AB LIETUVOS DUJOS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY EU
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of AB Lietuvos Dujos

Report on the Financial Statements

We have audited the accompanying 2006 financial statements of AB Lietuvos Dujos, a joint stock company registered in the Republic of Lithuania (the "Company"), and the consolidated financial statements of AB Lietuvos Dujos and subsidiary UAB Palangos Perlas ("the Group") which comprise the consolidated and separate balance sheet as of 31 December 2006, respectively consolidated and separate statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (jointly „financial statements").

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 EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Lietuvos Dujos and the Group as of 31 December 2006, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

Report on Other Legal and Regulatory Requirements

Furthermore, we have reviewed consolidated Annual Report for the year ended 31 December 2006 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

Jonas Akelis	Ramūnas Bartašius
Auditor's licence	Auditor's licence
No. 000003	No. 000362

The audit was completed on 9 March 2007

Balance sheets

		Notes	Group		Company	
			As of 31 December 2006	**As of 31 December 2005**	**As of 31 December 2006**	**As of 31 December 2005**
				(Restated)		(Restated)
	ASSETS					
A.	**Non-current assets**		**2,198,820**	**2,175,442**	**2,201,999**	**2,179,229**
I.	Intangible assets	5	2,845	3,010	2,844	3,009
II.	Non-current tangible assets	6	2,195,389	2,171,482	2,188,332	2,165,045
II.1	Land		103	103	103	103
II.2	Buildings and structures		2,047,655	2,026,091	2,041,035	2,020,008
II.2.1	Buildings		82,213	84,976	75,593	78,893
II.2.2	Transmission networks and related installations		1,332,781	1,339,632	1,332,781	1,339,632
II.2.3	Distribution networks and related installations		623,673	592,834	623,673	592,834
II.2.4	Other buildings and structures		8,988	8,649	8,988	8,649
II.3	Machinery and equipment		78,976	75,569	78,976	75,569
II.4	Vehicles		9,916	8,664	9,865	8,593
II.5	Other equipment, tools and devices		32,024	32,493	31,688	32,248
II.6	Construction in progress		23,269	25,434	23,219	25,396
II.7	Other non-current tangible assets		3,446	3,128	3,446	3,128
III.	Non-current financial assets		86	438	10,823	11,175
III.1	Investments	7	-	-	10,737	10,737
III.2	Non-current accounts receivable		81	427	81	427
III.3	Other financial assets		5	11	5	11
IV.	Deferred tax assets		500	512	-	-
B.	**Current assets**		**104,269**	**72,515**	**100,017**	**64,828**
I.	Inventories and prepayments		25,416	10,541	25,391	10,511
I.1	Inventories	8	25,257	10,330	25,237	10,310
I.1.1	Raw materials, spare parts and other inventories		2,938	3,190	2,937	3,189
I.1.2	Goods for resale (including natural gas)		22,319	7,140	22,300	7,121
I.2	Prepayments		159	211	154	201
II.	Accounts receivable	9	51,608	48,288	51,502	48,265
II.1	Trade receivables		50,966	47,709	50,954	47,688
II.2	Other receivables		642	579	548	577
III.	Other current assets	10	3,686	1,518	-	-
IV.	Cash and cash equivalents	11	23,559	12,168	23,124	6,052
	Total assets		**2,303,089**	**2,247,957**	**2,302,016**	**2,244,057**

(cont'd on the next page)

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

Balance sheets (cont'd)

		Notes	Group		Company	
			As of 31 December 2006	**As of 31 December 2005**	**As of 31 December 2006**	**As of 31 December 2005**
				(Restated)		(Restated)
	EQUITY AND LIABILITIES					
C.	**Equity**		**1,855,809**	**1,828,485**	**1,855,059**	**1,825,919**
I.	Share capital	12	469,068	469,068	469,068	469,068
II.	Reserves	13	1,328,557	88,177	1,326,851	88,174
II.1	Legal reserve		14,996	12,528	14,838	12,528
II.2	Other reserves		1,313,561	75,649	1,312,013	75,646
III.	Retained earnings		58,184	1,271,240	59,140	1,268,677
D.	**Liabilities**		**447,280**	**419,472**	**446,957**	**418,138**
I.	Non-current liabilities		327,927	320,361	327,841	320,273
I.1	Non-current borrowings	15	21,559	22,767	21,559	22,767
I.2	Grants (deferred revenue)	14	111,101	87,997	111,101	87,997
I.3	Deferred taxes	21	195,267	209,597	195,181	209,509
II.	Current liabilities		119,353	99,111	119,116	97,865
II.1	Current portion of non-current borrowings		14,570	6,859	14,570	6,859
II.2	Current borrowings	15	-	15,000	-	15,000
II.3	Trade payables	16	59,079	44,424	58,901	44,419
II.4	Prepayments received		16,381	12,816	16,381	12,816
II.5	Income tax payable		10,527	2,705	10,523	2,608
II.6	Payroll related liabilities		4,656	3,762	4,603	3,711
II.7	Other current liabilities		14,140	13,545	14,138	12,452
	Total equity and liabilities		**2,303,089**	**2,247,957**	**2,302,016**	**2,244,057**

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

General Manager	V. Valentukevičius		9 March 2007
Chief Accountant	Ž. Augutis		9 March 2007

Income statements

		Notes	Group 2006	Group 2005 (Restated)	Company 2006	Company 2005 (Restated)
I.	Sales	4	779,579	596,524	778,318	595,465
II.	Cost of sales	17	(495,481)	(340,462)	(495,263)	(340,262)
III	**Gross profit (loss)**		**284,098**	**256,062**	**283,055**	**255,203**
IV.	Operating expenses	18	(223,044)	(212,763)	(222,097)	(211,840)
V.	**Profit (loss) from operations**		**61,054**	**43,299**	**60,958**	**43,363**
VI.	**Other operating activities**	19	**10,181**	**6,755**	**10,181**	**3,463**
VI.1	Income		10,244	7,161	10,244	3,869
VI.2	Expenses		(63)	(406)	(63)	(406)
VII.	**Financial and investing activities**	20	**512**	**(8,052)**	**2,377**	**(7,081)**
VII.1	Income		2,056	1,192	3,921	1,175
VII.2	Expenses		(1,544)	(9,244)	(1,544)	(8,256)
VIII.	**Profit (loss) before tax**		**71,747**	**42,002**	**73,516**	**39,745**
IX.	**Income tax**	21	**(14,423)**	**(4,187)**	**(14,376)**	**(3,682)**
IX.1	Current period income tax		(28,741)	(14,167)	(28,704)	(14,070)
IX.2	Deferred income tax		14,318	9,980	14,328	10,388
X.	**Net profit (loss)**		**57,324**	**37,815**	**59,140**	**36,063**
	Basic and diluted earnings per share (LTL)	22	0.12	0.08	0.13	0.08

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

General Manager	V. Valentukevičius		9 March 2007
Chief Accountant	Ž. Augutis		9 March 2007

