,698 thousand, other non-current employee benefits resulting from bonuses for long work experience in the Company were equal to LTL 1,266 thousand. The employee benefits transferred to AB Amber Grid in 2013 amounted to LTL 1,133 thousand. As at 31 December 2013 the Company's non-current employee benefits, attributable to continuing operations, were equal to LTL 7,337 thousand.

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

	2014	2013
Discount rate	2.50 %	5.44 %
Annual employee turnover rate	3 %	2 %
Annual salary increase	2 %	2 %
Average time to retirement (years)	17	18

The Company has no plan assets designated for settlement with employee benefit obligations.

16 Trade payables

	As at 31 December 2014	As at 31 December 2013
Suppliers of natural gas	973	129,139
Other	3,655	7,176
Total	**4,628**	**136,315**
Thereof attributable to continuing operations	4,628	7,033

Terms and conditions of the above financial liabilities: trade payables are non-interest bearing and majority of them are normally settled on 30 days terms.

Trade payables amounting to LTL 6,392 thousand were transferred to UAB Lietuvos dujų tiekimas (Note 30) upon transfer of activity. In 2014 the Company did not have significant trade payables to natural gas suppliers, due to retrospective decrease in natural gas imported prices by OAO Gazprom and prepayment accounted due to it as explained in Note 5.

17 Other payables and current liabilities

The Company's other payables and current liabilities, attributable to continuing operations, mainly consist of VAT payable, which amounted to LTL 4,552 thousand and payables for the shares acquired, which amounted to LTL 1,637 thousand as at 31 December 2014. As at 31 December 2013 VAT payable was accounted under discontinued supply activity and amount to LTL 19,189 thousand. Other payables and current liabilities amounting to LTL 132 thousand were transferred to UAB Lietuvos dujų tiekimas (Note 30).

18 Natural gas purchase expenses

The natural gas purchase expenses significantly decreased due to reduced price of natural gas import (including retrospective price decrease (Note 5)).

19 Natural gas transmission service expenses

The Company has not been engaged in transmission activity since 31 July 2013. Starting August 2013 the Company purchases the natural gas transmission services from AB Amber Grid.

20 Financial activities

	2014	2013 (restated)
Interest income	186	15
Other income from financial activities	151	81
Total income from financial activities	337	96
Company's share of the losses of joint venture	(59)	-
Loss from liquidation of subsidiary	-	(397)
Interest expenses for guarantees provided	(3)	
Total expenses from financial activities	(62)	(397)
Result from financial activities, net	**275**	**(301)**

21 Income tax

	2014	2013 (restated)
Income tax:		
Profit before tax	161,060	(134,524)
Thereof: Continuing operations	*20,251*	*(200,892)*
Discontinued operations	*140,809*	*66,368*
Changes in temporary differences	115,358	234,622
Permanent differences*	(276,418)	7,898
Taxable income for the year	-	107,996
Current year income tax	-	16,199
Other current year income tax items	32	-
Current year income tax incentive	-	(7,803)
Current year income tax after applying income tax incentive	32	8,396
Other prior years' income tax adjustments	35,060	155
Change in deferred income tax during the year	(20,268)	(36,894)
Income tax expense (income) charged to the income statement	**14,824**	**(28,343)**
Thereof: Continuing operations	*(19)*	*(34,011)*
Discontinued operations	*14,843*	*5,668*

*Permanent differences mainly consist of the effect of retrospective natural gas discount received from OAO Gazprom and the difference between financial and tax loss from sale of supply activity.

According to the provisions of the Law on Corporate Income Tax (hereinafter – the Law), which came into effect starting 1 January 2009, the income tax incentive may be used for investments into qualifying property, plant and equipment. When calculating current income tax for the year 2013 the Company used the benefit of the above mentioned incentive and reduced income tax expenses for the year 2013 by a total amount of LTL 7,803 thousand.

	2014	2013 (restated)
Deferred tax asset:		
Impairment losses on property, plant and equipment	33,238	29,994
Vacation accrual	495	590
Accrual for non-current employee benefit	909	1,195
Unused income tax incentive	2,876	-
Allowance for doubtful trade accounts receivable	35	2,139
Tax loss carry forward	10,532	-
Deferred revenue from connection fees	1,898	1,942
Deferred tax asset before valuation allowance	**49,983**	**35,860**
Less: valuation allowance	-	-
Less: deferred tax asset netted with deferred tax liability	(37,311)	(34,536)
Deferred tax asset, net	**12,672**	**1,324**
Deferred tax liability:		
Difference in tax base of property, plant and equipment	(37,311)	(34,536)
Deferred tax liability, net	**-**	**-**

21 Income tax (cont'd)

Deferred tax asset amounting to LTL 5,925 thousand was transferred to UAB Lietuvos dujų tiekimas on 31 October 2014 (Note 30). LTL 2,942 thousand of deferred tax asset and LTL 114,527 thousand of deferred tax liability were transferred to AB Amber Grid on 31 July 2013. Net amount of deferred tax liability transferred amounted to LTL 111,585 thousand. The Company took over LTL 21 thousand of deferred tax liability when UAB Palangos perlas had been liquidated.

While assessing deferred income tax asset and liability components in 2014 and 2013 the Company used income tax rate of 15 %.

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 %:

	2014	2013 (restated)
Profit before tax	161,060	(134,524)
Thereof: Continuing operations	*20,251*	*(200,892)*
Discontinued operations	*140,809*	*66,368*
Tax (expense) at the applicable standard tax rate	(24,159)	20,179
Non-deductible items	41,463	(1,185)
Income tax incentive	2,876	7,803
Effect of prior periods income tax adjustment	(35,060)	(155)
Other	56	1,701
Income tax gain (expense)	(14,824)	28,343
Thereof: Continuing operations	19	34,011
Discontinued operations	(14,843)	(5,668)

22 Earnings per share

Basic earnings per share reflect 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. The restatement of income statement for 2013 is disclosed in Note 3. Calculations of the basic earnings per share are presented below:

	2014	2013 (restated)
Net profit (loss) attributable to the shareholders (in LTL thousand)	146,236	(106,181)
Net profit (loss) from continuing operations attributable to the shareholders (in LTL thousand)	20,270	(166,881)
Weighted average number of shares (in thousands)	290,686	376,212
Basic earnings per share (in LTL)	0.503	(0.282)
Basic earnings per share from continuing operations (in LTL)	0.070	(0.444)

There were no changes in the share capital of the Company during 2014, therefore the weighted average number of shares equals to the total number of shares at the end of the year. In 2013, when transmission activity was unbundled, the share capital of the Company decreased; therefore weighted average number of shares is calculated.

23 Dividends declared

	2014			2013
	Total	For annual results	For interim results	For annual results
Dividends declared (in LTL thousand)*	123,045	53,280	69,765	217,000
Number of shares at the date when dividends were declared (in thousands)	290,686	290,686	290,686	469,068
Dividends per share (in LTL)	0.42	0.18	0.24	0.46

* In the year when the dividends are declared.

24 Cash flows

The determination of cash flows from operating activities in 2014 includes the effect of the gas price discount received from OAO Gazprom that had a non-cash impact on the result of the Company, prepayments and trade payables.

When calculating cash flows from investing activities in 2014, the change in accounts payable for non-current assets of the Company of LTL 2,079 thousand and the gas network reallocation grant received as an asset in the amount of LTL 975 thousand, were taken into account. When calculating cash flows from investing activities in 2013, the change in accounts payable for non-current assets of the Company of LTL 29,649 thousand and the non-current assets received when liquidating UAB Palangos perlas amounting to LTL 3,398 thousand, were taken into account.

25 Capital investment commitments

As at 31 December 2014 the Company had the contracts for non-current assets acquisition, which are not recognised in these financial statements and amount to LTL 5,371 thousand. As at 31 December 2013 the Company had the contracts for non-current assets acquisition, which are not recognised in these financial statements and amount to LTL 4,254 thousand.

26 Financial assets and liabilities and risk management

Liquidity risk

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 Company.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2014 and 2013 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
Other current liabilities	-	521	1,637	-	-	2,158
Trade payables	-	4,628	-	-	-	4,628
Balance as at 31 December 2014	**-**	**5,149**	**1,637**	**-**	**-**	**6,786**
Other current liabilities	-	2,800	-	-	-	2,800
Trade payables	-	136,315	-	-	-	136,315
Balance as at 31 December 2013	-	**139,115**	-	-	-	**139,115**
Thereof attributable to continuing operations	-	8,024	-	-	-	8,024

Credit risk

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. 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. The debts of the customers are valued every month 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 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 treasury management regulations description. This description sets (1) the reliability limits of the banks selected for cooperation (2) the limits of diversification for deposing or investing cash to investment products of banks or their subsidiaries, securities of the Republic of Lithuania. The reliability level is assessed based on the publicly available information.

Foreign currency risk

In order to manage foreign currency risk, the purchases and sales transactions of the Company were mainly denominated in LTL and EUR, LTL was pegged to the euro, therefore, the foreign currency risk was not significant. Starting 1 January 2015 upon adoption of EUR in the Republic of Lithuania, the Company will mainly conclude the transactions in EUR.

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

Interest rate risk

As at 31 December 2014 and 2013 the Company did not have borrowings and did not experience interest rate risk.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's principal financial assets and liabilities not carried at fair value are trade and other receivables, trade and other payables.

The carrying amount of current trade and other accounts receivable, trade and other payables approximates fair value.

27 Commitments and contingencies

Legal disputes

On 25 March 2011 the Ministry of Energy of the Republic of Lithuania, which held 17.7 percent of the Company's shares by the right of trust, applied to Vilnius Regional Court with an action for an investigation of activities of a legal person and indicated AB Lietuvos dujos, the Company's board members delegated by OAO Gazprom and the general manager as defendants. This action requests initiation of an investigation of AB Lietuvos dujos activities and satisfaction of the respective claims specified in the action, provided that the activities of the company AB Lietuvos dujos and/or the above board members and/or the general manager are found inadequate. Following the investigation of the action regarding the initiation an investigation of activities of a legal person lodged by the claimant, the Ministry of Energy of the Republic of Lithuania, the Vilnius Regional Court by its ruling as of 3 September 2012 granted the claim and decided to start investigation of the AB Lietuvos dujos activities. The Company lodged an appeal against the ruling of the Court of First Instance with the Court of Appeal of the Republic of Lithuania. The Court of Appeal of the Republic of Lithuania upheld the ruling of the Vilnius Regional Court. On 29 April 2013, the Company lodged a cassation appeal with the Lithuanian Supreme Court requesting reversal on appeal of the judgment of the Lithuanian Court of Appeal as of 21 February 2013 and requesting that the action brought by the plaintiff be either left unconsidered or dismissed altogether. On 20 November 2013, the Lithuanian Supreme Court rendered a judgment to suspend the lawsuit unless the issue of acknowledgement of the decision of the Arbitration Institute of the Stockholm Chamber of Commerce (hereinafter referred to as "the Arbitration Decision") is settled and the permit to satisfy the Arbitration Decision is given. The Arbitration Decision indicates that the courts of the Republic of Lithuania are entitled consider the lawsuit regarding the investigation of activities of AB Lietuvos dujos. However, all the issues related to the natural gas supply and transit to the district of Kaliningrad, including prices and tariffs shall be subject to the exclusive competence of Arbitration. While examining the issue of acknowledgement of the Arbitration Decision, the Lithuanian Supreme Court appealed to the Court of Justice of the European Union requesting to award a preliminary (explanatory) judgement regarding the interpretation and application of the legal rules related to the acknowledgement of the Arbitration Decision. The outcome of the case is uncertain and can not be reasonably estimated.

On 14 July 2014 the Prosecution Service of the Republic of Lithuania filed the indictment to Vilnius Regional Court, according to which AB Lietuvos dujos and its former employees are charged with setting off the wrong tariffs for natural gas supply activity for household customers resulting in alleged damage to users. Vilnius Regional Court started investigating this case on 13 August 2014. The general prosecutor required that the court imposes the fine in the amount of 25,000 of basic social benefit, i.e. LTL 3,250 thousand, to AB Lietuvos dujos. AB Lietuvos dujos did not agree with the accusations and demands of general prosecution. The Company expected absolution. On 27 February 2015 Vilnius Regional Court ruling absolved AB Lietuvos dujos of charges as the incriminated activity had not been identified. The ruling has not come into force yet.

28 Related party transactions

The parties are considered related when one party has the ability to control the other one or have significant influence over the other party in making financial and operating decisions. This includes the Company's management.

The related parties of the Company, transaction amounts and debts as at 31 December 2014 and 2013 were as follows:

- E.ON Ruhrgas International GmbH (one of the major shareholders of the Company, until 21 May 2014);
- OAO Gazprom (one of the major shareholders of the Company, until 19 June 2014);
- The Ministry of Energy of the Republic of Lithuania, since 21 February 2014 - Lietuvos Energija, UAB, and its Group companies, hereinafter - Lietuvos Energija, UAB (one of the major shareholders of the Company until 21 May 2014, main Shareholder since 21 May 2014);
- UAB GET Baltic (joint venture where the Company has an interest);
- AS Latvijas Gaze (common shareholder, until 19 June 2014);
- AB Amber Grid (common shareholder, until 19 June 2014).

28 Related party transactions (cont'd)

In 2014 and 2013 the Company engaged in a number of transactions in connection with unbundling process described in Notes 1, 4 and 5.

In 2014, the Company entered into an agreement with OAO Gazprom which granted to the Company a significant discount related to prior year natural gas purchase. Refer for details to Note 5.

The tables below represent the Company's transactions and outstanding balances with related parties in 2014 and 2013. Transactions of the Company with Lietuvos Energija, UAB, sales-purchases are disclosed for the period 1 March 2014 – 31 December 2014. Transactions of the Company with OAO Gazprom, AB Amber Grid and AS Latvijas Gaze, sales-purchases are disclosed for the period 1 January 2014 – 30 June 2014. Trade payables to OAO Gazprom, AB Amber Grid and AS Latvijas Gaze and trade receivables from before mentioned companies as at 31 December 2014 are not disclosed as for the end of the period above mentioned companies are not related parties of the Company.

The sales and purchase transactions with AB GET Baltic do not include the purchase and sales of natural gas, since UAB GET Baltic is only intermediary, providing intermediary services for certain commission fee. Accounts receivable and accounts payable to UAB GET Baltic are disclosed with the accounts payable for natural gas.

2014	**Purchases**	**Sales**	**Accounts receivable**	**Accounts payable**
OAO Gazprom*	219,395	(1,293)	-	-
AB Amber Grid	14,894	5,832	-	-
AS Latvijas Gaze	639	-	-	-
UAB GET Baltic	193	13	1	892
Lietuvos Energija, UAB**	576	104,744	22,406	1,710
	235,697	109,296	22,407	2,602

* The Company included corrections during 2014 regarding discount received from OAO Gazprom (see Note 5).
** The Company didn't include into purchases the shares of two companies of Lietuvos Energija, UAB, Group, which were signed, but not fully paid as at 31 December 2014, as described in Note 1.

2013	**Purchases**	**Sales**	**Accounts receivable**	**Accounts payable**
OAO Gazprom	1,245,997	19,641	-	73,101
AS Latvijas Gaze	1,561	-	-	-
UAB GET Baltic	167	14	1	56,038
AB Amber Grid	14,137	5,586	1	1,523
	1,261,862	25,241	2	130,662

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 an arm's length basis.

Dividends to the shareholders have been paid in 2014 and 2013.

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 Company.

<u>Management remuneration</u>

In 2014 payments to the administration management of the Company amounted to LTL 2,537 thousand. In 2013 payments to the administration management of the Company amounted to LTL 3,555 thousand. The annual payments (tantieme) paid according to agreements for the Company's Board members amounted to LTL 34 thousand in 2014 (LTL 540 thousand in 2013). In 2014 and 2013 the management of 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 Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that 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 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 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 2014 and 2013.

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 2014 and 2013 the Company was in compliance with this requirement. There were no other internally or externally imposed capital requirements on the Company.

30 Net assets sold

		UAB Lietuvos dujų tiekimas
ASSETS		
A.	**Non-current assets**	**6,875**
I.	Intangible assets	260
II.	Property, plant and equipment	690
II.1.	Vehicles	421
II.2.	Other equipment, tools and devices	227
II.3.	Other property, plant and equipment	42
III.	Deferred income tax asset	5,925
B.	**Current assets**	**304,129**
I.	Inventories and prepayments	106,589
I.1.	Inventories	33,625
I.1.1.	Raw materials, spare parts and other inventories	12
I.1.2.	Goods for resale (including natural gas)	33,613
I.2.	Prepayments	72,964
II.	Accounts receivable	90,059
II.1.	Trade receivables	85,182
II.2.	Other receivables	3
II.3.	Receivable due to transfer of activities	4,874
III.	Cash and cash equivalents	107,481
Total assets		**311,004**
C.	**Liabilities**	**54,000**
I.	Non-current liabilities	627
I.1.	Non-current employee benefits	627
II.	Current liabilities	53,373
II.1.	Trade payables	6,392
II.2.	Advances received	21,853
II.3.	Payroll related liabilities	1,068
II.4.	Provisions	23,928
II.5.	Other payables and current liabilities	132
D.	**Net assets directly associated with the disposed activity**	**257,004**

31 Events after the reporting period

1 January 2015 is the day of introduction of EUR in the Republic of Lithuania, therefore as from this day the functional currency of the Company was changed accordingly. The exchange rate of LTL 3.45280 for 1 EUR which was irrevocably set by the Council of Europe was be applied while converting LTL to EUR.

On 3 March, 2015, AB Lietuvos Dujos received a letter from the Company's shareholder - Lietuvos Energija, UAB (hereinafter - Lietuvos Energija) - containing information about expected changes. The letter informs that the Board of Lietuvos Energija approved the concept of activity chain purifying programme for Lietuvos Energija group, foreseeing the merger of AB Lietuvos Dujos and AB LESTO to the joint venture distribution network company. It is expected that a plan of a detailed project will be approved in April, 2015 and the implementation is planned by the end of December, 2015.

There were no other events after the reporting period, which could materially influence the financial statements for the year ended as of 31 December 2014.

Annual report of AB Lietuvos Dujos

For the year ended on 31 December 2014

Energetikos įmonių grupė | www.le.lt

CONTENT

KEY INDICATORS OF AB LIETUVOS DUJOS

Key performance indicators of AB Lietuvos Dujos

		31.12.2014	31.12.2013	Change +/-	Change %
Performance indicators					
Volume of gas distributed to customers	*thousand m³*	747.772	856.349	-108.577	-13%
Volume of gas sold to customers*	*thousand m³*	665.764	1.035.273		
Gas supply quality indicators					
SAIDI, min. (including force majeure)	*min.*	1,67**	0,12	1,55	
SAIFI, pcs. (including force majeure)	*pcs.*	0,006**	0,002	0,004	

* data for 10 months of 2014

** Due to break-out of the gas pressure regulating station in Sirvintu city the distribution of natural gas was interrupted.

Note: The National Control Commission for Prices and Energy has set annual indicators for 2014 - 2018

	Unplanned terminations	
SAIDI, min. (at the responsibility of the operator)	*min.*	0,4410
SAIFI, min. (at the responsibility of the operator)	pcs.	0,0056

Key financial indicators of AB Lietuvos Dujos continued distribution activity

		31.12.2014	31.12.2013 *(restated)*	Change +/-	Change %
Revenue	thousand LTL	192.077	165.125	26.952	16%
Cost of natural gas	thousand LTL	15.128	24.914	-9.786	-39%
Other expenses	thousand LTL	156.973	340.802		
Other expenses (after the elimination of impairment expenses of non-current assets)	thousand LTL	135.318	141.441	-6.123	-4%
EBITDA (1)	thousand LTL	70.112	38.134	31.978	84%
EBITDA margin (2)	%	36,5%	23,1%		
Net profit	thousand LTL	20.270	-166.881		
Net profit (after the elimination of impairment expenses of non-current assets)	thousand LTL	38.677	2.576	36.101	1401%
Net profit (including the discontinued activity)	thousand LTL	146.236	-106.181		

Key financial indicators of AB Lietuvos Dujos

		31.12.2014	31.12.2013 *(restated)*	Change +/-	Change %
Total assets	thousand LTL	743.313	852.474	-109.161	-13%
Equity	thousand LTL	571.749	531.591	40.158	8%
Financial debt	thousand LTL	0	0		
Net financial debt (3)	thousand LTL	-68.197	-67.040		
Return-to-equity ratio (ROE) (4)	%	25,6%	-20,0%		
Equity level (5)	%	76,9%	62,4%		

1)EBITDA (earnings before interest, taxes, depreciation and amortization) = profit (loss) before taxes + interest expenses - interest income - dividends received + depreciation and amortization expenses + impairment expenses + non-current tangible assets write-offs;

2) EBITDA margin = EBITDA / Revenue;

3) Net financial debt = financial debt - cash and cash equivalents - short-term investments and fixed-term deposits – a share of other long-term financial assets comprising investments in debt securities;

4)Return on equity (ROE) = net profit (loss)/equity at the end of the period;

5) Equity level = equity at the end of the period/total assets at the end of the period.

