



# **CONSOLIDATED ANNUAL REPORT 2012**

Vilnius  
2013

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## REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED

The Year 2012.

## MAIN DATA ABOUT THE ISSUER

Name of the Issuer	AB Lietuvos Dujos (hereinafter referred to as “the Company” or “LD”)
Legal form	public company
Date and place of registration	23 November 1990, State Enterprise Centre of Registers
Company code	120059523
Administrator of Register of Legal Persons	State Enterprise Centre of Registers
Authorized capital	LTL 469,068,254
Registered office	Aguonų g. 24, LT-03212 Vilnius, Lithuania
Telephone number	+370 5 236 0210
Fax number	+370 5 236 0200
E-mail address	ld@lietuvosdujos.lt
Website	www.dujos.lt

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

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

We are going to achieve it by:

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

## MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

- On 1 January 2012, new natural gas transmission and distribution service tariffs (set by the Company’s Board of Directors decision of 18 November 2011) came into effect. The natural gas tariffs applicable to household customers remained unchanged, i.e. it was decided from 1 January 2012 to apply the same tariffs that were applied in Half 2 of 2011. On 30 November 2011, the National Control Commission for Prices and Energy (hereinafter referred to as “the NCCPE”) approved the natural gas transmission and distribution service tariffs and natural gas tariffs applicable to household customers as set by the LD Board of Directors.

- 10 February 2012 marked a public presentation of the findings of the Business Case Analysis Study conducted in preparation for the Poland-Lithuania Gas Interconnector Project. The Gas Interconnector is aimed at putting an end to the isolation of the Baltic Region, which will be achieved through the integration of the Baltic States into the gas markets of the European Union and by creating access to the global LNG market via the Swinoujscie Liquefied Natural Gas (hereinafter referred to as “the LNG”) Terminal Facility.

- On 15 February 2012, the Company was awarded the Environmental Protection Management System ISO 14001 certificate. It proves that the environmental protection management system, which constitutes an integral part of in the Company's activities, meets the applicable standards. The certificate was issued by an accredited institution UAB Bureau Veritas Lit.

- On 20 March 2012, a public tender was announced for the preparation of the Polish and Lithuanian Natural Gas Systems Integration Feasibility Study.

- On 29 March 2012, in cooperation with other BEMIP region's transmission system operators, LD produced the first regional Gas Investment Plan for 2012–2021. The aim of the Plan is to present the prospects for the development of the regional gas market and infrastructure, including an analysis of the challenges and obstacles that hinder the development of gas infrastructure in the Baltic Sea region.

- On 23 April 2012, the Annual General Meeting of Shareholders of LD approved the Company's activity results for 2011 and decided for the Year 2011 to pay out dividends totalling LTL 72.0 million, or 15.3 Lithuanian cents per share.

- On 24 May 2012, the NCCPE approved the LD Board of Directors' decision regarding natural gas tariffs for household customers effective from 1 July 2012.

- On 28 May 2012, at the Extraordinary General Meeting of Shareholders of LD, the Company's shareholders decided to implement the unbundling of the transmission activity of LD in accordance with the terms provided for by the legal acts by spinning off a part (i.e. the activity of natural gas transmission) from the Company, which continues its activity, and establishing a new company on the basis of the assets, rights and obligations attributed to the activity of natural gas transmission as provided for by Article 71 of the Law on Companies of the Republic of Lithuania. The Company's General Meeting of Shareholders also decided to implement the unbundling of the gas distribution activity by establishing a subsidiary of LD and by transferring the natural gas distribution activity (complex of assets) to such subsidiary together with the assets, rights and obligations attributed to such activity as contribution in kind for the newly issued shares of the subsidiary in accordance with the terms provided for by the legal acts. One of the Company's shareholders, OAO Gazprom, voted on the adoption of this decision "for" with reservation.

- In implementation of the decisions adopted by the General Meeting of Shareholders of LD as well as the applicable provisions of legal acts of the Republic of Lithuania, on 28 May 2012, the Company's Board of Directors approved the Description of the Methods for the Unbundling of the Company's Gas Transmission Activity and Control and for the Unbundling of the Company's Gas Distribution Activity, including the unbundling action plans. The Board Members Valery Golubev and Kirill Seleznev voted on the approval of the Description "for" with reservation.

- On 31 May 2012, pursuant to applicable provisions of legal acts of the Republic of Lithuania and in implementation of resolutions of the General Meeting of Shareholders of LD and the Board of Directors of LD, the Company submitted to the NCCPE for approval the Description of the Methods for the Unbundling of the Company's Gas Transmission Activity and Control and for the Unbundling of the Company's Gas Distribution Activity, including the unbundling action plans, providing for the legal, functional and organizational unbundling of the natural gas transmission activities by 31 July 2013 and for the unbundling of control of the Company's natural gas transmission activities and for the legal, functional and organizational unbundling of the Company's natural gas distribution activities by 31 October 2014.

- On 15 June 2012, the NCCPE adopted Resolution No. O3-145 "On AB Lietuvos Dujos Transmission and Distribution Activities and Control Unbundling Action Plans" and instructed the Company to unbundle the natural gas transmission and distribution activities and control in accordance with the methods and deadlines as specified in the unbundling action plans.

- On 29 June 2012, a contract was concluded with ILF Consulting Engineers Polska Sp. z. o. o regarding the preparation of the Poland-Lithuania Gas Interconnector Feasibility Study. The Feasibility Study is expected to be completed in Quarter 1 of 2013.
- With effect from 30 June 2012 Dr Peter Frankenberg resigned from his office as Member and Chairman of the Board of Directors of LD. Dr Achim Saul was elected new Member of the Board of Directors of LD.
- On 4 July 2012, at the Meeting of the Board of Directors, Dr Achim Saul was unanimously elected Chairman of the Board of Directors of LD for the current term of office of the Board.
- On 7 September 2012, in Vilnius, a statutory meeting was held of the joint venture established by the Finnish gas company Gasum Oy and AB Lietuvos Dujos to operate a gas exchange, at which the articles of association of the new company UAB GET Baltic were approved and the governing bodies were elected. New company is owned by LD (66%) and by Gasum Oy (34%).
- On 22 October 2012, the Company and the bank Swedbank, AB concluded a long-term credit facility agreement for the amount of up to EUR 72 million. The credit facility is intended to refinance the financial liabilities and finance the operations of the Company natural gas transmission activity of LD, which pursuant to legal provisions will be unbundled from the Company through the establishment of a new Transmission System Operator company.
- On 21 November 2012, the NCCPE approved new natural gas transmission and distribution service tariffs as well as natural gas tariffs for household customers (as set by the Company's Board of Directors decision of 9 November 2012) with effect from 1 January 2013. Pursuant to the applicable provisions of the Law on the Liquefied Natural Gas (LNG) Terminal of the Republic of Lithuania as well as secondary legislation approved by the NCCPE, from 1 January 2013, all the gas transmission system users will be charged and required to pay the so-called Liquefied Natural Gas Terminal funds (hereinafter referred to as the "LNGT") to finance the Liquefied Natural Gas Terminal Project. From 2013 the LNGT surcharge in the amount as set by the NCCPE – LTL 37.53/1000 m<sup>3</sup> (excl. VAT) – will be required to be paid by all gas transmission system users. LD will be responsible for the administration of LNGT funds.

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

## **MAJOR DEVELOPMENTS AFTER THE REPORTING PERIOD**

- On 30 January 2013, the Company's Board of Directors approved the Terms and Conditions of the Spin-off of the Company. The Members of the Board of Directors of the Company Valery Golubev and Kirill Seleznev voted on the approval of the Terms and Conditions of the Spin-off "for" with reservation. The Terms and Conditions of the Spin-off were prepared pursuant to the decision of the Extraordinary General Meeting of Shareholders of the Company of 28 May 2012 and the NCCPE Resolution No. O3-145 of 15 June 2012. The Terms and Conditions of the Spin-off provide for the terms and conditions for spinning-off a part of the Company (which will continue its activity), and for establishing the New Company of the same legal form on the basis of the assets, rights and obligations attributed to such spin-off part. Pursuant to the applicable provisions of the Law on Implementation of the Law Amending the Law on Natural Gas of the Republic of

Lithuania and secondary legislation, on 30 January 2013, the Terms and Conditions of the Spin-off were submitted to the NCCPE for coordination.

- Since following the sale of the main asset item of the LD subsidiary UAB Palangos Perlas – the hotel in Palanga – the scope of business activities of UAB Palangos Perlas became considerably narrower, therefore, on 30 January 2013, the Board of Directors of the Company decided to subject the aforesaid subsidiary to liquidation.

- On 28 February 2013, having reviewed the Terms and Conditions of the Spin-off of AB Lietuvos Dujos (as approved by the Board of Directors of AB Lietuvos Dujos on 30 January 2013) the NCCPE concluded that the aforesaid document provides conditions for the proper implementation of the unbundling of the natural gas transmission activity.

## **NATURAL GAS BUSINESS ENVIRONMENT**

### **Legal basis**

Pursuant to the Law on Natural Gas and the Law on Implementation of the Law on Natural Gas transposing into the national law provisions of the Third Energy Package of the EU, in Quarter 4 of 2011, the Government of the Republic of Lithuania (hereinafter referred to as the “GoRL”) passed respective resolutions providing for the Company’s actions to be taken with regard to the transformation of the Company: the Resolution No. 1239 “On Approval of the Plan on Performing the Unbundling of Activities and Control of Natural Gas Companies that do not Conform to the Requirements of the Law on Natural Gas of the Republic of Lithuania” as adopted by the GoRL on 28 October 2011 and the Resolution No. 1417 “On approval of the description of the procedure for unbundling of the activities and control of natural gas undertakings that do not conform to the requirements of the Law on Natural Gas of the Republic of Lithuania” as adopted by the GoRL on 7 December 2011.

Pursuant to the provisions of the aforesaid legal acts, the Company must by 31 October 2014 implement the unbundling of the transmission activity and control and to complete the legal, functional and organizational unbundling of the natural gas distribution activity thus achieving compliance with the requirements of Article 8 of the Law on Natural Gas. In compliance with the provisions of the applicable legal acts of the Republic of Lithuania, the Company submitted to the NCCPE the Company’s spin-off action plan (Transmission Plan) and the Company’s activity’s transformation action plan (Distribution Plan) as approved by the LD Board of Directors on 28 May 2012. On 15 June 2012, the NCCPE adopted the corresponding Resolution No. O3-145 “On AB Lietuvos Dujos Action Plans for the Unbundling of Transmission and Distribution Activities and Control”.

In accordance with applicable provisions of the Law on Natural Gas, from 1 August 2011, natural gas supply activity became unregulated. The Law also created preconditions for the establishment of a natural gas exchange in Lithuania. On 4 July 2012, the Company’s Board of Directors decided in cooperation with the Finnish natural gas company Gasum Oy to set up a joint venture, UAB GET Baltic, to perform the functions of a natural gas market operator. On 7 September 2012, the newly established joint venture was presented to the public and to potential customers.

On 12 June 2012, the Seimas (Parliament) passed the Law on Liquefied Natural Gas Terminal regulating the principles for the installation, operation and maintenance of the LNG Terminal. Even though the LNG Terminal is being developed as a commercial project of a state-controlled company, the provisions of the Law create a possibility of covering the costs of the installation and operation of the LNG Terminal with the funds of all system users irrespective of the fact whether or not such system user will actually use the services of the LNG Terminal. Moreover, this Law

imposes a mandatory obligation for gas companies importing gas to Lithuania through gas pipelines to procure 25% of their gas supplies from the LNG Terminal Facility.

Following the adoption of the Law on LNG Terminal, the NCCPE amended the Natural Gas Transmission and Distribution Price Cap Calculation Methodology, introducing into the Methodology principles for the calculation of the so-called LNGT funds, i.e. the LNGT surcharge on the natural gas transmission price caps and adopted the Procedure for the Administration of the Funds to Cover the Costs or Part Thereof Related to Installation and Operations of the LNG Terminal, its Infrastructure and Connector, whereby the NCCPE obligated LD (as a licensed natural gas transmission system operator) to collect, administrate and transfer the LNGT funds to the LNGT funds beneficiary. By resolution as of 19 October 2012 the NCCPE set the total LNGT funds amount for the year 2013 – LTL 114.1 million.

## Licensing

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

## Pricing system and natural gas tariffs

Natural gas transmission and distribution service tariffs applicable to all customers are subject to regulation. Price caps of the regulated service tariffs are set for a five-year regulation period and by the NCCPE decision may be adjusted, however not more often than once a year and in cases provided for by the Law on Natural Gas. The activity of natural gas supply is not subject to regulation.

Specific natural gas transmission and distribution services tariffs are set by the Company on an annual basis. Natural gas tariffs for household customers are set once in every six months. The tariffs for households are submitted to the NCCPE for approval.

On 1 January 2012, new natural gas transmission and distribution service tariffs (set by the Board of Directors of the Company and verified by the NCCPE) came into effect. As regards natural gas tariffs to household customers, in Half 1 of 2012 they did not change, i.e. from 1 January 2012, regardless of the gas imports price increase, the same tariffs as the ones that were in effect in Half 2 of 2011 were further applied. Based on the experts' forecasts, that the energy resource prices would start decreasing, the Company's Board of Directors decided not to raise tariffs for household customers applicable in Half 1 of 2012.

As the forecast failed to come true, in Half 1 of 2012 alone, from the natural gas sale to household customers the Company incurred a loss of approx. LTL 20 million, which accrued due to the negative difference between the factual gas import price and the gas import price included into the household customer tariff calculation.

In view of the fact that in 2012 gas import prices were further increasing, on 23 April 2012, the Company's Board of Directors adopted a decision on new natural gas tariffs for household customers effective from 1 July 2012. In order to mitigate the price increase impact on household customers, compensation of the losses through household tariffs for Half 2 of 2012 was not included into the calculation of the tariffs. Compared to the tariffs that were in effect in Half 1 of 2012, the variable tariff component for all household customers was raised by on average 42-46 ct/m<sup>3</sup>. The constant tariff component remained unchanged. On 24 May 2012 these tariffs were approved by the NCCPE.

As regards natural gas prices for the non-household customers, these prices are subject to monthly recalculations and depend on the changes in the gas imports prices. Natural gas import price, in turn, depends on oil and gasoil prices in international market, the USD and EUR ratio set by the European Central Bank and the actual calorific value of natural gas. Due to the very significant increase in the energy resources prices, and also due to the decline in the value of EUR against USD, in Half 1 of 2012, natural gas prices for the non-household customers have been gradually rising, but since August of 2012, they started gradually decreasing.

