



# **ANNUAL REPORT 2013**

**APPROVED**

by AB Lietuvos Dujos Board of Directors Meeting  
of 27 March 2014

**APPROVED**

by AB Lietuvos Dujos General Meeting of Shareholders  
of 30 April 2014

Vilnius  
2014

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## REPORTING PERIOD FOR WHICH THE REPORT WAS PREPARED

### The Year 2013.

In the implementation of requirements of the European Union and national laws, AB Lietuvos Dujos (hereinafter referred to as “the Company”, “LD”) successfully unbundled natural gas transmission activity by 31 July 2013 and, on the basis of assets, rights and obligations attributed to this activity, it established a new company – natural gas system operator AB Amber Grid. Given the fact that after unbundling natural gas transmission activity, this activity is continued by AB Amber Grid, annual report for 2013 presents information and data to the extent it is related to natural gas supply and distribution activity continued by the Company.

## MAIN DATA ABOUT THE ISSUER

Name	AB Lietuvos Dujos
Legal form	public company
Date of registration and the register	23 November 1990, State Enterprise Centre of Registers
Company code	120059523
Administrator of Register of Legal Entities	State Enterprise Centre of Registers
Authorized capital	LTL 290,685,740
Registered office address	Aguonų str. 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

## MAJOR DEVELOPMENTS OF THE REPORTING PERIOD

Up to 31 July 2013 the activities carried out by AB Lietuvos Dujos also included the natural gas transmission activity. Major developments of this period were published in the interim report for the first half of 2013. Information about them can be found in the Central Database of Regulated Information [www.crib.lt](http://www.crib.lt) and the Company website [www.dujos.lt](http://www.dujos.lt).

On 1 August 2013 transfer deed was signed pursuant to the Terms and Conditions of the Spin-off of AB Lietuvos Dujos approved by the decision of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos on 11 June 2013. On the basis of the aforesaid transfer deed, AB Amber Grid took over the assets, rights and obligations of AB Lietuvos Dujos attributed to the natural gas transmission activity.

### Major developments after the performed unbundling of the transmission activity

- On 20 August AB Lietuvos Dujos and AB Amber Grid signed the Final Spin-Off Balance Sheet as at 31 July 2013 pursuant to the Terms and Conditions of the Spin-off of AB Lietuvos Dujos approved by the decision of the Extraordinary General Meeting of Shareholders of AB Lietuvos Dujos on 11 June 2013. Since the Terms and Conditions of the Spin-off were drawn up on the basis of financial statements as at 31 October 2012, the aforesaid balance sheet adjusted the amounts of assets, equity and liabilities transferred to AB Amber Grid reflecting the changes impacted by AB Lietuvos Dujos economic activities that took place by the date of their actual transfer to AB Amber Grid, i.e. by 31 July 2013.

- On 24 October, the National Control Commission for Prices and Energy (hereinafter referred to as “the NCCPE”) determined AB Lietuvos Dujos natural gas distribution price cap for 201-2018.

- On 30 October, the Board of Directors of LD adopted the decision to establish a subsidiary, the legal form of which is a private limited liability company and to which the natural gas distribution activity of the Company will be later transferred together with the assets, rights and obligations attributed to such activity. The decision to establish a subsidiary was adopted in accordance of the provisions of the Law on Natural Gas of the Republic of Lithuania and other legal acts regulating the unbundling of the distribution activity.

- On 14 November, the NCCPE approved natural gas distribution prices to be effective from 1 January 2014, which were determined by the Board of Directors of the Company on 30 October 2013. The prices were published on [www.dujos.lt](http://www.dujos.lt).

- On 28 November, the NCCPE disapproved AB Lietuvos Dujos natural gas tariffs for household customers that were supposed to come into effect from 1 January 2014, which were set by the Board of Directors of AB Lietuvos Dujos on 22 November 2013. By its unilateral decision the NCCPE set higher AB Lietuvos Dujos natural gas tariffs for household customers. Natural gas tariffs were published online at [www.dujos.lt](http://www.dujos.lt).

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 Entities. 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's 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 sent in accordance with procedure established by the Bylaws of the Company.

## MAJOR DEVELOPMENTS AFTER THE REPORTING PERIOD

- On 30 January 2014, the Extraordinary General Meeting of Shareholders decided to initiate the arbitration proceedings against OAO Gazprom seeking to reduce the prices of gas supplied according to 16 December 1999 Gas Supply Agreement No. GLi-2000 (including all subsequent amendments and supplements thereto). The General Manager of the Company was obliged to carry out all actions of initiation of the arbitration proceedings, including, but not limited to, the purchase of legal services, submission of the notice to the arbitration court, drafting and filing the statement of claim and all other necessary documents. The General Manager of the Company was also authorized to conduct negotiations with OAO Gazprom with the aim to improve the conditions of supply of gas to the Company. The arbitration proceedings will be suspended in case of reaching a favourable commercial agreement with OAO Gazprom, which would be approved by the Board of Directors of the Company.

- On 14 February 2014, it became known to AB Lietuvos Dujos that on 12 February 2014 the Government of the Republic of Lithuania adopted a resolution, which decided:

- To transfer to the Ministry of Finance of Republic of Lithuania 51,454,638 (fifty one million four hundred fifty four thousand six hundred and thirty eight) non-material ordinary registered shares of AB Lietuvos Dujos, the nominal value of each of which is equal to LTL 1 (one) and which grant 17.7 per cent of votes at the General Meeting of Shareholders of AB Lietuvos Dujos, which belong to the state by the right of ownership and were managed by the right of trust by the Ministry of Energy of the Republic of Lithuania to be managed, used and disposed of by the right of trust.
- To establish that, increasing the authorised capital of UAB Lietuvos Energija, 51,454,638 (fifty one million four hundred fifty four thousand six hundred and thirty eight) non-material ordinary registered shares of AB Lietuvos Dujos, the nominal value of each of which is equal to LTL 1 (one) and which grant 17.7 per cent of votes at the General Meeting of Shareholders of AB Lietuvos Dujos, which belong to the state by the right of ownership, shall be transferred to UAB Lietuvos Energija as an additional contribution. The value of the contributed shares is equal to the weighted average market price within 6 months until the date of payment of newly issued shares of UAB Lietuvos Energija by appropriate shares.