A WORD FROM THE CHIEF EXECUTIVE OFFICER

Year 2014 marked the reorganization of the gas sector in Lithuanian economy. Gas business environment has changed dramatically in the last year. AB Lietuvos Dujos was returned to the state in the implementation of requirements of the European Union Third Energy Package, gas distribution and supply activities were unbundled, finally, Lithuania created itself a possibility to acquire gas from alternative sources independent of one supplier - it implemented the liquefied natural gas terminal project on its own, which allowed Lithuania to become a player in the global gas market.

Changes occurred last year allowed clearing up the activities of Lietuvos Dujos. Since 1 November 2014, the state-owned company Lietuvos Dujos has been operating as a natural gas distribution system operator, ensuring a reliable, stable and secure gas transportation via distribution gas pipelines, carrying out guarantee gas supply to vulnerable consumers in case of need, maintaining the existing pipelines, conducting development works and caring for the attraction of new gas customers and their connection to gas pipelines.

A favourable economic situation in Lithuania, record low oil prices and other factors allow us to look into the future with cautious optimism and to create new action plans for Lietuvos Dujos, which will mainly focus on those, who we work for. Gas customers - current and future ones, those, who search for ways to improve their living conditions and reasonably invest in the creation of clearer and more convenient environment for themselves and others - are the axis around which all activities of our company rotate.

We have counted that about 3.6 thousand new customers were connected to the gas distribution network under our supervision, which is 17 percent more than in 2013, when three thousand new gas customers joined the ranks of gas customers in Lithuania. This increase was determined by growing economy of the country, recovering real estate sector and introduction of the euro. We have set ourselves a goal to continue increasing the number of customers by offering private home owners and companies favourable conditions for connecting to the network. In cooperation with state authorities we have been searching for easier funding conditions for connecting settlements to networks. We have ambitious ideas to offer new services for our current and future customers.

Having witnessed really high gas prices for many years, we have faced decreasing gas consumption in Lithuania. However, this year we can rejoice over the reduction of the gas price, which decreased by as much as one-third for household customers compared to the price paid in 2013. Also, a fee for connecting a new customer to the gas distribution system decreased by half over the past several years. Natural gas is once again becoming a competitive fuel in the heat production market.

Since the volume of the distributed natural gas has decreased over the past few years, distribution network maintenance costs have been distributed over a lower volume of distributed gas, which led to significantly increasing gas distribution tariff. In order to be able to increase the consumption of natural gas at the lowest possible cost, we will seek to exploit the already developed infrastructure and give due attention to the customers, whose connection to the existing infrastructure would be simple and cost-effective. We seek to enhance consumer confidence in gas as a clean and convenient fuel.

Cleared up activities of the Company and its evident function - management of the gas distribution network, search for new customers, encouraging them to connect to gas pipelines and densification of the network leads to the natural need for Lietuvos Dujos to reconsider the company’s structure and direct its activities towards specific strategic development trends. By reorganizing the company’s activities in accordance with the highest standards of state-owned companies and offering new services to customers, we are creating organization, the aim thereof is to create and establish a long-term partnership with our customers.

Liudas Liutkevičius

Chairman of the Board and CEO
AB Lietuvos Dujos

REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED

The report was prepared for January - December of 2014.

MAIN DATA ABOUT THE COMPANY

Name	Public Company Lietuvos Dujos (hereinafter - the Company)
Legal form	Public company
Date and place of registration	23 November 1990, Register of Legal Entities
Legal entity code	120059523
Registrar of the Register of Legal Entities	SE Centre of Registers
Authorized capital	LTL 290.685.740
Registered office address	Aguonų str. 24, LT-03212 Vilnius, Lithuania
Telephone	+370 5 236 0210
Fax	+370 5 236 0200
E-mail address	ld@lietuvosdujos.lt
Website	www.lietuvosdujos.lt

MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

Natural gas tariffs for household customers unilaterally set by the National Control Commission for Prices and Energy (NCCPE) on 28 November 2013, which were greater than those set by the decision of the Board of Directors of the Company, took effect on January 1.

On 30 January 2014, the Extraordinary General Meeting of Shareholders decided to initiate arbitration proceedings against OAO Gazprom in order to reduce the price of gas supplied. General Manager of the Company was obligated to carry out all actions necessary for the initiation of the arbitration proceedings and proper execution thereof, and was authorized to negotiate with OAO Gazprom in order to improve natural gas supply conditions.

On 20 February, the Ministry of Energy transferred to the Ministry of Finance 51.454.638 state-owned ordinary registered shares of AB Lietuvos Dujos with a par value of LTL 1 each (granting 17.7% of votes in the General Meeting of Shareholders of AB Lietuvos Dujos) to manage, use and dispose of them by the right of trust.

On 21 February, the Ministry of Finance transferred to Lietuvos Energija, UAB 51.454.638 state-owned ordinary registered shares of AB Lietuvos Dujos with LTL 1 par value each and granting 17.7% of votes in the General Meeting of Shareholders of AB Lietuvos Dujos as a non-monetary contribution for paying for the newly issued shares of Lietuvos Energija, UAB.

Decisions to approve financial results of AB Lietuvos Dujos, elect an audit company, recall the member of the Board of Directors, representative of the Ministry of Energy Valdas Lastauskas and to elect Dr. Dalius Misiūnas, the Chairman of the Board and Chief Executive Officer of Lietuvos Energija, UAB as a member of the Board of Directors were adopted in the General Meeting of Shareholders of the Company held on 30 April.

In the implementation of decisions of the General Meeting of Shareholders and having received the powers of the Board of Directors, on 7 May AB Lietuvos Dujos signed an agreement with a natural gas supplier OAO Gazprom on a significant reduction of the price of natural gas imported by AB Lietuvos Dujos.

On May 19, the Competition Council of the Republic of Lithuania adopted a resolution whereby it allowed a concentration by Lietuvos Energija, UAB acquiring up to 100% of shares of AB Lietuvos Dujos and gaining a sole control of AB Lietuvos Dujos in accordance with a presented concentration notice, and stated that the dominant position will not be created or enhanced, and competition in respective markets will not be significantly restricted due to the planned concentration.

On 21 May, Lietuvos Energija, UAB and E.ON Ruhrgas International GmbH concluded a contract on the purchase - sale of shares of AB Lietuvos Dujos in accordance with which Lietuvos Energija, UAB purchased from E.ON Ruhrgas International GmbH 113.118.140 shares of AB Lietuvos Dujos, which accounted for 38.9% of the authorized capital of AB Lietuvos Dujos.

On 22 May, the Company received a notice of Lietuvos Energija, UAB on its intention to submit a mandatory take-over bid for the redemption of the remaining 126.112.962 ordinary registered shares of the issuer with the par value of LTL 1 each. The Bank of Lithuania made a decision to approve the mandatory take-over bid circular for the redemption of the remaining ordinary registered voting shares of the issuer.

On 29 May, the NCCPE approved the reduced natural gas tariffs for household customers set by the Board of Directors of AB Lietuvos Dujos on 22 May 2014. The tariffs took effect on 1 July 2014.

The implementation of the mandatory take-over bid on the redemption of the issuer's shares of the Company's shareholder Lietuvos Energija, UAB was completed on 16 June. During the mandatory take-over bid, OAO Gazprom and some minority shareholders submitted applications for selling shares of the Company. Lietuvos Energija, UAB acquired from OAO Gazprom 107.734.925 ordinary registered shares of AB Lietuvos Dujos, which accounts for 37.1% of the Company's authorized capital, and it purchased 8.622.363 of shares of AB Lietuvos Dujos from minority shareholders, accounting for 2.9% of the Company's authorized capital. After the mandatory take-over bid, Lietuvos Energija, UAB owns 96.6% and minority shareholders - 3.4% of shares of the Company.

Decisions to approve the resignation of members of the Board delegated by E.ON Ruhrgas International Gmbh Dr. Achim Saul and Uwe Fip, to recall the members of the Board of Directors delegated by OAO Gazprom Dr. Valery Golubev and Kirill Seleznev and to elect for the remaining term of office of the Board of Directors of AB Lietuvos Dujos candidates Ieva Lauraitytė, Ilona Daugėlaitė and Mindaugas Keizeris nominated by Lietuvos Energija, UAB as members of the Board of Directors of the Company were made in the Extraordinary General Meeting of Shareholders held on 30 June.

Also, the Extraordinary General Meeting of Shareholders instructed the Board of Directors to assess alternative ways for the method of the unbundling of the Company's supply and distribution activities approved by decision of the General Meeting of Shareholders held on 28 May 2012 and, upon the identification of a more efficient method by the Board of Directors of AB Lietuvos Dujos, to adopt at its own discretion all decisions necessary for changing the method of the unbundling of the natural gas distribution activity and implementing the method selected by the Board of Directors of AB Lietuvos Dujos, including, but not limited to, decisions on the unbundled activity, its market value, method of unbundling, etc.

A resolution to elect Dr. Dalius Misiūnas as the Chairman of the Board was adopted in the meeting of the Board of Directors of AB Lietuvos Dujos held on 30 June.

In the implementation of the requirements of the Law on Natural Gas of the Republic of Lithuania and other legislation on the unbundling of natural gas distribution activity and the resolution of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos of 30 June 2014, on 21 July, the Board of Directors of the Company approved that the distribution and supply activities of the Company will be unbundled by selling the Company's complex of assets (part of Enterprise), i.e. the natural gas supply activity with the assets, rights and obligations attributed thereto, to a company controlled by the main shareholder of the Company Lietuvos Energija, UAB under the purchase - sale agreement of a part of Enterprise.

During the Extraordinary General Meeting of Shareholder of AB Lietuvos Dujos held on 22 July, a decision was made to distribute the profit of 2013 and pay LTL 53.3 million, or 18.3 cents per share, in dividends. Also, in order to make uniform the principles of reserve formation applied in financial statements of all the companies of Lietuvos Energija Group, a decision was made at the General Meeting of Shareholders to transfer other reserves in the amount of LTL 328 million, which had been formed previously within several years by AB Lietuvos Dujos, to the Company's retained earnings.

On 24 July, the NCCPE adopted a resolution regarding the amendment to AB Lietuvos Dujos action plan for the unbundling of its distribution activity and instructed the Company to follow the methods and deadlines indicated in the amended unbundling plan in order to have legal, functional and organizational unbundling of the distribution activity carried out no later than by 31 October 2014. Upon the implementation of the action plan approved with the NCCPE, AB Lietuvos Dujos remains a natural gas distribution company, while its supply activity is transferred to a natural gas supply company established by the main shareholder of the Company Lietuvos Energija, UAB.

On 11 August, the announcement was made about the reorganization of the management of AB Lietuvos Dujos in accordance with Corporate Governance Guidelines applicable in the entire state-owned energy group Lietuvos Energija. Pursuant to these Guidelines, a new Board of Directors of AB Lietuvos Dujos was formed.

Cooperation of national electricity and natural gas distribution as well as supply companies was started on 14 August seeking to optimise the services provided to customers. A centre for serving customers of Lietuvos Dujos was opened up in AB LESTO customer service centre located in Vilnius. Having evaluated synergy possibilities of both companies, integration of services provided to electricity and gas consumers is planned in the future.

On 8 September, Viktoras Valentukevičius, having managed the Company since 2002, resigned from his post as a General Manager. Mantas Mikalajūnas, Head of Strategic Development Department, was appointed as an Acting General Manager of AB Lietuvos Dujos.

On 30 September, the General Meeting of Shareholders of AB Lietuvos Dujos made a decision on the allocation of interim dividends for a period shorter than a financial year for shareholders of AB Lietuvos Dujos. Shareholders were allocated dividends of LTL 0.24 per share of AB Lietuvos Dujos.

In the implementation of requirements of the Law on Natural Gas of the Republic of Lithuania and other legislation for the unbundling of natural gas distribution activity and in light of decisions made by the General Meeting of Shareholders and the Board of Directors of the Company, on 15 October, AB Lietuvos Dujos concluded a contract on the purchase-sale of the part of Enterprise with UAB Lietuvos Dujų Tiekimas. The Company sold its natural gas supply activity with assets, rights and obligations attributed thereto at a market price set by property appraisers. UAB Lietuvos Dujų Tiekimas is owned by the main shareholder of the Company Lietuvos Energija, UAB.

On 29 October, the Supervisory Board of AB Lietuvos Dujos was elected by a decision of the Extraordinary General Meeting of Shareholders, consisting of Darius Kašauskas, Director of Finance and Treasury of Lietuvos Energija, UAB, Ilona Daugėlaitė, Director of Organizational Development of Lietuvos Energija, UAB and an independent member Petras Povilas Čėsna. The Board of Directors of the Company is accountable to the Supervisory Board.

On 1 November, the reorganization of the management of AB Lietuvos Dujos completed the implementation of the requirements of the European Union's Third Energy Package to unbundle the natural gas supply and distribution activities. Having sold the natural gas supply activity to a new Lietuvos Energija Group company UAB Lietuvos Dujų Tiekimas, AB Lietuvos Dujos now manages the natural gas distribution system and is engaged in the provision of gas distribution services.

New Board of Directors and CEO of AB Lietuvos Dujos were elected on November 3. Liudas Liutkevičius, who is also the Chairman of the Board of AB Lietuvos Dujos, was appointed Chief Executive Officer of the Company. Liudas Liutkevičius has previously worked as a member of the Board and Director for Production and Services of Lietuvos Energija, UAB. Other elected members of the Board include Giedrė Glinskienė, Director of the Finance and Treasury Division, Tomas Šidlauskas, Director of the Gas Network Division, Nemunas Biknius, Director of the Service and Development Division and Valentina Birulienė, Director of the Organizational Development Division.

On 20 November, the NCCPE approved natural gas distribution prices of AB Lietuvos Dujos applicable from 1 January 2015. The natural gas distribution price cap increased by 16.7 percent, however, gas distribution prices for different customer groups increased from 5.1 to 9.5 percent. The main reason for the increasing gas distribution price was natural gas distribution volumes, which were 17 percent lower than forecasted in 2015.

On 12 December, the Board of AB Lietuvos Dujos made a decision to acquire 1.998.048 shares of UAB Technologijų ir Inovacijų Centras accounting for 9 percent of the authorized capital of the company with the par value of LTL 1 each and issue price of LTL 1.02.

On 15 December, the Board of AB Lietuvos Dujos made a decision to acquire 145.000 shares of UAB Verslo Aptarnavimo Centras accounting for 7.25 percent of the authorized capital of UAB Verslo Aptarnavimo Centras with the par value of LTL 1 each and the issue price of LTL 1.

On 31 December, AB Lietuvos Dujos announced that it was warned about the violation of Article 21(5) of the Law on Securities of the Republic of Lithuania by a decision of the Director of the Supervision

Service of the Bank of Lithuania of 30 December 2014. Given this fact, the Company will account for the impairment of non-current tangible assets in its annual financial statements of 31 December 2014 in retrospect.

MAJOR DEVELOPMENTS AFTER THE REPORTING PERIOD

On 1 January 2015, AB Lietuvos Dujos started publishing the data on calorific value of gas supplied to the network. Since now on, consumed gas will be accounted for in euro for kilowatt-hours for gas system users.

A member of the Board of the Company Tomas Šidlauskas resigned on 30 January 2015. As from 31 January 2015, the Board of AB Lietuvos Dujos consists of the Chairman of the Board Liudas Liutkevičius and members of the Board Nemunas Biknius, Giedrė Glinskienė and Valentina Birulienė.

In the meeting of the Supervisory Board held on 9 February 2015, Dalius Svetulevičius, having held the post of the Head of Operational Management Department up until then, was elected a new member of the Board of the Company.

On 3 of March, 2015, AB Lietuvos Dujos received a letter from the Company's shareholder - Lietuvos Energija, UAB - containing information about expected changes. The letter informs that the Board of Lietuvos Energija approved the concept of activity chain purifying programme for Lietuvos Energija group, foreseeing the merger of Lietuvos Dujos and LESTO to the joint venture distribution network company. It is expected that a plan of a detailed project will be approved in April, 2015 and the implementation is planned by the end of December, 2015.

ANALYSIS OF FINANCIAL AND PERFORMANCE RESULTS

In the implementation of the provisions of the European Union Third Energy Package on the unbundling of activities, assets, rights and obligations attributed to the transmission activity unbundled from the Company were transferred to a newly established company AB Amber Grid as at 31 July 2013, while assets, rights and obligations attributed to the supply activity unbundled from the Company were sold to UAB Lietuvos Dujų Tiekimas as at 31 October 2014 under the contract on the purchase-sale of a part of Company of 15 October 2014.

All revenues earned and expenses incurred from the supply activity before 31 October 2014, the result of sale of the supply activity, and all revenues earned and expenses incurred from the transmission and supply activities during 2013 were attributed to the discontinued operations in the Income statement.

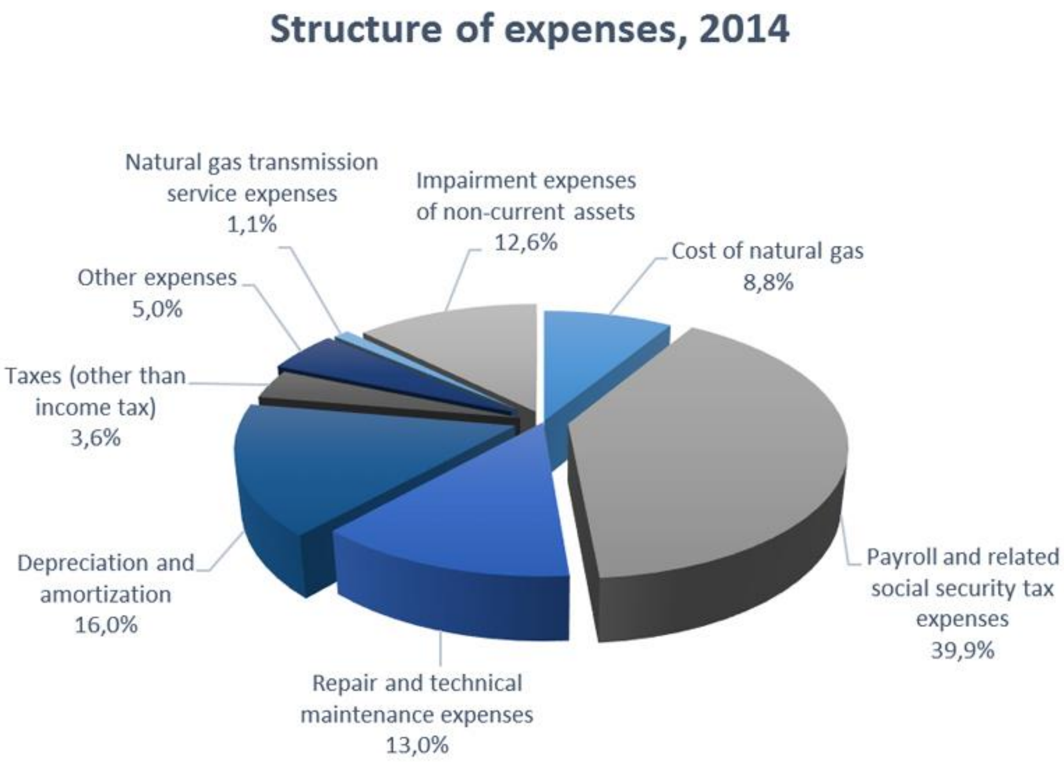
The financial statements for 2013 have been restated having accounted for the impairment of non-current assets in retrospect as at 31 December 2013, after evaluation of the recoverable value of non-current assets of distribution activity applying a cash flow method.