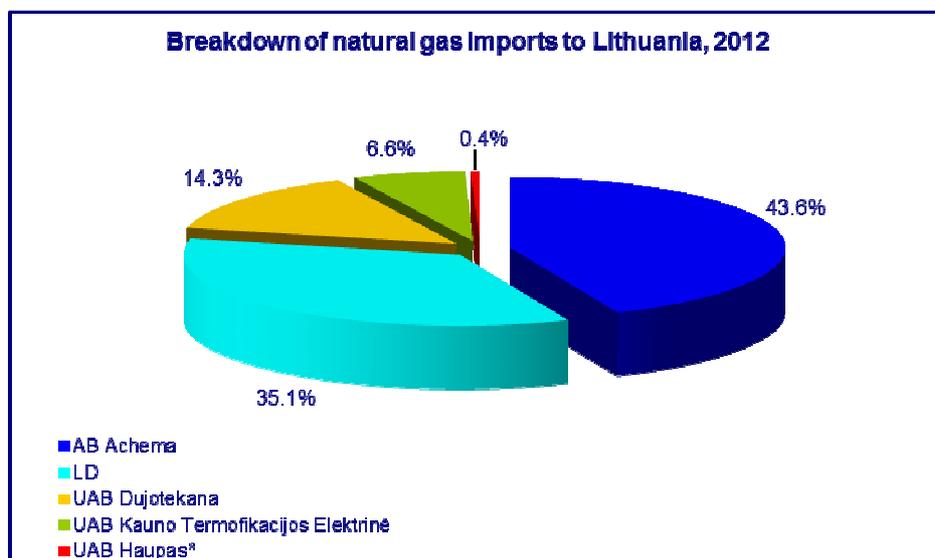
The NCCPE by its Resolution No O3-330 as of 26 October 2012 set adjusted natural gas transmission and distribution price caps of the Company effective from 1 January 2013. By the same resolution the NCCPE also set the so-called LNG Terminal surcharge intended to finance the costs of the LNG Terminal, its infrastructure and construction of connector in 2013, which will have to be collected by the Company from the users of the gas transmission system.

On 9 November 2012, the Board of Directors of the Company set the concrete natural gas transmission and distribution service tariffs as well as new natural gas tariffs for household customers with effect from 1 January 2013. Depending on the market situation, the Company plans to recover part of the revenue (that has not been received from the household customers in 2012) in 2013. On 22 November 2012, the prices and tariffs for the new period were approved by the NCCPE.

For more detailed information on the LD natural gas service tariffs and gas tariffs for household customers see the Company website [www.dujos.lt](http://www.dujos.lt).

## Market

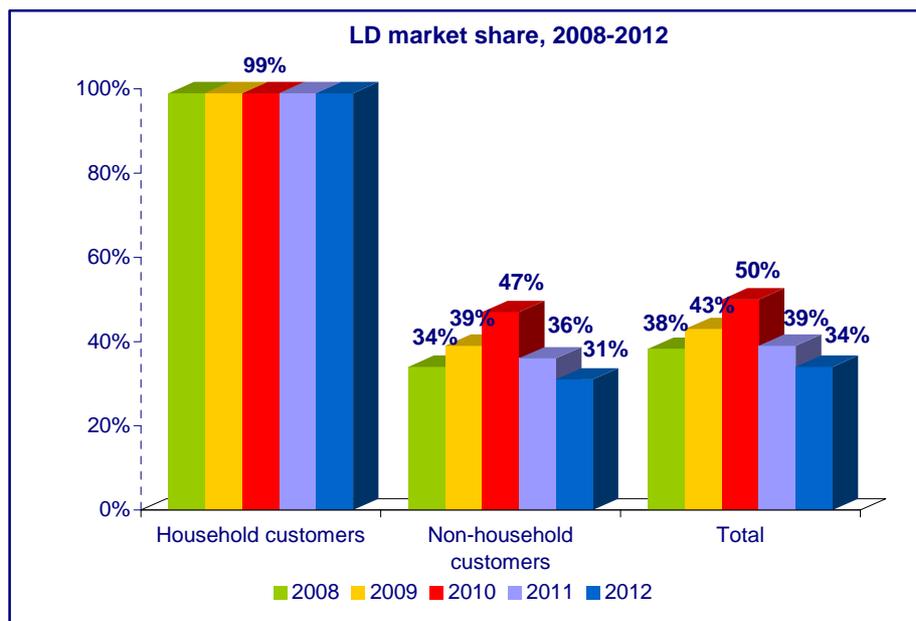
In 2012, there were five companies importing natural gas into Lithuania: LD, AB Achema, UAB Dujotekana, UAB Kauno Termofikacijos Elektrinė and UAB Haupas. In 2012, the total volume of natural gas imported into Lithuania via system operated by LD amounted to 3.3 billion m<sup>3</sup>. UAB Haupas did not use the Company's Natural Gas System for its imports of natural gas.



\* Data supplied by UAB Haupas.

In 2012, natural gas to household and non-household customers of Lithuania was supplied by the following companies: LD, UAB Fortum Heat Lietuva, UAB Druskininkų Dujos, AB agro firm Josvainiai and UAB Intergas. UAB Dujotekana and UAB Haupas were supplying gas only to non-household customers.

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



## RISK MANAGEMENT

The Company has implemented a Risk Management System which is a constituent part of LD activities. The 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 and supervise the risk management process. The risk management activities are aimed at maintaining an adequate business process control level, at minimizing the probability of occurrence of events that may cause risks and minimizing their possible negative effects, at ensuring that risks would not exceed the levels acceptable to LD and at implementing the Company's objectives.

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

The main risks faced by the Company as it pursues its business are as follows: organizational structure-related risk, regulation-related risk, competition-related risk, natural gas import price fluctuation risk, credit risk, technology-related risk, macroeconomic factors-related risk.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2012.

### The organizational structure risk

The Company is currently implementing the legislative provisions regarding the unbundling of natural gas activities (see Chapter "Natural gas business environment. Legal basis" presented above), which are implemented by the Company according to the Description of the Method of the Unbundling of the Natural Gas Activities and Control (including Action Plans) as approved by the Board of Directors of the Company and coordinated with the NCCPE.

For this purpose, the Company has adopted an organizational structure, which ensures coordination of the necessary actions and their timely execution. With a view to a proper

preparation and submission of all the required documentation, the Company's actions are coordinated with the external controlling bodies well in advance.

Alongside with other factors, the Company timely restructuring will also depend on whether or not all the authorities involved in this process will actually execute their duties related to the unbundling of the Company's activities sticking to statutory deadlines.

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

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

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

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

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

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

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

On 12 June 2012, the Seimas (Parliament) of the Republic of Lithuania adopted the Law on the Liquefied Natural Gas Terminal, the provisions of which could adversely affect the Company's results in the future.

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

Energy produced by using renewable resources is bought up in the priority order, its production is subsidized through the Public Service Obligations (PSO) mechanism.

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

### **The technology-related risk**

The technical condition of gas systems owned by the Company is passable, but quite a few of the Company's pipelines are 30-40 years old. One of the main objectives of the Company consists in ensuring the safety and reliability of its gas systems. The Company implements this objective by:

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

### **The macroeconomic factors-related risk**

Lithuania's general economic situation is having a respective impact on gas transportation and sales volumes, on the natural gas system development and, accordingly, on the Company's activities results. The natural gas consumption downward trend still prevails, especially in the electricity generation sector, and demand for investments in projects for the connection of new gas consumers to the natural gas system is rather low.

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

By employing respective debt-management measures that have been implemented at the Company and due to active work with LD's customers, the customer debt level is kept at the level that is acceptable to the Company.

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

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

## FINANCIAL PERFORMANCE

### Group's key performance indicators

	2012	2011	2010
<b>Performance indicators</b>			
Volume of transmitted natural gas, M m <sup>3</sup>	3,266.9	3,360.9	3,068.8
Volume of natural gas transit, M m <sup>3</sup>	2,167.4	2,043.6	1,387.2
Volume of distributed natural gas, M m <sup>3</sup>	982.1	1,066.1	1,167.9
Volume of natural gas sales, M m <sup>3</sup>	1,125.6	1,317.8	1,546.0
<b>Number of customers that have concluded natural gas supply agreements as of the end of the year, thousand</b>			
Household customers	550.3	548.2	546.2
Non-household customers	6.2	5.9	5.8
<b>Length of gas pipelines operated, thousand km</b>			
Transmission pipelines	1.9	1.9	1.9
Distribution pipelines	8.2	8.1	8.1
<b>Employees</b>			
Average number of employees	1,700	1,719	1,750

### Group's key financial indicators

	2012	2011	2010
<b>Financial results</b>			
Sales, M LTL	1,872.7	1,840.0	1,746.8
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	183.4	213.9	245.2
Profit from operations, M LTL	69.2	122.1	146.2
Profit before tax, M LTL	70.7	104.3	148.9
Net profit, M LTL	74.5	95.8	159.5
Net cash flows from operating activities, M LTL	155.3	213.6	265.6
Investments, M LTL	158.3	62.3	178.5
Assets at the end of the year, M LTL	2,928.2	2,698.6	2,709.6
Equity at the end of the year, M LTL	2,057.8	2,055.3	2,079.6
Net financial debt	-95.7	-123.6	-110.1
<b>Profitability ratios</b>			
EBITDA margin, %	9.8	11.6	14.0
Profit from operations margin, %	3.7	6.6	8.4
Profit before tax margin, %	3.8	5.7	8.5
Net profit margin, %	4.0	5.2	9.1
Average return-on-assets ratio (ROA), %	2.7	3.5	6.1
Average return-on-equity ratio (ROE), %	3.6	4.6	7.8
Return on capital employed (ROCE), %	3.1	5.0	7.0
<b>Liquidity</b>			
Overall liquidity	1.9	1.3	1.3
Quick ratio	1.6	1.1	1.1
<b>Leverage</b>			
Equity to asset ratio, %	70.3	76.2	76.8

Financial debt to equity ratio, %	8.9	0.2	0.3
Net financial debt to equity ratio, %	-4.7	-6.2	-5.3
<b>Market value ratios</b>			
Price-earnings ratio (P/E)	12.06	10.34	7.41
Basic earnings per share, LTL	0.16	0.20	0.34
Dividend payment ratio, %	291.3*	75.2	75.2
Dividends per share for the current year, LTL	0.46*	0.15	0.26

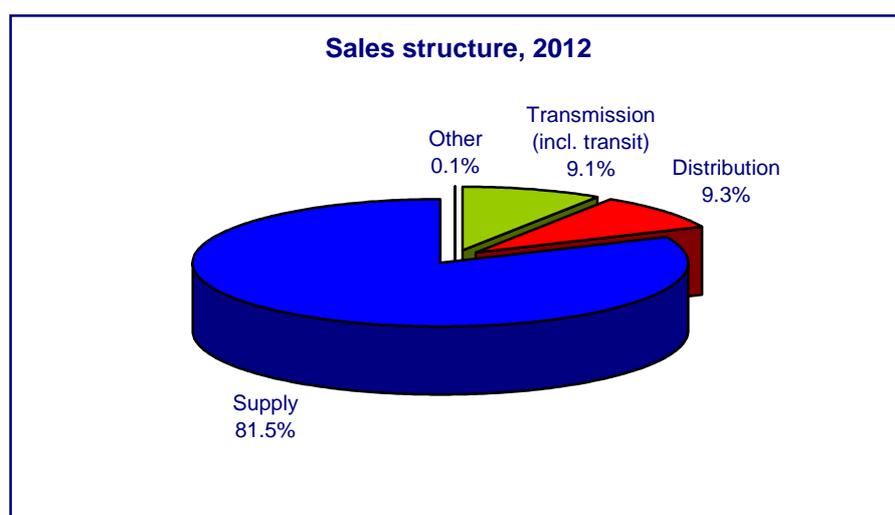
\* Proposed for the approval at the General Meeting of Shareholders, assessing redistribution of the reserves formed in previous years.

The Consolidated Financial Statements for the year ended 31 December 2012 prepared by the Company also include the financial results of its subsidiary UAB Palangos Perlas and the UAB GET Baltic, a joint-venture controlled jointly with the Finnish gas company Gasum Oy. The overview of the financial results of AB Lietuvos Dujos Group (hereinafter referred to as “the Group”) is presented below.

## Revenues

In 2012, the revenues of the Group, compared with 2011, increased by 1.8% (by LTL 33.3 million) and amounted to LTL 1,879.2 million. The sales accounted for the largest part of the revenues (99.7%).

The increase of the sales (by LTL 32.7 million or 1.8%) was caused by the increase in the revenues in the supply activity (from LTL 1,490.8 million to LTL 1,526.6 million or by 2.4%), the increase of which, just as it was the case last year, was determined by the increase in the gas sales price. The gas sales price increase, in turn, came as a result of the increase in the natural gas imports price due to the oil and oil product price rise on the global markets. The gas sales volumes declined further. The gas transmission revenues (including transit) decreased by 3.6%, from LTL 175.5 million to LTL 169.3 million due to the lower gas volumes transmitted to customers of Lithuania. The revenues from gas transit increased by 7.4%. The distribution volumes also declined, but the revenues increased by 2.2%, from LTL 171.1 million to LTL 174.8 million, when from 1 January 2012, the adjusted distribution price cap went up by 5.0% and the concrete distribution service prices by customer groups were also raised.

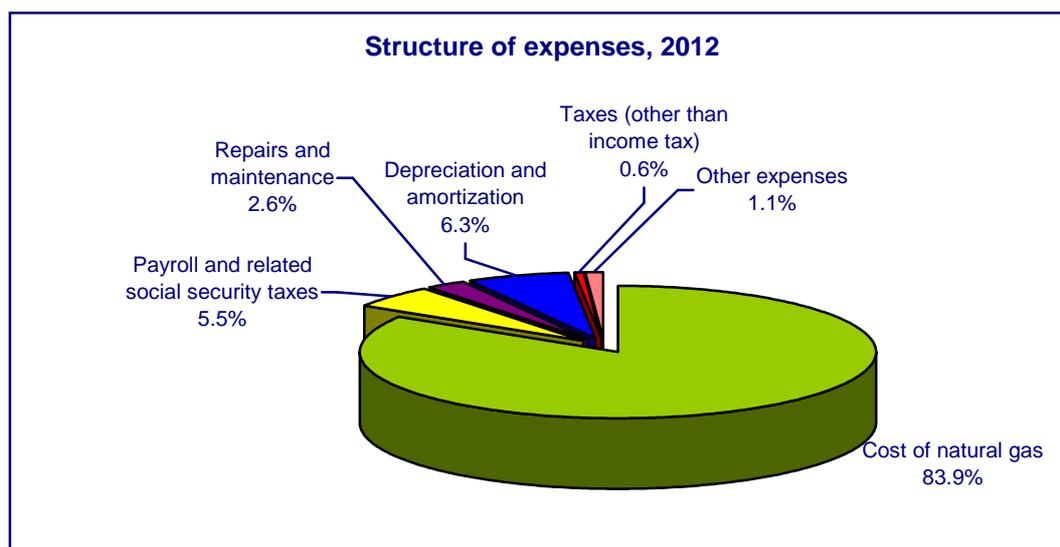


## Expenses

The Group's expenses, compared to 2011, increased by 5.0% (LTL 86.3 million) and amounted to LTL 1,810.0 million. Increase of expenses was determined by the increase in the natural gas cost

by 5.7% (LTL 81.9 million) due to the higher natural gas import price. In the total expenses breakdown, cost of natural gas accounted for 83.9%.

In 2012, the remaining relatively fixed costs totalled LTL 292.2 million and accounted for 16.1% of total expenses, which represents an increase of LTL 4.4 million (1.5%). The largest rise was in the depreciation expenses in connection with the investments in individual infrastructure facilities (LTL 2.5 million or 2.3%). In 2012, the Company continued with the implementation of efficiency raising policies – improvement of the organizational structure, consistent implementation of cost optimization policies.