- 20 February 2014, the Ministry of Energy, implementing 12 February 2014 Resolution No 120 of the Government of the Republic of Lithuania "On Investing the State Property and Increasing the Companies' Authorised Capital", by the transfer-acceptance deed has transferred to the Ministry of Finance to be managed, used and disposed of by the right of trust 51,454,638 non-material ordinary registered shares of AB Lietuvos Dujos, the nominal value of each of which is equal to LTL 1 and which grant 17.7 per cent of votes at the general meeting of shareholders of AB Lietuvos Dujos, which belong to the state by the right of ownership.

- On 21 February 2014, the Ministry of Finance of the Republic of Lithuania, implementing 12 February 2014 Resolution No 120 of the Government of the Republic of Lithuania "On Investing the State Property and Increasing the Companies' Authorised Capital", transferred to Lietuvos Energija, UAB (company code 301844044, address Žvejų str. 14, Vilnius) 51,454,638 non-material ordinary registered shares of AB Lietuvos Dujos, belonging to the state by the right of ownership, the nominal value of each of which is equal to LTL 1

and which grant 17.7 per cent of votes at the general meeting of shareholders of AB Lietuvos Dujos, as a contribution in kind to pay for the newly issued shares of Lietuvos Energija, UAB.

## **NATURAL GAS BUSINESS ENVIRONMENT**

### **Implementation of the Third Energy Package**

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 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 reorganization 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 laws of the Republic of Lithuania, on 31 January 2013 the Company submitted for the NCCPE’s approval Terms and Conditions of the Spin-Off approved by the Board of Directors of AB Lietuvos Dujos on 30 January 2013, which were drawn up following the Resolution of the Extraordinary General Meeting of Shareholders of the Company held on 28 May 2012 and the Resolution of the NCCPE No. O3-145 “On the Action Plans for the Unbundling of AB Lietuvos Dujos Transmission and Distribution Activities and Control” of 15 June 2012.

On 28 February 2013, the NCCPE approved the Terms and Conditions of the Spin-Off of the Company, which were published on 7 March 2013.

On 11 June 2013, the Extraordinary General Meeting of Shareholders approved the Terms and Conditions of the Spin-Off of LD and decided, in accordance with the terms and conditions thereof, to unbundle the spin-off part (the activity of natural gas transmission of AB Lietuvos Dujos) and, on the basis of the assets, rights and obligations assigned to this part, to establish a new company AB Amber Grid.

On 18 July 2013, the NCCPE adopted a decision to revoke the LD’s natural gas transmission licence as from 1 August 2013 and issue to AB Amber Grid a fixed-term natural gas transmission license as from 1 August 2013.

On 1 August 2013, a transfer deed was signed, on the basis of which AB Amber Grid took over the assets, rights and obligations of AB Lietuvos Dujos attributed to natural gas transmission activity.

On 20 August 2013, AB Lietuvos Dujos and AB Amber Grid signed the Final Spin-Off Balance Sheet as at 31 July 2013. Since the Terms and Conditions of the Spin-Off were drawn up on the basis of the financial statements as at 31 October 2012, the said balance sheet revised the amounts of the assets, equity and liabilities transferred to AB Amber Grid reflecting the changes impacted by AB Lietuvos Dujos economic activities that took place by the date of their actual transfer to AB Amber Grid, i.e. by 31 July 2013.

After the successful completion of the first stage of the reorganization of the Company – unbundling of the transmission activity, the process of unbundling of the distribution activity was started.

In the implementation of the provisions of the Law on Natural Gas and other legal acts of the Republic of Lithuania on the unbundling of legal, functional and organizational aspects of the natural gas distribution activity, on 30 October 2013, the Board of Directors of the Company adopted the decision to establish a subsidiary, the legal form of which would be a private limited liability company and to which the natural gas distribution activity of the Company would be later transferred together with the assets, rights and obligations attributed to such an activity. The Board of Directors of the Company also established that the authorized capital of the subsidiary would be LTL 1.000.000. The Company’s administration was entitled to prepare and submit incorporation documents of the subsidiary to the Company’s Board of Directors for approval by 1 April 2014.

Legal, functional and organization unbundling of the distribution activity is scheduled for completion no later than by 31 October 2014, as provided by legal acts.

## Law on the Liquefied Natural Gas Terminal

On 27 June 2013, the Seimas (Parliament) passed the Law Amending Articles 5, 10 and 11 of the Law on Liquefied Natural Gas Terminal establishing that all fixed operating costs of the LNG terminal necessary for the ensurance of operations of the LNG terminal shall be covered by the funds of all transmission system users. This law establishes the obligation for regulated electricity and (or) heat energy producers, to whom subsidized electricity production volumes are allocated and/ or whose prices for the energy produced are regulated by the state – in the first instance to purchase natural gas volumes imported through the LNG terminal matching the mandatory volume of the LNG terminal. Electricity and heat producers are obliged to enter into purchase – sales contracts with the designated suppliers at least for a 5-year period. These provisions of the Law may have an adverse effect on the Company's performance results, as they are limiting the competition in the natural gas market.

In accordance with the Law on the LNG Terminal and decision of the NCCPE, the Company was performing the functions of the LNG terminal administrator from 1 January 2013 till 31 July 2013 and was collecting from the system users the LNG terminal funds by applying the LNG terminal surcharge established by the NCCPE. As from 1 August 2013, the administration of the LNG terminal funds was taken over by Amber Grid.