REVENUE

Compared to 2013, revenue of the Company's continued gas distribution activity increased by 16.3 percent (LTL 27 million) in 2014 and amounted to LTL 192.1 million. Sales revenue constituted the major (98 percent) share of revenue. The increase in revenue was determined by increased distribution service prices set at the beginning of the new price regulatory period (2014–2018).

EXPENSES

Expenses of the Company's continued gas distribution activity decreased by 52.9 percent (LTL 193.6 million) compared to 2013 and amounted to LTL 172.1 million. After the elimination of the impairment expenses of non-current assets, in 2014, expenses of the Company totalled LTL 150.4 million and were 9.6 percent lower than in 2013 (LTL 166.4 million). The impairment of non-current assets accounted in retrospect as at 31 December 2013 resulted in the decrease of depreciation expenses of 30.2 percent in 2014. Also cost of natural gas decreased significantly due to the reduction in the import price of natural gas (including the reduction of the price in retrospect).



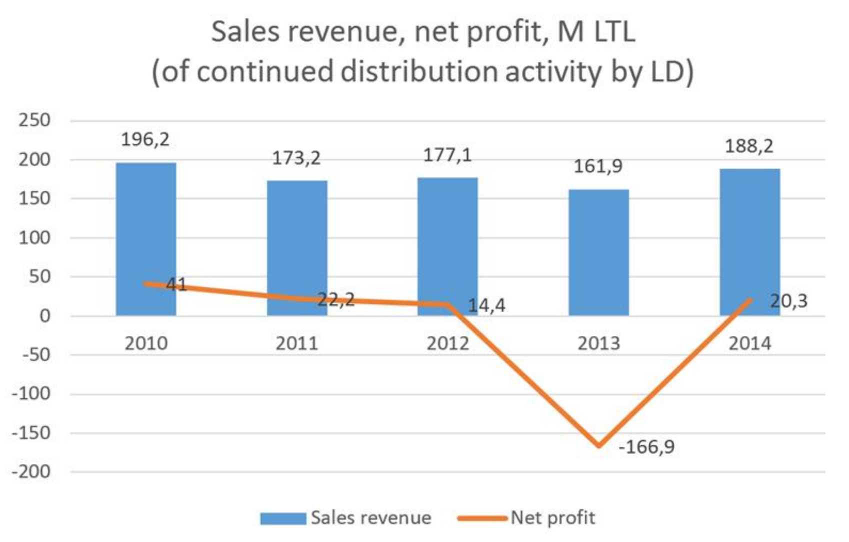
ACTIVITY RESULTS

The increase in profit before tax of the continued gas distribution activity from the loss of LTL 200.9 million in 2013 to profit of LTL 20.3 million in 2014 was determined by the impairment of non-current assets of LTL 199.4 million formed in retrospect in distribution activity on 31 December 2013. In 2014, the earnings before interest, taxes, depreciation and amortization (EBITDA) of the continued gas distribution activity increased by LTL 32 million (84 percent) and accounted for LTL 70.1 million compared to LTL 38.1 million in 2013 (EBITDA calculations did not take the impact of the impairment of non-current assets into account). This change was impacted by better distribution activity results due to increased revenues.

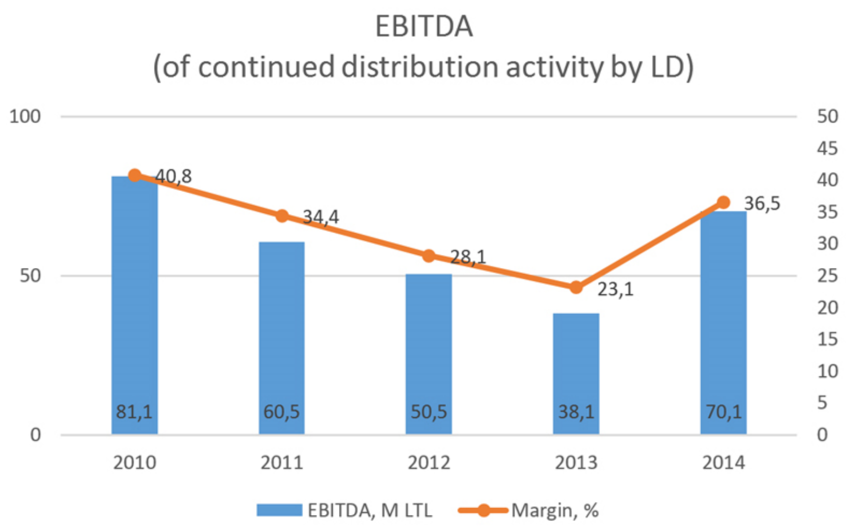
In 2014, net profit of the Company totalled LTL 146.2 million (in 2013, net loss of LTL 106.2 million), including net profit of the continued activity of LTL 20.3 million (compared to the net loss of LTL 166.9 in the same period of last year). Net loss of the continued activity in 2013 was determined by the above-indicated impairment of non-current tangible assets. Having eliminated the impact of the impairment of non-current assets, net profit of the continued gas distribution activity would account for LTL 2.6 million and LTL 38.7 million in 2013 and 2014, respectively.

Net profit of the discontinued supply activity, including the activity sales result, totalled LTL 126 million (in 2013, net profit of the discontinued supply activity amounted to LTL 50.7 million and net result of transmission activity was LTL 10 million).

Upon the change of the accounting policy in accordance with the policy applied in Lietuvos Energija, UAB Group on 31 December 2014, a part of the Company’s non-current tangible assets was accounted for in application of the revaluation method. A part of asset revaluation results was reflected under other comprehensive income, which totalled LTL 17 million in 2014.



*restated for 2010-2013. More information on restated sales and other revenue is disclosed in the financial statements of the Company for 2014.



ASSETS

At the end of 2014, the Company's assets amounted to LTL 743.3 million (of which non-current assets accounted for LTL 616.2 million, or 82.9 percent, and short-term assets totalled LTL 127.1 million (17.1 percent)) compared to LTL 852.5 million at the end of 2013. The value of the assets decreased mainly due to the sale of the gas supply activity to UAB Lietuvos Dujų Tiekimas.

EQUITY AND LIABILITIES

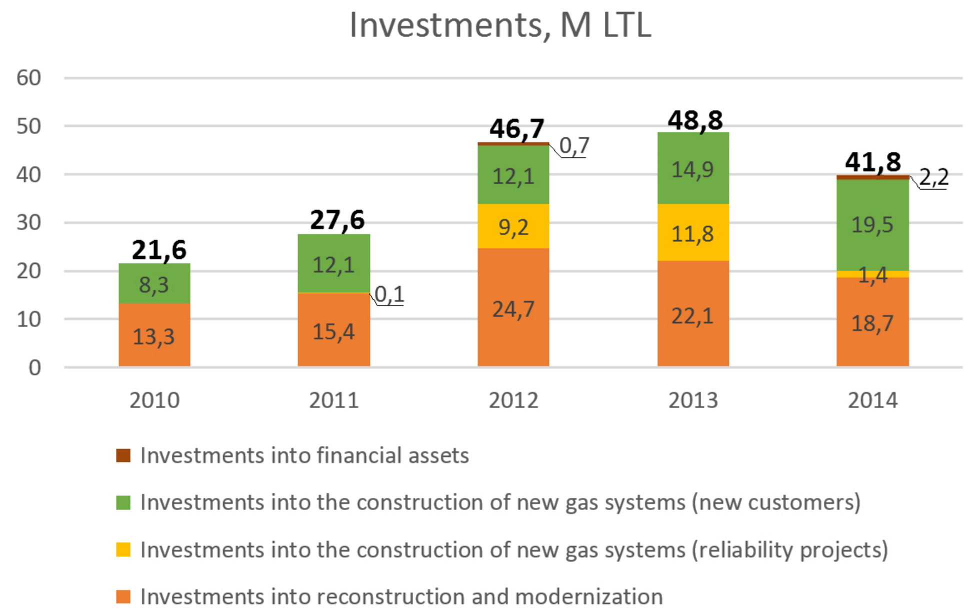
The Company's equity increased by LTL 40.2 million as a result of good performance results in 2014 and accounted for LTL 571.7 million at the end of 2014, i.e. 77.1 percent of the total assets of the Company.

Payables and liabilities totalled LTL 171.6 million at the end of 2014 compared to LTL 320.9 million at the end of 2013. Payables and liabilities decreased mainly as a result of the sale of the gas supply activity to UAB Lietuvos Dujų Tiekimas. There were no financial debts to credit institutions at the end of 2014.

More information on the Company's financial results is disclosed in the financial statements of the Company for 2014.

INVESTMENTS

In 2014, investments of the continued gas distribution activity of the Company amounted to LTL 41.8 million, which is LTL 7 million or 14.3 percent less than in 2013. The decrease in investments was mainly determined by lower investments into the reconstruction of the gas system, modernization and reliability projects in 2014. However investments into the construction of new gas systems by connecting new customers increased significantly. In 2014, 46.7 percent of funds were invested into the construction objects of new gas systems, 48.1 percent was allocated for investments into the reconstruction of gas systems, modernization and reliability projects, while the remaining part comprised investments into financial assets.



In 2014, LTL 19.5 million was invested for connecting new customers (in 2013: LTL 14.9 million), 87.3 km (in 2013: 72.6 km) of distribution pipelines were built and 3.6 thousand new customers were connected to gas pipelines, which is 17 percent more as compared to 2013, when 3 thousand new customers were connected to gas distribution systems.

One of the major investment projects into the construction of new gas systems started in 2014 is the medium pressure pipeline to a residential block in Zujūnų, Varnės, Smalinės, Karaliaučiaus streets in the northern part of Pilaitė district, Vilnius. The first stage of the project was already completed. 4.6 km of gas distribution system was built during this project, investing LTL 0.5 million therein and connecting 37 new customers. Later development of the project will be made depending on customer needs.

Also, the project for the construction of gas distribution system in Vismaliukai was completed in 2014. 4.2 km of a medium pressure gas pipeline was built, investing LTL 0.9 million therein.

DIVIDENDS

On 22 July 2014, the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos made a decision on the distribution of profit of 2013. LTL 53.3 million, or 18.3 cent per share, was allocated for dividends (LTL 217 million, or 46.3 cent per share, was paid for 2012).

On 30 September 2014, the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos made a decision on the allocation of dividends to shareholders of AB Lietuvos Dujos for a period shorter than the financial year. Shareholders were allocated dividends of LTL 0.24 per share. The total allocated dividend amount was LTL 69.8 million.

ACTIVITIES OF AB LIETUVOS DUJOS

The natural gas distribution system operator AB Lietuvos Dujos is a responsible company owned by the state of Lithuania, which is focused on increasing operational efficiency and value, and is a part of the largest state-owned energy group Lietuvos Energija. The Company is responsible for natural gas distribution infrastructure, the safety, renovation and development thereof, takes care of the attraction of new customers and their connection to gas distribution pipelines. It provides emergency gas maintenance services, inspects gas meters. Upon the unbundling of natural gas supply and distribution activities at the end of 2014, household customers have been paying for gas to supply companies, which in turn have been making payments to the distribution system operator AB Lietuvos Dujos for the gas distribution service provided thereby. Non-household customers - gas system users continue paying AB Lietuvos Dujos for the gas consumed. The Company’s daily operations are based on three core values: responsibility, cooperation and result.

YEAR 2014 – A NEW STAGE

AB Lietuvos Dujos started a new stage of its life in the autumn of 2014 upon the unbundling of the function of gas supply - acquisition of gas as goods and its sale to customers. This step completed the implementation of the European Union Third Energy Package requiring to separate gas infrastructure from the supply activity. Since then, the activities of Lietuvos Dujos have become clear; they currently include the supervision and development of gas distribution pipelines, search for, attraction and connection of new customers to the gas distribution system.

LIETUVOS DUJOS – A PART OF LIETUVOS ENERGIJA GROUP

In mid-2014, the state acquired 96.6% of shares of the Company through Lietuvos Energija and became the major shareholder of AB Lietuvos Dujos. The remaining part of shares of the Company, i.e. 3.4%, is owned by minority shareholders.

Being a part of Lietuvos Energija, the Company seeks to exploit synergy possibilities with other subsidiaries, energy sector leaders, such as LESTO and Lietuvos Energijos Gamyba. In the creation of customer-friendly environment, the Company will serve our customers together with LESTO in joint customer service centres in order provide customers with all electricity and gas infrastructure-related services in one place. The plan is to search for new possibilities for combining services provided by these companies in the future.

ACCESSIBLE GAS DISTRIBUTION INFRASTRUCTURE

The natural gas distribution system owned by Lietuvos Dujos is very well developed and is one of the best infrastructures in Europe allowing connection of new gas customers. In order to be able to continue providing high quality services, the Company must invest into the maintenance of the network, the renovation of the infrastructure and construction of new gas pipelines.

8.5 thousand km of gas distribution pipelines were built in the territory of 41 municipalities. There are only a few cities and towns currently unable to use gas. There still aren’t any gas distribution network branches in Raseiniai, Kelmė, Šilalė, Šilutė, Pagėgiai, Lazdijai, Varėna, Molėtai, Ignalina, Zarasai, Rokiškis, Kupiškis, Skuodas and Tauragė. The latter is one of the cities, where AB Lietuvos Dujos considers a possibility for investing into the construction of a new gas pipeline.

When planning new investments, it is important to assess the return on investment thereof so that the investment does not become a burden on other customers. Having a customer commitment to use gas, it is possible to plan to build new gas distribution pipeline branches. In order to reduce infrastructure maintenance cost, the existing infrastructure must be better exploited and developed, the network needs to be densified and gas consumption - increased. The greater is the volume of gas consumed, the less the maintenance of the infrastructure costs to customers.

OUR CUSTOMERS. LONG-TERM PARTNERSHIP

The Company seeks to organize work so that employees of AB Lietuvos Dujos themselves would come to customers, attract new customers rather than simply responding to their needs. Being convenient, more flexible for gas distribution system users, ability to hear individual needs of each customer can affect decision to choose Lietuvos Dujos as a long-term business partner.

There are 550.000 household customers (households) and 6.500 non-household customers in Lithuania. 100.000 household customers use gas for heating houses, while the majority, 450.000, use gas in stoves for cooking food.

Gas is mostly used in production activities of companies and to generate heat, thus the greatest volume of gas - about 600 million MCM per year - is used by non-household customers - industrial companies and heat producers. Household customers use about 160 million MCM of gas per year: about 130 million MCM for heating houses and about 30 million MCM in stoves.

When servicing customers in customer centres or their homes, Lietuvos Dujos specialists follow Customer Service Standards. This is a Code of Conduct allowing enhancing the quality of customer service and interpersonal communication. The same Code of Conduct applies throughout all Lietuvos Energija Group companies.

NATURAL GAS - THE CLEANEST TYPE OF FOSSIL FUEL

Air pollution of natural gas used for the production of heat in households, industry or energy sectors is the lowest compared to other fuels. Burning natural gas does not emit any unpleasant odor and does not cause smog. Almost one hundred and fifty times less particulate matter is emitted when using gas compared to firewood, and more than a thousand times less than firing peat products. This is illustrated by emission factor values caused by organic fuel combustion published in 1997 in Lithuania, which were described based on conducted scientific and laboratory research and in accordance with international practice and experience. The study conducted by the Lithuanian Energy Institute in 2012 states that natural gas CO_2 (carbon dioxide) emission is the lowest among other fuel types[1].

Currently, biofuel is the largest competitor of natural gas. Due to relatively high price of gas in several past years and financial support from the EU structural funds, the use of biofuel has been increasing - businesses were willingly investing into expensive biofuel boiler houses in the past few years hoping to be able to produce “green” eco-friendly energy that way. With the decrease in the price of gas started in the autumn of 2014, customers are expected to eventually turn back to choosing natural gas. Analysts have observed that persisting trends of low natural gas prices for a longer period of time can result in stopping growth in the use of biofuel, because biofuel boiler house technologies are more expensive than those of gas. According to the specialists, investments into biofuel boiler houses and their operating costs are higher than those of gas boilers.

The use of natural gas for heating is very convenient, because heat can be easily adjusted, there is no need to store fuel or to worry about purchasing it, also, gas boilers are easy to maintain. With the decreasing price of natural gas, this fuel becomes one of cheaper energy sources. Customers pay for natural gas only once per month and only for the volume of gas consumed. Customers are able to start heating their houses with gas whenever they want to, without having to wait for a heating season to start or end.

WHAT IS OUR OPERATING ENVIRONMENT?

In recent years, the use of natural gas declined in Lithuania as a result of high prices thereof. The decreasing consumption of gas is naturally leading to a risk that a tariff will increase. However, upon the commencement of a liquefied natural gas terminal in Lithuania, gas thereto can be brought by special vessels from any place of the world, the country’s possibilities to purchase gas from several suppliers increased. The plan is to have an international gas pipeline to Poland constructed by 2019, thus expanding the possibility for choosing sources further more. These circumstances lead to increased competition in the gas market, which will eventually ensure the same price of gas to customers as in neighbouring countries and result in the growing number of customers. The reduction in the price of gas in the world was also determined by falling oil prices in the past half-year.

The price of gas for household customers decreased by one third in the past two years. The comparison of prices in 2013 and 2015 reveals that now household customers pay 30.6% less: 1 cubic meter of gas cost LTL 2.09 (EUR 0.6) in 2013, while in 2015 it costs LTL 1.45 (EUR 0.42). The decrease in the price of gas was also impacted by the reduction of the price in retrospect.

A fee for connecting one new customer to the gas distribution system decreased by half. On average, if 30 meters of gas pipeline need to be constructed to holdings of a new gas customer, works for the construction of such distance together with a fee independent of the distance with the installation of gas system equipment costs about LTL 2.230,54 (EUR 646) in 2015, while in 2011 the connection fee for 30 meters was LTL 4.236,96 (EUR 1.227). Thus the price for connecting new customers fell by as much as twice over a period of four years.

In order to ensure efficient operation of the gas market, Lietuvos Dujos has been working with new customers and encouraging the existing clients to continue choosing the efficient, convenient and cleanest type of fossil fuel - natural gas. The Company has been creating a gas market together with gas supply companies in Lithuania. We must ensure efficient market operation for the customer to obtain

[1] Study “Šiltnamio efektą sukeliančių dujų nacionalinių emisijų rodiklių energetikos sektoriuje įvertinimas”. The Lithuanian Energy Institute, 2012.

the maximum benefit.