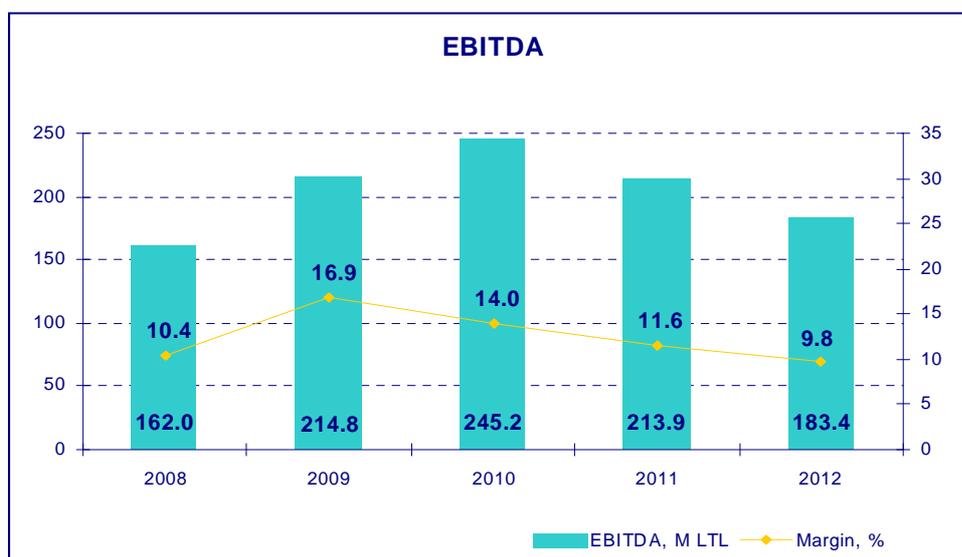
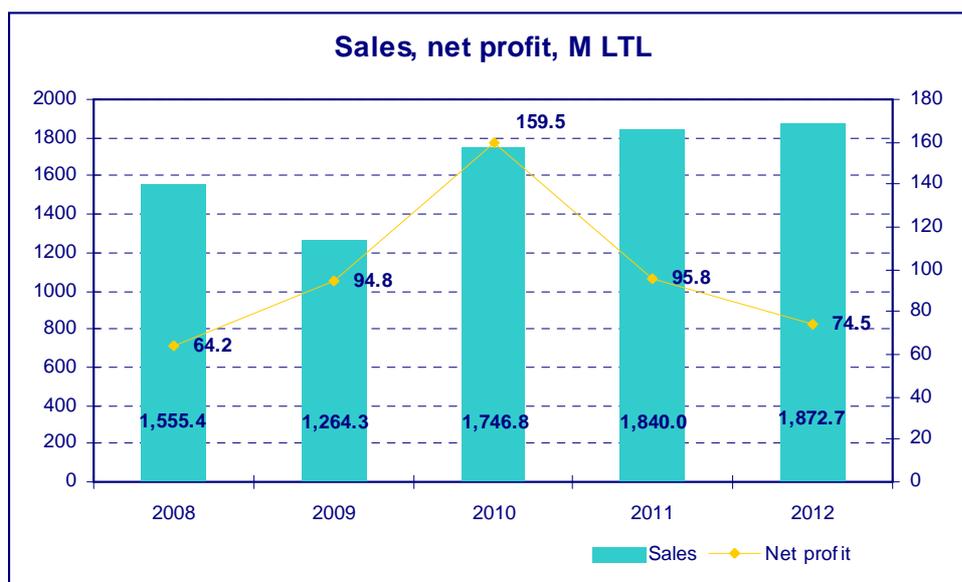


### Activity results

The decrease of the profit before tax from LTL 104.3 million (in 2011) to LTL 70.7 million (in 2012), or by 32.2%, was mainly determined by the worse results of the regulated transportation activity. The supply activity result also decreased. The earnings before interest, taxes, depreciation and amortization (EBITDA) of 2012 also decreased accordingly – by LTL 30.5 million (14.3%) – and amounted to LTL 183.4 million (in 2011 it amounted to LTL 213.9 million).

In 2012, the net profit decreased by LTL 21.3 million and amounted to LTL 74.5 million. The net profit reflects the income tax exemption for investments as provided for by the Law on Income Tax – LTL 14.3 million, including the deferred income tax assets formed on the unused income tax exemption balance (in the net profit of 2011 the income tax exemption amounted to LTL 10.0 million).

The Company is one of the biggest tax payers in Lithuania. According to the State Tax Inspectorate data of 2012, for a third consecutive year LD was the fourth-biggest tax payer in Lithuania. Over the past 5 years, the tax amount paid by the Company to the state and the municipality budgets and the state social security fund totalled LTL 1.9 billion. Out of it, dividends paid to the state, which controls 17.7% of the Company's shares, amounted to LTL 63.4 million.



## Investments

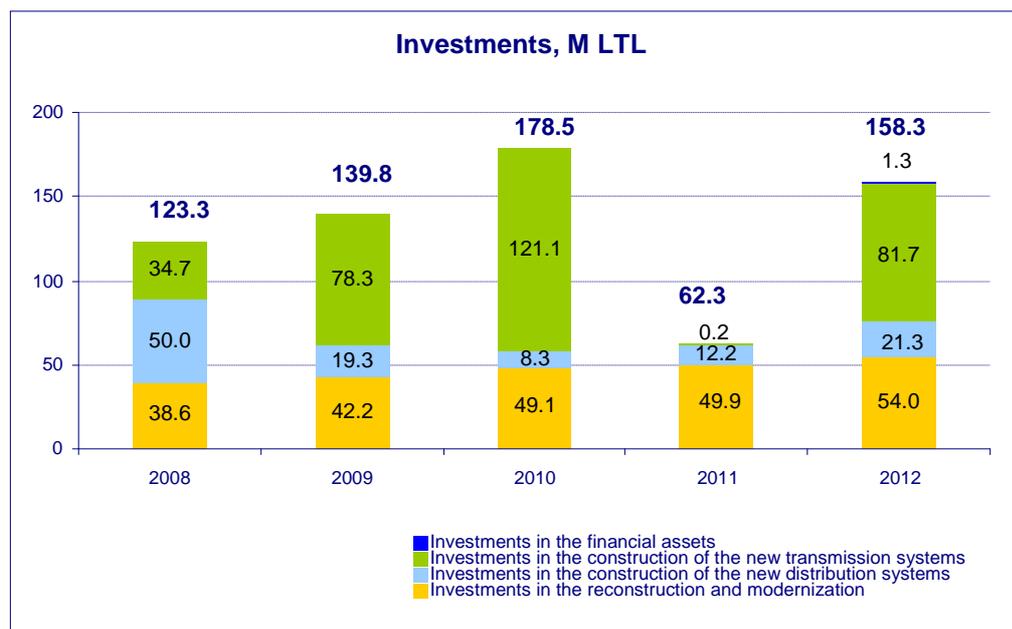
Since the privatization back in 2002, the Company has invested in the construction of new gas systems, reconstruction of gas systems and modernization a total amount of LTL 1.3 billion.

In 2012, the Group's investments totalled LTL 158.3 million, i.e. by LTL 96.0 million (or 2.5 times) more than compared to 2011. In 2012, 65.1% of the total investment amount was invested in the construction of new gas system facilities, whereas 34.1% were invested in the reconstruction of gas systems and modernization and 0.8% was the Company's financial investment in the incorporation of UAB GET Baltic (which was set up together with a Finnish gas company). UAB GET Baltic is intended to operate as a natural gas exchange.

In 2012, the largest share of investments (LTL 81.7 million, of which LTL 33.9 million were covered by the EU Structural Funds assistance funds) was investments in the construction of the Šakiai–Klaipėda Gas Transmission Pipeline. The year 2012 marked the completion of the construction of the section of this pipeline from Jurbarkas to the gas pipeline branch to Tauragė.

Compared to 2011, the Company's investments in the development of its gas distribution system increased by more than 74% – to LTL 21.3 million, of which LTL 9.2 million were directed to the enhancement of the distribution system safety and supply reliability. In 2012, the Company's

investments in the connection of new customers to the natural gas grid remained at the level of 2011.



## Assets

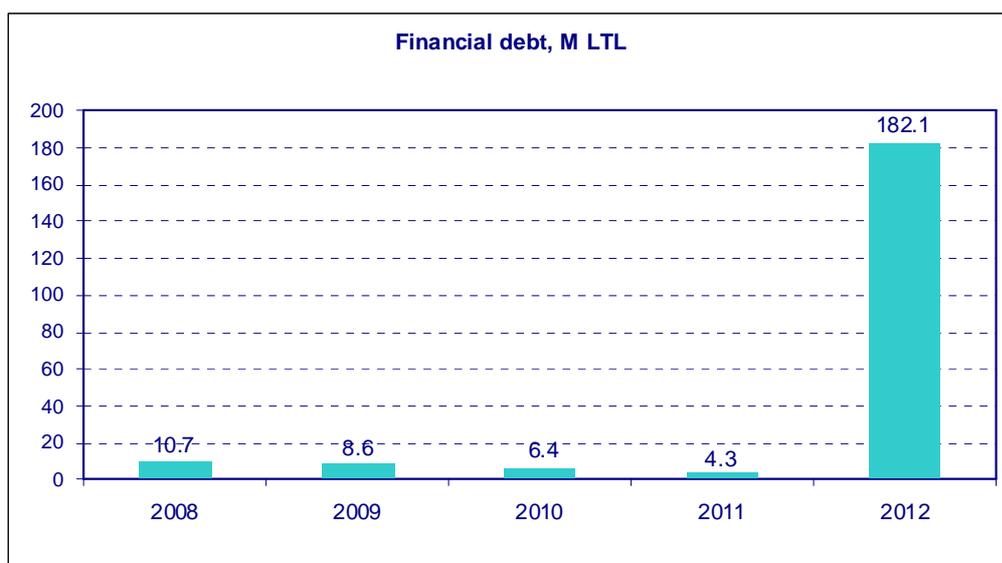
Over the year 2012, the value of assets increased by 8.5% (by LTL 229.6 million) and at the end of the year amounted to LTL 2,928.2 million. As of end of the year 2012, the non-current assets accounted for 80.5%, and the current assets accounted for 19.5% of the total assets of the Group.

Over the year 2012, the value of the non-current assets increased by 1.7% (by LTL 39.9 million), which came as a result of significant investments. The value of the current assets increased by 49.9% (LTL 189.7 million) mainly due to the higher short-term investments, which increased by LTL 133.4 million, i.e. from LTL 32.0 million to LTL 165.4 million. Short-term investments are liquid 3 months–1 year investments in money market instruments, such as term deposits or securities (bonds).

## Equity and liabilities

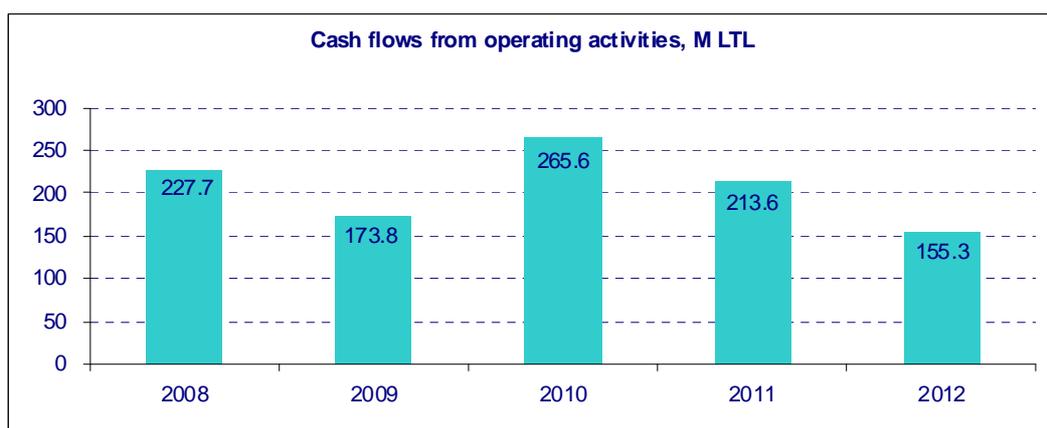
The Group's equity increased by 0.1% (by LTL 2.5 million) and at the end of the year amounted to LTL 2,057.8 million. The equity at the end of the reporting period accounted for 70.3% of the total assets of the Group.

The liabilities increased by 35.3% (by LTL 227.0 million) and at the end of the year amounted to LTL 870.3 million. Over 2012, the financial debt of the Group increased by LTL 177.8 million: from LTL 4.3 million (end 2011) to LTL 182.1 million (end 2012). The Company received a loan for refinancing of financial liabilities and financing of the activity of the Company's transmission activity, which, in accordance with the requirements of legal acts, will be unbundled from AB Lietuvos Dujos by establishing a new transmission system operator company.



### Cash flows

The Group's cash flows from its operating activities decreased by LTL 58.3 million (27.3%) and amounted to LTL 155.3 million.



For detailed information on the financial results of the Group, see the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2012.

### RESEARCH AND DEVELOPMENT ACTIVITIES

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

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

A pilot project has been implemented for a remote metering of natural gas consumption by LD household gas customers: installation of the necessary software enabled continuous monitoring of data on gas consumption by 125 household gas consumers. The analysis of the results of the pilot project will serve as a basis for a decision regarding further development prospects.

The internal condition of 227 km of gas transmission pipelines was checked by using the intelligent pigging procedures. Individual sections of the gas distribution pipelines were subjected to check the condition of the metal of these pipes.

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

In co-operation with the Polish Gas Transmission System Operator GAZ-SYSTEM S.A. LD participates in the preparation of a Feasibility Study of the Gas Interconnection, the aim of which is to establish the demand for gas transmission capacities in this direction, the infrastructure facilities that are necessary, the routing of the gas pipeline, to carry out an exhaustive environmental, economic, financial and legal analysis (due diligence). For the preparation of the Feasibility Study the European Union financial assistance according to the EU TEN-E programme has been granted. The EU financial assistance covers 50% of the costs related to the preparation of the Feasibility Study, whereas the balancing amount is financed in equal parts by LD and the GAZ-SYSTEM S.A.

## **BUSINESS PLANS AND FORECASTS**

Special attention is paid to a proper and timely implementation of the provisions related to the restructuring of the Company laid down in the Law on Natural Gas, the Law on the Implementation of the Law on Natural Gas as well as other legislation. Stage 1 of the restructuring – establishment of a TSO company – is scheduled for completion on 1 August 2013. For details see other chapters of the present Consolidated Annual Report.

It is planned that in 2013 natural gas volume transportation to customers of Lithuania via the gas transmission system of LD will amount to approx. 2.9 BCM.

In 2013 there are plans to connect approx. 2.1 thousand new customers to the natural gas grid, but this number may be corrected by future developments in the economic situation of Lithuania. It is planned that the Company's investments in the construction of new gas systems in 2013 will be of a level comparable to the one of 2012. More detailed information on the prospective development of the gas transmission system is presented in the Natural Gas Transmission System Operator's Ten Year (2013–2022) Network Development Plan, which has been submitted for public consultation.