Statements of changes in equity

Group	Notes	Share capital	Legal reserve	Corporate business development reserve	Reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes	Retained earnings (deficit)	Total
Balance as of 1 January 2005		**469,068**	**9,144**	**54,294**	**3,000**	**1,300,839**	**1,836,345**
Change in accounting policies	3	-	-	(12,939)	-	-	(12,939)
Balance as of 1 January 2005 (restated)		**469,068**	**9,144**	**41,355**	**3,000**	**1,300,839**	**1,823,406**
Adjustment of subsidiary's retained earnings		-	-	-	-	264	264
Transfer to legal reserve		-	3,384	-	-	(3,384)	-
Transfer from reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	(3,000)	3,000	-
Transfers to corporate business development reserve		-	-	30,794	-	(30,794)	-
Dividends declared	23	-	-	-	-	(33,000)	(33,000)
Transfer to reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	3,500	(3,500)	-
Net profit for the year (restated)		-	-	-	-	37,815	37,815
Balance as of 31 December 2005 (restated)		**469,068**	**12,528**	**72,149**	**3,500**	**1,271,240**	**1,828,485**
Transfer to legal reserve		-	2,468	-	-	(2,468)	-
Transfer from reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	(3,500)	3,500	-
Transfers to corporate business development reserve		-	-	1,241,412	-	(1,241,412)	-
Dividends declared	23	-	-	-	-	(30,000)	(30,000)
Net profit for the year		-	-	-	-	57,324	57,324
Balance as of 31 December 2006		**469,068**	**14,996**	**1,313,561**	**-**	**58,184**	**1,855,809**

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

General Manager	V. Valentukevičius		9 March 2007
Chief Accountant	Ž. Augutis		9 March 2007

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Legal reserve	Corporate business development reserve	Reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes	Retained earnings (deficit)	Total
Balance as of 1 January 2005		**469,068**	**9,144**	**54,294**	**3,000**	**1,300,289**	**1,835,795**
Change in accounting policies	3	-	-	(12,939)	-	-	(12,939)
Balance as of 1 January 2005 (restated)		**469,068**	**9,144**	**41,355**	**3,000**	**1,300,289**	**1,822,856**
Transfer to legal reserve		-	3,384	-	-	(3,384)	-
Transfer from reserve for securing social guarantees provided for in the Collective agreement, for support and for other purpose		-	-	-	(3,000)	3,000	-
Transfers to corporate business development reserve		-	-	30,791	-	(30,791)	-
Dividends declared	23	-	-	-	-	(33,000)	(33,000)
Transfer to reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	3,500	(3,500)	-
Net profit for the year (restated)		-	-	-	-	36,063	36,063
Balance as of 31 December 2005 (restated)		**469,068**	**12,528**	**72,146**	**3,500**	**1,268,677**	**1,825,919**
Transfer to legal reserve		-	2,310	-	-	(2,310)	-
Transfer from reserve for securing social guarantees provided for in the Collective agreement, for support and for other purposes		-	-	-	(3,500)	3,500	-
Transfers to corporate business development reserve		-	-	1,239,867	-	(1,239,867)	-
Dividends declared	23	-	-	-	-	(30,000)	(30,000)
Net profit for the year		-	-	-	-	59,140	59,140
Balance as of 31 December 2006		**469,068**	**14,838**	**1,312,013**	**-**	**59,140**	**1,855,059**

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

General Manager	V. Valentukevičius		9 March 2007
Chief Accountant	Ž. Augutis		9 March 2007

Cash flows statements

		Group		Company	
		2006	**2005**	**2006**	**2005**
			(Restated)		(Restated)
I.	**Cash flows from (to) operating activities**				
I.1	Net profit (loss)	57,324	37,815	59,140	36,063
	Adjustments of non-cash items:				
I.2	Depreciation and amortisation	94,676	90,646	94,467	90,451
I.3	(Gain) loss on non-current tangible assets, doubtful trade accounts receivable and inventories write-off and disposal	(3,219)	(3,996)	(3,220)	(687)
I.4	(Reversal of) impairment of non-current tangible assets, financial assets, (reversal of) allowance for doubtful trade accounts receivable and inventories	(837)	(840)	(837)	(1,829)
I.5	Income tax expenses	14,423	4,187	14,376	3,682
I.6	Interest (income)	(698)	(911)	(563)	(894)
I.7	Interest expenses	2,214	2,618	2,214	2,618
I.8	Dividends (income)	-	-	(2,000)	-
I.9	Loss (gain) on foreign currency exchange	(1,059)	6,693	(1,059)	6,693
I.10	Elimination of other financial activity results	(3)	-	(3)	-
I.11	Amortisation of the grants, deferred revenue and other non-cash items	(2,890)	(1,241)	(2,890)	(1,241)
		159,931	**134,971**	**159,625**	**134,856**
	Changes in working capital:				
I.12	(Increase) decrease in inventories	(15,175)	(5,363)	(15,175)	(5,397)
I.13	(Increase) decrease in trade accounts receivable	(5,271)	(5,552)	(5,295)	(5,552)
I.14	(Increase) decrease in other accounts receivable and prepayments	195	1,009	282	1,015
I.15	Increase (decrease) in trade accounts payable	15,635	1,455	15,639	1,455
I.16	Increase (decrease) in other current liabilities	29,487	24,529	30,577	23,385
I.17	Income tax (paid)	(20,876)	(11,376)	(20,747)	(11,376)
	Net cash flows from operating activities	**163,926**	**139,673**	**164,906**	**138,386**
II.	**Cash flows from (to) investing activities**				
II.1	(Acquisitions) of non-current tangible and intangible assets	(122,841)	(191,339)	(122,173)	(190,929)
II.2	Proceeds from sales of non-current tangible assets	9,972	8,586	9,972	2,483
II.3	Recovery of non-current loans and accounts receivable	346	445	346	445
II.4	Proceeds from sales of financial assets	5	2	5	2
II.5	(Increase) in term deposits	(2,168)	(983)	-	-
II.6	Dividends received	-	-	2,000	-
II.7	Interest received	698	911	563	894
II.8	**Net cash flows (to) investing activities**	**(113,988)**	**(182,378)**	**(109,287)**	**(187,105)**

(cont'd on the next page)

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

Cash flows statements (cont'd)

		Group		Company	
		2006	**2005**	**2006**	**2005**
			(Restated)		(Restated)
III.	**Cash flows from (to) financing activities**				
III.1	Dividends (paid)	(29,965)	(32,901)	(29,965)	(32,901)
III.2	Loans received	158,122	15,000	158,122	15,000
III.3	Loans (repaid)	(166,293)	(39,855)	(166,293)	(39,855)
III.4	Proceeds from redemption of held-to-maturity investments	-	44,000	-	44,000
III.5	Grants (received)	1,360	32,521	1,360	32,521
III.6	Cash flows from other financial activities increase (decrease)	670	43	670	-
III.7	Interest (paid)	(2,306)	(3,099)	(2,306)	(3,099)
	Net cash flows from (to) financing activities	**(38,412)**	**15,709**	**(38,412)**	**15,666**
IV.	**Impact of changes in currency exchange rates on cash balance**	**(135)**	**754**	**(135)**	**754**
V.	**Net increase (decrease) in cash and cash equivalents**	**11,391**	**(26,242)**	**17,072**	**(32,299)**
VI.	**Cash and cash equivalents at the beginning of the year**	**12,168**	**38,410**	**6,052**	**38,351**
VII.	**Cash and cash equivalents at the end of the year**	**23,559**	**12,168**	**23,124**	**6,052**

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

General Manager	V. Valentukevičius		9 March 2007
Chief Accountant	Ž. Augutis		9 March 2007

Notes to the financial statements

1 General information

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

Aguonų st. 24,
LT-03212 Vilnius,
Lithuania

The Company is engaged in transmission, distribution and supply of natural gas. The Company was registered on 1 August 1995, after reorganisation of State company Lietuvos Dujos. The Company's shares are traded on the I - list of the Vilnius Stock Exchange.

In 2001 the Government of the Republic of Lithuania decided to privatise the Company by offering a total of 68% of the State holding in the Company in two stages and to two different investors, one of which would be a strategic investor and the other would be a natural gas supplier. The sale of 34% of the State holding to a strategic investor, Ruhrgas AG and E.ON Energie AG consortium, was agreed by the parties on 17 May 2002. Following the approval of the Government received on 12 December 2003, E.ON Energie AG transferred its holding in the Company to Ruhrgas Energie Beteiligungs AG on 18 December 2003. Ruhrgas Energie Beteiligungs AG was renamed to E.ON Ruhrgas International AG on 1 July 2004. The remaining 34% of the shares on 23 January 2004 were sold to the other investor - OAO Gazprom, the supplier of natural gas.