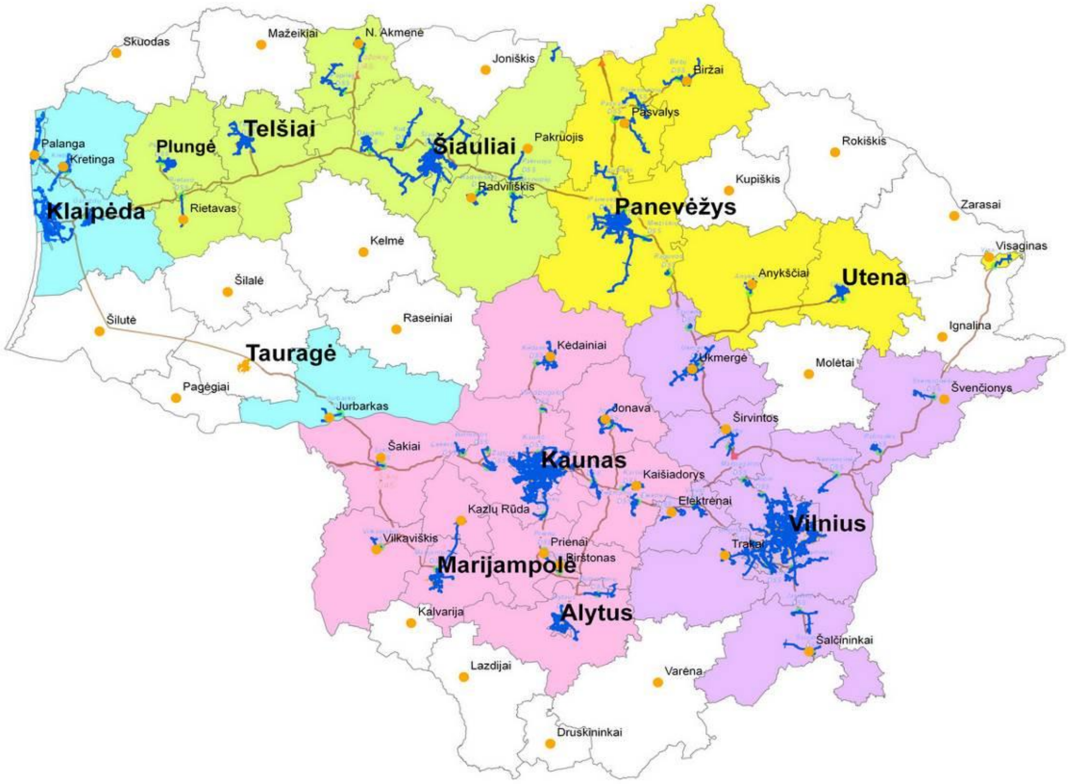
Lietuvos Dujos, a company operating in a stable and reliable manner, is a guarantee of security for gas customers. With the emergence of new gas supply sources in Lithuania, possibilities for new gas suppliers to operate in the market have been increasing. Should a gas supply company become no longer able to perform its obligations, AB Lietuvos Dujos would ensure guarantee gas supply to household customers and non-household customers consuming up to 20 thousand cubic meters of natural gas per year in the procedure prescribed by laws.

WHO DO WE SEEK TO BECOME?

In order to enhance consumer confidence in gas and increase the number of customers, the Company has been working on the creation of new service and new investment ideas increasing the Company’s value. Reorganizing its activities and cooperating with municipalities and other institutions in 2015, AB Lietuvos Dujos will seek to speed up the connection of new customers to the gas distribution network. Now the connection process of customers to gas pipelines, taking into consideration the submission of all the necessary documents, takes about nine months on average. The Company plans to reduce this period of time to eight months.

Lietuvos Dujos has also been considering the provision of other services increasing the competitiveness of the Lithuanian economy and improving the quality of people’s life. In cooperation with stat authorities the plan is to search for easier funding possibilities for laying gas pipelines to settlements. This would encourage the development of gas distribution systems. We could also present new customers with offers for setting up a boiler house or propose to larger customers a technology allowing not only to become a gas customer, but to also produce electricity necessary for own needs and supplied to the network. By offering a new service package, we would become even more appealing to new natural gas customers.

NATURAL GAS DISTRIBUTION SYSTEM OPERATED BY THE COMPANY



Gas distribution pipelines

Municipalities that do not have gas distribution infrastructure or it does not belong to AB Lietuvos Dujos

	Length of gas pipelines operated, thousand km	Gas pressure regulating devices, pcs.	Volume of distributed natural gas, MCM
Vilnius branch	2.5	325	155.1
Kaunas branch	2.7	229	240.4
Klaipėda branch	1.0	71	135.0
Šiauliai branch	1.3	100	77.6
Panevėžys branch	0.9	97	139.7
Total	**8.4**	**822**	**747.8**

JOINT VENTURES

According to the data of 31 December 2014, AB Lietuvos Dujos owned UAB GET Baltic jointly with other companies and gas acquired shares of UAB Verslo Aptarnavimo Centras and UAB Technologijų ir Inovacijų Centras.

Key information about the companies:

Key data of joint ventures	UAB Verslo Aptarnavimo Centras	UAB Technologijų ir Inovacijų Centras	UAB GET Baltic
Legal form	Private limited company	Private limited company	Private limited company
Company code	303359627	303200016	302861178
Registered office address	P. Lukšio str. 5B, 08221 Vilnius	A. Juozapavičiaus str. 13, 09311 Vilnius	Savanorių Ave. 28, Vilnius, Lithuania
Telephone number	(8 5) 259 4400	(8 5) 278 2272	+370 655 65103
Fax	(8 5) 259 4401	(8 5) 278 2299	
E-mail	vac@le.lt	info@etic.lt	info@getbaltic.lt
Website	www.vac.le.lt	www.etic.lt	www.getbaltic.lt
Authorised capital	LTL 2.000.000	LTL 22.200.525	LTL 2.000.000
Share of the authorised capital owned by AB Lietuvos Dujos, percent as at 31 December 2014	7.25%*	9%*	34%
Core business of the company	Provision of services of the organization and execution of public procurement procedures, accounting and personnel administration services	Provision of information technology and telecommunication services to companies operating in the energy sector	Organization of trading on the Natural Gas Exchange

*The part of shares signed but not fully paid by Lietuvos Dujos.

NATURAL GAS BUSINESS ENVIRONMENT

Upon the implementation of the provisions of the EU Third Energy Package providing for the separation of gas sector activities, the management of the Lithuanian gas sector was established. Natural gas transmission network is managed and maintained by the Lithuanian natural gas transmission system operator AB Amber Grid, natural gas distribution network is under the management and supervision of the Lithuanian natural gas distribution system operator AB Lietuvos Dujos, while the natural gas supply to customers is ensured by UAB Lietuvos Dujų Tiekimas and other suppliers operating in the Lithuanian market. AB Lietuvos Dujos and UAB Lietuvos Dujų Tiekimas are owned by the largest energy group Lietuvos Energija, UAB.

NATURAL GAS SUPPLY MARKET RESEARCH

Pursuant to the Law on Energy of the Republic of Lithuania, the NCCPE conducts market research aimed at the ensurance of efficient competition in the energy sector and preventing the abuse of power of highly influential persons in a certain market. On 29 April 2014, the NCCPE approved the Natural Gas Supply Market Research Report. The Report stated that the greatest share of the natural gas supply market was occupied by AB Lietuvos Dujos; also, the natural gas supply market research did not show that the economic entity AB Lietuvos Dujos was applying excessive prices or using price pressure due to a lack of effective competition, thus causing damage to market participants.

NATURAL GAS ACCOUNTING PROCEDURE

Description of the Natural Gas Accounting Procedure approved by Order of the Minister of Energy of the Republic of Lithuania of 27 December 2013 and subsequent amendments thereto establish a new essential requirement for gas companies, biogas production companies, system users and gas consumers to have gas volume in the natural gas transmission system accounted for in units of volume (cubic meters, m^3) and units of energy (kilowatt-hours, kWh), and gas volume in the natural gas distribution system accounted for in units of volume (m^3) and/or units of energy (kWh) calculated using gas upper calorific value starting from 1 January 2015. When paying for gas and the provided gas transportation services, non-household customers and system users shall account for the gas volume consumed in units of energy (kWh), while household customers shall account for the gas volume consumed in units of volume (m^3), just like it was done before. AB Lietuvos Dujos prepared for the implementation of the Description, and it has been accounting for the volume of gas for settlement with its customers - system users - in units of energy (kWh) as from 1 January 2015. The Company has been publishing gas calorific value every day on its website www.lietuvosdujos.lt.

LICENSING

The Law on Natural Gas stipulates that the activity of natural gas distribution and the activity of natural gas supply carried out by the Company till 31 October 2014 are subject to licensing. Licences are issued and the supervision of the licensed activities is executed by the National Control Commission for Prices and Energy (NCCPE). The natural gas distribution licence grants the Company the right to engage in the gas distribution activities in the territory of 41 municipalities (out of 60). The natural gas supply licence grants the Company the right to engage in the natural gas supply business in the territory of the Republic of Lithuania.

SITUATION IN THE GAS MARKET

Main factors affecting the perspective of the natural gas consumption is the development of the use of renewable energy sources and the promotion thereof as well as the price level of competing energy sources (biofuel, oil, etc.). The National Energy Independence Strategy establishes that by 2020 renewable energy sources (RES) shall constitute at least 23 percent in the final energy consumption (at least 20 percent in electricity sector, at least 60 percent in district heating sector and at least 10 percent in transport sector). RES development is subsidized both at the EU and the national level, using support provided by EU structural funds, etc., and a large share of energy sector and business companies have been actively investing in the replacement of the fuel used, transferring to the use of RES, which has led to decreased consumption of natural gas in Lithuania. In 2014, AB Lietuvos Dujos transported via its distribution networks 747.8 million MCM of natural gas, which is 12.7 percent less than in 2013.

PRICING AND NATURAL GAS PRICES

Natural gas distribution service prices applicable to all customers are subject to regulation. Regulated price caps are set for a five-year regulatory period and may be adjusted by a decision of the NCCPE, but no more often than once per year and in cases provided for in the Law on Natural Gas. The activity of natural gas supply is not subject to regulation.

The Company sets specific natural gas distribution prices once per year. Tariffs of the natural gas supply activity carried out by the Company until 31 October 2014 were set for household customers once every six months. Natural gas distribution prices and tariffs for household customers are submitted for the NCCPE's approval.

Natural gas tariffs for household customers of AB Lietuvos Dujos unilaterally set by the NCCPE on 28 November 2013 took effect from 1 January 2014. Compared to tariffs valid in Half 2 of 2013, the set variable tariff component decreased for different subgroups of household customers from 4 to 24 cent/m^3 (inclusive of VAT). The fixed tariff component remained unchanged.

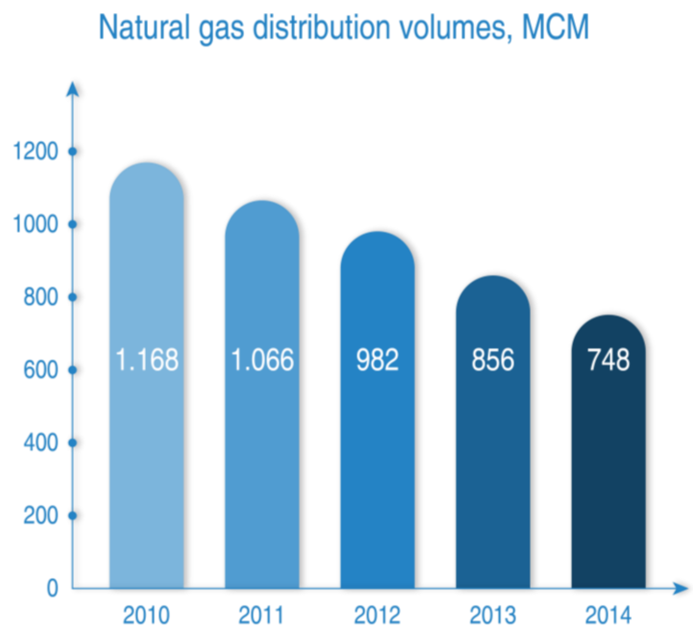
On 22 May 2014, the Board of Directors of the Company approved lower natural gas tariffs for household customers, which took effect from 1 July 2014. The variable tariff component approved by the Board of Directors of the Company for different household customer subgroups decreased by an average of 40 cent/m^3 (inclusive of VAT). The variable component of the natural gas tariff for household customers decreased for all customer subgroups due to the reduction of the price in retrospect. The fixed gas tariff component remained unchanged. The NCCPE approved these tariffs on 30 May 2014.

Natural gas price for non-household customers was recalculated each month. The natural gas import price depended on oil and gasoil prices in international market, the USD/EUR exchange rate set by the European Central Bank and the actual calorific value of natural gas. In 2013-2014, the prices of oil and oil products in international markets and the value of EUR against USD stabilised, thus natural gas prices for non-household customers were gradually declining in January - April 2014. When the Company reached an agreement with the gas supplier OAO Gazprom on the reduction of the price of natural gas imported by the Company in May 2014, the Company made offers to all 6.5 thousand non-household customers to amend conditions of their natural gas purchase-sale contracts, which resulted in a significantly lower natural gas price for non-household customers as from May 2014.

For more detailed information on the prices of gas distribution services provided by the Company, see the Company's website www.lietuvosdujos.lt, while for information on household customer tariffs visit the website of UAB Lietuvos Dujų Tiekimas www.ldtiekimas.lt.

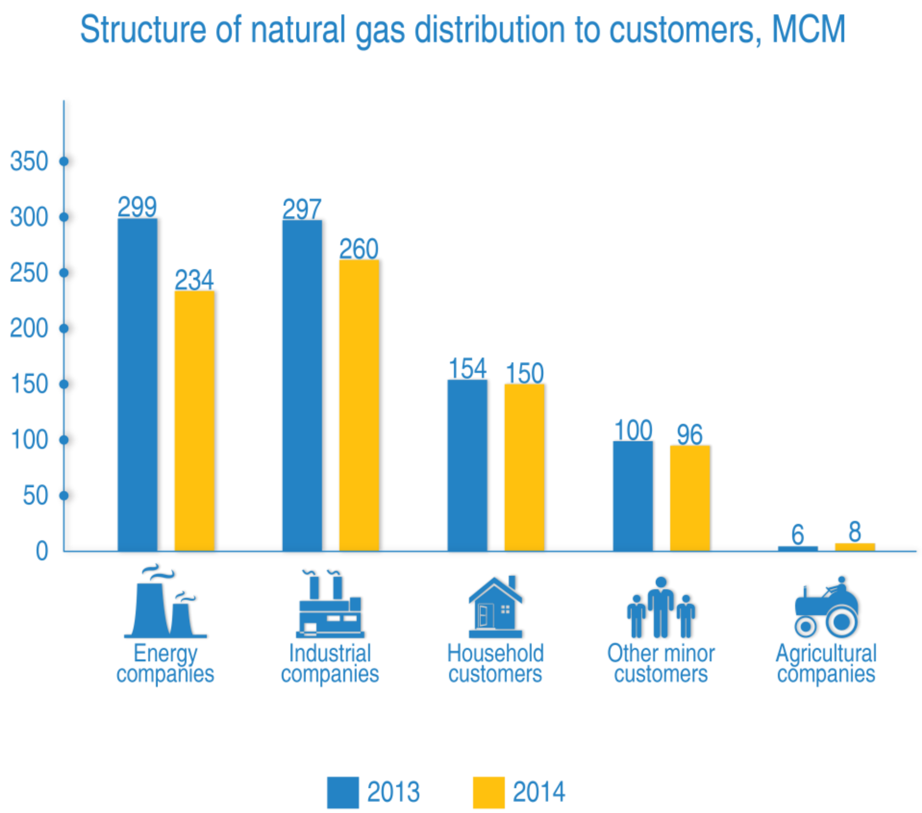
During the reporting period of 2014, AB Lietuvos Dujos purchased natural gas from a single supplier – OAO Gazprom. In the implementation of requirements of the resolution of the Government of the Republic of Lithuania, the Company stored the set volume of gas in Incukalns (Latvia) underground storage facility. In cases of accidents and emergencies, this accumulated volume of gas would have ensured uninterrupted supply of gas to vulnerable customers (all household and non-household customers consuming up to 20.000 MCM of natural gas per year) for the period of at least 30 days.

NATURAL GAS DISTRIBUTION



In 2014, AB Lietuvos Dujos transported via its distribution networks 747.8 MCM of natural gas, which is 12.7 percent less than in 2013 (856.3 MCM).

As compared to 2013, natural gas distribution volumes decreased mainly due to a warm winter season, lower consumption by the heat and power production plants and substitution of natural gas for other types of fuels and subsidies for renewable energy sources.



BUSINESS PLANS AND FORECASTS

AB Lietuvos Dujos has been continuing the development of its gas distribution system taking into consideration consumer needs. The plan is to connect 3.000 new customers and build about 95 km of distribution pipelines in 2015.

The construction of a high-pressure gas pipeline to villages of Baraginės and Nendriniškių located in Marijampolė Free Economic Zone is planned in 2015, building 5.5 km of gas pipelines. Another planned large investment project is the construction of a medium pressure gas pipeline to Kaunas Airport located in Karmėlava, Kaunas district. The plan is to construct a 3.6 km-long gas pipeline.

The Company will continue implementing the launched projects aimed at increasing operational efficiency, optimizing costs and exploiting synergy opportunities in Lietuvos Energija Group.

RISK MANAGEMENT

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

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

The Company faces in its activities the following risks: competition-related risk, regulation-related risk, organizational structure-related risk, credit risk, unauthorized use (theft) of natural gas, technical and other risk.

COMPETITION-RELATED RISK

The Company competes with suppliers of alternative fuels, primarily biofuel. High gas import price level affects the decrease of natural gas competitiveness in the Lithuanian fuel market and, correspondingly, the transition of consumers to the use of alternative energy sources. The National Energy Strategy provides for the promotion of the increase of the share of renewable energy sources in the country's energy balance at the expense of fossil fuels (primarily of natural gas). The majority of large natural gas consumers producing heat and electricity have the necessary technologic equipment and can use alternative energy sources replacing natural gas without any additional investments. The use of biofuel (wood waste, straw) in the production of heat energy has been increasing. During the period from 2007 to 2013, the amount of about LTL 220 million was allocated for the promotion of investment projects from the EU structural funds.

Energy produced by using renewable energy sources is bought up in the priority order, its production is subsidized though the application of Public Service Obligations (PSO) mechanism.

According to the data of the Lithuanian District Heating Association, a share of renewable energy sources in the total volume of fuel used for heat production will increase to 50-55% at the end of 2015, while during the period of 2016-2020, upon the implementation of the major Vilnius and Kaunas cogeneration power plant projects, also modernization works of other boiler houses, the heat sector should achieve the planned EU and national goals to produce 80-85% of "green" heat of biofuel. This would result in 10-15 percent lower consumption of natural gas, respectively.

In order to retain and expand its market share, to secure safe natural gas supplies to consumers and meet the set requirements for the quality of services provided, the Company implements the development of gas systems, continuously carries out gas system maintenance, repair and modernization works, upgrades its customer service and implements a consistent programme for business process optimization and cost-cutting. Lietuvos Dujos follows the principles of transparency and fair competition in its business activities.

REGULATION-RELATED RISK

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

The core activity of the Company is natural gas distribution (the Company was also engaged in the supply of natural gas until 31 October 2014). A license is issued for the execution of the natural gas distribution activity. Natural gas distribution service prices and investments into the natural gas distribution systems are regulated by the state.

The Company seeks to maintain constructive relations with regulatory authorities and to actively participate in the legislation drafting process.

ORGANIZATIONAL STRUCTURE RISK

In the fulfilment of the requirements of the Law on Natural Gas and other legal acts for the unbundling of the natural gas distribution activities and given decisions of the General Meeting of Shareholders and the Board of the Company, on 15 October 2014, AB Lietuvos Dujos concluded a contract on the purchase-sale of a part of Enterprise with UAB Lietuvos Dujų Tiekimas. UAB Lietuvos Dujų Tiekimas is a company owned by the main shareholder of the Company Lietuvos Energija, UAB.

In accordance with the contract on the purchase-sale of a part of Enterprise, i.e. natural gas supply activity with assets, rights and obligations attributed thereto, was sold, thus successfully implementing the Company's action plan for the unbundling of natural gas distribution and supply activities approved with the National Control Commission for Prices and Energy.

RISK OF UNAUTHORIZED USE OF NATURAL GAS

In order to prevent unauthorized use of natural gas (thefts), the Company has been analysing possible preventive measures. Additional safeguards were applied for unauthorized gas consumption in 2014 - a scientific study related to the safeguards was conducted, the use of additional protective seals was started, information on insufficient resistance of a part of gas meters was presented to the gas meter producer. In response to the presented information, the producer initiated changes in the production of gas volume measuring tools. Also, additional trainings for employees were held planning to start installing remote data reading equipment to unreliable customers in 2015.

Also, in order to enhance theft prevention, proposals to the Rules on the Supply and Consumption of Natural Gas approved by Order of the Minister of Energy of 2014 were drawn up and presented.