In 2013 there are plans to complete the implementation of a project that is part of the National Energy Strategy – the construction of the Šakiai–Klaipėda Gas Transmission Pipeline section from Tauragė to Klaipėda. It is estimated that the total value of the gas transmission pipeline from Jurbarkas to Klaipėda will amount to approx. LTL 165.0 million. The project implementation is co-financed with the European Union Structural Fund grant (up to LTL 77.06 million). The first section of this gas transmission pipeline of national importance, i.e. pipeline the section to the town of Jurbarkas, was constructed back in 2007 and is already fully operational – supplies gas to gas consumers of this town. 2012 saw the completion of the construction of the gas pipeline branch from Jurbarkas to Tauragė. This gas transmission pipeline will connect to the grid the LNG terminal facility, which is currently being constructed by AB Klaipėdos Nafta.

In 2011, in co-operation with the Polish Gas Transmission System Operator GAZ-SYSTEM S.A. the Poland-Lithuania Gas Interconnector Business Case Analysis Study was prepared, which presented comprehensive information about gas markets of Poland and the Baltic States. In continuation of the works that were started earlier, in Quarter 1 of 2013, there are plans to prepare a Feasibility Study of the Poland-Lithuania Gas Interconnector. The results of the Feasibility Study will constitute a basis for further steps with regard to the implementation of this Project.

In 2013, the Company also intends to continue with the implementation of projects aimed at raising the operational efficiency and cost optimization.

## MANAGEMENT OF THE COMPANY

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

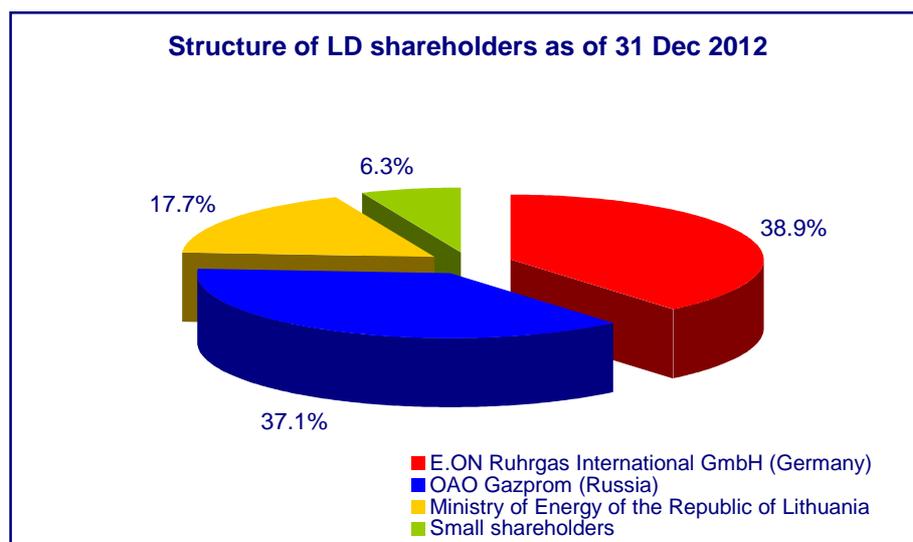
The Company has disclosed the information regarding the observance of the provisions of the Code of Governance. All the information is available at the Company website [www.dujos.lt](http://www.dujos.lt) and the Central Database of Regulated Information [www.crib.lt](http://www.crib.lt).

### Shareholders and shares

The authorized capital of the Company consists of 469,068,254 ordinary registered shares with par value of LTL 1 each. In 2012, the par value of a share did not change. All the shares are fully paid.

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

In 2012, the value of the authorized capital and the structure of shareholders did not change.



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

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

OAO Gazprom is a global energy company engaged in geological exploration, production, transmission, storage, processing and marketing of gas and other hydrocarbons, as well as

production and supply of electricity and heat power. OAO Gazprom possesses the world's largest confirmed natural gas reserves.

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

In 2012, LD did not acquire its own shares and it did not make any transactions related either to the acquisition or disposal of its own shares.

As of 31 December 2012, LD was controlled by 2,803 shareholders holding LD shares by the right of ownership; the majority of them were small shareholders.

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 control 93.7% of the stock of LD, have the controlling interest and have a casting vote when taking decisions at the General Meeting of Shareholders. The aforesaid major shareholders have concluded a shareholders' agreement setting out the shareholders' common aims related to LD activities. The agreement is confidential.

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

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

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

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

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

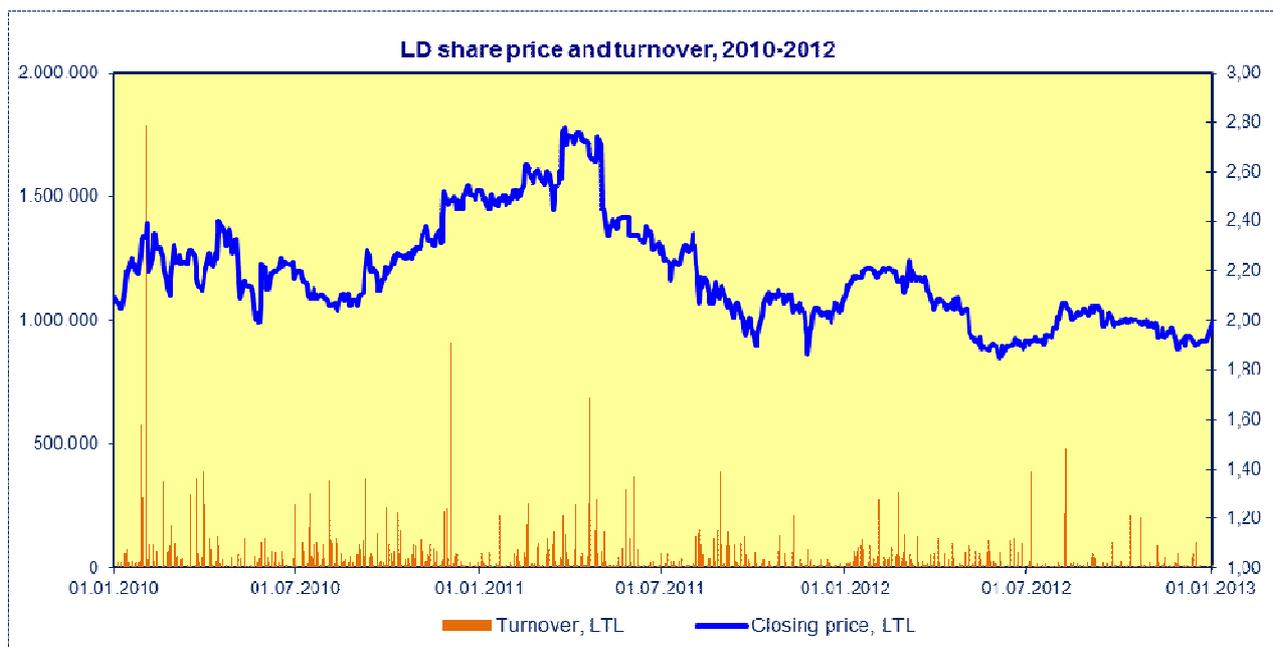
<b>Main data about LD shares</b>	
ISIN code	LT0000116220
Abbreviation	LDJ1L
Number of shares (pcs)	469,068,254

In 2012, the turnover of the trading in LD shares amounted to LTL 8.6 million (2011: LTL 11.7 million). Through the transactions that were concluded 4,194,387 shares were disposed of (2011: 5,014,082).

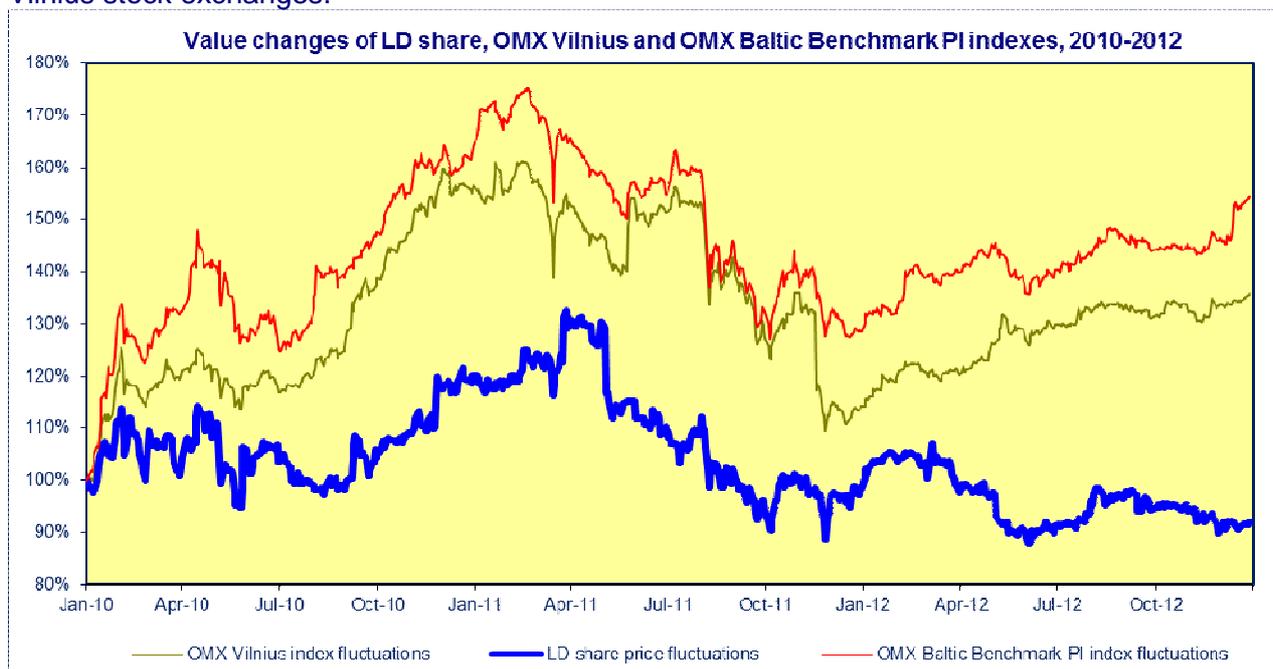
In 2012, after the slump of 2011, the stock markets of all the three Baltic States recorded a growth. In 2012, the OMX Baltic Benchmark PI and OMXV indices of the stock exchange NASDAQ OMX Vilnius (reflecting stock price developments of securities of all companies listed on the Baltic States and Vilnius stock exchanges) showed respective rises by 20.6% and 18.8% (in 2011, there was a drop of 21.8% and 27.1%). Meanwhile, the value of LD shares was still decreasing, and in 2012 it showed a decrease of 6.7% (in 2011: a drop of 18.0%).

**Share price dynamics at NASDAQ OMX Vilnius, 2010–2012**

	Period		
	2012	2011	2010
Highest price per share, LTL	2.244	2.828	2.555
Lowest price per share, LTL	1.830	1.730	1.970
Weighted average price per share, LTL	2.040	2.336	2.232
Price per share as of end of the period, LTL	1.930	2.068	2.521
Market capitalization as of end of the period, M LTL	905.4	970.1	1,182.3
Market capitalization of minority shareholders as of end of the period, M LTL	57.2	61.3	74.8

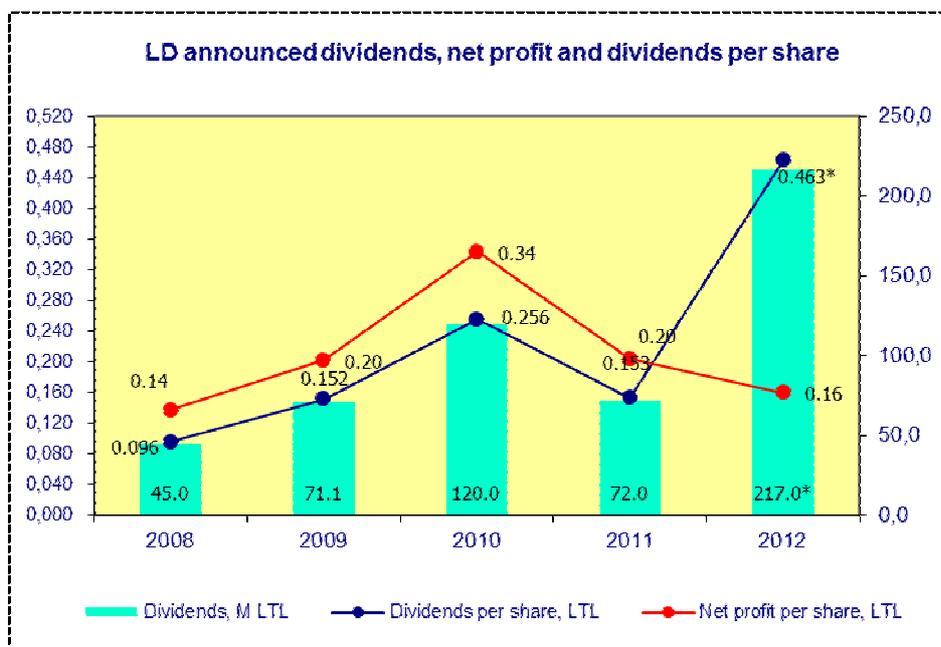


The OMX Baltic Benchmark PI and OMXV indices are total return indices that include all the shares listed on the Main and Secondary lists of the stock exchange. The indices do not include the share prices of companies where one shareholder controls 90% or more of the shares. The aim of the indices is to reflect the current situation and developments on the Baltic States and Vilnius stock exchanges.



## Dividends

In recent years, the Company has been pursuing a consistent dividend payout policy and every year it appropriates part of the profit to the payout of dividends. Assessing redistribution of the reserves formed in previous years, it is proposed to the payout of dividends a total amount of LTL 217.0 million, or 46.3 Lithuanian cents per share (for the year 2011: LTL 72.0 million, or 15.3 cents per share).



\* Proposed for the approval at the General Meeting of Shareholders, assessing redistribution of the reserves formed in previous years.

## Agreements with intermediaries of public trading in securities

At the beginning of the year 2012, the Company's securities accounting as well as the accounting of securities-related services were provided by AB FMJ Finasta. The contract with the aforesaid company (originally concluded on 26 November 2003) was terminated on 31 March 2012.

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

Company Particulars of AB FMJ Finasta	
Company code	122570630
Licence category	B
Brokerage company's license number	B087 (on 28 March 2003 issued by the Securities Commission of the Republic of Lithuania, as subsequently amended)
Registered office	Maironio g. 11, Vilnius, Lithuania
Telephone number	+370 5 278 6833, +370 5 278 6844, short telephone number 1813
E-mail address	info@finasta.lt
Website	www.finasta.lt

Company Particulars of AB SEB Bankas	
Company code	112021238
Banking licence No	2 (on 29 November 1990 issued by the Bank of Lithuania, as subsequently amended)
Registered office	Gedimino pr. 12, Vilnius, Lithuania

Telephone number	+370 5 268 2800, short telephone number 1518
E-mail address	info@seb.lt
Website	www.seb.lt

## Management structure

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

The Company has implemented a functional unbundling of its gas transportation and supply activities: the technical functions in the gas transmission, distribution and supply activities and the commercial functions in the transportation and supply activities were unbundled; nevertheless, the Company's general administrative and supporting functions as well as the planning and pricing functions in the transmission and distribution activities still remain integrated. In implementation of provisions of the Law on Natural Gas and other legal acts, since 2002 the Company has been keeping separate accounts for natural gas transmission, distribution, supply and other activities.