As of 31 December 2006 and 2005 the shareholders of the Company were as follows:

	Number of shares held	Percentage
E.ON Ruhrgas International AG	182,534,384	38.9
OAO Gazprom	173,847,696	37.1
State Property Fund	83,030,367	17.7
Other shareholders	29,655,807	6.3
	469,068,254	100.0

All the shares of the Company are ordinary registered shares with a par value of LTL 1 each and were fully paid as of 31 December 2006 and 2005. The Company did not hold its own shares.

The Company consists of administrative and gas transmission centre and 5 natural gas distribution and supply branches.

The Group is comprised of AB Lietuvos Dujos and it's subsidiary UAB Palangos Perlas (hereinafter – "the Group"). The information of UAB Palangos Perlas as of 31 December 2006 is as follows:

Company	Address of registered office	Part of shares controlled by the Group (%)	Share capital	Current period profit (loss)	Equity	Main activity
UAB Palangos Perlas	Gintaro g. 36, Palanga	100	9,704	184	11,594	Restaurant and accommodation facilities

On 10 August 2005 the Company increased the share capital of the subsidiary by a contribution in kind, transferring the building with a net book value of LTL 3,167 thousand, the fair value of which determined by certified independent property valuators amounted to LTL 3,294 thousand. The subsidiary issued 3,294 shares, with the par value of LTL 1 each. The Company acquired all the shares.

The average number of employees of the Group and the Company in 2006 was 1,827 and 1,797, respectively (1,985 and 1,955 in 2005).

1 General information (cont'd)

Activities of AB Lietuvos Dujos are regulated by the Natural Gas Law No. VIII-1973 as of 10 October 2000 of the Republic of Lithuania. Article 10 requires unbundling the accounting among each of the Company's main activities: transmission, distribution and supply. The Company has unbundled the accounting by its segments as prescribed by the Law from 1 January 2002.

Based on the provisions of the Natural Gas Law, the Company's activities are subject to licensing and regulating by the National Control Commission for Prices and Energy (hereinafter "the Commission"). On 18 December 2001 the Commission granted the Company Natural Gas Transmission and Distribution licenses and on 16 May 2002 the Commission granted a Natural Gas Supply license. The licenses have no expiration date, but are subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets transmission and distribution gas price caps as well as price caps for the regulated customers.

The management of the Company approved these financial statements on 9 March 2007. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2006 are as follows:

2.1. Basis of preparation

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

IASB has issued IFRS 1 which requires that an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts all IFRS, by an explicit and unreserved statement in those financial statements of compliance with IFRS. IFRS 1 requires the Company to prepare its IFRS financial statements as if it is a first-time adopter as the Company's financial statements in prior years did not have an explicit and unreserved statement of compliance with IFRS, owning to non implementation of IFRS 1 "First-time Adoption of International Financial Reporting Standards" because the Company has chosen 1 January 2005 as the date of transition to IFRS, and not 1 January 2004 as required by IFRS 1. Consequently, in its 2005 financial statements the Company has not fully implemented IFRS 1 requirements, however it has no impact on the current year financial statements. IFRS 1 requires that the Company recognised all assets and liabilities that meet the recognition criteria of IFRS and measure these assets and liabilities in accordance with each IFRS, with the prior period financial information recognised based on the same criteria.

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- Amendments to IAS 1 Presentation of Financial Statements ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

2 Accounting principles (cont'd)

2.1 Basis of preparation (cont'd)

- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Group and the Company expects that the adoption of the pronouncements listed above will have no significant impact on the Group's and the Company's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments". The Group and the Company are still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

2.2. Measurement and presentation currency

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

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

2.3. Principles of consolidation

The consolidated financial statements of the Group include AB Lietuvos Dujos and it's subsidiary. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement.

The purchase 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.

2 Accounting principles (cont'd)

2.3 Principles of consolidation (cont'd)

The goodwill is not amortised, however the impairment loss is evaluated every year and is recognised as expenses for the period, when occurred. The impairment of goodwill for future periods is not reversed.

Companies acquired or sold during a year are included into the 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 and associated companies are accounted for applying the cost method.

2.4. Intangible assets

Intangible assets of the Group and the Company are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the Company and the cost of asset can be measured reliably. After initial recognition, intangible assets 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 are reviewed annually to ensure that the period of amortisation is consistent with the expected pattern of economic benefits from items of non-current intangible assets.

2.5. Non-current tangible assets

According to IFRS 1, non-current tangible assets of the Group and the Company, acquired before 1 January 2005, were measured at fair values, determined as of 1 January 2005 by independent property valuators, and these values are used as deemed cost at that date (except for vehicles, other equipment, tools, devices and machinery and other non-current tangible assets, which are valued at acquisition cost).

The initial cost of non-current tangible assets, acquired after 1 January 2005, comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

After initial recognition, non-current tangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

When assets are sold or retired, their cost, accumulated depreciation, impairment and increases 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 average estimated useful lives:

	Years
Buildings	25 – 60
Transmission networks and related installations	30 – 55
Distribution networks and related installations	30 - 55
Machinery and equipment	5 – 18
Other buildings and structures	18
Vehicles	6 – 9
Other equipment, tools and devices	4 – 9
Other non-current tangible assets	6 – 9

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of non-current tangible assets.

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

The Group and the Company estimates the recoverable amount of an asset whenever there is an indication that the asset may be impaired. An impairment loss is recognised in the income statement, whenever estimated.

2 Accounting principles (cont'd)

2.6. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's and the Company's financial assets are classified as either 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, which equals to the fair value of paid earnings, plus (except for the financial assets at fair value through profit or loss) transaction costs.

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

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

<u>Held-to-maturity investments</u>

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

<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. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

<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 any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.7. Inventories

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

2.8. Receivables and loans granted

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortised cost, less impairment. Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivables are noticed.

2.9. Cash and cash equivalents

Cash includes cash on hand, cash in transit and cash in banks. 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 Accounting principles (cont'd)

2.10. Borrowings

Borrowing costs are expensed as incurred.

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.

2.11. Operating leases

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2.12. Grants (deferred revenue)

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

As described in Note 3, in 2006 the Company changed the accounting policy for the payments received from customers for the connection to the Company's gas system. Now they are accounted for as deferred revenue and recognised as income over the period of depreciation of the capitalised assets.

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

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

2.13. Income tax

Income tax charge is based on profit for the year. Income tax is calculated based on the Lithuanian tax legislation.

Till 1 January 2006 standard income tax rate applied for the Company was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the income tax, for one financial year beginning on 1 January 2006, companies have to pay an additional 4% tax calculated based on the income tax principles and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

2 Accounting principles (cont'd)

2.13. Income tax (cont'd)

Deferred taxes are calculated using the balance sheet liability method. 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 assets and liabilities are 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 balance sheet date.

Deferred tax assets have been recognised in the balance sheet 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.

2.14. Revenue recognition

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

Revenues from transmission, distribution and supply for industrial and commercial customers are recognised monthly based on meter readings declared by the customer and checked by the Group and the Company (accrual basis). Revenues from household customers are recognised monthly based on their meter readings declared by the customers or based on the volume of gas supplied to customers but not yet declared, which approximates an accrual basis.