TECHNOLOGY-RELATED RISK

The technical condition of natural gas distribution systems owned by the Company is acceptable, but quite a few of the Company's pipelines are 40-50 years old. One of the main objectives of the Company is to ensure safety and reliability of its gas distribution systems. The Company implements this objective by:

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

COMPANY'S SHARE PRICE DYNAMICS AND TURNOVER

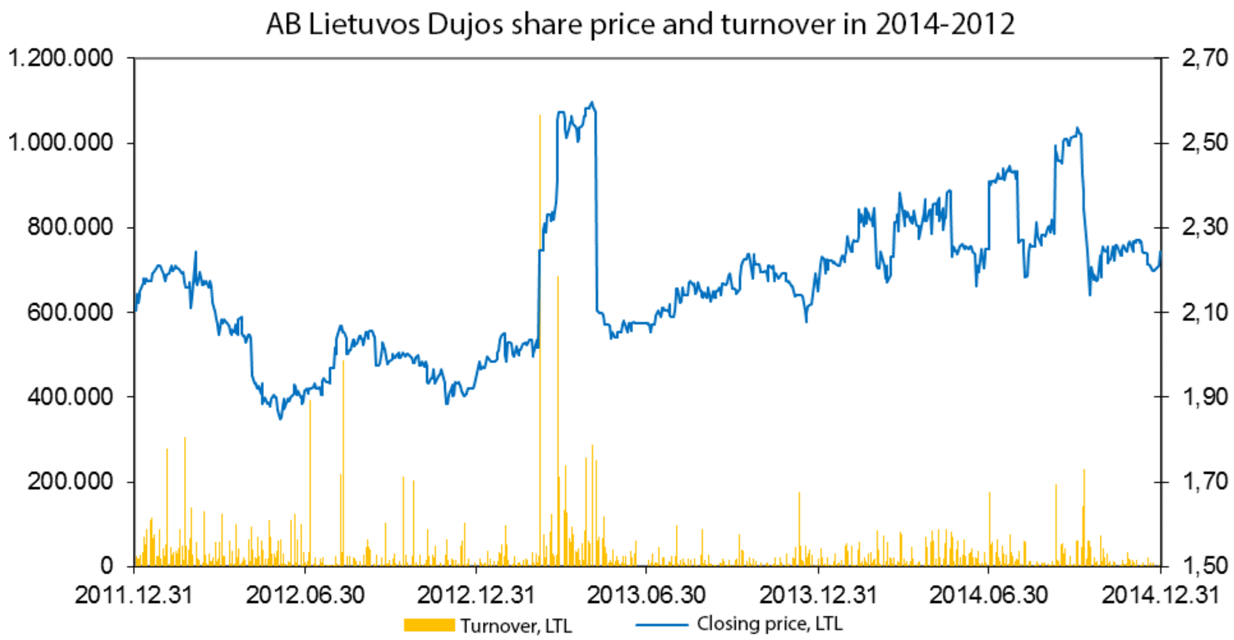
The Company's shares are traded on the regulated market; they are quoted on the Main List of the stock exchange NASDAQ OMX Vilnius.

Main data about shares of AB Lietuvos Dujos	
ISIN code	LT0000116220
Abbreviation	LDJ1L
Number of shares (pcs.)	290.685.740

As at 31 December 2014, the capitalization of the Company's shares amounted to LTL 652.4 million. During 12 months of 2014, the total turnover of trading in the Company's shares on the NASDAQ OMX Vilnius amounted to LTL 6.2 million; 2.690.973 shares were disposed of through the concluded transactions.

The Company is not aware of any made shareholders' agreements, which may restrict the disposal of its securities and/or voting rights.

The Company has not acquired its own shares and during 12 months of 2014 had not concluded any transactions related to the acquisition or disposal of own shares.



Share price dynamics at NASDAQ OMX Vilnius in 2012-2014	2014	2013	2012
Highest price per share, LTL	2.552	2.607	2.244
Lowest price per share, LTL	2.117	1.930	1.830
Weighted average price per share, LTL	2.316	2.277	2.040
Price per share as at the end of the period, LTL	2.244	2.151	1.930
Market capitalization as at the end of the period, M LTL	652.4	625.3*	905.4

* The change was determined by unbundling of the transmission activity and its transfer to AB Amber Grid.

STRUCTURE OF THE COMPANY'S AUTHORIZED CAPITAL, ISSUED SECURITIES THEREOF

The Company's authorized capital amounts to LTL 290.685.740 and consists of 290.685.740 fully paid ordinary registered shares with the par value of LTL 1 each. During 2014, the par value per share remained unchanged.

As at 31 December 2014, there were 290.685.740 ordinary registered shares of the Company on the NASDAQ OMX Vilnius Main List with par value of LTL 1 each (ISIN code LT0000116220); the total par value of the shares amounted to LTL 290.685.740.

According to data of 31 December 2014, the total number of shareholders was 2.438. All AB Lietuvos Dujos shares entitle to equal property and non-property rights.

According to the Bylaws of the Company, decision on the issuance of new shares and redemption of own shares rests solely with the General Meeting of Shareholders of the Company.

CHANGES IN THE STRUCTURE OF SHAREHOLDERS FROM THE LAST REPORTING PERIOD

As at 1 January 2014, the shareholders of the Company E.ON Ruhrgas International GmbH, OAO Gazprom and the Republic of Lithuania, whose shares are held in trust by the Ministry of Energy of the Republic of Lithuania, together owned 93.7% of shares of AB Lietuvos Dujos.

On 20 February, in the implementation of Resolution No. 120 of the Government of the Republic of Lithuania *On Investing the State Property and Increasing Authorized Capital of Companies* of 12 February 2014, the Ministry of Energy transferred by a deed of acceptance - hand-over to the Ministry of Finance 51.454.638 state-owned ordinary registered shares of AB Lietuvos Dujos (granting 17.7% of votes in the General Meeting of Shareholders of AB Lietuvos Dujos) to manage, use and dispose of them by the right of trust, while on 21 February 2014, the Ministry of Finance of the Republic of Lithuania transferred them to Lietuvos Energija, UAB as a non-monetary contribution for paying for the newly issued shares of Lietuvos Energija, UAB.

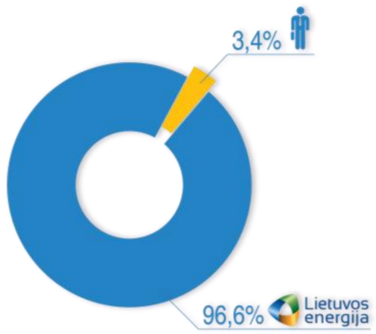
On 21 May 2014, Lietuvos Energija, UAB and E.ON Ruhrgas International GmbH concluded a contract on the purchase-sale of shares of AB Lietuvos Dujos in accordance with which Lietuvos Energija, UAB acquired from E.ON Ruhrgas International GmbH 113.118.140 shares of AB Lietuvos Dujos, which constituted 38.9 percent of the authorized capital of AB Lietuvos Dujos. After this transaction, Lietuvos Energija, UAB owned 56.6 percent of shares of AB Lietuvos Dujos, OAO Gazprom – 37.1 percent and minority shareholders - 6.3 percent of shares of AB Lietuvos Dujos.

On 27 May 2014, the Bank of Lithuania approved the mandatory take-over bid circular for the redemption of the remaining ordinary registered voting shares of AB Lietuvos Dujos. During the mandatory take-over bid (2 June 2014 - 16 June 2014), applications for sale of the shares were presented by OAO Gazprom and some minority shareholders. Lietuvos Energija, UAB purchased from OAO Gazprom 107.734.925 shares of AB Lietuvos Dujos, which accounted for 37.1 percent of the authorized capital of AB Lietuvos Dujos. After the implementation of the mandatory take-over bid, Lietuvos Energija, UAB owns 96.6 percent and minority shareholders - 3.4 percent of shares of AB Lietuvos Dujos.

AB LIETUVOS DUJOS SHAREHOLDER STRUCTURE

96.6 percent of shares of AB Lietuvos Dujos are owned by Lietuvos Energija, UAB, and the remaining 3.4 percent - by minority shareholders.

Structure of AB Lietuvos Dujos shareholders
as of 31-12-2014



AGREEMENTS WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES

On 16 March 2012, AB Lietuvos Dujos concluded an agreement with AB SEB Bank regarding the accounting of the securities issued by the Company and the provision of services related to the securities accounts with effect from 1 April 2012.

AB SEB bank requisites	
Company code	112021238
Banking licence No.	2 (issued by the Bank of Lithuania on 29 November 1990, as subsequently amended)
Registered office address	Gedimino Ave. 12, Vilnius, Lietuva
Telephone numbers	+370 5 268 2800, short number 1518
E-mail	info@seb.lt
Website	www.seb.lt

CUSTOMER SERVICE

In 2014, the Company had 556 thousand contracts signed with household natural gas customers and 6.5 thousand - with non-household natural gas customers.

In 2014, the Company started reorganization of its customer service divisions throughout Lithuania. In cooperation with the Lithuanian electricity distribution network operator AB LESTO, a joint AB LESTO and AB Lietuvos Dujos customer service centre was established in Vilnius in the month of August. Here customers are provided with services of both companies in one visit.

In 2014, the number of customers served by general customer information line 1894 increased: during the first nine months of 2014, almost 108 thousand calls were answered, as compared to 96 thousand calls during the same period of 2013, i.e. the number of answered calls increased by 11.7 percent.

During 2014, the number of applications for connecting to the natural gas distribution system also increased. The Company received about 4.300 applications for connecting 5.166 new customers in 2014. The number of customers willing to use gas in 2014 was almost 10 percent greater than in 2013. Compared to 2013, the number of customers connected to gas systems increased by 17 percent in 2014. Last year, a total of 3.600 new natural gas customers were connected in Lithuania.

In 2014, the Company's employees inspected readings of natural gas meters of more than 357 thousand customers.

CUSTOMER SERVICE RATING

The quality of customer service of Gas Metering and Metrology departments in customer domain was rated in the performance of customer service evaluation in 2014. Survey results showed that service quality received a score of 89 percent (average fulfilment of requirements). Requirements are considered almost or fully fulfilled when the score is 90 or more percent. The survey was conducted by UAB Slapto Pirkėjo Tyrimai (DIVE Lietuva).

The data of the Company's customer survey of customers served by e-mail, which was conducted online, revealed that during 2014, the average rating of customers served by e-mail was a score of 9.27 out of 10, while as many as 89 percent of survey respondents gave a score of 10 or 9 out of 10 for the Company's e-mail service.

RESEARCH AND DEVELOPMENT ACTIVITY

In order to achieve efficient development of natural gas distribution system and connection of new customers, information about potential new customers has been collected and analysed, real estate market development trends, formation of new residential, commercial and production territories have been observed. Also, analysis of applications for connecting to gas networks has been conducted and customers have been surveyed seeking to clear up their needs for connecting to gas networks and to encourage them to do that. Moreover, the analysis of the connection process of new customers has been conducted and new methods for shortening and facilitating it have been searched for.

MEMBERSHIP IN ASSOCIATED STRUCTURES

The Company was a member of the following organizations in 2014:

- the Lithuanian Gas Association;
- Association Eurogas;
- the Chamber of Commerce of Germany and the Baltic countries (AHK) in Estonia, Latvia and Lithuania;
- the association of the largest and most active investors in the economy of Lithuania Investors' Forum;
- the Lithuanian Association of Thermal Engineers;
- the Lithuanian Welders Association.

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

AUDIT COMMITTEE OF THE COMPANY

In accordance with the Law on Audit, since 2009, the Company has had an Audit Committee in place, which consists of 2 (two) members, one of whom is an independent member and another member of the Audit Committee is appointed from non-executive employees of the Company's administration.

The powers and duties of the Audit Committee are as provided for by the Regulations of the Formation and Activities of this supervisory body of the Company, which have been adopted by the decision of the General Meeting of Shareholders, and are in compliance with the requirements of legal acts. The main functions of the Audit Committee include the analysis of the correctness of the accounting methods applied by the Company, monitoring the independence of the external audit company and the audit process, the analysis of the efficiency of the internal control, the internal audit and the risk management systems. Audit Committee members may be rewarded for functions performed by them. The amount of the reward and procedure for the payment thereof is set by the Board of Directors.

Pursuant to the provision of Article 52(6) of the Law on Audit of the Republic of Lithuania establishing that a public interest entity which is a subsidiary and the financial statements whereof are consolidating may waive the requirements of this Article (to have an Audit Committee formed in the company), if the parent company thereof is registered in the Republic of Lithuania or in any member state and forms the Audit Committee, the Extraordinary General Meeting of Shareholders held on 29 October 2014 made a decision to abolish the Audit Committee.

Data on the start and end of the term of office of the Audit Committee

Seq. No.	Full name	Position	Place of employment	Date of appointment	Date of recall
Audit Committee:					
1.	Juozas Kabašinskas	Independent member	J. Kabašinsko consultancy	25 April 2013	29 October 2014
2.	Agnė Butkevičienė (Žičiūtė)	Member	AB Lietuvos Dujos	25 April 2013	29 October 2014

CORPORATE GOVERNANCE AND ORGANIZATIONAL STRUCTURE

The activities of the Company are governed by laws of the Republic of Lithuania, other legislation and Bylaws of the Company. The competence of the General Meeting of Shareholders, procedure for the convocation and decision-making thereof is as prescribed by laws, other legal acts of the Republic of Lithuania and the Bylaws of the Company.

The Company has disclosed the information regarding the observance of the provisions of the Code of Governance. Information is available on the Company's website www.lietuvosdujos.lt and the Central Database of Regulated Information, www.crib.lt.

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

In the beginning of the reporting period (1 January 2014) the Company had the following governing bodies: the General Meeting of Shareholders, collegial executive body - the Board of Directors and the sole executive body - Chief Executive Officer of the Company - General Manager.

The Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos held on 29 October 2014 approved a new version of Bylaws of the Company registered in the Register of Legal Entities on 30 October 2014.

At the end of the reporting period, according to the Bylaws of the Company, the governing bodies of the Company comprise the General Meeting of Shareholders, collegial supervisory body - the Supervisory Board, collegial executive body - the Board of Directors and the sole executive body - General Manager.

GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY

The General Meeting of Shareholders of the Company is the supreme body of the Company.

The competence of the General Meeting of Shareholders of the Company, procedure for the convocation and decision-making thereof is as prescribed by laws, other legal acts and the Bylaws of the Company.

During the reporting period, shareholders of the Company had equal (property and non-property) rights established by laws, other legal acts and the Bylaws of the Company. None of the shareholders of the Company had any special control rights; all shareholders have equal rights.

SUPERVISORY BOARD

The Supervisory Board of AB Lietuvos Dujos is a collegial supervisory body.

The competence, procedure for decision-making, election and recall of its members is as prescribed by laws, other legal acts and the Bylaws of the Company. The Supervisory Board of AB Lietuvos Dujos comprises three members elected by the General Meeting of Shareholders for the term of office of four years. Independent members form at least one third of the Supervisory Board of AB Lietuvos Dujos.

The Supervisory Board elects the Chairman of the Supervisory Board from among its members.

The Supervisory Board of AB Lietuvos Dujos was elected by the decision of the General Meeting of Shareholders held on 29 October 2014 for the term of office of 4 (four) years.

In 2014, payments to an independent member of the Supervisory Board amounted to LTL 2.3 thousand.

Darius Kašauskas

Chairman of the Supervisory Board

Date of appointment:
29 10 2014

End of term:
29 10 2018

Education:
ISM University of Management and Economics;
BI Norwegian Business School, Master's Degree in Management;
Vilnius University, Master's Degree in Economics

Ilona Daugėlaitė

Member of the Supervisory Board

Date of appointment:
29 10 2014

End of term:
29 10 2018

Education:
Vilnius University, Master's Degree in Hydrogeology and Engineering Geology

Petras Povilas Čėsna

Independent Member of the Supervisory Board

Date of appointment:
29 10 2014

End of term:
29 10 2018

Education:
Vilnius University, qualified economist

BOARD OF THE COMPANY

The Board of AB Lietuvos Dujos is a collegial executive body of the Company.

The competence of the Board of the Company, procedure for the convocation and decision-making thereof is as prescribed by laws, other legislation and the Bylaws of the Company. The Board of AB Lietuvos Dujos consists of five members elected by the General Meeting of Shareholders for the term of office of three years (according to the version of the Bylaws approved on 29 October 2014 (registered in the Register of Legal Entities on 30 October 2014) - by the Supervisory Board for the term of office of four years). The Board elect the Chairman of the Board from the members thereof.

The powers of the members of the Board and the fields of activity of the Chief Executive Officer of the Company are as prescribed by laws and Bylaws of the Company; there are no exceptions with regard to any powers of the members of the Board or the Chief Executive Office subject to additional notification.

Composition of the Board from 25 April 2013 to 30 April 2014

Seq. No.	Full name	Position	Date of appointment
1.	Dr. Valery Golubev	Chairman of the Board	25 April 2013
2.	Dr. Achim Saul	Deputy Chairman of the Board	25 April 2013
3.	Uwe Fip	Member of the Board	25 April 2013
4.	Kirill Seleznev	Member of the Board	25 April 2013
5.	Valdas Lastauskas	Member of the Board	25 April 2013

The General Meeting of Shareholders held on 30 April 2014 made a decision to recall the member of the Board Valdas Lastauskas and to elect Dr. Dalius Misiūnas as a member of the Board from the day of the adoption of the said decision till the end of the term of office of the effective Board of the Company.

Composition of the Board from 30 April 2014 to 30 June 2014

Seq. No.	Full name	Position	Date of appointment
Members of the Board:			
1.	Dr. Valery Golubev	Chairman of the Board	25 April 2013
2.	Dr. Achim Saul	Deputy Chairman of the Board	25 April 2013
3.	Uwe Fip	Member of the Board	25 April 2013
4.	Kirill Seleznev	Member of the Board	25 April 2013
5.	Dr. Dalius Misiūnas	Member of the Board	30 April 2014

The Extraordinary General Meeting of Shareholders of 30 June 2014 made the following decisions:

1. to approve the resignation of the members of the Board nominated by E.ON Ruhrgas International GmbH Dr. Achim Saul and Uwe Fip,
2. to recall members of the Board nominated by OAO Gazprom Dr. Valery Golubev and Kirill Seleznev,
3. to elect for the remaining term of office of the Board of AB Lietuvos Dujos (i.e. until the day of the General Meeting of Shareholders of AB Lietuvos Dujos to be held in 2016) candidates Ieva Lauraitytė, Ilona Daugėlaitė and Mindaugas Keizeris nominated by Lietuvos Energija, UAB as members of the Board.

Composition of the Board from 30 June 2014 to 29 October 2014

Seq. No.	Full name	Position	Date of appointment
Members of the Board:			
1.	Dr. Dalius Misiūnas	Chairman of the Board	30 April 2014
2.	Ieva Lauraitytė	Member of the Board	30 June 2014
3.	Ilona Daugėlaitė	Member of the Board	30 June 2014
4.	Mindaugas Keizeris	Member of the Board	30 June 2014

By the decision of 29 October 2014 of the Extraordinary General Meeting of Shareholders of the Company, the Board was recalled *in corpore*, electing the Supervisory Board, which elected a new Board of Directors on 3 November 2014.

Composition of the Board from 3 November 2014 to 30 January 2015

Seq. No.	Full name	Position	Date of appointment
1.	Liudas Liutkevičius	Chairman of the Board	3 November 2014
2.	Nemunas Biknius	Member of the Board	3 November 2014
3.	Tomas Šidlauskas	Member of the Board	3 November 2014
4.	Giedrė Glinskienė	Member of the Board	3 November 2014
5.	Valentina Birulienė	Member of the Board	3 November 2014

The Board was appointed for the term of office of four years.

As from 30 January 2015, Tomas Šidlauskas, a member of the Board, resigned from his position.