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

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

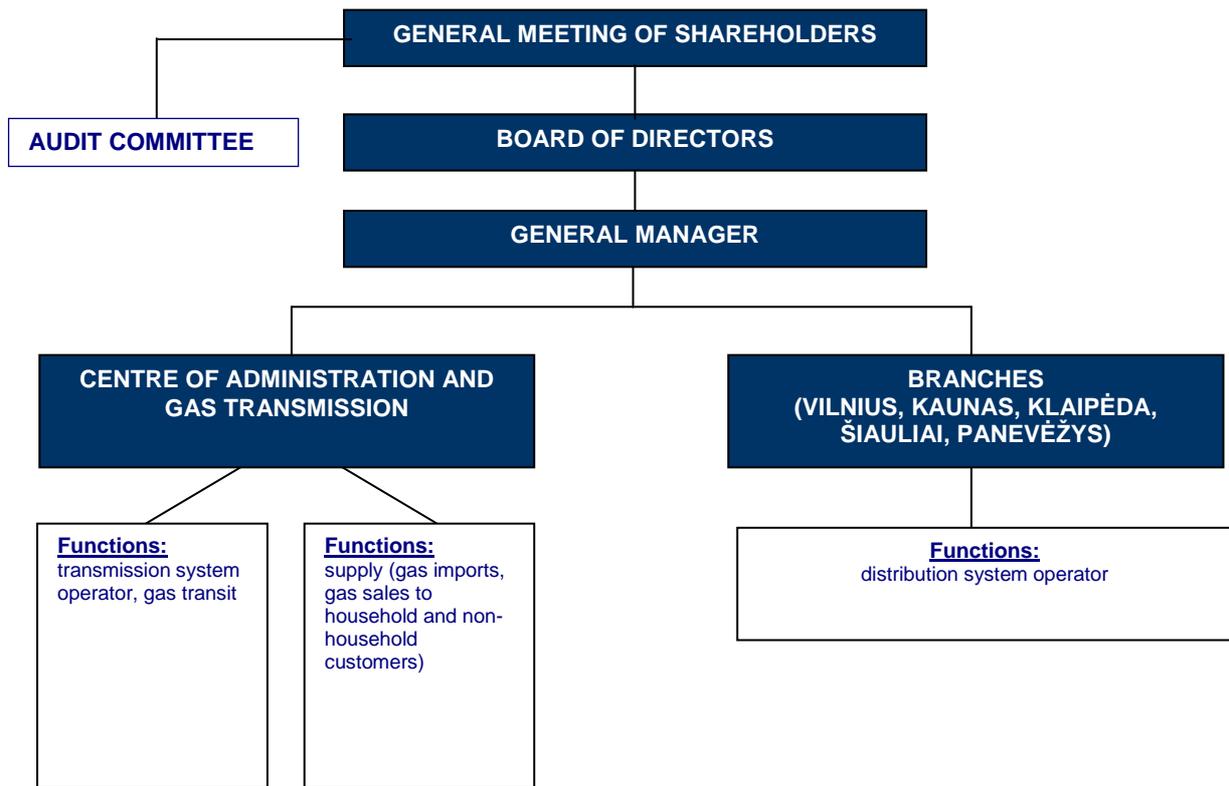
The Bylaws provide for the following governing bodies:

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

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

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

### Organization Chart



#### Composition of the Board of Directors from 20 April 2011 until 23 April 2012

No	Full name	Position title	Start and end of term
<b>Members of the Board of Directors:</b>			
1.	Dr Peter Frankenberg	Chairman of the Board of Directors*	April 2010–June 2012
2.	Dr Valery Golubev	Deputy Chairman of the Board of Directors*	April 2010–April 2013
3.	Uwe Fip	Member of the Board of Directors	April 2010–April 2013
4.	Kirill Seleznev	Member of the Board of Directors	April 2010–April 2013
5.	Kęstutis Žilėnas	Member of the Board of Directors	December 2011–April 2013

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

#### Composition of the Board of Directors from 23 April 2012

No	Full name	Position title	Start and end of term
<b>Members of the Board of Directors:</b>			
1.	Dr Peter Frankenberg*	Chairman of the Board of Directors***	April 2010–June 2012
2.	Dr Achim Saul**	Chairman of the Board of Directors***	July 2012–April 2013
3.	Dr Valery Golubev	Deputy Chairman of the Board of Directors***	April 2010–April 2013
4.	Uwe Fip	Member of the Board of Directors	April 2010–April 2013
5.	Kirill Seleznev	Member of the Board of Directors	April 2010–April 2013
6.	Kęstutis Žilėnas	Member of the Board of Directors	December 2011–April 2013

\* Resigned with effect from 30 June 2012.

\*\* Elected member of the Board of Directors with effect from 1 July 2012, elected Chairman with effect from 4 July 2012.

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

In 2012, tantiemes paid to the members of the Board of Directors totalled LTL 524 thousand, averaging LTL 104.8 thousand per member of the Board of Directors.

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

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

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

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

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

In 2012, payouts to the top executives of the Company totalled LTL 2,611 thousand, averaging LTL 522.2 thousand per top executive.

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

Full name	Position title	Participation in the capital of the Issuer	
		Share of the authorized capital held, %	Share of the voting rights held, %
<b>Board of Directors (as of 31 December 2012)</b>			
Dr Peter Frankenberg*	Chairman of the Board of Directors	–	–
Dr Achim Saul**	Chairman of the Board of Directors	–	–
Dr Valery Golubev	Deputy Chairman of the Board of Directors	–	–
Uwe Fip	Member of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Kęstutis Žilėnas	Member of the Board of Directors	–	–

<b>Audit Committee (as of 31 December 2012)</b>			
Juozas Kabašinskas	Independent member	–	–
Agnė Žičiūtė	Member	0.000	0.000
<b>Top executives (as of 31 December 2012)</b>			
Viktoras Valentukevičius	CEO – General Manager	0.013	0.013
Dr Joachim Hockertz	Deputy General Manager – Director of Commerce	–	–
Jonas Janiulionis	Deputy General Manager – Technical Director	0.001	0.001
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

\* Resigned with effect from 30 June 2012.

\*\* Elected member of the Board of Directors with effect from 1 July 2012, elected Chairman with effect from 4 July 2012.

### The subsidiary and the joint venture

AB Lietuvos Dujos is a shareholder of two other companies. LD 100% controls UAB Palangos Perlas and jointly with the Finnish company Gasum Oy controls UAB GET Baltic.

Company Particulars	Companies	
	UAB Palangos Perlas	UAB GET Baltic
Legal form	Private limited company	
Date and place of registration	19 January 1998 State Enterprise Centre of Registers	13 September 2012 State Enterprise Centre of Registers
Company code	152681177	302861178
Registered office	Birutės g. 8, Klaipėda, Lithuania	Aguonų g. 24, Vilnius, Lithuania
Telephone number	+370 46 48 45 69	+370 5 236 0000
Fax number	+370 46 48 45 56	+370 5 236 0001
E-mail address	-	info@getbaltic.lt
Website	-	www.getbaltic.lt
Authorised capital	LTL 9,703,763	LTL 2,000,000
Share of the authorised capital controlled by LD	100%	66%
Average number of employees in 2012	15	2

### UAB Palangos Perlas

In 2012, the authorized capital of UAB Palangos Perlas did not change, it is divided into 9,703,763 ordinary registered shares with par value of LTL 1 (one) each. The main areas of the subsidiary's activities: hotel and other board and lodging services, organization of seminars and conferences. In June of 2012 UAB Palangos Perlas sold its main asset item the Žydroji Liepsna hotel in Palanga. Since following the sale of the main asset item of the LD subsidiary UAB Palangos Perlas – the hotel in Palanga – the scope of business activities of UAB Palangos Perlas became

considerably narrower, therefore, on 30 January 2013, the Board of Directors of the Company decided to subject the aforesaid subsidiary to liquidation.

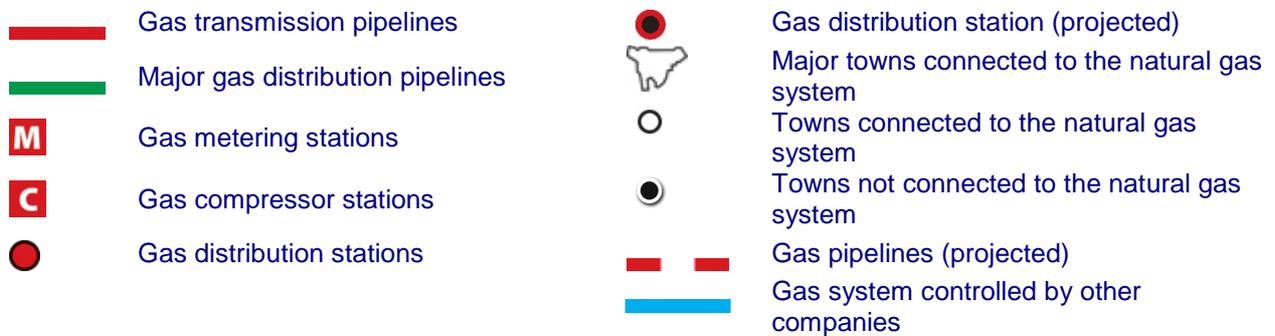
### **UAB GET Baltic**

End 2011 the Finnish gas company Gasum Oy and LD engaged in a cooperation aimed at the incorporation of a joint venture to carry out functions of a natural gas market operator and to organize trade at a gas exchange set up thereby. The long-term goal of the cooperation consists in the formation of a regional natural gas exchange covering Lithuania, Latvia, Estonia and Finland, and the integration of the regional gas market. On 13 September 2012, the joint venture was registered with the Register of Legal Entities. The authorized capital of UAB GET Baltic consists of 2,000,000 ordinary shares (par value of each share is LTL 1). The ownership structure of the joint venture UAB GET Baltic is as follows: LD owns 66% and Gasum Oy owns 34%. On 9 November 2012 the NCCPE issued a natural gas market operator's license to UAB GET Baltic. 20 December 2012 marked the adoption of the Regulation of the Natural Gas Exchange of UAB GET Baltic, which is a document laying down the principles and rules of the trade on the Natural Gas Exchange and it was the last formal element that is necessary for the Exchange to become operational. In January of 2013 the trading at the gas exchange took off.

### **Transactions of associated parties**

The information is presented in the Consolidated and Parent Company's Financial Statements for the year ended 31 December 2012.

The Company's Natural Gas Transmission and Distribution System



Core business activity of the Company:

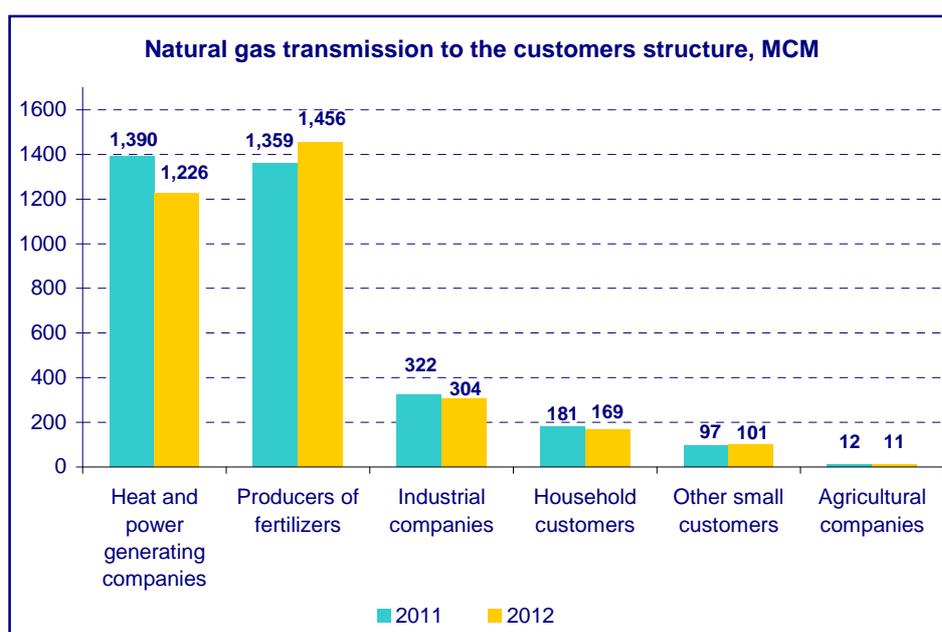
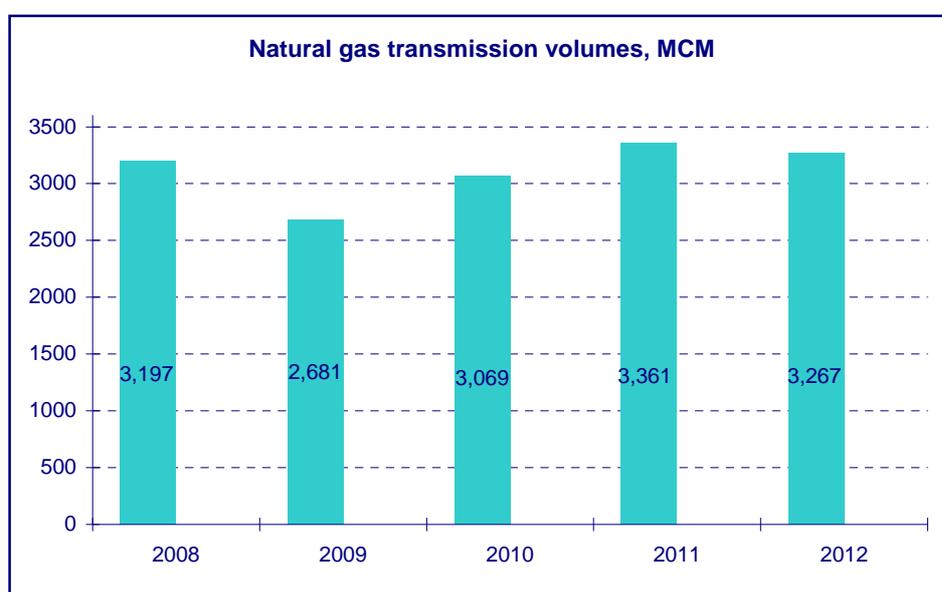
- **Transmission:** transportation of natural gas via gas transmission system mostly comprised of high-pressure pipelines, except for the production process pipeline network and part of the high-pressure gas pipelines mainly used for the local distribution of natural gas, designed for the delivery of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

Gas transmission pipelines	Gas distribution pipelines	Gas distribution stations	Gas metering stations	Gas compressor stations
<b>1.9 thou km</b>	<b>8.2 thou km</b>	<b>65</b>	<b>3</b>	<b>2</b>

### TRANSMISSION OF NATURAL GAS

In 2012, the volumes of natural gas transmitted to the customers of Lithuania via the transmission system totalled 3,266.9 million m<sup>3</sup>. Compared to 2011, the natural gas transmission volumes decreased by 2.8%. The decrease in the natural gas transmission volumes was determined by the lower gas volumes consumed by energy companies.