## Licensing

The Law on Natural Gas stipulates that the activities of natural gas 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. The natural gas distribution licence grants the Company the right to distribute gas 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.

The Company was also engaged in the licenced natural gas transmission activity until 31 July 2013. In the implementation of the unbundling of activities, on 1 July 2013 the Company submitted to the NCCPE a notification on the revocation of the natural gas transmission license from 31 July 2013, 24:00. On the same day, the newly established company AB Amber Grid submitted to the NCCPE the request to issue a fixed-term license for the natural gas transmission activity.

On 18 July 2013, the NCCPE adopted the decision to revoke the natural gas transmission license of LD as from 1 August 2013 and issue a natural gas transmission license to AB Amber Grid as from 1 August 2013.

## Pricing

Natural gas 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 in cases provided for by the Law on Natural Gas. Year 2013 was the last year of the 2009-2013 regulatory period. On 13 September 2013, the NCCPE approved the Methodology for Setting Regulated Prices in the Natural Gas Sector by its Resolution No. O3-367, pursuant to which it determined the AB Lietuvos Dujos natural gas distribution price cap for 2014-2018 regulatory period by its Resolution No. O3-653 of 24 October 2013.

The natural gas supply activity is not subject to regulation.

Natural gas distribution prices are set by the Company once per year. Natural gas tariffs for household customers are set once every six months. Natural gas distribution prices and tariffs for household customers are submitted to the NCCPE for approval.

On 1 January 2013, new natural gas distribution service prices and natural gas tariffs for household consumers set by the Board of Directors of the Company and approved by the NCCPE took effect. As compared to the tariffs valid in Half 2 of 2012, the variable component of the tariff was reduced by 8 Lithuanian cents/m<sup>3</sup> for all household customers. The fixed component of the tariff remained unchanged. The decrease of the variable component of the natural gas tariff for household customers could be even more significant and amount to 12 Lithuanian cents/m<sup>3</sup> due to positive changes in global oil and currency markets and respectively reduced natural gas import price. However, due to resolutions adopted by national authorities, from 1 January

2013 the tariff increased by 4.5 Lithuanian cents/m<sup>3</sup> because a component for financing works of the construction of the liquefied natural gas terminal was included therein.

With due consideration of the changes in the imported natural gas prices in Half 1 of 2013 and global tendencies and forecasts in oil and currency markets, on 25 April 2013 the Board of Directors of AB Lietuvos Dujos decided not to change applicable natural gas tariffs for household customers, i.e. from 1 July 2013 to apply the same tariffs which were in effect in Half 1 of 2013. On 24 May 2013, these tariffs were approved by the NCCPE.

Natural gas prices for non-household customers are recalculated each month, depending on the changes in the gas import prices. Natural gas import price depends on oil and gasoil prices in international market, the USD/EUR exchange rate set by the European Central Bank and the actual calorific value of natural gas. In 2013, prices for energy resources in international markets and the value of EUR in respect of USD stabilised, thus, natural gas prices for non-household consumers were gradually decreasing in 2013.

On 30 October 2013, the Board of the Company set specific natural gas distribution service prices to take effect as from 1 January 2014, which were approved by the NCCPE by its Resolution No. O3-686 of 14 November 2013.

Seeking for a solution during the maximum natural gas consumption period favourable to the Company's customers, on 22 November 2013, the Board of Directors of the Company approved lower natural gas tariffs for household consumers effective from 1 January 2014. The variable part of the tariff approved by the Board of Directors of the Company for different subgroups of consumers decreased by 9 to 30 cent/m<sup>3</sup> (including VAT). The constant part of the tariff remained unchanged. Tariffs of Half 1 of 2014 included the compensation of differences in natural gas import price for consumers for the entire 2013 (actual data for 10 months and forecast for 2 months). In its meeting of 28 November 2013, the NCCPE unilaterally set higher gas tariffs for AB Lietuvos Dujos customers effective from 1 January 2014. Setting tariffs for Half 1 of 2014, the NCCPE assessed only the actual impact of price difference of Half 1 of 2013. Impact of the difference of gas import prices of Half 2 of 2013 will be evaluated when calculating natural gas supply tariffs for household customers for Half 2 of 2014.

For more detailed information on the prices of services provided by LD and on tariffs for household consumers visit the Company's website [www.dujos.lt](http://www.dujos.lt).

## Market

Besides LD, natural gas to Lithuania is also imported by other natural gas market participants. In 2013, the market share of AB Lietuvos Dujos in the total natural gas market of Lithuania accounted for 37%.



From 1 August 2013 gas supply services to household customers connected to AB Lietuvos Dujos distribution system had been provided by a new market participant – UAB Sky Energy Group. By 15 December 2013, this

company was supplying natural gas to about 400 household customers. Due to violations of licenced activities, the natural gas supply licence of this company was revoked as from 16 December 2013 by the Resolution No. O3-733 of the NCCPE of 10 December 2013. In order to evade interference with the supply to former customers of UAB Sky Energy Group, LD promptly proposed to conclude standard gas supply contracts.

## **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 approved 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, minimizing the probability of occurrence of events that may cause risks and minimizing their possible negative effects, ensuring that risks would not exceed the levels acceptable to LD and at implementing the Company's objectives.

The Risk Management Process comprises the following steps: risk identification, 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: competition-related risk, regulation-related risk, organizational structure-related risk, natural gas import price fluctuation risk, credit risk, technology-related risk.

The information on the gas import price fluctuation risk, the credit risk and other financial risks is presented in the financial statements of the Company and of the Group for year 2013.

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

In the performance of its activities the Company faces competition both in the fuel (energy) as well as natural gas sectors. In 2013, the NCCPE issued 11 natural gas supply licenses. A total of 27 companies have been issued with licenses for the supply of gas. In 2014, the competition is expected to increase in the natural gas supply market.