Composition of the Board of Directors from 31 January 2015

Seq. No.	Full name	Position	Date of appointment
1.	Liudas Liutkevičius	Chairman of the Board of Directors	3 November 2014
2.	Nemunas Biknius	Member of the Board of Directors	3 November 2014
3.	Giedrė Glinskienė	Member of the Board of Directors	3 November 2014
4.	Valentina Birulienė	Member of the Board of Directors	3 November 2014

On 9 February 2015, Dalius Svetulevičius was elected a new member of the Board of the Company.

Composition of the Board from 9 February 2015

Liudas Liutkevičius

Chairman of the Board,
Chief Executive Officer

Chairman of the Board since:
03 11 2014

Chief Executive Officer since:
03 11 2014

End of term:
03 11 2018

Education:
Vilnius University, Master's Degree in International Business Finance

Nemunas Biknius

Member of the Board,
Director of the Service and Development Division

Member of the Board since:
03 11 2014

End of term:
03 11 2018

Education:
Vilnius Gediminas Technical University, Master's Degree in Energy and Thermal Engineering Sciences

Valentina Birulienė

Member of the Board,
Director of the Organizational Development Division

Member of the Board since:
03 11 2014

End of term:
03 11 2018

Education:
Vilnius University, Bachelor's Degree in Management and Business Administration

Giedrė Glinskienė

Member of the Board,
Director of the Finance and Treasury Division

Member of the Board since:
03 11 2014

End of term:
03 11 2018

Education:
Vilnius University, qualified economist

Dalius Svetulevičius

Member of the Board,
Director of the Gas Network Division

Member of the Board since:
09 02 2015

End of term:
03 11 2018

Education:
Vilnius University, Master's Degree in Management and Business Administration
Kaunas University of Technology, Master of Engineering Measurement

Till 30 October 2014, members of the Board of the Company were not paid any bonuses and/or other benefits. As from 3 November 2014, the members of the Board have been paid remuneration in the amount set by the Supervisory Board of AB Lietuvos Dujos for working in the Board. The payments paid according to the activity agreements for the Company's Board members amounted to LTL 34 thousand in 2014, the average per member LTL 7 thousand.

CHIEF EXECUTIVE OFFICER

Chief Executive Officer is the sole executive body of the Company.

The competence of the Chief Executive Officer, procedure for his election and recall is as prescribed by laws, other legal acts and the Bylaws of the Company.

The Board of the Company elect, recall and dismiss the Chief Executive Officer. CEO organizes the Company's activities, manages it, acts on the Company's behalf and unilaterally concludes transactions, except for cases provided for in Bylaws of the Company and legal acts.

Since 4 November 2014, Liudas Liutkevičius has held the post of the Chief Executive Officer of AB Lietuvos Dujos by the decision of the Board.

Changes in top executives of the Company during the reporting period and on the day of the submission of the Annual Report

Seq. No.	Full name	Position	Date of appointment	Date of recall/ change of position
Chief Executive Officer of the Company:				
1.	Viktoras Valentukevičius	Chief Executive Officer	25 April 2013	8 September 2014
2.	Mantas Mikalajūnas	Head of Strategic Development Department, acting Chief Executive Officer	9 September 2014	3 November 2014
3.	Liudas Liutkevičius	Chief Executive Officer	4 November 2014	-
Other top executives:				
1.	Dr. Joachim Martin Hockertz	Deputy General Manager – Director for Commerce	1 July 2002	31 October 2014 (recalled)
2.	Tomas Šidlauskas	Deputy General Manager – Technical Director	27 March 2013	4 November 2014 (change of position)
3.	Tomas Šidlauskas	Director of Gas Network Service	4 November 2014	30 January 2015 (recalled)
4.	Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	3 May 2004	27 June 2014 (recalled)
5.	Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	1 January 2008	4 November 2014 (change of position)
6.	Giedrė Glinskienė	Director of the Finance and Treasury Division	4 November 2014	-
7.	Nemunas Biknius	Director of the Service and Development Division	4 November 2014	-
8.	Valentina Birulienė	Director of the Organizational Development Division	4 November 2014	-
9.	Dalius Svetulevičius	Director of the Gas Network Division	9 February 2015	-

Participation of members of the governing bodies in the authorized share capital (participation is reflected at the day indicated in the table):

Full name	Position	Participation in the capital of the Issuer	
		Share of the authorized capital held, %	Share of the votes held, %
Supervisory Board			
Ilona Daugėlaitė	Member of the Supervisory Board (since 29 October 2014)	-	-
Darius Kašauskas	Member of the Supervisory Board (since 29 October 2014) (Chairman of the Supervisory Board since 3 November 2014)	-	-
Petras Povilas Čėsna	Member of the Supervisory Board (since 29 October 2014)	-	-
Board of Directors			
Dr. Valery Golubev	Chairman of the Board (till 30 June 2014)	–	–
Dr. Achim Saul	Deputy Chairman of the Board (till 30 June 2014)	–	–
Uwe Fip	Member of the Board (till 30 June 2014)	–	–
Kirill Seleznev	Member of the Board (till 30 June 2014)	–	–
Valdas Lastauskas	Member of the Board (till 30 April 2014)	–	–
Dr. Dalius Misiūnas	Member of the Board (till 30 April 2014)	–	–
Ieva Lauraitytė	Member of the Board (till 29 October 2014)	-	
Ilona Daugėlaitė	Member of the Board (till 29 October 2014)	-	

Mindaugas Keizeris	Member of the Board (till 29 October 2014)	-	
Liudas Liutkevičius	Chairman of the Board (till 3 November 2014)	-	-
Nemunas Biknius	Member of the Board (since 3 November 2014)	0,001	0,001
Tomas Šidlauskas	Member of the Board (till 30 January 2015)	-	-
Giedrė Glinskienė	Member of the Board (since 3 November 2014)	-	-
Valentina Birulienė	Member of the Board (since 3 November 2014)	-	-
Dalius Svetulevičius	Member of the Board (since 9 February 2015)	-	-
Audit Committee			
Juozas Kabašinskas	Independent member (till 29 October 2014)	–	–
Agnė Butkevičienė (Žičiūtė)	Member (till 29 October 2014)	0,000	0,000
Top executives			
Viktoras Valentukevičius	CEO – Chief Executive Officer of the Company (till 8 September 2014)	0,013	0,013
Mantas Mikalajūnas	Head of Strategic Development Department, acting Chief Executive Officer of AB Lietuvos Dujos (till 3 November 2014)	-	-
Liudas Liutkevičius	Chief Executive Officer of AB Lietuvos Dujos (since 4 November 2014)	-	-
Dr. Joachim Martin Hockertz	Deputy General Manager – Director for Commerce (till 31 October 2014)	–	–
Tomas Šidlauskas	Deputy General Manager – Technical Director (till 3 November 2014)	–	–
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase (till 27 June 2014)	–	–
Giedrė Glinskienė	Deputy General Manager –Chief Financial Officer (till 3 November 2014)	–	–
Nemunas Biknius	Director of the Service and Development Division (since 4 November 2014)	0,001	0,001
Valentina Birulienė	Director of the Organizational Development Division (since 4 November 2014)	–	–
Tomas Šidlauskas	Director of the Gas Network Division (till 4 November 2014)	–	–
Giedrė Glinskienė	Director of the Finance and Treasury Division (since 4 November 2014)	–	–
Dalius Svetulevičius	Director of the Gas Network Division (since 9 February 2015)	-	-

In accordance with the Policy of Top and Medium-Level Managers of the Lietuvos Energija Group, the payment to the Chief Executive Officer of the Company for the period from 3 November 2014 to 31 December 2014 amounted to LTL 29.7 thousand, while payments to the Chief Financial Officer, Head of the Accounting Department were equal to LTL 214.3 thousand in 2014.

TRANSACTIONS OF ASSOCIATED PARTIES

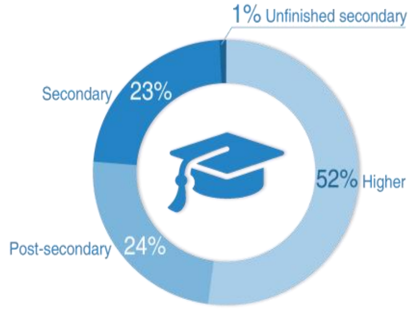
Information is presented in the financial statements of the Company and of the Group for 2014.

During the reporting period, the Issuer has not concluded any detrimental transactions (non-compliant with the Company’s objectives, the existing normal market conditions, in breach of interests of the shareholders or other groups of persons, etc.) or transactions concluded in presence of a conflict of interest between the obligations to the Issuer of the executives, controlling shareholders or other related parties of the Issuer and their private interest and (or) other obligations.

HUMAN RESOURCES OF THE COMPANY

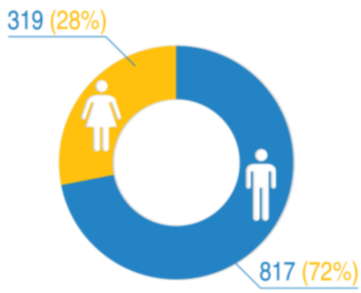
As at 31 December 2014, AB Lietuvos Dujos had 1.136 employees, i.e. 16.7 percent less than at the end of 2013, when there were 1.364 people working in the Company. This change in the number of employees was determined by the reorganization of Operational Services and Emergency Services completed in 2014 and the unbundling of the natural gas supply activity performed in the implementation of requirements of the European Union's Third Energy Package and of respective legislation of Lithuania. On 31 October 2014, 134 employees were transferred to UAB Lietuvos Dujų Tiekimas.

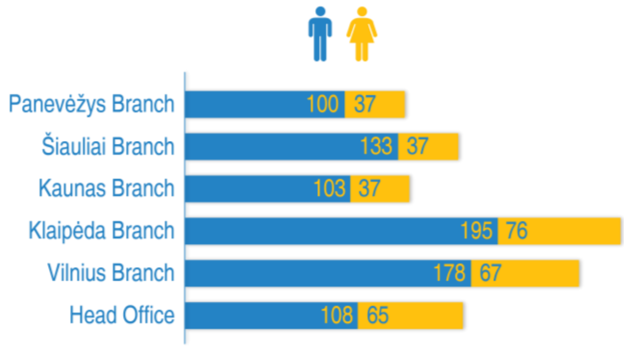
Breakdown of the company's employees by their educational background



The majority of employees in the Company are men, which is determined by the specific activity of the gas distribution system company: the majority of employees are representatives of professions traditionally regarded as male professions; women rarely choose to do the work of metalworkers or difficult outdoor jobs.

Number of men and women in the company





AVERAGE SALARY OF THE COMPANY'S EMPLOYEES

Employees	Number of employees as at 31 12 2014	Average monthly salary, LTL
Chief Executive Officer*	1	14.839
Executives	104	8.489
Specialists	652	3.404
Workers	379	2.806
Total:	**1.136**	**3.784**

*Chief Executive Officer since 3 November, 2014

The average monthly salary of the Company's employees was LTL 3.784 in 2014.

In summer of 2014, after AB Lietuvos Dujos became a part of Lietuvos Energija UAB Group, the Company started implementing the Human Resources Management Policy effective in Lietuvos Energija UAB Group, the main principles thereof include:

- development of staff awareness by creating efficiency, result, innovation and customer-focused organizational culture;
- formation of "flat" and "lean" corporate governance models;
- retention of knowledge, promotion of employee and company trainings;
- creation of competitive and motivating incentive system.

The Company seeks to pay its employees a salary dependent on their skills and performance results. In 2014, the project for the development of a new remuneration and motivation system was started in the

Company, the completion whereof is scheduled by the second quarter of 2015, upon the complete implementation of provisions of the Human Resources Management Policy of Lietuvos Energija.

ORGANIZATIONAL CULTURE, SKILLS DEVELOPMENT, TRAININGS

The Company devotes great attention to employee skills and ensurance of the quality of the services provided, thus investments are made into education and training of employees. 1.355 employees participated in trainings at least once in 2014.

Special attention was devoted to professional trainings of employees. Remote employee trainings and knowledge and skill refresher courses were held according to training programmes of the elimination of risk factors in working environment, fire protection and others in 2014. 1.277 employees participated in such trainings during 2014. 133 Company employees attended trainings for refining welding work skills held in the new welding class in the training facility set up in Panevėžys branch. Professional excellence competitions are traditionally organized each year.

During ten months of this year, 812 employees of the Company were certified in the Company's Certification Centre. In the performance of optimization in energy employee certification activities and in order to ensure independence of certification activities, operations of the Company's Certification Centre were suspended as from 3 November 2014, transferring the functions thereof - to conduct certification of employees constructing and operating energy objects and facilities - to PE Energetikų Mokymo Centras.

In 2014, the Company devoted great attention to the improvement of customer service skills of its employees. 295 employees attended customer service trainings during the year.

When it comes to managerial trainings, a special focus was placed on the development of competencies of lawyers and accounting specialists in 2014.

In order to make the Company's activities more efficient, improvement of the Company's processes was continued in 2014. Activities of Emergency Services were reorganized in 2014, by centralizing a part of functions carried out by this Service and transferring the reception of emergency calls and operational coordination of actions of Emergency Services in the performance of localization of accidents and failures to the Operational Management Department

In the 3rd quarter of 2014, the Operational Services Reform of branches was completed, centralizing a part of functions of regional divisions and reducing the number of employees in certain regional divisions. Upon the implementation of the Reform, main operational service divisions of branches were enhanced by concentrating therein competences important for the entire territory of a specific branch. Similarly, the activities of the Supply Department were reorganized by centralizing functions of divisions located in towns distant from regional centres, transferring them to regional centre divisions and optimizing the number of employees.

The Company has been devoting great attention to social and cultural life of its employees - the day of the Gasman, a professional holiday, was traditionally celebrated in 2014; also Christmas events for employees and their children were held this year. Sports events were held, the purpose whereof was to strengthen the spirit of teamwork between employees, to maintain friendly interpersonal relations, and to develop cooperation culture.

SOCIAL RESPONSIBILITY

Acting in pursuit of its strategic goals, AB Lietuvos Dujos has been implementing its social responsibility through targeted activities in four key areas: environmental protection, relations with employees and the public, and activities in the market.

ENVIRONMENTAL PROTECTION

In order to reduce the overall environmental impact of AB Lietuvos Dujos in the most efficient way, the Company is committed to focus its efforts in the areas of the greatest impact, where its actions would allow achieving best results. Based on these principles, each year the Company sets its environmental protection goals and forms tasks, which are in turn integrated into the overall objective of the Company's operations. The Company has approved its Environmental Protection Policy, whereby it undertook to:

- Efficiently and securely supply to customers natural gas - the cleanest type of fossil fuel;
- Rationally use material resources necessary for its operations, apply preventive measures for

reducing the consumption thereof;

- Continuously improve the efficiency of environmental management system and apply pollution prevention actions;
- Comply with legal requirements applicable to the Company's activities and other obligations assumed by the Company (to its shareholders and associations which it belongs to);
- Reduce adverse environmental impact of the Company's activities applying economically viable measures;
- Constantly monitor, periodically analyse and evaluate the Company's performance results and environmental impact and to set environmental protection goals and form tasks based thereon;
- Regularly check the efficiency of the applied environmental protection management system, develop employee skills as well as their responsible approach to work and environmental protection;
- Cooperate and exchange information on environmental protection-related issues with business partners, state authorities and other stakeholders and institutions in order to improve the state of the environment and the quality of life.

The task of AB Lietuvos Dujos is secure and reliable distribution of natural gas, which is the least polluting type of fossil fuel used for energy, to customers.

The Company has an environmental management system implemented and accredited in accordance with the requirements of ISO 14001 Standard. Environmental supervision audit conducted in 2014 confirmed that the system is functioning properly.

The Company's aim to minimize the negative impact on the environment done by its activities is reflected in annually drawn up environmental protection goals.

One of the main objectives of the Company in the field of control and minimization of atmospheric pollution using technical measures is the control of any possible gas leaks in the process of natural gas distribution. In order to ensure the reliability of the gas systems, the Company carries out maintenance, repair, reconstruction and modernization of gas pipelines and the equipment thereof. In order to avoid disruptions in gas transportation at the fault of third persons, the Company supervises excavation works, distributes information about the earthworks in the pipeline protection zone and so on.

Gas emissions into the atmosphere at the fault of third persons (MCM)	
2014	2013
0.06	0.06

Due to the very nature of the natural gas operation maintenance system and because of the occupational safety system requirements for carrying out repair and maintenance works, a small proportion of gas volumes are emitted from the gas pipeline system into the atmosphere, however, these volumes are insignificant in comparison of gas volumes that can be possibly emitted into the atmosphere in case of accidents or disruptions.

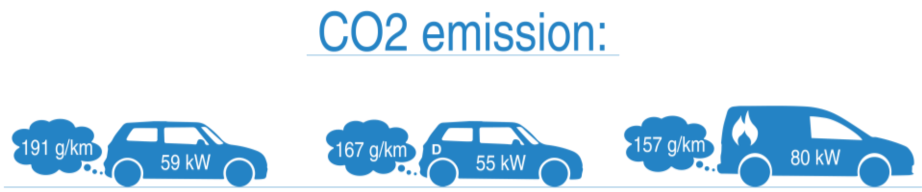
Gas consumption for technological needs related to gas emissions into the atmosphere (MCM)	
2014	2013
11.9	10.8

Number of natural gas-fuelled vehicles in divisions of the Company in 2014

In 2014, there were no accidents or failures in the natural gas systems resulting in high emissions of gas into the atmosphere or major environmental damage.

In order to minimize the pollution of the atmosphere from mobile sources, AB Lietuvos Dujos uses in its business economical cars and every year renovates its car fleet so that the rate of emissions would correspond to the high requirements of quality standards.

In order to minimize adverse environmental impact, the Company has been installing technical measures for the ensurance of gas system reliability and renovating its car fleet each year. This year, the Company acquired 14 new cars using the cleanest fossil fuel - natural gas - as fuel. CO^2 emission of gas-fuelled 80 kW cars is 157 g/km as compared to 191 g/km of a 59 kW petrol-fuelled or 167 g/km of a 55 kW diesel-fuelled car.



EMPLOYEES

Branches of AB Lietuvos Dujos have their trade union subunits that are united into the Lithuanian Gas Sector Employees Trade Union Association, which the Company closely cooperates with. The Company has a signed Collective Bargaining Agreement, which provides additional social security and other benefits for employees. Neither employment contracts, nor the Collective Bargaining Agreement provide for any extraordinary rights or duties for the Company's employees. The rights and duties that are provided by these documents are the ones usually applied in general practice. The continuous dialogue between the Company administration and trade union representatives ensures the social interests of the work team and the transparency and efficiency.

The Company is constantly focusing on strengthening skills of employees, especially of its managerial and technical staff, also, supervision of contractors, because smooth direct activities of the Company and security depends on the quality of work, while the made mistakes can result in damage done to the environment, people and property. Relevant seminars, professional excellence competitions, trainings, preventive material and safety days are periodically arranged for employees.

The development of environmental awareness of employees has rendered results: proper waste management, sorting, rational resource management and use, participation in environmental projects for them is a must.

MARKET

AB Lietuvos Dujos promotes ethical, transparent and honest cooperation with customers, suppliers and investors; it cooperates with partners helping to implement the principles of socially responsible business.

In 2014, AB Lietuvos Dujos approved a new Customer Service Standard applicable in all companies of Lietuvos Energija Group. This is a step taken by the Company towards the enhanced customer service quality and mutual cooperation.

The selection of business partners has been conducted following the Law on Public Procurement and Simplified Procurement Rules of the Company. Qualification of new contractors is verified in the selection procedure, regular assessment of contractors cooperating with the Company is carried out. Also, verification of qualification of suppliers is performed during the selection procedure. Compliance with legal requirements and environmental integrity are one of the most important advantages of the Company's business partners and requirements set in contracts.

A Zero-Tolerance Policy against Corruption took effect in 2014. All employees were introduced with the said policy.

SOCIETY

AB Lietuvos Dujos supports and promotes business and public cooperation based on common interests of sustainable development, seeks to ensure long-term progress of business and the society, contributes to social development and creation of well-being of the society, accounting to the public for activities conducted thereby.

The Company's employees are involved in public activities, actively contributing to help and support for socially vulnerable groups of society.