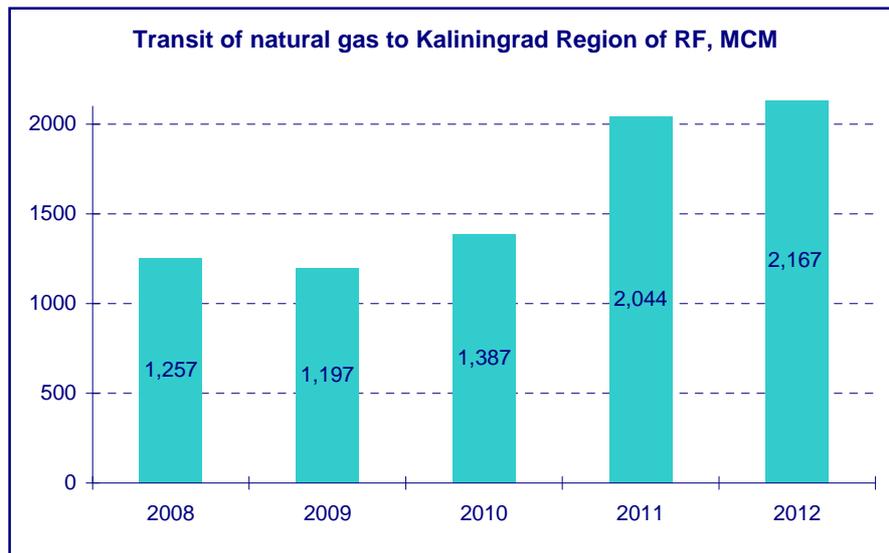
The natural gas transmission and, accordingly, the distribution and supply volumes of 2012 decreased mainly due to the lower gas consumption by the heat and power generation plants, which came as a result of the increase in the use of alternative fuels, the electricity production quota reductions and a more economical consumption of gas. The Company has fully complied with its obligations to consumers under the gas purchase and transportation service contracts that were concluded with customers. LD imported 35.1% of total natural gas volumes imported to Lithuania. In implementation of the EU legislation on Third Party Access to natural gas networks, LD transported to third parties 2,141.3 million m<sup>3</sup> of natural gas or 64.9% of the total natural gas volumes consumed in Lithuania.



## Transit

In 2012, the natural gas transit volumes to the Kaliningrad Region of Russian Federation totalled 2,167.4 million m<sup>3</sup>, which represents an increase of 6.1% y/y.

Pursuant to legal acts, the assets and expenses of the transit activity have been unbundled from the ones of the regulated gas transmission activity since 2005. The transit activity has no effect whatsoever on the prices of the natural gas transmission service applicable to gas consumers of Lithuania.



## Investments in the transmission system

In 2012, investments in the construction of new gas transmission systems and pipeline system development totalled LTL 81.7 million (2011: LTL 0.2 million).

In 2012, the Company continued with the implementation of a major investment project included into in the National Energy Strategy – the construction of the Šakiai–Klaipėda Gas Transmission Pipeline. In 2012 a 35 km gas pipeline section from Jurbarkas to Tauragė was constructed. Since the start of the implementation of the project, the investments in this gas pipeline section totaled LTL 34.1 million, of which LTL 32.1 million were the investments made in 2012. Another LTL 49.6 million in 2012 have already been invested in the construction of the gas pipeline section from Tauragė to Klaipėda and the Klaipėda Gas Distribution Station No 2. Since the inception of the Šakiai–Klaipėda project LD has already invested in this project a total amount of LTL 119.5 million.

Investments in the reconstruction of the gas transmission system totalled LTL 25.9 million (2011: LTL 29.4 million).

With a view to promoting the development of the internal market of the Baltic States and with a view to enhancing the throughput capacity of the Lithuania–Latvia Interconnector, In Quarter 4 of 2009 a joint Lithuanian–Latvian project was launched, for the implementation of which a 50% EU co-financing was approved. The project is scheduled for completion in Quarter 1 of 2013. With a view to enhancing the safety and reliability of the gas transmission system with the financial assistance of the EU the following main works were carried out:

- As part of the reconstruction of the cathodic protection system, 2 couplings and 3 cathodic protection stations were installed;
- At the Panevėžys Gas Compressor Station works for the modernization of the gas compressors air supply systems, modernization of the operational parameters control systems and modernization of the valve units at the line block valve sites were continued.

The Company also carried out other main works:

- Works for the reconstruction of GDSs were continued according to the plan. In 2012, the Girininkai GDS, Alksnupiai GDS and Raguva GDS were fully reconstructed and the Maišiagala GDS, Gegužinė GDS and Taujėnai GDS were started to be reconstructed. At present, out of the total 65 GDSs, 58 ones are either new or have been subjected to major overhauls;
- Installation of 3 line block valve remote control systems (SCADA) and modernization of 2 line block valve units has been completed;
- Installation of an intelligent pig launcher and receiver on the Minsk–Vilnius–Vievis Gas Transmission Pipeline and an intelligent pig launcher on the Vilnius–Kaliningrad Gas Transmission Pipeline and works for the preparation of the gas pipeline for the intelligent pigging procedures;
- Works (in accordance with the schedule) for the reconstruction of the gas pipeline cathodic protection system equipment;
- Works for the modernization of the telemetry, SCADA and telecommunication systems and the gas metering equipment.
- Procurement of equipment for the Dispatch Centre and the new Server Room, which will be used by the new Transmission System Operator company.

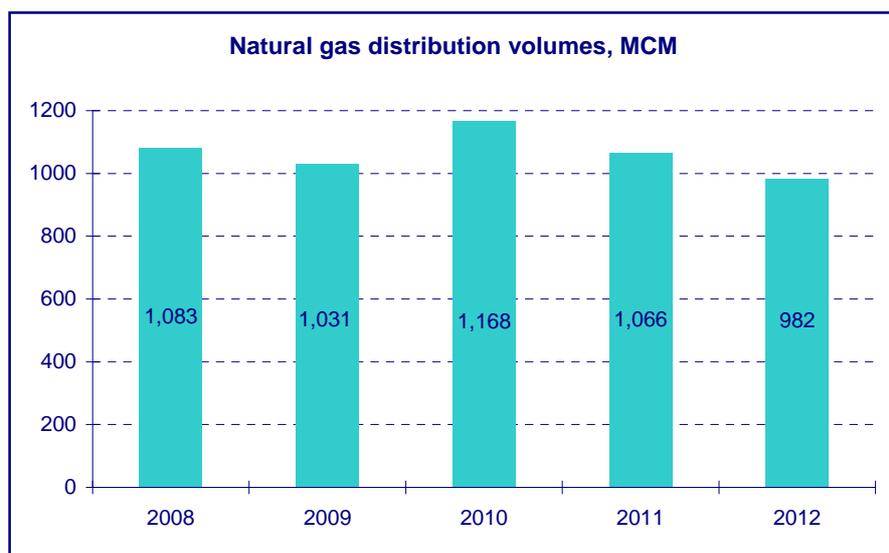
### Maintenance of the transmission system

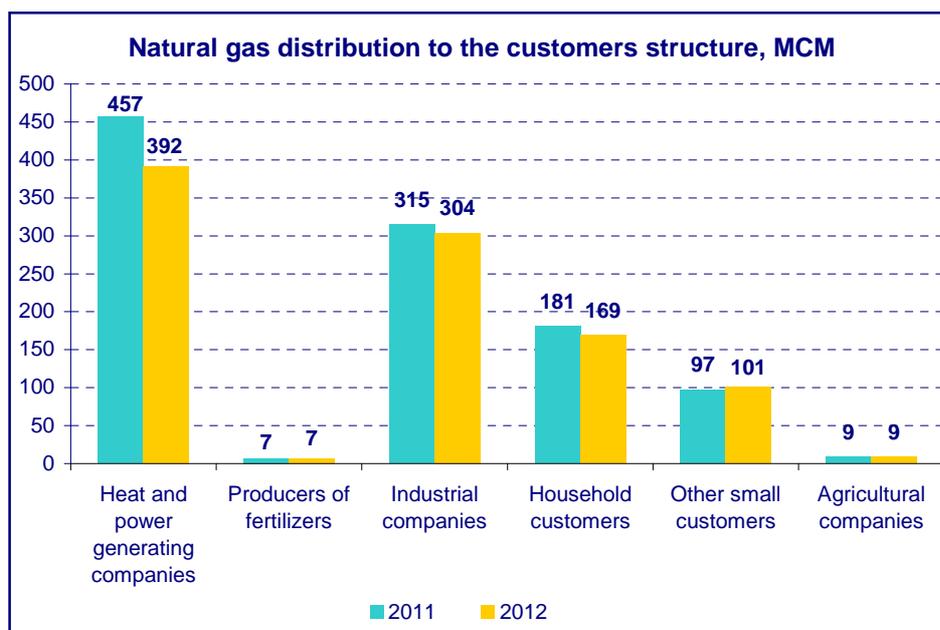
With a view to ensuring the reliability, efficiency and safety of the transmission pipelines, operations the gas repair and maintenance works that had been scheduled for the period were duly executed.

In 2012, the intelligent pigging procedures of Minsk–Vilnius Gas Transmission Pipeline (67 km section) and the Vilnius–Kaliningrad Gas Transmission Pipeline (two lines: 84 km and 81 km long) were carried out. The defects that were established as a result of these procedures are being eliminated.

### DISTRIBUTION OF NATURAL GAS

In 2012, the Company's gas volume distribution via its natural gas distribution system totalled 982.1 million m<sup>3</sup>, which represents a drop of 7.9% y/y.





### Investments in the distribution system

In 2012, the investments in the construction of new gas distribution systems totalled LTL 21.3 million (2011: LTL 12.2 million); 84.4 km of new distribution pipelines were constructed. In 2012, 2.2 thousand new customers were connected to the natural gas system (2011: 1.9 thousand). The year 2012 marked the implementation of a major investment project aimed at securing safety and reliability of the natural gas distribution systems as well as supply of natural gas to customers in the town and district of Kaunas – the construction of the Girininkai GDS–Rokai–Garliava Gas Distribution Pipeline, total investments amounted to LTL 8.6 million (of which in 2012: LTL 8.5 million). The implementation of the project kicked off in 2011.

In 2012, investments in the reconstruction of the distribution system totalled LTL 11.3 million (2011: LTL 7.7 million). Of this total, the largest amount (LTL 6.2 million) was invested in the reconstruction of the distribution pipelines: 14.8 km of gas distribution lines were reconstructed, of which 5.8 km were reconstructed using the method of insertion of new polyethylene pipes into the old steel ones.

The investments in the gas pressure regulating stations totaled LTL 2.0 million. The technological equipment was modernized at 4 stationary gas pressure regulating stations, 5 container-type gas pressure regulating stations; and in 27 instances the stationary gas pressure regulating stations were replaced by container-type gas pressure regulating stations.

Works for the modernization of the cathodic protection, telemetry, telecommunications systems and gas metering devices were performed, on which the Company spent a total amount of LTL 3.1 million.

In accordance with the procedure that back in 2011 was approved by Order of the Minister of Energy of the Republic of Lithuania, the Company continued with the buyback of local natural gas systems of common use belonging to other legal and natural entities. In all, 65 local natural gas systems of common use (total length 54.8 km) were bought back. Since 2001, in all, 418 km of gas pipelines have been already bought back.

### Maintenance of the distribution system

The Company operates a gas distribution system consisting of 8.2 thousand km of gas distribution lines. The Company, acting in accordance with applicable legal act provisions and performing the

distribution system operator's functions, is in charge of securing adequate maintenance of gas systems and adequate quality of gas distribution services provided to customers.

In 2012, the Company devoted a lot of attention to the procurement of state-of-the-art equipment, instruments and tools used in the gas distribution system maintenance procedures and to the training/instructing LD staff how to use them. To facilitate the systematic upgrading of LD workforce skills and qualifications, at its Panevežys branch, the Company equipped an open-air real-world process simulation facility for hands-on training in natural gas.

Gas system maintenance works are carried out according to the repair works programme drawn up by the Company. Any defects established during the regular maintenance procedures are either eliminated forthwith, or, alternatively, included into the yearly distribution system repairs programme that is drawn up by the Company. On the basis of the equipment condition evaluation criteria and the economic feasibility calculations, the Company draws up programmes for the reconstruction of its natural gas systems. According the maintenance schedules and programmes, works for the maintenance of gas distribution systems are carried out in a systematic manner.

## **SUPPLY OF NATURAL GAS**

In 2012, LD purchased natural gas from OAO Gazprom according to a long-term (until 2015 incl.) natural gas supply agreement.

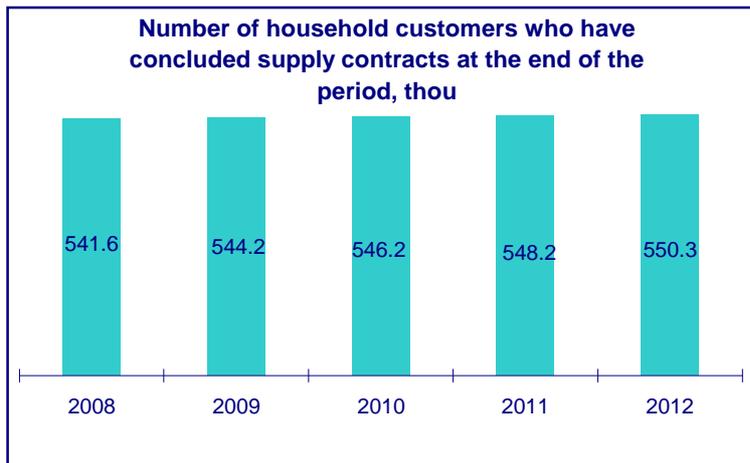
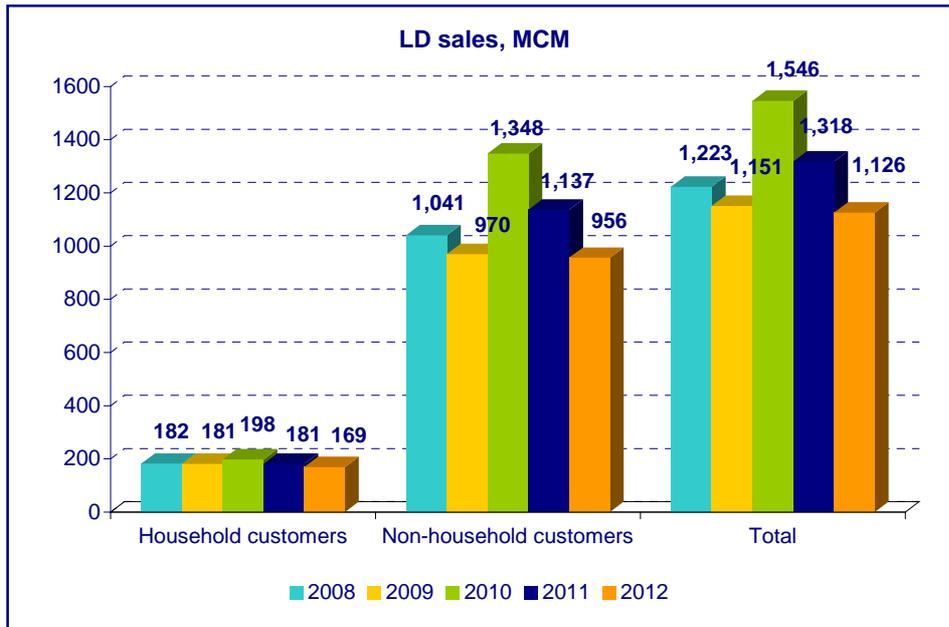
Pursuant to the Resolution of the Government of the Republic of Lithuania of 28 March 2012 No 325 "On amending Resolution of the Government of the Republic of Lithuania of 26 February 2008 No 163 "On approval of the list of measures to guarantee security of natural gas supplies"", the Company stores contingency gas reserve volumes specified in the legal acts in the Incukalna (the Republic of Latvia) Underground Gas Storage Facility. From 1 September 2012, in the event of incidents and/or extreme situations the accumulated gas volumes would ensure uninterrupted gas supplies to the so-called vulnerable consumers (all the household and non-household customers with annual gas consumption of up to 20,000 m<sup>3</sup>) for at least 30 days.