2.15. Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

2.16. Foreign currencies

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

2.17. Segment information

<u>Business segments</u>

The Group and the Company has four main operating segments – natural gas transmission, distribution, supply for regulated customers and supply for eligible customers and other activity business segment. The data on segment activities is being collected by the internal Group and Company structural divisions and form the basis upon which the Group and the Company reports its primary segment information.

Financial information on business segments is presented in Note 4.

<u>Geographical segments</u>

All of the Group's and the Company's assets are located and revenues are generated in the Republic of Lithuania.

2 Accounting principles (cont'd)

2.18. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

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

Other assets

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

2.19. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management of the Group and the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. 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.

2.20. Contingencies

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

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

2.21. Subsequent events

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

2.22. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain IFRSs specifically require such set-off.

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

3 Change in accounting policy

Based on the IFRS and worldwide practice of accounting of new customers connection fees in the energy sector, in 2006 the Group and the Company changed the accounting policy regarding accounting of the new customers' fees received for the connection to the Group's and the Company's natural gas system.

Till the change in the accounting policy income from the new consumer's connection was recognised in the income statement at the time when the construction works to connect the customer to the Group's and the Company's natural gas system were finished. After the adoption of the change in the accounting policy, income from the new customer's connection are recognised in the financial statements over the useful life of the capitalised assets.

Due to change in the accounting policy of the connection fees, the temporary differences between net book value and tax value of liabilities (grants (deferred revenue)) appeared and accordingly a deferred tax asset was accounted for in the financial statements.

The change in the accounting policy in the Group's and the Company's financial statements was accounted for retrospectively, by also restating the captions of the financial statements for the previous periods.

Due to change in accounting policy the earning per share of the Group and the Company decreased by LTL 0.02.

The effect of the change in accounting policy to the Group's and the Company's financial statements for 2005 and earlier reporting periods is as follows:

Group

	Captions	As of 31 December 2005	Effect of changes in accounting policy		As of 31 December 2005
			Effect of the correction on connection fees	**Effect of correction on deferred tax**	
		(As reported before)			(Restated)
II.2.	Other reserves (balance sheet caption)	88,588	(15,222)*	2,283*	75,649
I.2.	Grants (deferred revenue) (balance sheet caption)	60,803	27,194	-	87,997
I.3.	Deferred taxes (balance sheet caption)	213,712	-	(4,115)	209,597
I.	Sales (income statement caption)	608,841	(12,317)	-	596,524
VI.I.	Other operating activity income (income statement caption)	6,816	345	-	7,161
IX.	Income tax (income statement caption)	(6,019)	-	1,832	(4,187)

Company

	Captions	As of 31 December 2005	Effect of changes in accounting policy		As of 31 December 2005
			Effect of the correction on connection fees	**Effect of correction on deferred tax**	
		(As reported before)			(Restated)
II.2.	Other reserves (balance sheet caption)	88,585	(15,222)*	2,283*	75,646
I.2.	Grants (deferred revenue) (balance sheet caption)	60,803	27,194	-	87,997
I.3.	Deferred taxes (balance sheet caption)	213,624	-	(4,115)	209,509
I.	Sales (income statement caption)	607,782	(12,317)	-	595,465
VI.I.	Other operating activity income (income statement caption)	3,524	345	-	3,869
IX.	Income tax (income statement caption)	(5,514)	-	1,832	(3,682)

*Change in these lines are as of 1 January 2005

4 Segment information

Segment information for the years ended 31 December 2006 and 2005 is presented below:

Group

2006	Transmission	Distribution	Supply for regulated customers	Supply for eligible customers	Other	Total
Sales	99,807	126,647	250,162	297,453	5,510	779,579
Profit (loss) from operations	(1,279)	11,792	17,809	30,064	2,668	61,054
Assets	1,501,430	718,212	52,938	17,592	12,917	2,303,089
Liabilities	251,958	115,045	75,226	2,139	2,912	447,280
Other segment information						
Acquisition of assets	62,208	59,568	147	-	829	122,752
Depreciation and amortisation	61,790	31,417	810	222	437	94,676
Impairment (reversals) of non-current assets	-	-	-	-	-	-
Average number of employees	357	1,219	186	11	54	1,827
2005 (restated)						
Sales	87,290	118,806	159,088	226,184	5,156*	596,524*
Profit (loss) from operations	(7,459)	7,900	12,474	28,896	1,488*	43,299*
Assets	1,484,210	692,206	32,842	19,416	19,283	2,247,957
Liabilities	265,379	94,933*	41,048	16,246	1,866*	419,472*
Other segment information						
Acquisition of assets	141,810	44,955	46	12	861	187,684
Depreciation and amortisation	58,217	30,796	786	229	618	90,646
Impairment (reversals) of non-current assets	-	5	-	-	-	5
Average number of employees	363	1,357	186	12	67	1,985

4 Segment information (cont'd)

Company

2006	Transmission	Distribution	Supply for regulated customers	Supply for eligible customers	Other	Total
Sales	99,807	126,647	250,162	297,453	4,249	778,318
Profit (loss) from operations	(1,279)	11,792	17,809	30,064	2,572	60,958
Assets	1,501,430	718,212	52,938	17,592	11,844	2,302,016
Liabilities	251,958	115,045	75,226	2,139	2,589	446,957
Other segment information						
Acquisition of assets	62,208	59,568	147	-	-	121,923
Depreciation and amortisation	61,790	31,417	810	222	228	94,467
Impairment (reversals) of non-current assets	-	-	-	-	-	-
Average number of employees	357	1,219	186	11	24	1,797
2005 (restated)						
Sales	87,290	118,806	159,088	226,184	4,097*	595,465*
Profit (loss) from operations	(7,459)	7,900	12,474	28,896	1,552*	43,363*
Assets	1,484,210	692,206	32,842	19,416	15,383	2,244,057
Liabilities	265,379	94,933*	41,048	16,246	532*	418,138*
Other segment information						
Acquisition of assets	141,810	44,955	46	12	449	187,272
Depreciation and amortisation	58,217	30,796	786	229	423	90,451
Impairment (reversals) of non-current assets	-	5	-	-	-	5
Average number of employees	363	1,357	186	12	37	1,955

*Impacted by changes in accounting policy Note 3

5 Intangible assets

Movement of intangible assets for the current period:

Group	**Development costs**	**Patents, licenses**	**Software**	**Other intangible assets**	**Total**
Cost:					
Balance as of 1 January 2005	21	1,080	4,328	2,455	7,884
Additions	-	324	526	408	1,258
Retirements	-	(29)	(134)	(204)	(367)
Balance as of 31 December 2005	21	1,375	4,720	2,659	8,775
Additions	-	302	754	18	1,074
Retirements	-	(167)	(961)	(987)	(2,115)
Balance as of 31 December 2006	21	1,510	4,513	1,690	7,734
Amortisation:					
Balance as of 1 January 2005	11	744	2,576	1,726	5,057
Charge for the year	5	155	621	294	1,075
Retirements	-	(29)	(134)	(204)	(367)
Balance as of 31 December 2005	16	870	3,063	1,816	5,765
Charge for the year	5	201	676	332	1,214
Retirements	-	(167)	(961)	(962)	(2,090)
Balance as of 31 December 2006	21	904	2,778	1,186	4,889
Net book value as of 31 December 2006	**-**	**606**	**1,735**	**504**	**2,845**
Net book value as of 31 December 2005	**5**	**505**	**1,657**	**843**	**3,010**
Net book value as of 1 January 2005	**10**	**336**	**1,752**	**729**	**2,827**