The National Energy (Energy Independence) Strategy (hereinafter referred to as the "NES") provides for the construction of a liquefied natural gas terminal by the end of 2014, which will provide opportunities for the diversification of natural gas imports. On 27 June 2013, the Seimas (Parliament) of the Republic of Lithuania approved the updated version of the Law on the Liquefied Natural Gas Terminal, the provisions of which, among other amendments, provide for an obligation for the state regulated electricity and (or) heat energy producers (Energy companies) to use the natural gas imported through the LNG terminal by the order of priority. Energy companies will have to conclude long-term agreements with one specific supply company licensed to supply gas, and purchase from such a company at least 540 million m<sup>3</sup> per year, regardless of the price level in the gas market. This provision will close up a part of the gas market, it will limit the competition. The planned division and closure of the market may have an adverse effect on the Company's performance results.

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

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

In order to retain and expand its market share, to secure safe natural gas supplies to consumers and meet the set customer service quality standard requirements, the Company implements the development of gas

systems, 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 follows the principles of transparency and fair competition in its business activities.

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

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

The core activities of the Company are natural gas distribution and supply (the Company was also engaged in natural gas transmission activity until 1 August 2013). Licenses are issued for the execution of these activities. Natural gas distribution service prices and investments into the natural gas distribution systems are regulated by the state. Frequently changed legal framework and regulatory regime create uncertainty of the business environment, aggravate the Company's relations with its customers and impede its ability to plan for long-term.

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

### **The organizational structure risk**

In the fulfilment of the requirements of the Law on Natural Gas and other legal acts, the Company has successfully unbundled the natural gas transmission activity – it transferred the assets, rights and obligations allocated for the transmission activity to AB Amber Grid as of 31 July 2013.

After the completion of unbundling of the transmission activity, the process of unbundling of the distribution activity was started. 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.

The timely restructuring of the Company also depends on whether all the authorities related to the unbundling of the Company's activities will execute their actions sticking to statutory deadlines.

### **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 is to ensure 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 processes, improving the organization of the maintenance works;
- using state-of-the-art information technologies;
- monitoring the technical condition of the gas systems and eliminating any established defects;
- investigating, analysing malfunctions, assessing any possible risks of accidents or malfunctions and planning and implementing respective preventive measures;
- informing the public about the rules of safe behaviour in the vicinity of gas pipelines and measures for ensuring safety of gas consumption;
- attracting, training and retaining the necessary staff, ensuring their adequate competence levels.

## **FINANCIAL PERFORMANCE**

In the implementation of the provision of the Third Energy Package of the EU on the unbundling of the transmission activity, assets, rights and obligations of the transmission activity related to the activity unbundled from the Company as of 31 July 2013 were transferred to a newly established company AB Amber Grid. Below are presented **performance results of the continued activities of LD.**

In 2013 the subsidiary of the Company UAB Palangos Perlas was liquidated, and due to insignificance of its operating results for the year 2013, separate Group financial statements are not prepared, the coincide with Company's financial statements. The overview of the financial results of the Company is presented below.

### Key performance indicators

	2013	2012	2011
<b>Performance indicators</b>			
Volumes of distributed natural gas, M m <sup>3</sup>	856.3	982.1	1,066.1
Volumes of natural gas sales, M m <sup>3</sup>	1,035.3	1,125.6	1,317.8
<b>Number of customers that have concluded natural gas supply agreements as of the end of the year, thousand</b>			
Household customers	552.5	550.3	548.2
Non-household customers	6.5	6.2	5.9
<b>Length of gas pipelines operated, thousand km</b>			
Distribution pipelines	8.3	8.2	8.1
<b>Employees</b>			
Number of employees at the year-end (in 2011-2012 including the transmission activity)	1,364	1,690	1,686

### Key financial indicators

	2013	2012	2011
<b>Financial results</b>			
Sales, M LTL	1,532.6	1,703.1	1,663.5
Earnings before interest, taxes, depreciation and amortization (EBITDA), M LTL	97.2	88.4	102.6
Profit from operations, M LTL	56.3	48.6	83.4
Profit before tax, M LTL	57.1	50.5	65.7
Net profit, M LTL	53.3	47.0	55.0
Investments, M LTL	48.9	46.9	27.7
Assets at the end of the year, M LTL*	1,050.5	1,272.6	1,264.8
Equity at the end of the year, M LTL	701.0	843.0	845.0
Financial debt M LTL	0.0	0.0	0.0
<b>Profitability ratios</b>			
EBITDA margin, %	6.3	5.2	6.2
Profit from operations margin, %	3.7	2.8	5.0
Profit before tax margin, %	3.7	3.0	3.9
Net profit margin, %	3.5	2.8	3.3
Average return-on-assets ratio (ROA), %**	4.6	3.7	4.3
Average return-on-equity ratio (ROE), %	6.9	5.6	6.4
Return on capital employed (ROCE), %	7.9	5.8	7.5
<b>Liquidity*</b>			
Overall liquidity	1.4	1.9	2.0
Quick ratio	1.2	1.6	1.8
<b>Leverage*</b>			
Equity to asset ratio, %	66.7	66.2	66.8
<b>Market value ratios***</b>			

Price-earnings ratio (P/E)****	11.95	12.06	10.34
Basic earnings per share, LTL****	0.18	0.16	0.20
Dividend payment ratio, %*****	-	285.7	75.2
Dividends per share for the current year, LTL*****	-	0.46	0.15

\* The 2011 indicator calculated taking into account amounts receivable from the discontinued (transmission) activity.

\*\* The 2011 and 2012 indicator calculated taking into account amounts receivable from the discontinued (transmission) activity

\*\*\* The 2011 and 2012 indicator calculated taking into account the discontinued (transmission) activity

\*\*\*\* The 2013 indicator calculated taking into account profit of the continued activity and authorized capital of the continued activity, which remained unchanged in 2013 and amounted to LTL 290,686 thousand.