Before St. Christmas, employees from Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys branches voluntarily raised funds, which were donated for disadvantaged and large families.

In December, the Company held a Christmas charity auction for supporting a charity diner *Betanija*. During the auction, employees purchased their hand-made or donated items and raised LTL 2.100, which they donated later on for the diner *Betanija*, visited by about 550 people living in poverty every day.

Employees of the Company have continued their annual cooperation with the day centre for the disabled PE Mažoji Guboja. During the event held in December, employees were able to purchase handicrafts made by the disabled, thus helping raise funds for the activities of the day centre.

In December of 2014, third graders from Panevėžys elementary school paid a visit to Panevėžys training facility, where they were given a tour "Where do our parents work?". Emergency service vehicles were shown to the children, also, they saw how gasmen are working, they were told about safe behaviour with gas. At the end of the tour children took part in the quiz "What did you learn about natural gas?".

MATERIAL EVENTS

In the implementation of its duties under applicable laws governing securities market, AB Lietuvos Dujos publishes its material events and other regulated information at the European Union level. Information published by the Company can be found on its website at www.lietuvosdujos.lt and on the website of AB NASDAQ OMX Vilnius at www.nasdaqomxbaltic.com.

AB Lietuvos Dujos published the following material events in 2014:

Date	Material event
09 01 2014	Regarding the convocation of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
30 01 2014	Regarding the decision of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
14 02 2014	Regarding state-owned shares of AB Lietuvos Dujos
21 02 2014	Regarding the transfer of state-owned shares of AB Lietuvos Dujos
24 02 2014	Regarding the transfer of state-owned shares of AB Lietuvos Dujos
28 02 2014	Pre-audited performance results of AB Lietuvos Dujos for 12 months of 2013
04 03 2014	Regarding the received notice of Lietuvos Energija, UAB on the acquisition of AB Lietuvos Dujos voting rights
27 03 2014	Regarding the convocation of the General Meeting of Shareholders of AB Lietuvos Dujos, meeting agenda and draft resolutions
27 03 2014	Regarding decisions made by the Board of Directors of AB Lietuvos Dujos
15 04 2014	Regarding the supplemented agenda and draft resolutions of the General Meeting of Shareholders of AB Lietuvos Dujos
24 04 2014	Information notice on published information
30 04 2014	Regarding resolutions adopted by the General Meeting of Shareholders of AB Lietuvos Dujos
30 04 2014	Annual information of AB Lietuvos Dujos for 2013
30 04 2014	Regarding natural gas tariffs for household customers
06 05 2014	Information material event notice on the redemption of shares of AB Lietuvos Dujos
06 05 2014	Regarding the borrowing of AB Lietuvos Dujos
08 05 2014	AB Lietuvos Dujos reached an agreement on the reduction of the natural gas import price
13 05 2014	Pre-audited results of Q1 2014 of AB Lietuvos Dujos
20 05 2014	Regarding decision made by the NCCPE and LT Competition Council in respect of AB Lietuvos Dujos
21 05 2014	Regarding the sale-purchase of shares of AB Lietuvos Dujos
21 05 2014	Notice on a transaction concluded by persons related to executives of AB Lietuvos Dujos
22 05 2014	Notice on resignation of members of the Board of Directors of AB Lietuvos Dujos
22 05 2014	Regarding the intension to submit a mandatory take-over bid
23 05 2014	Regarding natural gas tariffs for household customers
28 05 2014	Regarding the approval of mandatory take-over bid circular
29 05 2014	Regarding new natural gas tariffs for household customers
06 06 2014	Opinion of the Board of Directors of AB Lietuvos Dujos on the published mandatory take-over bid of

	shares of AB Lietuvos Dujos
06 06 2014	Regarding the convocation of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
13 06 2014	Notice on the intention of OAO Gazprom to sell shares of AB Lietuvos Dujos
18 06 2014	Notice on the completion of the implementation of a mandatory take-over bid for the redemption of shares of the Issuer
20 06 2014	Regarding the supplemented agenda and draft resolutions of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
25 06 2014	Regarding the redemption of shares of AB Lietuvos Dujos
26 06 2014	Notice on a transaction concluded by persons related to executives of AB Lietuvos Dujos
30 06 2014	Regarding resolutions adopted by the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
30 06 2014	Regarding the decision made by the Board of Directors of AB Lietuvos Dujos
01 07 2014	Regarding the convocation of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
22 07 2014	Regarding the decisions made by the Board of Directors of AB Lietuvos Dujos
22 07 2014	Regarding the resolution of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
24 07 2014	The NCCPE made a decision on the unbundling of the distribution activity of AB Lietuvos Dujos
29 08 2014	Pre-audited results of Half 1 2014 of AB Lietuvos Dujos
08 09 2014	Viktoras Valentukevičius resigns from his post as the Chief Executive Officer of AB Lietuvos Dujos
08 09 2014	Regarding the convocation of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
09 09 2014	Regarding the mandatory redemption of shares of AB Lietuvos Dujos
30 09 2014	Regarding resolutions adopted by the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
07 10 2014	Regarding the convocation of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
07 10 2014	Regarding the decisions made by the Board of Directors of AB Lietuvos Dujos
09 10 2014	Additional explanation of the appraisal of the transferred supply activity of AB Lietuvos Dujos
15 10 2014	Regarding the sale-purchase agreement of a part of Enterprise concluded by AB Lietuvos Dujos
29 10 2014	Regarding resolutions adopted by the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos
29 10 2014	Regarding the decision of the Board of Directors of AB Lietuvos Dujos
30 10 2014	Adjusted natural gas distribution price cap
03 11 2014	Regarding the transfer of the natural gas supply activity of AB Lietuvos Dujos
03 11 2014	Regarding the decision of the Supervisory Board of AB Lietuvos Dujos
03 11 2014	Regarding the decision of the Board of Directors of AB Lietuvos Dujos
20 11 2014	The NCCPE approved natural gas distribution prices
28 11 2014	Performance results of AB Lietuvos Dujos for 9 months of 2014
12 12 2014	The Board of Directors of AB Lietuvos Dujos made a decision to acquire a part of shares of UAB Technologijų ir Inovacijų Centras
15 12 2014	The Board of Directors of AB Lietuvos Dujos made a decision to acquire a part of shares of UAB Verslo Aptarnavimo Centras
31 12 2014	Regarding the decision made by the Director of the Supervision Service of the Bank of Lithuania
31 12 2014	AB Lietuvos Dujos performance results reporting dates in 2015

APPENDIX 1. NOTICE OF THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR COMPANIES LISTED ON NASDAQ OMX VILNIUS

Pursuant to Article 21(3) of the Law on Securities of the Republic of Lithuania and paragraph 24.5 of the Listing Rules of AB NASDAQ OMX Vilnius, the public company Lietuvos Dujos (hereinafter – the Company) discloses information on its compliance with the Corporate Governance Code approved by the Board of AB NASDAQ OMX Vilnius for the companies, whose securities are traded on the regulated market, as well as with specific provisions thereof.
In June 2014, the state acquired through the state-owned energy group Lietuvos Energija 96.6 percent of shares of the Company and became the major shareholder of AB Lietuvos Dujos. The remaining part of shares of the Company - 3.4 percent - is owned by minority shareholders. In the creation of customer-favorable environment and search for operational synergy with other companies of Lietuvos Energija Group, we seek to have our customers receive all the services related to electricity and gas infrastructure in one place. The plan is to search for other possibilities to coordinate the services provided by these companies in the future.
Given the fact that on 29 October 2014, the General Meeting of Shareholders of the Company made a decision to revoke the Audit Committee, approved a new version of Bylaws of the Company and elected members of the Company's supervisory body - Supervisory Board, the relevant information presented below reflects the implementation of recommendations following the provisions of the new Bylaws.
If this Code or certain provisions thereof are not complied with, those specific provisions and reasons for noncompliance wherewith are indicated.

PRINCIPLES/RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENT
Principle I: Basic provisions. The overriding objective of a company should be to operate in common interests of all the shareholders by increasing shareholder value over time.		
1.1. A company should prepare and publish the company's development strategy and objectives by clearly declaring how it intends to meet the interests of its shareholders and increase shareholder value.	Yes	The main activities of the Company and its strategic guidelines are published on the Company's website, the Company's interim and annual reports.
1.2. Activities of all management bodies of a company should be concentrated at accomplishing strategic objectives in view of the need to increase shareholder value.	Yes	Seeking for operating objectives of the Company, the Company bodies work for the benefit of the Company and all shareholders thereof.
1.3. A company's supervisory and management bodies should act in close cooperation in order to attain maximum benefit for the company and its shareholders.	Yes	Legislation governing activities of the Company's supervisory and management bodies define the principles and procedure of cooperation between the Company's supervisory and management bodies and ensure that the management and supervisory bodies of the Company act accordingly in order to attain maximum benefit for the Company and its shareholders.

1.4. The Company's supervisory and management bodies should be sure, that proper respect is shown not only to the company's shareholder's rights and interests, but also to the rights and interests of all other persons who are participating with the company's activities or are related to it (employees, creditors, providers, clients, local communities).	Yes	The Company's bodies respect the rights and interests of persons that are related to and participate in the Company's activities. Since the establishment of the Company, it has been cooperating and participating in social partnership with representatives of the Company's employees (has allocated funds for the performance of the collective agreement, motivation of employees etc.). The Company has been executing its financial and other obligations to creditors. Based on customer opinion survey results and good international practice, the Company has been implementing systemic measures for the improvement of the Company's customer service. The Company has been organizing social projects that include children, youth, local communities and other social groups. More information on the Company's active initiatives is available on the Company's website and in its annual report.
II principle: The corporate governance framework. **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	According to the Bylaws of the Company approved on 29 October 2014, the Company sets up a collegial body supervising the Company's activities – Supervisory Board, and a collegial management body of the Company – a Management Board.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	According to the Bylaws of the Company approved on 29 October 2014, the Management Board is responsible for proper strategic management of the Company (it approves the Company's business strategy and operating budget, the Company's organizational management structure, makes decision regarding other issues specified in the legislation and assigned to competence of the Board under the Company's Bylaws). The Supervisory Board for effective

		supervision of the Company's management bodies (it elects and dismisses members of the Management Board; presents proposals to the General Meeting of Shareholders as well as its comments on the business strategy of the Company, a set of the Company's annual financial statements, the Company's profit (loss) distribution project, its annual report and the activities of the General Manager of the Company; presents to the Company's Management Board responses and offers regarding the Company's business strategy and its operating budget, makes decisions regarding other issues, specified in the legislation and assigned to the competence of the Board by the Company's Bylaws).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	According to the Company's Bylaws, the Company forms a collegial company supervising the activities of the Company – the Supervisory Board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[2]	Yes	According to the Bylaws of the Company approved on 29 October 2014, the Company forms a collegial supervisory body of the Company – the Supervisory Board. The recommendations laid out in Principles III and IV are not implemented to the full extent in the Company, but the Company follows all the requirements set by legal acts for the formation of the collegial body. It should be noted that the Company is engaged in natural gas distribution activity, it operates, maintains, manages and develops the natural gas distribution system, so it's activities are strictly regulated by legal acts and supervised by respective state authorities (the National Control Commission for Prices and Energy and others), that

[2] Principles III and IV are more applicable to those cases, when the general shareholder meeting elects the supervisory board, i.e. a body, that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the
Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For example, paragraph 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; paragraph 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

		way ensuring transparency and timeliness of the decision-making process and implementing the principles of consumer non-discrimination, cost reduction and other principles.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[3]	Yes	According to Article 21 of the Company's Bylaws, the Company's supervisory board consists of 3 (three) members – natural persons. At least 1/3 (one third) of the supervisory board should comprise independent members. The Supervisory Board makes decisions and its meeting is considered held if it is attended by at least half of the Supervisory Board members (Article 34.5 of the Company's Bylaws). According to Article 38 of the Company's Bylaws, the Company's management board consists of 5 (five) members. The Management Board adopts decisions and its meeting is considered held if it is attended by at least 4 (four) and more members of the Management Board (Article 60.6 of the Company's Bylaws). In the Company's opinion, the number of the members of the Supervisory Board and the Management Board of the Company set forth in the Company's Bylaws is sufficient for the ensurance of proper supervision of the Company's activities as well as timely and efficient management of the Company.
2.6. Directors-consultants or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	According to Article 21 of the Company's Bylaws, members of the Company's Supervisory Board are elected for the maximum term of office specified in the Law on Companies of the Republic of Lithuania – for a 4-year term of office. According to Article 38 of the Company's Bylaws, members of the Company's Management Board are elected for the maximum term of office specified in the Law on Companies of the Republic of Lithuania – for a 4-year term of office. There are no restrictions on the number of re-elections of the members of the Supervisory Board and the Management Board provided for in the Company's

[3] *The executive director* and *the director's consultant* concepts are used in cases, when the company elects only one collegial body

		Bylaws, but the current legislation provides for restrictions to members of the said bodies themselves. The Company's Bylaws provide for a possibility to remove (dismiss) both separate members of the collegial bodies and the entire collegial body *in corpore,* before the end of the term of office of such body (Articles 27 and 45 of the Bylaws). The members of the Management Board (individually or all together) can be dismissed by the Supervisory Board (Article 37 of the Company's Bylaws), and the members of the Supervisory Board (individually or all together) can be dismissed by the General Meeting of Shareholders (Article 21 of the Company's Bylaws).
2.7. The chair of the collegial body elected by the general shareholders' meeting may be a person whose current or past position constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chair of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chair of the collegial body elected by the general shareholders' meeting. When a company decides not to conform to these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chair of the collegial body elected by the Company's General Meeting of Shareholders – the Supervisory Board – and the Chief Executive Officer (General Manager) of the Company is not the same person. Members of the Supervisory Board and the Chair have not held the position of members of the Management Board or Chief Executive Officer of the Company. The Chief Executive Officer of the Company is a member of the Management Board and its Chair, but this does not create preconditions for possible impartial behavior, since the Company has formed a body supervising the Company's activities – the Supervisory Board.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting. **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[4]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter - the collegial body) should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The Supervisory Board is elected by the General Meeting of Shareholders, in compliance with the requirements set forth in the Law on Companies of the Republic of Lithuania and the Company's Bylaws.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their	Yes/No	Information on candidates to become members of the Company's Supervisory Board is presented in

[4]Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of paragraph 3.1 as well.

education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.		the procedure prescribed in the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders of the Company, which has an issue of the election of new Supervisory Board members on its agenda, and is not announced in advance. According Article 23 of the Company's Bylaws, each candidate to become a member of the Supervisory Board is obliged to present the candidate's declaration of interests to the General Meeting of Shareholders, indicating wherein any and all circumstances, which can lead to the conflict of interests of the candidate and the Company. Upon emergence of any new circumstances, which may results in the conflict of interests of the Company and the member of the Supervisory Board, the member of the Supervisory Board must immediately inform the Company and the Supervisory Board of such circumstances in writing. Information on the positions taken by members of the Supervisory Board or their participation in the activities of other companies is constantly collected, stored and presented in the Company's interim and annual reports and on the Company's website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order for the shareholders and investors to be able to evaluate whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes/No	Information on candidates to become members of the Company's Supervisory Board is presented in the procedure prescribed in the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders of the Company (see comment to recommendation 3.2.). Information on work experience and the position taken as well as other information describing competences of the candidate to become member of the Supervisory Board is presented at the General Meeting of Shareholders. Information on the positions taken by members of the Supervisory Board or their participation in the activities of other companies is constantly collected, stored and presented in the Company's annual report and on its website.

3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes/No Not applicable	According to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected and qualifications of its members are assessed at the General Meeting of Shareholders. Since the parent company Lietuvos Energija, UAB (hereinafter – LE) has an Audit Committee in place, there is no separate Audit Committee formed in the Company, while the former Audit Committee was revoked by the decision of the Extraordinary General Meeting of Shareholders of 29 October 2014 (see comments to recommendation 4.14). LE has also formed the Appointment and Remuneration Committee (see comments to the recommendation 4.13). Therefore there is no Remuneration Committee set up in the Company.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Not applicable	The members of the Supervisory Board are regularly informed about the activities of the Company activities and it's changes, essential amendments to legislation governing activities of the Company and changes in any other circumstances that can impact the activities of the Company at the meetings of the Supervisory Board and, if necessary, individually. Up until now, there was no need or such practice in the Company of offering a tailored programme for newly appointed members of the Supervisory Board introducing them to their duties, corporate organization and activities, and no annual reviews were organized.

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[5] number of independent[6] members.	Yes	The formation of the Supervisory Board (and election of independent members) falls under the competence of the General Meeting of Shareholders. Article 21 of the Company's Bylaws establishes that the Company's supervisory board shall be formed of 3 (three) members, of which at least 1/3 (one third) shall be independent members. As at the day of the report, there is 1 (one) independent member of a total of 3 (three) members of the Supervisory Board.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;	Yes	According Article 25 of the Company's Bylaws, the independence criterion, according to the requirements laid down in legislation in force and good corporate governance practice is determined by the General Meeting of Shareholders. In the evaluation of the independency of new members, the requirements laid down in the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius and provisions of paragraph 64 of the Description of the Procedure for the Implementation of State Property and Non-Property Rights in State-managed Enterprises (approved by Resolution No. 665 of the Government of the Republic of Lithuania of 6 June 2012) are followed. According to Article 23 of the Company's Bylaws, each candidate to become a member of the Company's Supervisory Board is obliged to present to the General Meeting of Shareholders the candidate's declaration of interests indicating therein the circumstances that may cause a conflict of interests of the candidate and the Company. Upon emergence of any new circumstances, which may results in the conflict of interests of the Company and the member of the Supervisory Board, the member of the Supervisory Board must immediately inform the Company

[5] The Code does not provide for a specific number of independent members to comprise a collegial body. Many codes in foreign countries fix a specific number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a specific number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[6] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to		and the Supervisory Board of such circumstances in writing. As at the day of the report, there is 1 (one) independent member of the Supervisory Board. Also, see comment to the recommendation 3.6.

be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes/No	The formation of the Supervisory Board (and election of independent members) falls under the competence of the General Meeting of Shareholders (see comment to the recommendation 3.6). According to Article 25 of the Company's Bylaws, the independence criterion, according to the requirements laid down in legislation in force and good corporate governance practice is determined by the General Meeting of Shareholders (see comment to the recommendation 3.7). Moreover, Article 24 of the Company's Bylaws declares that the following persons may not become members of the Supervisory Board: the General Manager, a member of the Management Board, a member of the supervisory body, management body or administration of a legal person engaged in electricity or gas transmission or production (mining), and any person, who has no right to take this position according to legislation.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes/No	The formation of the Supervisory Board (and election of independent members) falls under the competence of the General Meeting of Shareholders (see comment to the recommendation 3.6). Information on candidates to become members of the Company's Supervisory Board (as well as information regarding their conformity to the independence requirements) is presented to the General Meeting of Shareholders in the procedure prescribed by the Law on Companies of the Republic of Lithuania (see comment to the recommendation 3.2). Information on the elected independent Supervisory Board members is provided in the Company's interim and annual reports and on its website.

3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, thecompany should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically reconfirmed.	Not applicable	The need to apply this recommendation has not yet occurred in the Company. An agreement on the activities of an independent member of the Supervisory Board entered into with an independent member of the Supervisory Board establishes an obligation of the independent member of the Supervisory Board to immediately inform the Company and the Supervisory Board in writing of any new circumstances, which could lead to a conflict of interests of the member of the Supervisory Board and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds[7]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	The independent Supervisory Board member is remunerated for his/her activities as a member of the Supervisory Board in the procedure and under conditions set forth in the agreement on the activities of an independent member of the Supervisory Board. Conditions of such an agreement are approved by the Company's General Meeting of Shareholders (Article 19.1. of the Company's Bylaws). On 29 October 2014, the Company's General Meeting of Shareholders made a decision to approve the conditions of the agreement on the activities of an independent member of the Supervisory Board. The hourly fee of LTL 150 (EUR 43.44) (gross) was set for an independent member of the Supervisory Board for actually conducted activities of an independent Supervisory Board member. The monthly remuneration amount paid to an independent Supervisory Board member of the Company was limited to the maximum sum of LTL 3500 (EUR 1013.67) (gross). Information on payments made to the independent Supervisory Board member is published in the Company's annual report.