5 Intangible assets (cont'd)

Company	Development costs	Patents, licenses	Software	Other intangible assets	Total
Cost:					
Balance as of 1 January 2005	21	1,080	4,325	2,455	7,881
Additions	-	324	526	408	1,258
Retirements	-	(29)	(134)	(204)	(367)
Balance as of 31 December 2005	21	1,375	4,717	2,659	8,772
Additions	-	302	754	18	1,074
Retirements	-	(167)	(961)	(987)	(2,115)
Balance as of 31 December 2006	21	1,510	4,510	1,690	7,731
Amortisation:					
Balance as of 1 January 2005	11	744	2,576	1,726	5,057
Charge for the year	5	155	619	294	1,073
Retirements	-	(29)	(134)	(204)	(367)
Balance as of 31 December 2005	16	870	3,061	1,816	5,763
Charge for the year	5	201	676	332	1,214
Retirements	-	(167)	(961)	(962)	(2,090)
Balance as of 31 December 2006	21	904	2,776	1,186	4,887
Net book value as of 31 December 2006	**-**	**606**	**1,734**	**504**	**2,844**
Net book value as of 31 December 2005	**5**	**505**	**1,656**	**843**	**3,009**
Net book value as of 1 January 2005	**10**	**336**	**1,749**	**729**	**2,824**

Amortisation expenses of intangible assets are included into operating expenses in the income statement.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 4,417 thousand as of 31 December 2006 (LTL 3,522 thousand as of 31 December 2005) was fully amortised, but still in use.

6 Non-current tangible assets

Movement of non-current tangible assets for the current period:

Group	**Land**	**Buildings**	**Transmission networks and related installations**	**Distribution networks and related installations**	**Other structures**	**Machinery and equipment**	**Vehicles**	**Other equipment, tools and devices**	**Construction in progress**	**Other non-current tangible assets**	**Total**
Cost:											
Balance as of 1 January 2005	23	89,447	1,249,790	581,461	7,679	66,101	24,661	72,622	48,520	6,958	2,147,262
Additions	80	79	7	2,032	29	597	2,776	3,308	176,490	1,028	186,426
Disposals and retirements	-	(1,799)	-	(86)	(363)	(107)	(903)	(1,957)	(1,501)	(883)	(7,599)
Reclassifications	-	4,955	133,048	31,178	1,949	19,910	-	7,058	(198,070)	(28)	-
Balance as of 31 December 2005	103	92,682	1,382,845	614,585	9,294	86,501	26,534	81,031	25,439	7,075	2,326,089
Additions	-	210	-	463	61	606	3,372	1,916	114,223	827	121,678
Disposals and retirements	-	(3,635)	-	(682)	(113)	(283)	(2,000)	(3,233)	(2)	(616)	(10,564)
Reclassifications	-	3,399	38,914	53,409	1,108	13,942	-	5,396	(116,386)	218	-
Balance as of 31 December 2006	103	92,656	1,421,759	667,775	10,350	100,766	27,906	85,110	23,274	7,504	2,437,203
Accumulated depreciation:											
Balance as of 1 January 2005	-	1,408	-	-	-	-	16,813	42,867	-	4,186	65,274
Charge for the year	-	2,825	43,213	21,759	674	11,017	1,925	7,581	-	577	89,571
Disposals and retirements	-	(43)	-	(8)	(29)	(84)	(868)	(1,910)	-	(816)	(3,758)
Reclassifications	-	1	-	-	-	(1)	-	-	-	-	-
Balance as of 31 December 2005	-	4,191	43,213	21,751	645	10,932	17,870	48,538	-	3,947	151,087
Charge for the year	-	2,873	45,765	22,485	731	11,110	2,113	7,682	-	703	93,462
Disposals and retirements	-	(136)	-	(138)	(14)	(252)	(1,993)	(3,130)	-	(592)	(6,255)
Reclassifications	-	-	-	4	-	-	-	(4)	-	-	-
Balance as of 31 December 2006	-	6,928	88,978	44,102	1,362	21,790	17,990	53,086	-	4,058	238,294
Impairment losses:											
Balance as of 1 January 2005	-	3,515	-	-	-	-	-	-	-	2	3,517
Charge for the year	-	-	-	-	-	-	-	-	5	-	5
Disposals and retirements	-	-	-	-	-	-	-	-	-	(2)	(2)
Balance as of 31 December 2005	-	3,515	-	-	-	-	-	-	5	-	3,520
Charge for the year	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2006	-	3,515	-	-	-	-	-	-	5	-	3,520
Net book value as of 31 December 2006	**103**	**82,213**	**1,332,781**	**623,673**	**8,988**	**78,976**	**9,916**	**32,024**	**23,269**	**3,446**	**2,195,389**
Net book value as of 31 December 2005	**103**	**84,976**	**1,339,632**	**592,834**	**8,649**	**75,569**	**8,664**	**32,493**	**25,434**	**3,128**	**2,171,482**
Net book value as of 1 January 2005	**23**	**84,524**	**1,249,790**	**581,461**	**7,679**	**66,101**	**7,848**	**29,755**	**48,520**	**2,770**	**2,078,471**

6 Non-current tangible assets (cont'd)

Company	Land	Buildings	Transmission networks and related installations	Distribution networks and related installations	Other structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Construction in progress	Other non-current tangible assets	Total
Cost:											
Balance as of 1 January 2005	23	79,089	1,249,790	581,461	7,679	66,101	24,549	71,145	48,520	6,958	2,135,315
Additions	80	72	7	2,032	29	597	2,735	3,240	176,194	1,028	186,014
Disposals and retirements	-	(2,297)	-	(86)	(363)	(107)	(875)	(1,809)	(1,501)	(883)	(7,921)
Reclassifications	-	4,697	133,048	31,178	1,949	19,910	-	7,058	(197,812)	(28)	-
Balance as of 31 December 2005	103	81,561	1,382,845	614,585	9,294	86,501	26,409	79,634	25,401	7,075	2,313,408
Additions	-	210	-	463	61	606	3,372	1,764	113,546	827	120,849
Disposals and retirements	-	(3,635)	-	(682)	(113)	(283)	(2,000)	(3,181)	(2)	(616)	(10,512)
Reclassifications	-	2,734	38,914	53,409	1,108	13,942	-	5,396	(115,721)	218	-
Balance as of 31 December 2006	103	80,870	1,421,759	667,775	10,350	100,766	27,781	83,613	23,224	7,504	2,423,745
Accumulated depreciation:											
Balance as of 1 January 2005	-	-	-	-	-		16,748	41,628	-	4,186	62,562
Charge for the year	-	2,710	43,213	21,759	674	11,017	1,908	7,520	-	577	89,378
Disposals and retirements	-	(43)	-	(8)	(29)	(84)	(840)	(1,762)	-	(816)	(3,582)
Reclassifications	-	1	-	-	-	(1)	-	-	-	-	-
Balance as of 31 December 2005	-	2,668	43,213	21,751	645	10,932	17,816	47,386	-	3,947	148,358
Charge for the year	-	2,745	45,765	22,485	731	11,110	2,093	7,621	-	703	93,253
Disposals and retirements	-	(136)	-	(138)	(14)	(252)	(1,993)	(3,078)	-	(592)	(6,203)
Reclassifications	-	-	-	4	-	-	-	(4)	-	-	-
Balance as of 31 December 2006	-	5,277	88,978	44,102	1,362	21,790	17,916	51,925	-	4,058	235,408
Impairment losses:											
Balance as of 1 January 2005	-	-	-	-	-	-	-	-	-	2	2
Charge for the year	-	-	-	-	-	-	-	-	5	-	5
Disposals and retirements	-	-	-	-	-	-	-	-	-	(2)	(2)
Balance as of 31 December 2005	-	-	-	-	-	-	-	-	5	-	5
Charge for the year	-	-	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2006	-	-	-	-	-	-	-	-	5	-	5
Net book value as of 31 December 2006	**103**	**75,593**	**1,332,781**	**623,673**	**8,988**	**78,976**	**9,865**	**31,688**	**23,219**	**3,446**	**2,188,332**
Net book value as of 31 December 2005	**103**	**78,893**	**1,339,632**	**592,834**	**8,649**	**75,569**	**8,593**	**32,248**	**25,396**	**3,128**	**2,165,045**
Net book value as of 1 January 2005	**23**	**79,089**	**1,249,790**	**581,461**	**7,679**	**66,101**	**7,801**	**29,517**	**48,520**	**2,770**	**2,072,751**

6 Non-current tangible assets (cont'd)

The depreciation of the Group's and the Company's non-current tangible assets for 2006 amounts to LTL 93,462 thousand and LTL 93,253 thousand, respectively. The amounts of LTL 93,442 thousand and LTL 93,232 thousand are included into operating expenses, the remaining amounts are included into other activities expenses in the Group's and the Company's income statements.