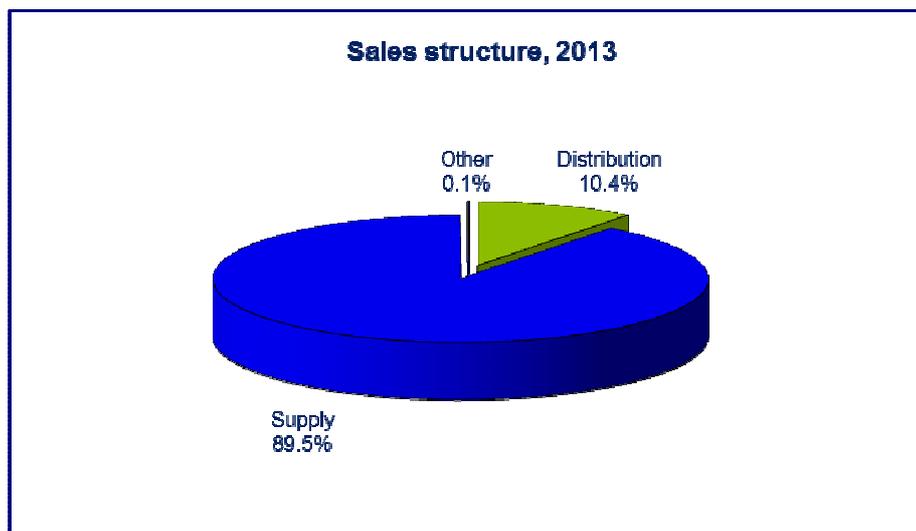
\*\*\*\*\* During Company's Annual General Meeting of Shareholders, which was held on 30 April 2014 decision regarding Approval of the Profit Appropriation of AB Lietuvos Dujos for 2013 was not adopted.

## Revenues

In 2013, the revenues of the Company, compared with 2012, decreased by 9.9% (LTL 169.8 million) and amounted to LTL 1,537.3 million Lt. The sales accounted for the largest part of the revenues (99.7%).

The decrease of the sales (by LTL 170.5 million, or 10.0%) was caused by the decrease in revenues from the supply activity (from LTL 1,526.6 million to LTL 1,371.2 million, or 10.2%), the drop in which was mainly determined by continually decreasing volumes of gas sold to customers. The reduction of supply revenues was also affected by lower gas sales prices to non-household customers. The drop in price was caused by the reduction in the natural gas import price due to decreasing prices of oil and its products in global markets.

Gas distribution revenues decreased by 8.8%, from LTL 174.8 million to LTL 159.5 million. The distribution price cap adjusted as from 1 January 2013 increased by 7.7%. Also, concrete prices by customer groups (except for customer of group 4, 5 and 6) were increased, however, due to lower volumes of distributed gas, gas distribution activity revenues decreased.



## Expenses

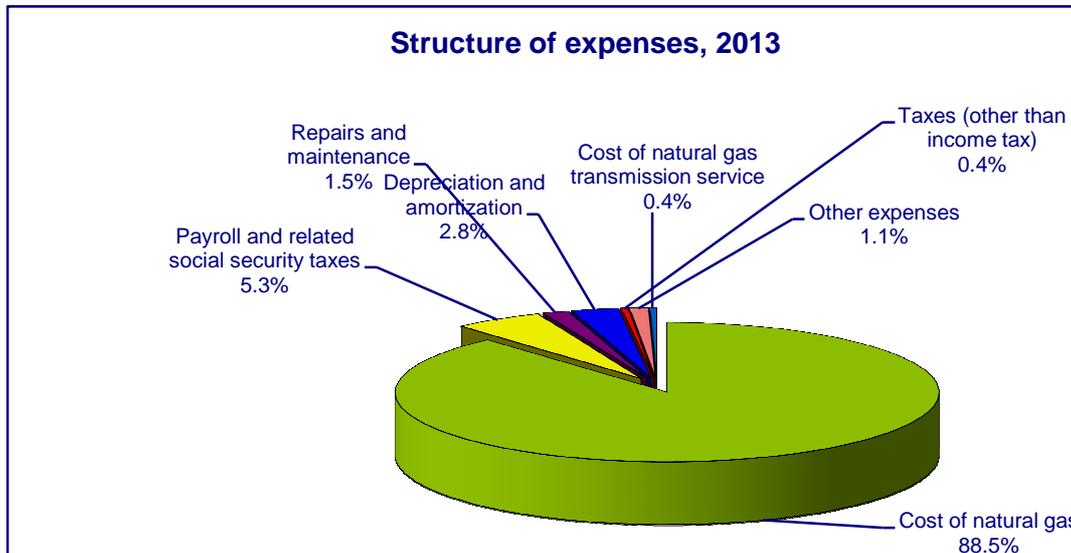
The Company's expenses, compared to 2012, decreased by 10.7% (LTL 177.5 million) and amounted to LTL 1,481.0 million. Decrease of expenses was determined by the decrease in the natural gas cost by 12.6% (LTL 189.8 million) due to lower volumes of gas sold and dropped natural gas import price. In the total expenses breakdown, cost of natural gas accounted for 88.5%.

In 2013, natural gas transmission service expenses in the amount of LTL 7.3 million were incurred (one agreement including gas transportation and supply was signed with household and a part of non-household customers. After unbundling of the Company's transmission activity, as from 1 August 2013 transmission service for aforementioned customers and for own needs is purchased from AB Amber Grid).