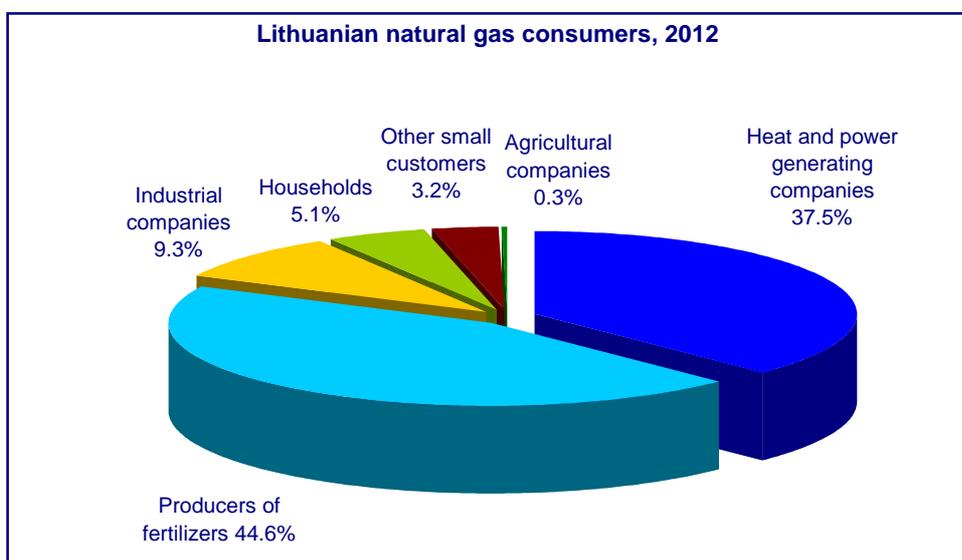
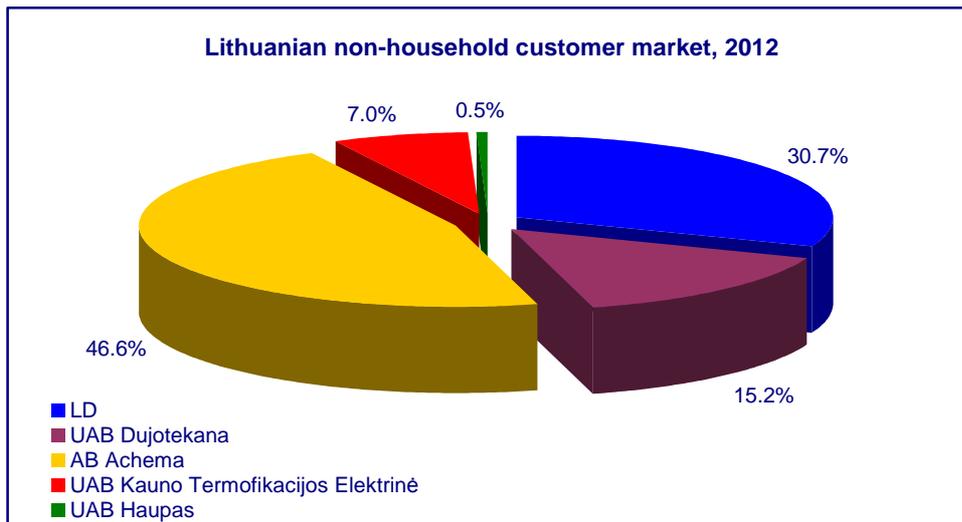
### **Customers**

All natural gas consumers are divided into the household consumers (natural persons buying gas for their private needs, for their family or household needs) and the non-household consumers (legal persons). In 2012, on the non-household customers' market, the share of LD was 30.9%, and on the household customers' market, the share of LD was almost 100%.

In 2012, LD supplied to gas consumers 1,125.6 million m<sup>3</sup> of natural gas, or by 14.6% less than in 2011, when the respective indicator stood at 1,317.8 million m<sup>3</sup>. In 2012, the volume of natural gas supplied to the non-household consumers amounted to 956.4 million m<sup>3</sup> and the volume of natural gas supplied to the household consumers amounted to 169.2 million m<sup>3</sup>.

According to data as of 31 December 2012, the Company was selling natural gas to 556.5 thousand non-household and household consumers (energy companies, industrial and other enterprises, organizations and households).





### Customer service

In 2012, ensuring top quality and professional customer service has been and continues to be the field of utmost priority and one of the most important objectives of the Company. In 2012, natural gas customers located in various corners of Lithuania either called the Company's employees or were serviced by the Company's employees at their own premises more than 560 thousand times.

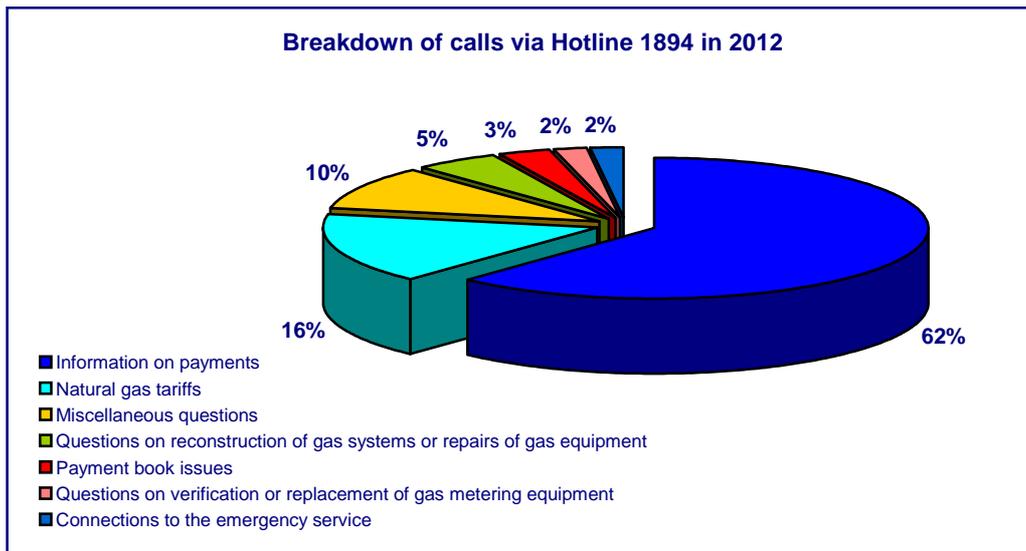
With a view to ensuring quality of services rendered by the Company to its customers, in 2012, LD continued with the customer service-related projects launched in previous years and it also launched new projects:

- In implementation of a continuous staff training programme in the field of rendering customer services, in 2012, further training was provided to over 200 LD employees. This stage of LD staff training programme is scheduled for completion in 2013.
- The Company has been continuing work for the improvement of processes of collection of payments from customers for natural gas supplies. LD uses services of 23 different partners rendering payment collection and data administration services.

- For the third consecutive year, in autumn of 2012, the customer service quality survey action “Please Assess Our Services” was launched. The main aim of the action was to assess the quality of the customer services rendered by the Company’s staff to the non-household customers and the level of customers’ satisfaction. The results of the survey did not disappoint us – just as it was the case with our previous surveys covering the LD household customer segment, this time, too, LD non-household customers’ approval ratings of the Company’s customer services rendered to them were high in case of the vast majority of respondents (94% of the total);
- In 2012, over 82.6% of the Company’s non-household customers used the possibility of receiving gas bills by e-mail via the E-Pay system.
- In 2012, a total of 2.2 thousand new customers were connected to the natural gas system.
- In 2012, the Central Calibration and Testing Laboratory expanded the range of activities to which it is accredited in the field of gas volume metering, and increased the accuracy and reliability of with which it establishes natural gas quality parameters.

### **Customer service at the Call Centre**

- In 2012, the Call Centre answered almost 124 thousand calls.
- During the first contact, all the necessary information was supplied to as many as 97% of all the callers to the Hotline 1894. Other customers were supplied with the necessary information either during the course of the same day or next working day by forwarding the customer inquiry to the Company’s specialists in charge of respective field of activity.
- The Automatic Voice System that has been implemented by LD enables the Company’s customers to access respective data on their balance of payments and on gas tariffs by Hotline 1894 a 24 hour/7day a week basis. In 2012, the Automatic Voice System was resorted to 19 thousand times.
- In 2012, 107 thousand SMS messages were dispatched to the Company’s customers notifying them on their payment irregularities (by 5% more than in 2011), and during the gas tariff change period in July the number of SMS messages to LD customers’ amounted to 362 thousand containing information on new tariffs (by 8% more than in July of 2011).
- The number of inquiries received by the Company by e-mail has also seen a consistent rise. In 2012, the number of inquiries received and answered by e-mail was by 70% higher, compared with 2011. A surge in the number of LD customer e-mails is especially sharp twice a year when customers using the direct debit payment method declare their factual natural gas meter readings.
- In 2012, in order to improve the quality of LD customer service, an information system for customer inquiry management was installed at the Company, which facilitates faster dealing with customer queries and providing customer services.
- In 2012, on Hotline 1894, the average waiting time before the call was answered by a call manager was 12 seconds.
- In 2012, the vast majority of the customers who called to the Company’s Call Centre via Hotline 1894 asked for information on payments and natural gas tariffs. For details see the figure below.



### Customer service at the branches

- In 2012, the number of household customers' visits paid to the Company branches on various settlement and gas contract issues amounted to 95.8 thousand.
- In 2012, the number of applications requests for the connection to the LD natural gas grid amounted to 3,731 (i.e. by 11.6% more than in 2011).

### Services rendered by LD staff at customers' premises

- In 2012, LD staff visited gas customers at their premises more than 327 thousand times. The overwhelming majority of such visits (274 thousand) were routine inspections of customers' natural gas meters, whereas the balancing share of LD staff visits (more than 53 thousand) were either related to rendering technical services to LD gas consumers or, alternatively, were related to the elimination of any natural gas system problems in response to natural gas consumers' calls.
- In 2012, over 140 gas customers were visited by LD staff in order to give advice on issues of efficient gas consumption, during which thermal images of premises were taken (to identify the areas with the highest loss of thermal energy).

## ENVIRONMENTAL PROTECTION

In the light of LD environmental policy and consistently working on the reduction of environmental impact, LD has implemented an environmental management system, which on 15 February 2012, was assessed by an accredited institution, UAB Bureau Veritas, and LD was issued with a certificate of compliance with the Environmental Management System Standard ISO 14001. The audit also confirmed that the environmental protection system of the Company operates beyond reproach.

One of the main objectives of the Company in the field of control the minimization of atmospheric pollution consists in the control of any possible gas leaks in the process of natural gas transmission. In order to ensure the reliability of the gas systems, the Company has implemented a number of technical measures the most significant of which are as follows:

- reconstruction of the Girininkai, Alksnupiai, Raguva and Pakruojis DSSs;
- modernization of the line block valve functional assemblies (including bypass lines) on the Ivatsevichi–Vilnius–Riga Gas Transmission Pipeline;

- installation of intelligent pig launchers and receivers on the Minsk–Vilnius–Vievis Gas Transmission Pipeline section;
- installation of intelligent pig launchers on the Vilnius–Kaliningrad Gas Transmission Pipeline (for launching devices of internal gas pipeline purging and intelligent pigging).

In 2012, LD implemented systems for e-accounting of chemicals and for management of environmental indicators.

In 2012, there were no accidents in the natural gas systems resulting in high emissions of gas into the atmosphere or major environmental damage.

In 2012, due to the fact that demand for natural gas during the heating season was higher than it was the case in 2011, as well as due to the increase in the natural gas transit volumes, the Jauniūnai and Panevėžys Gas Compressor Stations were in operation longer hours, compared with the previous year, which resulted in higher gas emissions into the atmosphere, nevertheless the emissions were within the permissible value limits specified in the Integrated Pollution Prevention and Control permits. Pollution levels depend on the actual operation times of the gas systems, the load factor, number of start-ups and on other factors.

Pollutant (tons)	2012	2011	2010
CO	30.04	17.6	26.7
NO <sub>x</sub>	16.98	8.9	12.0

The Company monitors pollution emissions from its stationary sources – measures and records smoke emissions. The Jauniūnai Gas Compressor Station monitors (takes measurements and records) the quality of the ambient air.