The depreciation of the Group's and the Company's non-current tangible assets for 2005 amounts to LTL 89,571 thousand and LTL 89,378 thousand, respectively. The amounts of LTL 89,492 thousand and LTL 89,299 thousand are included into operating expenses, the remaining amount is included into other activities expenses in the Group's and the Company's income statement.

Non-current tangible assets of the Group and the Company with the acquisition cost of LTL 53,096 thousand and LTL 52,215 thousand were fully depreciated as of 31 December 2006, but were still in use.

Non-current tangible assets of the Group and the Company with the acquisition cost of LTL 39,419 thousand and LTL 38,501 thousand were fully depreciated as of 31 December 2005, but were still in use.

As of 31 December 2006 and 2005 the Group and the Company had no non-current tangible assets, acquired according to financial lease agreements.

Major objects of construction in progress of the Group and the Company as of 31 December 2006 were as follows:

	Group		Company	
Object	**Net book value**	**The amount of funds needed for completion of the object**	**Net book value**	**The amount of funds needed for completion of the object**
Transmission pipeline Šakiai – Jurbarkas, branch to Jurbarkas town and Jurbarkas MRS construction	1,482	26,400	1,482	26,400
Reconstruction of Kaunas-1 MRS	8,707	2,000	8,707	2,000
Other (including UAB Palangos Perlas)	13,080	12,800	13,030	12,800
Net book value as of 31 December 2006	**23,269**	**41,200**	**23,219**	**41,200**

7 Investments into subsidiaries

As of 31 December 2005 and 2006 the Company's investment into subsidiaries consisted of the investment to UAB Palangos Perlas:

	Investment into UAB „Palangos Perlas“
Cost:	
Balance as of 31 December 2004	**6,410**
Contribution in kind	3,294
Reversal of the impairment losses	1,033
Balance as of 31 December 2005	**10,737**
Additions	-
Balance as of 31 December 2006	**10,737**

8 Inventories

	Group		Company	
	2006	**2005**	**2006**	**2005**
Raw materials, spare parts and other inventories	3,687	3,884	3,686	3,883
Goods for resale (including natural gas)	22,319	7,140	22,300	7,121
Inventories, gross	26,006	11,024	25,986	11,004
Less: allowance for inventories	(749)	(694)	(749)	(694)
	25,257	10,330	25,237	10,310

As of 31 December 2006 the Group's and the Company's balances of the goods for resale significantly increased due to purchases of natural gas in 2006 for storage in Latvia.

The cost of slow moving inventories accounted for at net realisable value amounted to LTL 749 thousand as of 31 December 2006 (LTL 694 thousand as of 31 December 2005). Changes in the allowance for inventories in 2006 and 2005 were included into operating expenses.

9 Accounts receivable

	Group		Company	
	2006	**2005**	**2006**	**2005**
Receivables for natural gas from industrial and commercial companies	52,688	44,627	52,691	44,627
Receivables for natural gas from residents	4,739	9,437	4,739	9,437
Other trade receivables	281	601	266	580
	57,708	54,665	57,696	54,644
Other accounts receivable	782	727	688	725
	58,490	55,392	58,384	55,369
Less: allowance for accounts receivable	(6,882)	(7,104)	(6,882)	(7,104)
	51,608	48,288	51,502	48,265

Changes in allowance for accounts receivables in 2006 and 2005 were included into operating expenses.

10 Other current assets

	Group		Company	
	2006	**2005**	**2006**	**2005**
Term deposits	3,686	1,518	-	-

Weighted average annual interest rate of term deposits was 3.78% as of 31 December 2006 (2.49% as of 31 December 2005). The maturity of term deposits is 6 – 9 months period.

11 Cash and cash equivalents

	Group		Company	
	2006	**2005**	**2006**	**2005**
Cash at bank, in transit and on hand	5,204	10,436	4,969	4,320
Frozen funds	6,137	6,807	6,137	6,807
Deposits with the term of less than three months	18,355	1,732	18,155	1,732
	29,696	18,975	29,261	12,859
Less: impairment	(6,137)	(6,807)	(6,137)	(6,807)
	23,559	12,168	23,124	6,052

Frozen funds mostly consist of the Group's and the Company's cash deposited at the bank AB Litimpeks Bankas. The bank went bankrupt in 1999 and it is now administrated by UAB Valeksa. A 100% impairment adjustment is recorded for this amount.

The term of all deposits is less than three months, the weighted average annual interest rate as of 31 December 2006 was 3.22% (1.78% as of 31 December 2005).

12 Share capital

There were no changes in share capital during 2006 and 2005, and as of 31 December 2006 and 2005 the share capital of the Company amounted to LTL 469,068 thousand.

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. At least an amount of LTL 2,957 thousand of the net 2006 profit must be allocated for a transfer to the legal reserve for 2006. This amount may change depending on the final decision of the shareholders of the Company to be made after the issue of these financial statements.

Other reserves

The Group and the Company also forms corporate business development reserve and reserve for securing social guaranties provided for in the Collective agreement, for support and for other purposes.

Profit distribution

The Company did not have a draft proposal of profit distribution for 2006 on the date of issue of these financial statements.

14 Grants (deferred revenue)

Group and Company	**2006**			**2005**		
	Deferred revenue	**Grants**	**Total**	**Deferred revenue**	**Grants**	**Total**
						(Restated)
Balance at the beginning of the period	27,194	60,803	87,997	15,222	29,051	44,273
Additions per year	24,419	1,360	25,779	12,317	32,521	44,838
Grants receivable for compensation of expenses	-	198	198	-	-	-
Amortisation per year	(638)	(2,034)	(2,672)	(345)	(769)	(1,114)
Grants used for compensation of expenses	-	(201)	(201)	-	-	-
Balance at the end of the period	50,975	60,126	111,101	27,194	60,803	87,997

Increase in grants (deferred revenue) in 2006 is mainly influenced by the payments received from the new connections of the customers to the Group's and the Company's natural gas system.

In 2005, the Group and the Company received a grant and deferred revenue amounting to LTL 44,838 thousand, LTL 31,511 thousand of which was designated for building a transmission pipeline to Visaginas and the Ignalina Nuclear Power Plant.