In 2013, the remaining relatively fixed expenses amounted to LTL 163.3 million, or 11.0% of total expenses, which represents an increase of LTL 5.0 million (3.2%). The largest rise was in other expenses (LTL 1.9 million, or 13.8%), mostly due to the effect of the unbundling of the transmission activity. Depreciation

expenses in connection with the investments in individual infrastructure facilities increased (by LTL 1.7 million, or 4.2 %).

In 2013, the Company continued to increase operational efficiency - cost optimization policy was being consistently implemented.



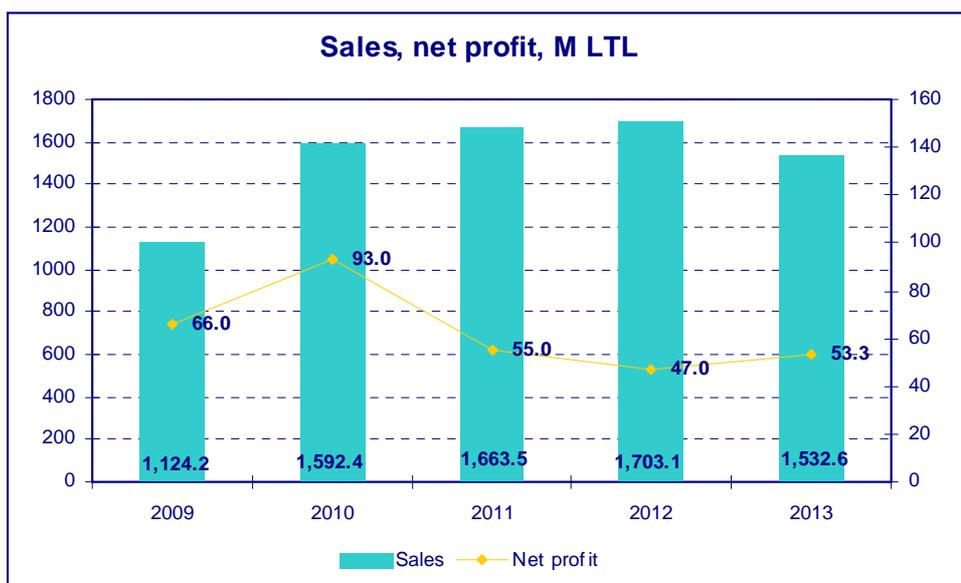
### Activity results

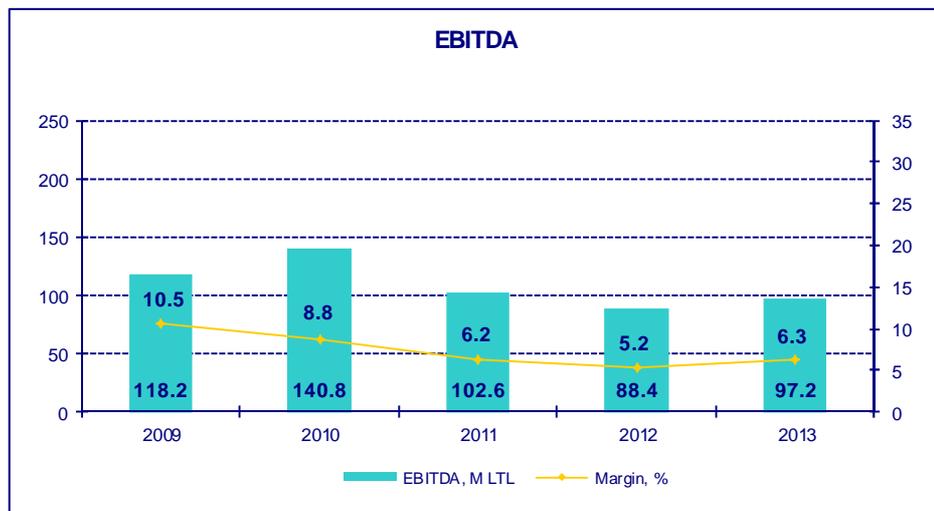
The increase in profit before tax from LTL 50.5 million in 2012 to LTL 57.1 million in 2013 (or by 13.2%) was mainly determined by better results of the supply activity. In 2012, the result of the abovementioned activity was significantly adversely affected by the difference in the gas price included in the pricing for household consumers and actual gas import price. In 2013, compensation was received for loss incurred in this activity in 2012. The distribution activity incurred a pre-tax loss (in 2012 it generated profit). The earnings before interest, taxes, depreciation and amortization (EBITDA) of 2013 increased by LTL 8.8 million (10.0%) and amounted to LTL 97.2 million, in 2012, it was LTL 88.4 million.

The net profit decreased by LTL 12.7 million and amounted to LTL 63.3 million. The net profit also includes the transmission activity result (LTL 10.0 million) prior to unbundling this activity (on 31 July 2013) (the net result of the discontinued transmission activity amounted to LTL 29.0 million in 2012).

In 2013, the net profit of continued activity accounted for LTL 53.3 million (in 2012 it was LTL 47.0 million). The net profit of the activity continued by LD reflects the income tax exemption for investments as provided for by the Law on Income Tax - LTL 4.0 million (in 2012, the exemption for investments in the net profit of the continued activity amounted to LTL 3.0 million).