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

Recorded emissions of natural gas (MCM)		
2012	2011	2010
14.2	10.8	14.0

## STAFF

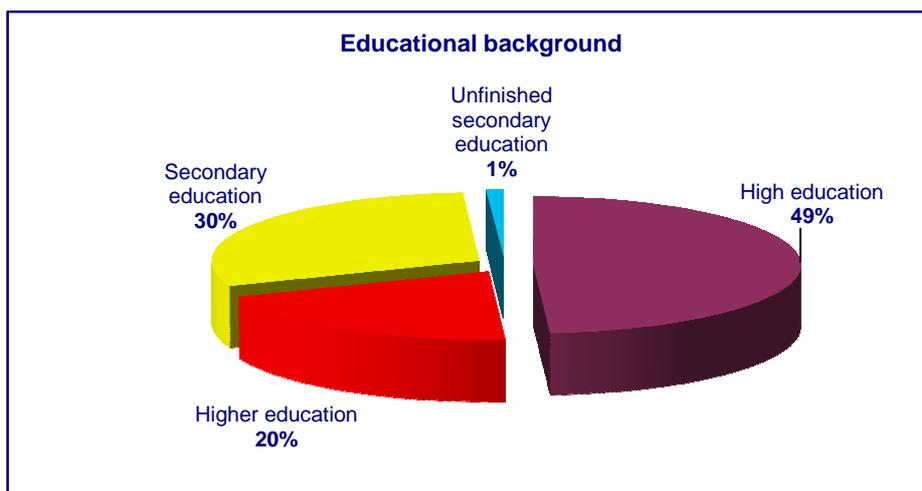
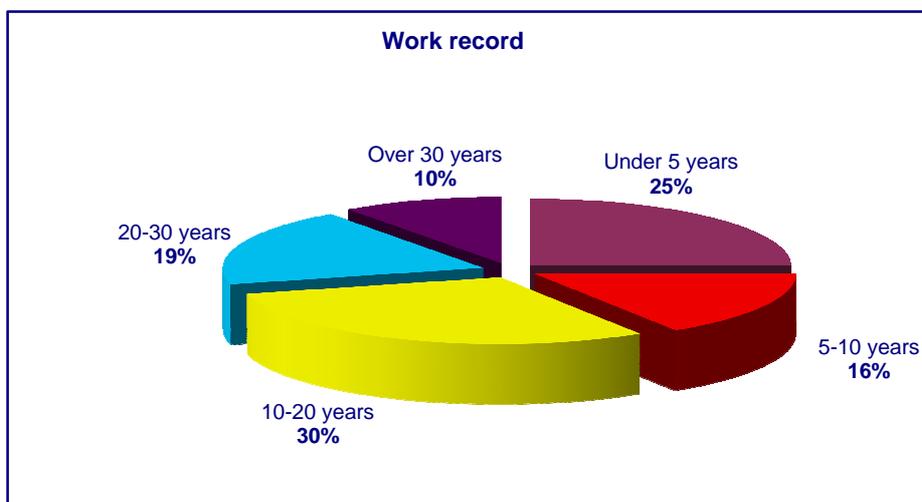
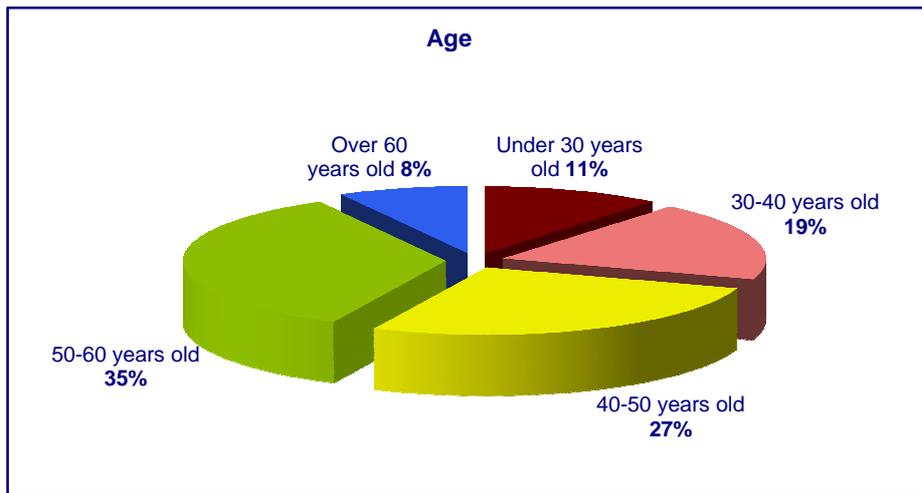
### Average number of Group employees

Year	Average number of employees	Change compared to previous year
2011	1,719	-1.8%*
2012	1,700	-1.1%**

\* Compared to 2010.

\*\* Compared to 2011.

The average age of the Group employees was 46.0 years (2011: 45.0 years) and the average work experience was 15.0 years (2011: 16.0 years).



As of 31 December 2012, the average number of employees on the roll of LD was 1,700. Of this total, 139 were in management positions, 1,001 were specialists and 560 were workers. 49% of the Company's employees have high education. The majority of the Company's employees are male (70%). Female employees account for 30%. Such male predominance results from the specifics of gas business: there is a long-standing tradition that engineering and technical jobs and jobs involving work outdoors (requiring physical strength and endurance) are mostly chosen by men. Most female employees work in customer service and administration departments.

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

Employees	Average number of employees in 2011	Average monthly salary, LTL
Managing staff	136	8,326
Specialists	982	3,367
Workers	601	2,606
<b>Total:</b>	<b>1,719</b>	<b>3,493</b>
Employees	Average number of employees in 2012	Average monthly salary, LTL
Managing staff	139	8,405
Specialists	1,001	3,410
Workers	560	2,682
<b>Total:</b>	<b>1,700</b>	<b>3,578</b>

**Employees**

The key asset of the Company is its human capital – people with their experience and ability to meet top professional standards in discharging their job responsibilities, because it is their skills, knowledge, abilities that create all the products and services that determine the Company's future.

LD pays special attention to the creation of adequate working conditions for its employees, to securing employees' salaries and social guarantees in line with the market conditions. To ensure an adequate business efficiency level, a good work climate at the Company and successful teamwork, we stick to the following values: competence and responsibility, mutual trust, fair assessment of both efforts and performance and continuous personal improvement.

Performance Appraisal Interviews (hereinafter referred to as the "PAI") is the most important part of the performance management system aimed at ensuring that employee performance targets are set according to the Company's strategic goals and the objectives of the units of the Company. The main objective of the PAI system is to achieve improved performance through the management of employee activities in line with the Company's objectives and standards, provide employees with feedback on their performance, improve employee motivation, to find out their expectations vis-à-vis the Company and its executives, to set employee training and career guidelines. Performance Appraisal Interviews cover managerial staff of all the levels and the specialists (white collars).

**Collective Bargaining Agreement**

LD branches have their trade union subunits that are united into a Lithuanian Gas Sector Employees Trade Union Association. The version of the Collective Bargaining Agreement of the Company (with subsequent amendments) signed on 23 May 2011 will be in effect until 31 December 2014. Neither the labor 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.

**Training, student placement and apprenticeship opportunities**

In ensuring smooth and consistent operations of the Company, the crucial factor is the competencies of the staff. Therefore, a fair share of attention is paid to the formation of a motivating work environment at the Company.

The Company arranged for its employees trainings of several types, which were carried out in various forms, including the employment of state-of-the art technological innovations. In 2012, 1,562 LD employees participated in mandatory training programmes. Professional training courses, upon successful completion of which the participants are issued with a certificate, were provided to 798 employees.

To facilitate the LD staff training process and create the best possible conditions for the acquisition of professional expertise and skills, at its Panevežys branch, the Company equipped an open-air real-world process simulation facility for hands-on training in natural gas system operation and maintenance tasks. At the facility, LD staff can practice in 56 activities: various operation and maintenance tasks involving gas pipelines and gas appliances, elimination of gas leaks without an interruption of gas supply, hot-tapping (steel pipeline connection to the existing steel pipeline without an interruption of gas supply) and others. The quality of tasks performed by trainees is checked with modern devices.

In 2012, quite a few employees upgraded their managerial competencies. In all, conferences and seminars were attended by 421 employees. The Company's employees upgraded their knowledge in such fields as law, tax issues, public procurements, accounting, customer service, etc.

The Company is engaged in an active cooperation with educational institutions and invites university students to its student placement programmes, so that they can practice in the application of their theoretical knowledge and gain practical skills. In 2012, the Company admitted 18 students to such student placement programmes. For the seventh consecutive year, LD participated in the Career Days events held by Vilnius Gediminas Technical University, Kaunas University of Technology and other universities. As part of LD collaboration with the ISM (University of Management and Economics), the Company granted support to their program "100 Talents of ISM". LD established the grant for the most talented student of the ISM.

## MEMBERSHIP IN ASSOCIATED STRUCTURES AND INTERNATIONAL COOPERATION

The Company is a member of the following organizations:

- **The Lithuanian Gas Association** ([www.dua.lt](http://www.dua.lt)), is a voluntary alliance of legal entities of the Republic of Lithuania interested in economic and technical development of Lithuanian gas sector and comprising the largest companies engaged in natural gas supply, transmission, and distribution, UAB SG Dujos (engaged in the liquefaction of natural gas), and various associated members engaged in natural gas activities: the Association Lietuvos Dujotiekio Statyba (comprising 16 companies engaged in gas pipeline construction works) and educational and scientific research institutions. The General Manager of LD Viktoras Valentukevičius is the President of this Association since 16 June 2008.
- **The Association "Eurogas"** ([www.eurogas.com](http://www.eurogas.com)). It is a non governmental non profit organization uniting European gas companies and promoting their cooperation, taking stance on issues of interest to the European countries' natural gas industries and the European Institutions of the EU with respect to natural gas business as well as participating in the public opinion formation process. LD is its full member from 1 January 2009.
- **The association of gas transmission pipeline companies of the Baltic Sea Region "Baltic Gas"** ([www.balticgas.org](http://www.balticgas.org)). "Baltic Gas" is an association of the Baltic Sea Region promoting use of natural gas in the Baltic Sea Region, development of an integrated natural gas consumer market, seeking to reduce the non-commercial obstacles in the way of natural gas business. Membership of LD in this association dates back to 1999. From 2006, LD has a representative in the Board of this association.
- **The European Network of Transmission System Operators for Gas (ENTSOG)** ([www.entso.eu](http://www.entso.eu)) was established pursuant to the Regulation of the European Parliament and of the Council No 715/2009 as an organization promoting co-operation of gas transmission system operators at the level of the European Union. ENTSOG is also engaged in the elaboration of the European gas network codes, development of non-binding Community-wide ten-year network development plans, delivering common network operation tools, performing other functions. LD is an Associated Partner of ENTSOG since 22 June 2011.
- **The Chamber of Commerce of Germany and the Baltic countries in Estonia, Latvia and Lithuania** ([www.ahk-balt.org](http://www.ahk-balt.org)).

- **The association of the largest and most active investors in the economy of Lithuania “Investors’ Forum”** ([www.investorsforum.lt](http://www.investorsforum.lt)).

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

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

In 2012, LD and Latvijas Gaze A/S were implementing a joint project “The Enhancement of the Capacity of the Lithuania–Latvia Gas Interconnector”, which was initiated back in 2009. The Project is aimed at upgrading integration of the gas systems of the Baltic States and creating preconditions for the creation of the natural gas market of the Baltic States as well as preparation for the integration into the common natural gas market of the EU.

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

## SPONSORSHIP PROGRAMS

In 2012, just as in previous years, LD, in line with its well-articulated priorities, continued its participation in various sponsorship programmes, took part in social-impact projects, thereby creating new life or business opportunities for the needy segment of the community:

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

In 2012, LD rendered support to more than 100 institutions, organizations or supported their individual projects and thus significantly contributed to the promotion of various communal initiatives:

- Support to festivals of town communities: to the Public Entity “Pažaislis Music Festival” (in organizing the 17<sup>th</sup> Pažaislis Music Festival), to the Administration of the Municipality of the Širvintos District (support for the main events organized by the cultural institutions of the Municipality); to the Public Entity “The Sea Festival” (support in organizing the Sea Festival 2012 in the town of Klaipėda); to the Administration of Municipality of Anykščiai District (support in organizing the horse festival “Run, Horse, Run” in the village of Niūronys, Anykščiai District), etc.;
- Support to creative and active children and young people: to Šiauliai Dagilėlis Singing School (participation of the boys’ choir in international projects); to Klaipėda University (in organizing a scientific research conference of Lithuanian universities and colleges); to Public Entity ISM Foundation (merit-based scholarships to students who show high academic achievements, to cover in part the tuition fees thereof); to Public Entity “Enduro Club” (young bikers’ participation in a European championship); to the Association for International Student Exchange (participation of academically gifted students in an

international student exchange program); Association “Cambridge University Lithuanian Society” (in organizing the LINK interactive conference, aiming to promote the networking and cooperation of Lithuanian students in the UK), etc.;

- Support to improve public health: to the Vilnius University Hospital Santariškės Clinic (support aimed at improving the activities of the Family Medicine Centre as well as other units of the Hospital), to the Vilnius Maternity Hospital (for the partial refurbishment of the premises), to the Lithuanian Heart Specialists Association (support for the preparation of the doctors professional development programmes); Klaipėda St Francis of Assisi Convent (support to the construction of a spiritual support center for cancer patients), etc.;
- Support to sports societies: to the Lithuanian National Olympic Committee (support for the Lithuania’s sportsmen’s preparation for the Winter Olympic Games 2014); to the Lithuanian Olympic Sports Centre (support for the preparation of Lithuania’s national tennis team for the FED-CUP 2013 (international tennis federation world ranking tournament); support to the Public Entity “Šarūnas Marčiulionis Basketball Academy” (programme for the development of young basketball players), to the Lithuanian Sports Society “Žalgiris” (support to society sports events programme 2012), to the Baseball Club “Vilnius” (support to the club’s sportsmen – children of various age groups and adults – for the participation in major baseball and softball tournaments abroad and in Lithuania for the improvement of their baseball skills and popularization of the name of Lithuania abroad); to the Ballooning Club “Audenis” (support in organizing the International Aeronautical Federation Congress 2014 to be held Lithuania); to the Lithuanian Biathlon Federation (support to Lithuania's biathlon teams' participation in various world and European championships and World and European Cup events), etc.;
- Support to representatives of socially vulnerable communities and children’s foster homes: support to the Public Entity “Mažoji Guboja” (support for the disabled young people education and training programme), support to the Vilnius Youth School “Gija” (support to students of this school who because of various social, psychological or other reasons were the odd ones out at other schools), to the Public Entity St Joseph’s Foster Home (support to homeless children, the disabled and the elderly); to the Public Entity Vilnius Jonas Laužikas Consultative Centre (support to sick children who are both educated and treated for tuberculosis at the Centre); to the Alma Adamkus Charity and Support Fund (to the Fund-supported charity action for the acquisition of new books for rural schools and rural libraries and for the organization of a children’s drawing contest); to the Charity Foundation “Mothers Union” (support to children – cancer patients and to their family members); to the Vilnius “Feniksas” Sports Club for the Disabled (support to the participation of the team in an international volleyball tournament in Latvia), etc.;
- Support to representatives of art and culture: the Kernavė State Culture Reservation (support to a photo exhibition to present the history of the experimental archeology festival “Days of Live Archaeology in Kernavė”); to the Lithuanian Press Photo Club (support for annual exhibition “Lithuanian Press Photo 2012”), to the Lithuanian Artists Union (support for an educational painting plain air event in Pervalka); the Lithuanian Glass Blowers Association (support to the glass artist Remigijus Kriukas, for his participation in international exhibitions in Estonia, Belgium, Russia, the Czech Republic, and Germany), etc.;
- Support to the preservation of the Lithuanian national heritage: the Public Entity the Cultural Heritage Conservation Force (support in publishing the book by Vilius Kavaliauskas “The Lithuanian Warriors”, Volume 4); to the National Museum Palace of the Grand Dukes of Lithuania (support in organizing the exhibition “Portraits of the Grand Dukes and Noblemen of the Grand Duchy of Lithuania from Museums of Ukraine”); to the Public Entity Thomas Mann Culture Centre (support for the organization of the 16<sup>th</sup> International Thomas Mann Festival “The Enslaved Mind”); to the Public Entity “TV

Europa” (support for creating a documentary film about one of the most prominent Lithuanian theater and cinema actors Vytautas Paukštė); to the Association "The Steponas Kairys Foundation” (support for the release of the memoir book about the President Algirdas Brazauskas “Selected by his Epoque for the Great Mission”), etc.;

- Support to religious communities: to the Ariogala St Michael the Archangel Parish (contribution to the construction of the parish house); to the Šeduva Discovery of the St Cross Parish (support for the maintenance and preservation of the cultural heritage – the buildings of the church); to the Vilnius All Saints Parish (support to social activities carried out by the Church).

## **SOCIAL RESPONSIBILITY**

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

In pursuit of responsible business activities, at present, the Company is focused on the review of its routine processes and procedures, on the internal audit of certain specific areas of its activity. On an ongoing basis, the Company implements various projects related to environmental protection, employee motivation improvement, customer service upgrading, and participation in communal activities which were disclosed in greater detail in other chapters of the present Consolidated Annual Report.

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

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