The 1st reactor of the Ignalina Nuclear Power Plant was closed on 31 December 2004. The closure of the 2nd reactor of the Ignalina Nuclear Power Plant is scheduled in 2009. The construction of a new natural gas transmission pipeline from Pabradė to Visaginas and a gas distribution pipeline from Visaginas to the new heat boiler station construction is related to discontinuing of Ignalina Nuclear Power Plant activities. Since the construction of the new pipeline connection is not economically feasible due to low forecasted natural gas consumption volumes, the project was mainly financed through grant funding. During 2004 - 2005 grants in the amount of LTL 41,209 thousand were provided by the Ignalina International Decommissioning Support Fund, which is administered by the European Bank for Reconstruction and Development, and the grant amounting to LTL 18,396 thousand was provided by the Ignalina Nuclear Power Plant Decommissioning Fund administrated by the Ministry of Economy of the Republic of Lithuania. The construction of a natural gas transmission pipeline from Pabradė to Visaginas was completed in August 2005. During the implementation of the above mentioned project, an amount of LTL 1,604 thousand, allocated by Ignalina Nuclear Power Plant Decommissioning Fund, and an amount of LTL 3,505 thousand, allocated by the Ignalina International Decommissioning Support Fund were saved due to effective organisation of purchases and project management.

Grants also include non-current tangible assets received free of charge and charged to the income statement in portions on a straight-line basis over the assets' estimated useful life.

15 Borrowings

	Group		**Company**	
	As of 31 December 2006	**As of 31 December 2005**	**As of 31 December 2006**	**As of 31 December 2005**
Non-current borrowings				
Borrowings from Lithuanian credit institutions	21,559	22,046	21,559	22,046
Borrowings from foreign credit institutions	-	721	-	721
	21,559	22,767	21,559	22,767
Current borrowings				
Current portion of non-current borrowings	14,570	6,859	14,570	6,859
Overdraft	-	15,000	-	15,000
	14,570	21,859	14,570	21,859
	36,129	44,626	36,129	44,626

15 Borrowings (cont'd)

Group and Company

Borrowings	Current borrowings	Payable after one year but not later than in five years	Payable after five years
Borrowings from Lithuanian credit institutions	14,570	17,271	4,288
Borrowings from foreign credit institutions	-	-	-
	14,570	17,271	4,288

Terms of repayment of non-current borrowings are as follows:

	As of 31 December 2006			As of 31 December 2005		
	Non-interest bearing loans	Fixed interest bearing loans	Variable interest bearing loans	Non-interest bearing loans	Fixed interest bearing loans	Variable interest bearing loans
2006	-	-	-	2,707	2,632	1,520
2007	906	12,144	1,520	1,628	2,632	1,520
2008	-	9,644	1,195	-	2,632	1,195
2009	-	2,144	-	-	2,632	-
2010	-	2,144	-	-	2,632	-
2011	-	2,144	-	-	2,632	-
2012	-	2,144	-	-	2,632	-
2013	-	2,144	-	-	2,632	-
	906	32,508	2,715	4,335	21,056	4,235

As of 31 December 2006 weighted average annual interest rate of borrowings outstanding was 4.63% (4.00% as of 31 December 2005). In 2006 and 2005 the period of repricing variable interest rates on borrowings was 6 months.

Borrowings at the end of the year in national and foreign currencies expressed in LTL were as follows:

	Group		Company	
Borrowings denominated in:	**2006**	**2005**	**2006**	**2005**
EUR	33,414	20,043	33,414	20,043
USD	-	5,347	-	5,347
LTL	2,715	19,236	2,715	19,236
	36,129	44,626	36,129	44,626

16 Trade payables

	Group		Company	
	2006	**2005**	**2006**	**2005**
Suppliers of natural gas	58,031	42,912	58,031	42,912
Other	1,048	1,512	870	1,507
	59,079	44,424	58,901	44,419

17 Cost of sales

The major part (99.9%) of the Group's and the Company's cost of sales consists of the cost of natural gas in 2006 and 2005.

18 Operating expenses

	Group		Company	
	2006	**2005**	**2006**	**2005**
Salaries and social security	65,675	63,173	65,150	62,720
Depreciation and amortisation	94,656	90,566	94,447	90,372
Repairs	13,787	15,755	13,773	15,733
Taxes other than income tax	12,948	12,833	12,887	12,760
Impairment of assets	(167)	(774)	(167)	(774)
Other	36,145	31,210	36,007	31,029
	223,044	212,763	222,097	211,840

19 Other operating activities

The major part of the Group's and the Company's income from other operating activities consists of the gain on non-current tangible assets disposal in 2006 and 2005.

20 Financial and investment activities

	Group		Company	
	2006	**2005**	**2006**	**2005**
Foreign currency exchange gain, net	1,059	-	1,059	-
Penalty interest and penalties received	266	274	266	274
Interest income	698	911	563	894
Income from dividends	-	-	2,000	-
Other income from financial and investment activities	33	7	33	7
Total income from financial and investment activities	2,056	1,192	3,921	1,175
Foreign currency exchange loss, net	-	(6,693)	-	(6,693)
Reversal of the impairment of current and non current financial assets	670	67	670	1,055
Interest expenses	(2,214)	(2,618)	(2,214)	(2,618)
Total expenses from financial and investment activities	(1,544)	(9,244)	(1,544)	(8,256)
Gain (loss) from financial and investment activities, net	512	(8,052)	2,377	(7,081)

21 Income tax

	Group		Company	
	2006	2005	2006	2005
Income tax:		(Restated)		(Restated)
Income for the year before income tax according to IFRS	71,747	42,002	73,516	39,745
Changes in temporary differences*	76,263	51,874	76,310	54,531
Permanent differences	3,172	12,511	1,163	11,462
Taxable income for the year	151,182	106,387	150,989	105,738
Current income tax	28,725	15,958	28,688	15,861
Prior periods' income tax adjustment	16	(1,791)	16	(1,791)
Change in deferred income tax	(14,318)	(9,980)	(14,328)	(10,388)
Income tax expense charged to the income statement	14,423	4,187	14,376	3,682
Deferred tax assets:				
Impairment losses on non-current tangible assets, accounts receivable and inventories	6,264	5,659	5,764	5,147
Deferred revenue from connection fees	7,675	4,115	7,675	4,115
Other	712	809	712	809
Deferred tax asset before valuation allowance	14,651	10,583	14,151	10,071
Less: valuation allowance	(6,476)	(5,956)	(6,476)	(5,956)
Less: deferred tax asset netted with deferred tax liability	(7,675)	(4,115)	(7,675)	(4,115)
Deferred tax asset, net**	500	512	-	-
Deferred tax liability:				
Revaluation of non-current tangible assets	(202,942)	(213,712)	(202,856)	(213,624)
Deferred tax liability, net	(195,267)	(209,597)	(195,181)	(209,509)

*The amounts include temporary difference arising from the change of the accounting policy due to connection fees (Note 3): in 2005 – LTL 11,972 thousand, in 2006 – LTL 23,781 thousand.

**Represented deferred income tax asset from the revaluation of the non-current tangible assets of the subsidiary the realisation term of which is different from the Company's respectively assets depreciation terms.

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. Deferred income tax asset and deferred income tax liability are netted off in the balance sheet of the Company, as they both are related to the same tax authority. In the Group's balance sheet they are netted to the exact deferred tax assets and liabilities which are realised simultaneously.

While assessing deferred income tax asset and liability components in 2005 and 2006 the Group and Company has used income tax rates of 19% and 18% for those items, which will be realised in 2006 and 2007, respectively, and 15% rate was used for the items which will be realised in 2008 and later.

21 Income tax (cont'd)

The reported amount of income tax expenses for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 19% and 15% to pretax income:

	Group		Company	
	2006	**2005**	**2006**	**2005**
		(Restated)		(Restated)
Profit before tax	71,747	42,002	73,516	39,745
Tax (expense) at the applicable standard tax rate	(13,632)	(6,300)	(13,968)	(5,962)
Permanent differences	(603)	(1,877)	(221)	(1,719)
Change in deferred tax asset realisation allowance	(520)	2,013	(520)	2,013
Impact of changes in income tax rates	348	186	349	195
Effect of prior periods income tax adjustments to income tax realisable value allowance	(16)	1,791	(16)	1,791
Income tax (expense)	**14,423**	**4,187**	**14,376**	**3,682**

22 Earnings per share

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
		(Restated)		(Restated)
Net profit attributable to the shareholders (in LTL thousand)	57,324	37,815	59,140	36,063
Weighted average number of shares in thousand	469,068	469,068	469,068	469,068
Basic earnings per share (in LTL)	0.12	0.08	0.13	0.08

As there were no changes in the share capital of the Company during 2006 and 2005, therefore the weighted average number of shares equals to the total number of shares.