[7] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

Principle IV: Duties and liabilities of a collegial body elected by the general shareholders' meeting. The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[8] of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the collegial body) should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance [9].	Yes	According to the Company's Bylaws, the collegial body elected by the General Meeting of Shareholder – the Supervisory Board - is responsible for monitoring the activities of the Company's management bodies (elects Management Board members and dismisses them; presents proposals to the General Meeting of Shareholders regarding the Company's business strategy, its set of annual financial statements, the Company's profit (loss) distribution project, its annual report and activities of the Board and Chief Executive Officer of the Company; provides to the Company's Management Board responses and proposals regarding the Company's business strategy and operating budget, adopts decisions regarding other issues assigned under the competence of the Supervisory Board by legislation and the Company's Bylaws.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	The members of the Supervisory Board act in good faith in respect of the Company, following interests of the Company and the public welfare. The Supervisory Board members have the right to express their opinion on all of the questions on the agenda of the meeting, which, pursuant to the Rules of Procedure of the Company's Supervisory Board, should be properly reflected in the meeting minutes.

[8] See footnote No.3.
[9] See footnote No. 3, if the general shareholder meeting elected collegial body is the management board, it should provide recommendations to the company's sole management body – the Head of the company.

4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half [10] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Supervisory Board members participate in the collegial body meetings and dedicate sufficient time to perform their duties as members of the collegial body. The Supervisory Board was elected in the General Meeting of Shareholders held on 29 October 2014. In 2014 (November - December), 2 (two) Supervisory Board meetings were held and all of them were attended by all 3 (three) Supervisory Board members.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's collegial bodies follow the specified recommendations. Before making decisions, members of the collegial bodies consider the impact of their decisions on the Company's business and all shareholders of the Company. The Company's Bylaws oblige the collegial bodies of the Company and each of their members to act for the benefit of the Company and its shareholders. Communication with shareholders and commitments to them are set according to legislation requirements.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes / No	Agreements with the Supervisory Board members on the activities in the Supervisory Board are made by the decision of the Company's General Meeting of Shareholders. Conditions of the agreements with members and Chair of the Management Board on their activities in the Board are set by the Supervisory Board. Conditions of the employment agreement of the Chief Executive Officer of the Company are determined by the Management Board. The company's collegial bodies sign and approve transactions according to the requirements of the legal acts and the Company's Bylaws.
4.6. The collegial body should be independent in passing decisions that are significant for the company's activities and strategy. Taken separately, the collegial	Yes	The Company's Supervisory Board is independent from the Company's management bodies in passing decisions that are significant to the

[10] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

body should be independent of the company's management bodies[11]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.		company's activities and strategy. The Supervisory Board acts independently following the legislation requirements, the Company's Bylaws, operating guidelines and rules of the parent company LE as well as other parameters. The Company ensures that the Supervisory Board is supplied with all the resources necessary for its activities (technical supervises the Supervisory Board meetings, provides all the needed information and carries out all other functions, provided in the Rules of Procedure of the Company's Supervisory Board). See the comment to paragraph 4.13.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[12]. The companies should ensure that the appointment, salary and audit committees functions should be executed, but they might link these functions and create less than three committees. In such a case, the companies should explain in detail the reason why they have chosen an alternate stance and how does this choice conform to the aims set before the three separate committees. The companies, whose collegial body has a small number of members, can appoint the functions of all three committees to the collegial body if it corresponds with the committee	No No	The Supervisory Board acts and makes decisions according to the requirements of legal acts and the Company's Bylaws. The Company's committees are not formed. In the opinion of the Company, the work of the Supervisory Board work is sufficiently effective and well-organized, thus the Supervisory Board can properly execute all of its functions assigned to these committees. According to the provisions of the Law on Audit of the Republic of Lithuania, a public company, which is a secondary company and the financial reports whereof are consolidated, may choose not to comply with the requirement to form an Audit Committee established in the Law on Audit of the Republic of Lithuania, if its parent company has

[11] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.
[12] The Law on Audit of the Republic of Lithuania (Official Gazette, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state.

compositional requirements in this regard and if it discloses relevant information on this matter. In such a case, the provisions of this codex, related with the collegial body committees (especially on their role, activities and clarity), should be properly applied to the complete collegial body.		one. Since the Company's parent company LE has formed an Audit Committee, the Audit Committee of AB Lietuvos Dujos was revoked by the decision of the Extraordinary General Meeting of Shareholders held on 29 October 2014, and currently a separate Audit Committee is not formed in the Company. As a parent company, LE has formed the Appointment and Remuneration Committee as well as the Risk Management Supervision Committee. Among all its other functions, the Appointment and Remuneration committee, evaluates and presents proposals on the Company's long-term remuneration policy, *"tantième"* (bonuses) policy, evaluates conditions of agreements made with the Company's management bodies, procedures of the search and selection of candidates to become members of the Company's bodies and top management as well as setting their qualification requirements, constantly evaluates the structure, size, composition and activities of the Company's management and supervisory bodies. The LE Risk Management Committee supervises the evaluation and managements of the risks relevant to the achievement of the Company's goals, evaluates the adequacy of the measures of the internal control procedure and risk management for the identified risks, evaluates risks and the Company's risk management plan and oversees the implementation of risk management process.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to	No	The Company has no committees formed. See comments to the recommendations 4.7, 4.12, 4.13 and 4.14.

remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	The Company has no committees formed. See comments to the recommendations 4.7, 4.12, 4.13 and 4.14.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company has no committees formed. See comments to the recommendations 4.7, 4.12, 4.13 and 4.14.

4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The Company has no committees formed. See comments to the recommendations 4.7, 4.12, 4.13 and 4.14.
4.12. Appointment committee. 4.12.1. Key functions of the appointment committee should be the following: 1) Select and recommend, for the approval of the collegial body, candidates to fill board vacancies. The appointment committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Appointment committee can also consider candidates to members of the collegial body delegated by the shareholders of the company. 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. The appointment committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the appointment committee.	No	Appointment Committee is not formed in the Company. See comment to recommendation 4.7.

4.13. Remuneration committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive	No	Remuneration Committee is not formed in the Company. See comment to recommendation 4.7. .

directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		

4.14. Audit committee 4.14.1. Key functions of the audit committee should be the following:: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually. 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed *inter alia* data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 June 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee.	Yes/ No	See comment to recommendation 4.7. According to the provisions of the Law on Audit of the Republic of Lithuania, a public company, which is a secondary company and the financial reports whereof are consolidated, may choose not to comply with the requirement to form an Audit Committee established in the Law on Audit of the Republic of Lithuania, if its parent company has one. Since the Company's parent company Lietuvos Energija, UAB, has formed an Audit Committee, the Audit Committee of AB Lietuvos Dujos was revoked by the decision of the Extraordinary General Meeting of Shareholders held on 29 October 2014, and thus a separate Audit Committee is not formed in the Company

6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure		

established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	Legislation of the Republic of Lithuania does not provide for an obligation to conduct the assessment of activities of the Company's Supervisory Board.

Principle V: the working procedure of the company's collegial bodies. The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept *collegial bodies* covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	According to the Company's Bylaws, Rules of Procedure of the Supervisory Board and the Management Board as well as the current practice, this recommendation has been implemented in the Company.
5.2. The company's collegial body meetings are recommended to be conducted according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.[13]	Yes	According to the Company's Bylaws and Rules of Procedure of the Supervisory Board and the Management Board, the meetings of the Supervisory Board of the Company are convened at least once per quarter, and meetings of the Management Board – at least once per calendar month. If necessary, the Management Board can define a different frequency of meetings.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	According to the Company's Bylaws and Rules of Procedure of the Supervisory Board and the Management Board, members of the collegial bodies and persons invited to such meetings are notified thereof in advance. They are also provided with all the information and materials relevant to the issues on the agenda.

[13] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company follows this recommendation. The Chair of the Supervisory Board and Chair of the Management Board closely cooperate in resolving issues of corporate governance. According to Article 34.3 of the Company's Bylaws, the Supervisory Board is obliged to allow members of the Management Board, Chief Executive Officer of the Company and other employees in its meetings and to Board members in resolving the issues related to their activities.
Principle VI: Impartial treatment of shareholders and shareholder rights. **The corporate governance framework should ensure the impartial treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's authorized capital consists of LTL 1 (EUR 0.29) ordinary registered shares, which grant to all shareholders of the Company the same rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The rights granted by the shares are indicated in the Company's Bylaws, which are published on the Company's website.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[14] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	Transactions of the Company are concluded in the procedure established in the Law on Companies of the Republic of Lithuania and the Company's Bylaws.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Company convenes and conducts the General Meeting of Shareholders in the procedure laid down in the Law on Companies of the Republic of Lithuania, and ensures equal opportunities for the shareholders to participate in the meeting.

[14] The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorized capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in paragraphs 3, 4, 5 and 6 of part 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.5. If possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company provides information on the convened General Meeting of Shareholders, proposed draft decisions, other documents related to the General Meeting of Shareholders as well as information on decisions approved at the General Meeting of Shareholders to its shareholders in the procedure and terms set in legislation, announcing them publicly and publishing them on the Company's website. All information and the documents for the investors are published in the Lithuanian and English languages through the information system of NASDAQ OMX Vilnius Stock Exchange and on the Company's website.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders may exercise their right to participate in the General Meeting of Shareholders both in person and in absentia through a representative, provided that he has the due power of attorney or is a party to the agreement on the cession of the voting right made in the procedure prescribed by legislation. The Company also provides its shareholders with the possibility to vote in advance by filling in the general voting ballot paper, as established in the Law on Companies of the Republic of Lithuania.
6.7. In order to increase the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Currently, the Company believes there is no need to organize the voting via telecommunication devices; moreover, this would require large investments. However, upon the shareholder's request and given objective possibilities, the Company would allow the shareholders to vote using telecommunication devices.

Principle VII: the avoidance of conflicts of interest and their disclosure. **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company follows these recommendations. According to Article 23 of the Company's Bylaws, each candidate to become member of the Supervisory Board is obliged to present to the General Meeting of Shareholders his/her declaration of interests indicating therein all circumstances, which could lead to a conflict of his/her interests and interests of the Company. Upon the emergence of any new circumstances, which may give rise to a conflict of interests of the member of the Supervisory Board and the Company, the Supervisory Board member must immediately inform the Company and the Supervisory Board about them in writing. According to Article 40 of the Company's Bylaws, each candidate member of the Management Board is obliged to present to the Supervisory Board his/her declaration of interests indicating therein all circumstances, which could lead to a conflict of his/her interests and interests of the Company. Upon the emergence of any new circumstances, which may give rise to a conflict of interests of the member of the Board and the Company, the Board member must immediately inform the Board and the Supervisory Board about them in writing.
		Moreover, Article 42 of the Company's Bylaws establishes that members of the Board cannot work in another job or take the office, which would be incompatible with their activities on the Board, including holding executive positions in other legal entities (except for the office and job in the Company or the group), work in the public service or statutory service. Members of the Board can hold another office or have another work, except for the office in the Company and other legal entities the participant whereof is the Company, and engage in teaching, creative or author's work only having obtained a prior consent of the Supervisory Board.

7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company follows these recommendations.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company follows these recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	According to laws and the Company's legal acts governing the activities of members of the Company's supervisory and management bodies, members of the Company's bodies must avoid situations, when their personal interests are in conflict with the Company's interests, and do not have the right to vote when decisions concerning his/her activities on the respective body of the Company or issues under his/her responsibility are voted on in the meeting.
Principle VIII: company's remuneration policy. **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	The Company-established practice does not include the preparation of the remuneration policy, procedure of the approval, review and publication of remuneration to directors as well as the company's remuneration statement. Such a requirement in not provided for by laws. General information on the Company's remuneration policy and average remuneration amount of individual groups of employees is published in the Company's interim and annual reports. According to Article 25(5) of the Law on Energy of the Republic of Lithuania, the Company publishes salary set for members of management bodies of the Company and other benefits related to the functions performed by members of management bodies.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See the comment to paragraph 8.1. The interim and annual reports do not include remuneration policy of the Company's directors for the following and subsequent years. The Company's interim and annual reports provide information on the amounts of money calculated for the Company's body members (salaries, other benefits, tantiems and other profit related payments).
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to	No	See the comment to paragraph 8.1of the recommendation. The Company's interim and annual reports provide information on the amounts of money calculated for the Company's body members (salaries, other benefits, tantiems and other profit related payments). It also contains information on transferred property and guarantees provided to members of the Company's bodies as well as other information related to their remuneration.

vesting periods for share-based remuneration, as referred to in point 8.13 of this Code.; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See comment to paragraph 8.1.
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each	No	See comment to paragraph 8.1.

former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above paragraphs 1-5; 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		

8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The setting and payment of the variable component of remuneration to employees is governed in the Company by Order No. 1-37 of the General Manager of AB Lietuvos Dujos of 24 February 2015, which establishes the limits of the variable component of remuneration and provides for the preparation of the procedure for the setting and payment of the variable component of remuneration by 1 June 2015. The setting and payment of the variable component of remuneration to the General Manager is regulated in the Company by the *Description of the Procedure for Setting Performance Criteria of the General Manager as well as the Calculation and Allocation of the Variable Component of Remuneration*, p. 3.5.1. whereof establishes that the General Manager is granted a variable component of remuneration of up to 30% of the annual fixed component of remuneration set by the Company's Management Board.
		It should be noted that uniform principles for the setting and payment of the variable component of remuneration are applicable throughout Lietuvos Energija, UAB, Group. The Human Resources Policy of Lietuvos Energija, UAB, Group approved by the decision of the Board of Lietuvos Energija, UAB of 29 January 2015 is applicable in the Company.

8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The Human Resources Policy of Lietuvos Energija, UAB, Group approved by the Decision of the Board of Lietuvos Energija, UAB, of 29 January 2015 is applicable in the Company; it establishes that the purpose of remuneration is to remunerate for work, results and competence as well as to encourage, motivate and enable employees to seek for the Company's goals. The setting and payment of the variable component of remuneration to employees is governed in the Company by Order No. 1-37 of the General Manager of AB Lietuvos Dujos of 24 February 2015, which establishes that the variable component of remuneration is paid for achieved goals/ indicators, sets the limits of the variable component of remuneration and provides for the preparation of the procedure for the setting and payment of the variable component of remuneration by 1 June 2015.
		Description of the Procedure for Setting Performance Criteria of the General Manager as well as the Calculation and Allocation of the Variable Component of Remuneration establishes that the variable component of remuneration is allocated to the General Manager of AB Lietuvos Dujos for the achievement of goals (indicators). The goals indicators) are set and approved to the General Manager by the Management Board of the Company given the opinion of the Company's Supervisory Board.

8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The setting and payment of the variable component of remuneration to employees is governed in the Company by Order No. 1-37 of the General Manager of AB Lietuvos Dujos of 24 February 2015, which establishes that the variable component of remuneration is paid for the achieved goals/ indicators, sets the limits of the variable component of remuneration and provides for the preparation of the procedure for the setting and payment of the variable component of remuneration by 1 June 2015. The *Description of the Procedure for Setting Performance Criteria of the General Manager as well as the Calculation and Allocation of the Variable Component of Remuneration* establishes that the variable component of remuneration calculated for top level managers is paid in 2 (two) installments: the first part of the variable component of remuneration accounting for 80 percent of the total calculated and allocated variable component of remuneration (for the goals (indicators) achieved in the reporting period No. 1) is paid within 30 calendar days from the day the decision on the payment of the variable component of remuneration was made; the second part of the variable component of remuneration accounting for 20 percent of the total calculated variable component of remuneration (for the goals (indicators) achieved in the reporting period No. 1) is deferred and paid in 1 (one) year within 30 calendar days from the
		day the decision on the payment of the second variable component of remuneration was made seeking for loyalty of top level management to the Company and for continuity of performance results, paying it together with the 80 percent variable component of remuneration calculated for the goals (indicators) achieved in the reporting period No. 2.

8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	No	Termination payments are calculated and paid pursuant to the provisions of Article 140 of the Labor Code of the Republic of Lithuania.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	See comment to paragraph 8.10 of the recommendation.
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See comment to paragraph 8.1 of the recommendation.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	See comment to paragraph 8.1 of the recommendation.

8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	See comment to paragraph 8.1 of the recommendation.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	See comment to paragraph 8.1 of the recommendation.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	See comment to paragraph 8.1 of the recommendation.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	See comment to paragraph 8.1 of the recommendation.

8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	See comment to paragraph 8.1 of the recommendation.
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	See comment to paragraph 8.1 of the recommendation.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Not applicable	See comment to paragraph 8.1 of the recommendation.
Principle IX: the role of stakeholders in corporate governance. **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The corporate governance framework of the Company ensures that the rights of stakeholders that are protected by law are respected.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company complies with these recommendations. For example, the employee representatives are involved in consultations, negotiations, discussions regarding the Company's business optimization processes. According to the collective agreement of employees, the Company informs representatives of trade unions of the expected changes in the Company, the Company's financial position and so on. The stakeholders can participate in the Company's governance to the extent provided by law.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company complies with these recommendations.
Principle X: information disclosure. **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5. Material foreseeable risk factors; 6. Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company's interim and annual reports include information on shareholders holding by the right of ownership more than 5 percent of the issuer's share capital. The Company's annual report discloses information on members of the Supervisory Board and Management Board as well as the Chief Executive Officer of the Company. According to Article 25(5) of the Law on Energy of the Republic of Lithuania, the Company publishes information on salary of the members of the Company's Supervisory and Management Board as well as on other payments related with the functions of members of management bodies. The information indicated in paragraphs 4 and 6 of the recommendation is published to the extent required by applicable legal acts and requirements set for the preparation of annual financial reports. The Company discloses the information specified in this recommendation (except for

		paragraphs 4 and 6), in a number of ways: 1) It publishes information in the procedure prescribed by laws as material (such as the election of new members of the Supervisory and Management Board, Company's financial results, etc.); 2) It publishes information on the Company's website (i.e. the Company's business objectives); 3) It publishes information in the annual report (i.e. members of the Company's Supervisory and Management Board, foreseeable essential risk factors).
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Not applicable	The Company does not have any subsidiaries
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	Information mentioned in paragraph 4 of the recommendation 10.1 is included in the Company's annual report and published on the Company's webpage. According to Article 25(5) of the Law on Energy of the Republic of Lithuania, the Company publishes information on salary of the members of the Company's Supervisory and Management Board as well as on other payments related with the functions of members of management bodies.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	Information indicated in paragraph 7 of the recommendation 10.1 is disclosed to the extent required by valid legal acts of the Republic of Lithuania. Information about the links between the Company and its stakeholders is published in press releases and on the Company's website.

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company provides information in Lithuanian and English languages via the NASDAQ OMX Vilnius Stock Exchange information system simultaneously. The Company complies with the recommendation and reports its material events prior or after the NASDAQ OMX Vilnius Stock Exchange trading session, with exception of cases specified in legal acts. The information that may affect the price of the Company's issued securities is not disclosed in the commentaries, interviews or in any other ways until such information is not made publicly available via the Stock Exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Besides the method for the disclosure of information specified in comment to the recommendation 10.5, the Company uses various information disclosure instruments (electronic publication published by the State Enterprise Centre of Registers, news agencies, publicly accessible website of the Company) to ensure that the disseminated information reaches the maximum number of stakeholders. The Company's website provides information in both Lithuanian and English languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company publishes all the information specified in this recommendation on its website.
Principle XI: the selection of the company's auditor. **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The Company conducts the audit of its annual financial statements. The audit firm also verifies the compliance of the annual report of the Company with the audited financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes/No	Having selected the audit firm in the procedure prescribed by the Law on Public Procurement of the Republic of Lithuania, the selected audit firm is proposed to the General Meeting of Shareholders by the Company's

		Management Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	