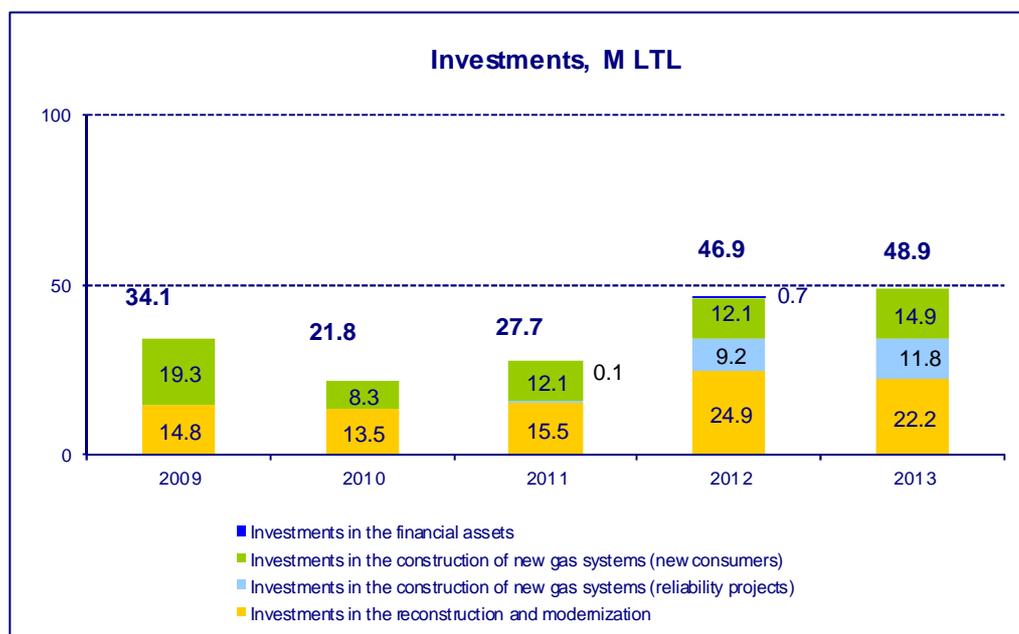
The Company is one of the biggest tax payers in Lithuania. According to the State Tax Inspectorate data of 2013, it was the fifth largest tax payer in Lithuania.





### Investments

In 2013, the Company’s investments of the continued activity amounted to LTL 48.9 million, i.e. LTL 2.0 million, or 4.3%, more as compared to 2012. In 2013, 54.6% of the total investment amount was invested in the construction of new gas system facilities, whereas 45.4% were invested in the reconstruction of the gas systems and modernization. In 2013, compared with 2012, investments into the construction of new gas systems increased: more funds were used for both the construction of distribution system reliability projects and the construction of other distribution pipelines connecting new consumers.



### Assets

Over the year 2013 the value of assets decreased by LTL 1,878.1 million mainly due to the fact that assets of the discontinued transmission activity in the amount of LTL 1,656.0 accounted for in the assets at the end of 2012 were transferred to AB Amber Grid as of 31 July 2013. After the elimination of the assets of the discontinued transmission activity, the assets of activity continued by LD decreased by LTL 222.1 million and amounted to LTL 1,050.5 million at the end of 2013.

At the end of 2013 non-current assets accounted for 75.8%, current assets 24.2% of the total assets of the Company. During 2013 non-current assets of the activity continued by LD increased by LTL 0.1 million and

amounted to LTL 796.3 million at the end of 2013. The value of current assets respectively decreased by 46.6% (or by LTL 222.2 million: from LTL 476.4 million to LTL 254.2 million) mainly due to the lower short-term investments (in 2012 they accounted for LTL 150.0 million, while there were no short-term investments in 2013).

### **Equity and liabilities**

The Company's equity decreased by LTL 1,357.2 million mainly due to the fact that equity of the discontinued transmission activity in the amount of LTL 1,215.2 million accounted for in the equity at the end of 2012 was transferred to AB Amber Grid as of 31 July 2013. Equity of the activity continued by LD decreased by LTL 142.0 million and at the end of 2013 was LTL 701.0 million, i.e. 66.7% of the total assets of the Company. Upon the decision of the General Meeting of Shareholders of 25 April 2013, after the reallocation of reserves formed over the previous years, spare funds of the Company were paid out as dividends to its shareholders.

Liabilities decreased by LTL 520.8 million, mainly due to the fact that liabilities of the discontinued transmission activity in the amount of LTL 440.7 million at the end of 2012 were transferred to AB Amber Grid as of 31 July 2013. Liabilities of the continued activity of LD decreased by LTL 80.1 million and amounted to LTL 349.5 million at the end of 2013. Trade payables decreased the most due to changes settlement terms of part of suppliers, due to lower purchased natural gas volumes and due to lower purchase prices. At the end of 2013, there were no financial debts to credit institutions.

### **Cash flows**

Operating cash flows from the Company's continued activity decreased by LTL 8.0 million (12.4%) and accounted for LTL 56.8 million.

More information on the Company's financial results is disclosed in the financial statements of the Company and the Group for 2013.

## **RESEARCH AND DEVELOPMENT ACTIVITIES**

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

The Company is engaged in the research into technical condition of infrastructure facilities, environmental protection, and other fields.

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 market development investment projects.

In 2012, a pilot project was implemented for a remote metering of natural gas consumption by gas customers: installation of the necessary software enabled continuous monitoring of data on gas consumption by gas consumers. Having analysed the results of the pilot project of a remote metering of gas consumers, it was decided to extend the project throughout the Company in 2014 by installing the necessary gas meter reading equipment for 210 household gas consumers and 375 small businesses using gas in their production.

## **BUSINESS PLANS AND FORECASTS**

Special attention is drawn 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 – was completed on 1 August 2013. In 2014, Stage 2 of the restructuring will be carried out (unbundling of the natural gas distribution and supply activities) – establishment of a DSO company – is scheduled for completion on 31 October 2014.

In 2014 there are plans to connect approx. 2.2 thousand new customers to the natural gas grid, but this number may be corrected by future developments in the economic situation of Lithuania.

In 2014, great attention will be paid to the safety and reliability of the gas distribution pipelines, i.e. for the implementation of the pipeline connection to circular systems projects. The reconstruction works of the gas distribution pipelines will also be carried out, and the reconstruction of the gas pressure regulating devices and the buyback of local natural gas systems of common use will continue.