23 Dividends

	2006	**2005**
Approved dividends (in LTL thousand)*	30,000	33,000
Number of shares at the date when dividends were declared (in thousand)	469,068	469,068
Approved dividends per share (LTL)	0.06	0.07

* In the year when the dividends are approved.

24 Cash generated from operations

When calculating cash flows from investing activities, the change in accounts payable for non-current assets of the Group and the Company amounting to LTL 89 thousand and LTL 250 thousand (in 2005 LTL 3,657 thousand for the Company) was taken into account.

When calculating cash flows from operating activities, in 2005 the acquisition of the subsidiary's shares by the contribution in kind amounting to LTL 3,294 thousand was eliminated.

25 Capital commitments

In accordance with the Natural Gas Law of the Republic of Lithuania and pursuant to the procedure approved by the order No. 201 of the Ministry of Economy of the Republic of Lithuania dated 20 June 2001, in 2002 the Group and the Company started the process of buying-out natural gas supply systems of common use owned by other legal entities and natural persons. Before this process has been launched, there were 973 km of such pipelines in Lithuania and the estimated buy-out price was in the range of approximately LTL 15,000 thousand to LTL 20,000 thousand. During 2002 - 2006 the Group and the Company has bought out pipelines for the total value of LTL 4,205 thousand.

As of 31 December 2006, the Group's and the Company's capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 34,353 thousand.

26 Financial assets and liabilities and risk management

As the Group and the Company are working with big number of customers, they do not face a significant credit concentration risk.

The maximum exposure to credit risk is represented by the trade receivables amount, less recognised impairment losses at the date of the financial statements.

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

Part of the Group's and the Company's borrowings are with variable interest rates, related to VILIBOR, which creates an interest rate risk. However this part of financial borrowing is not significant and comprises 7.5% of the total financial borrowings of the Group and the Company. Fixed interest rate is applicable to the remaining part of financial borrowings. Fixed and variable interest rate are determined based on the situation in the market. The Group and the Company had no financial instruments to manage interest rate risk.

The Group's and the Company's policy is to maintain sufficient 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.

The financial debt portfolio of the Group and the Company comprises loans in LTL and EUR. Therefore, the foreign currency risk is not incurred.

From the beginning of 2006 the price of the natural gas imported by the Group and the Company depends from fluctuation of oil price in the market and EUR/USD rate. These differences are estimated when setting the selling price of natural gas to the consumers.

Monetary assets and liabilities denominated in various currencies as of 31 December 2006 were as follows (stated in LTL):

	Group	Company	Group	Company
	Assets		Liabilities	
LTL	78,810	74,669	33,085	32,849
EUR	124	38	91,445	91,445
Total	78,934	74,707	124,530	124,294

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

Fair value of financial instruments

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

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

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

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

27 Commitments and contingencies

Litigation with the National Control Commission for Prices and Energy

AB Lietuvos Dujos financial results from regulated activities were negatively affected by the Decree No 03-36, of 30 June 2005 of the National Control Commission for Prices and Energy that unilaterally established the natural gas transmission and distribution prices and the gas prices for regulated customers for the Company effective from 1 July 2005. The Company applied to a County Administrative Court for cancellation of the following decrees of the National Control Commission for Prices and Energy: Decree No 03-18 dated 29 April 2005 on natural gas transmission and distribution price caps and natural gas price caps for the regulated customers for AB Lietuvos Dujos; Decree No 03-30 dated 30 May 2005 on natural gas transmission and distribution prices and prices for regulated customers for AB Lietuvos Dujos; Decree No 03-36 dated 30 June 2005 on natural gas transmission and distribution prices and prices for regulated customers for AB Lietuvos Dujos.

All three cases were merged into one and the case was suspended, as Vilnius County Administrative Court addressed the Supreme Administrative Court of Lithuania for an investigation whether certain clauses of the natural gas price caps calculation methodology approved by the Commission Decree No 03-15 of 12 April 2005 do not contradict the primary legislation. Also, AB Lietuvos Dujos applied to the County Administrative Court by asking to annul the Decree of the National Control Commission for Prices and Energy No 03-20, dated 27 April 2006 on adjustment of the natural gas transmission and distribution price caps and natural gas price caps for the regulated customers for AB Lietuvos Dujos. This case was merged to the case with the three aforementioned cases. On 19 October 2006 the Supreme Administrative Court of Lithuania adjudged that the respective clauses of the natural gas price caps calculation methodology approved by the National Control Commission for Prices and Energy by the Decree No 03-15 of 12 April 2005 do not contradict the primary legislation. The legal hearing took place on 1 March 2007 and the court judgement will be announced on 13 March 2007.

27 Commitments and contingencies (cont'd)

Litigation on obtaining license in Kazlų Rūda

Currently, AB Lietuvos Dujos is participating in three disputes related to granting the natural gas distribution license in the territory of Kazlų Rūda. UAB Intergas applied to court for annulment of the agreement of new consumer connection signed between AB Lietuvos Dujos and UAB Girių Bizonas and to adjudge the related actions of AB Lietuvos Dujos as illegal. Also, UAB Intergas addressed Vilnius County Administrative Court for annulment of the Decree of the National Control Commission for Prices and Energy No 03-57, according to which the license of the natural gas distribution was issued to AB Lietuvos Dujos. In this case AB Lietuvos Dujos stands as a third party. Both cases mentioned above are suspended.

Furthermore, UAB Intergas applied to Vilnius Second District Court for annulment of the cancellation of Kazlų Rūda gas pipeline rent agreements between UAB Intergas and UAB Suskystintos Dujos and for obliging the defendant (UAB Suskystintos Dujos) to implement the above rent agreements. AB Lietuvos Dujos stands as a third party in this case, because on 13 April 2006 it acquired the above pipelines under the litigation from UAB Suskystintos Dujos.

AB Lietuvos Dujos applied to Vilnius County Administrative Court for including the company as third party into the case, in which UAB Intergas litigates the legitimacy of the refusal of the National Control Commission for Prices and Energy to issue a license to UAB Intergas.

28 Related party transactions

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

The related parties of the Group and the Company and related party transactions in 2006 and 2005 were as follows:

- E.ON Ruhrgas International AG (one of the major shareholders of the Company since 2002);
- OAO Gazprom (one of the major shareholders of the Company since 2004);
- State Property Fund (one of the major shareholders of the Company);
- UAB Palangos Perlas (subsidiary of the Company).

2006	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	501,551	11,106	-	58,031
UAB Palangos Perlas	160	30	4	-
	501,711	11,136	4	58,031

2005	Purchases	Sales	Accounts receivable	Accounts payable
OAO Gazprom	345,694	2,501	-	42,912
UAB Palangos Perlas	179	26	-	17
	345,873	2,527	-	42,929

Dividends to the shareholders have been paid in 2005 and 2006.

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for to amounts owed by related parties.

Remuneration of the management and other payments

The Group's and the Company's management and related persons' remuneration amounted to LTL 1,504 thousand and LTL 1,447 thousand in 2006, respectively (LTL 1,286 thousand and LTL 1,234 thousand in 2005). In 2006 and 2005, the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.