It is planned to implement several large-scale projects ensuring the reliability and safety of the gas distribution system by connecting gas pipelines to circular systems of the town of Kaunas and of Karmėlava and Ramučiai settlements in Kaunas district and the towns of Vilnius, Lentvaris and Trakai, and to carry out several small-scale projects ensuring the reliability and safety of the gas distribution system.

According to the long-term plan the reconstruction of the distribution pipelines by inserting the new polyethylene pipes into the old steel ones in the Old Town of Vilnius (3.95 km) and Viliampolė district of Kaunas (4.7 km) will continue, and other small-scale pipeline works for the reconstruction of gas pipelines will also be carried out.

In 2014, projects for the Company's operating efficiency and cost optimization will continue.

## MANAGEMENT OF THE COMPANY

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

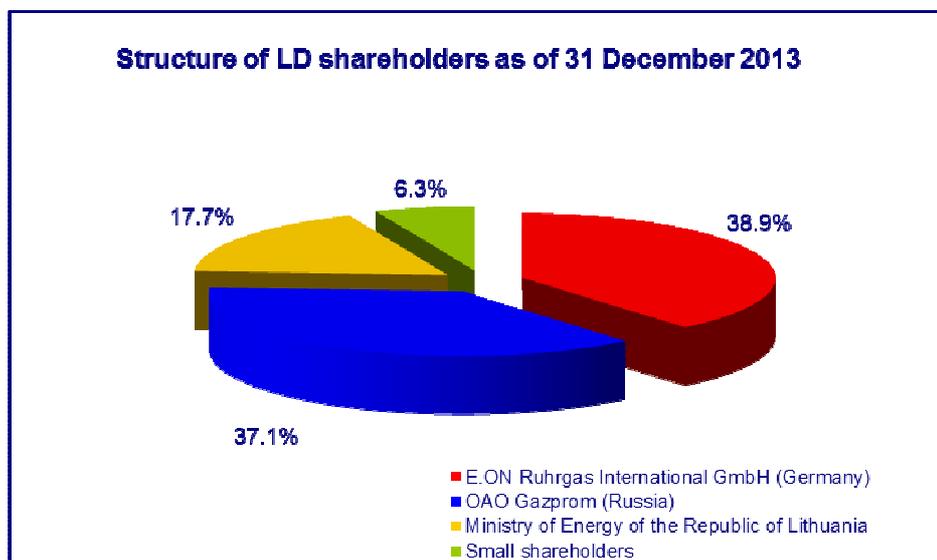
The Company has disclosed the information regarding the observance of the provisions of the Code of Governance. All the information is available on the Company's website [www.dujos.lt](http://www.dujos.lt) and the Central Database of Regulated Information [www.crib.lt](http://www.crib.lt).

### Shareholders and shares

The authorized capital of the Company consists of 290,685,740 ordinary registered shares with par value of LTL 1 each. During 2013, the par value of a share remained unchanged. All the shares are fully paid. During the unbundling of the natural gas transmission activity, a part of the Company's authorized capital (LTL 178,382,514) was transferred to AB Amber Grid.

AB Lietuvos Dujos shares entitle to equal property and non-property rights. In accordance with the Bylaws of the Company, 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 2013, the value of the authorized capital and the structure of shareholders did not change. Shares of AB Amber Grid and AB Lietuvos Dujos continuing its activities after unbundling were distributed to all shareholders in proportion to their share in the authorized capital of AB Lietuvos Dujos.



Shareholder	Company code	Registered office address	Number of shares held, pcs / share in the authorized capital, LTL As of 31 December 2013
E.ON Ruhrgas International GmbH (Germany)	HRB 21974	Brüsseler Platz 1, 45131 Essen, Germany	113,118,140
OAD Gazprom (Russia)	1027700070518	16 Nametkina str., Moscow, Russian Federation	107,734,925
Ministry of Energy of the Republic of Lithuania*	302308327	Gedimino av. 38, Vilnius, Lithuania	51,454,638
Small shareholders	-	-	18,378,037
<b>Total:</b>			<b>290,685,740</b>

\* On 20 February 2014 Ministry of Energy has transferred to the Ministry of Finance to be managed, used and disposed of by the right of trust shares of AB Lietuvos Dujos, which belong to the state by the right of ownership, and on 21 February 2014 Ministry of Finance shares of AB Lietuvos Dujos, as a contribution in kind to pay for the newly issued shares of Lietuvos Energija, UAB, transferred to Lietuvos Energija, UAB.

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

OAD 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. OAD 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.

The Company has not acquired its own shares and it did not conclude any transactions related to weather acquisition or disposal of its own shares in 2013.

As of 31 December 2013, LD was controlled by 2,768 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, OAD Gazprom and the Republic of Lithuania, whose shares were held in trust by the Ministry of Energy of the Republic of Lithuania till 20 February 2014, together controlled 93.7% of the shares of the Company and had a casting vote when adopting decisions at the General Meeting of Shareholders. The aforesaid major shareholders have concluded a shareholders' agreement. This agreement is confidential.

The Company is not aware of any restrictions on the disposal of the shares possessed by E.ON Ruhrgas International GmbH, OAD Gazprom and the Republic of Lithuania, whose shares were held in trust by the Ministry of Energy of the Republic of Lithuania till 20 February 2014.

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.

#### 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.

Main data about LD shares	
ISIN code	LT0000116220
Abbreviation	LDJ1L
Number of shares (pcs.)	290,685,740

In 2013, the turnover of the trading in the Company’s shares amounted to LTL 8.7 million (2012: LTL 8.6 million). Through the transactions that were concluded, 3,832,815 shares were disposed of (in 2012 – 4,194,387).

In 2013, the stock markets of all the three Baltic States recorded a growth. Over the year 2013, 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 7.0% and 18.7% (in 2012 there was an increase of 20.3% and 18.8%). Meanwhile, the value of LD shares increased by 11.5% in 2013 (it decreased by 6.7% in 2012).

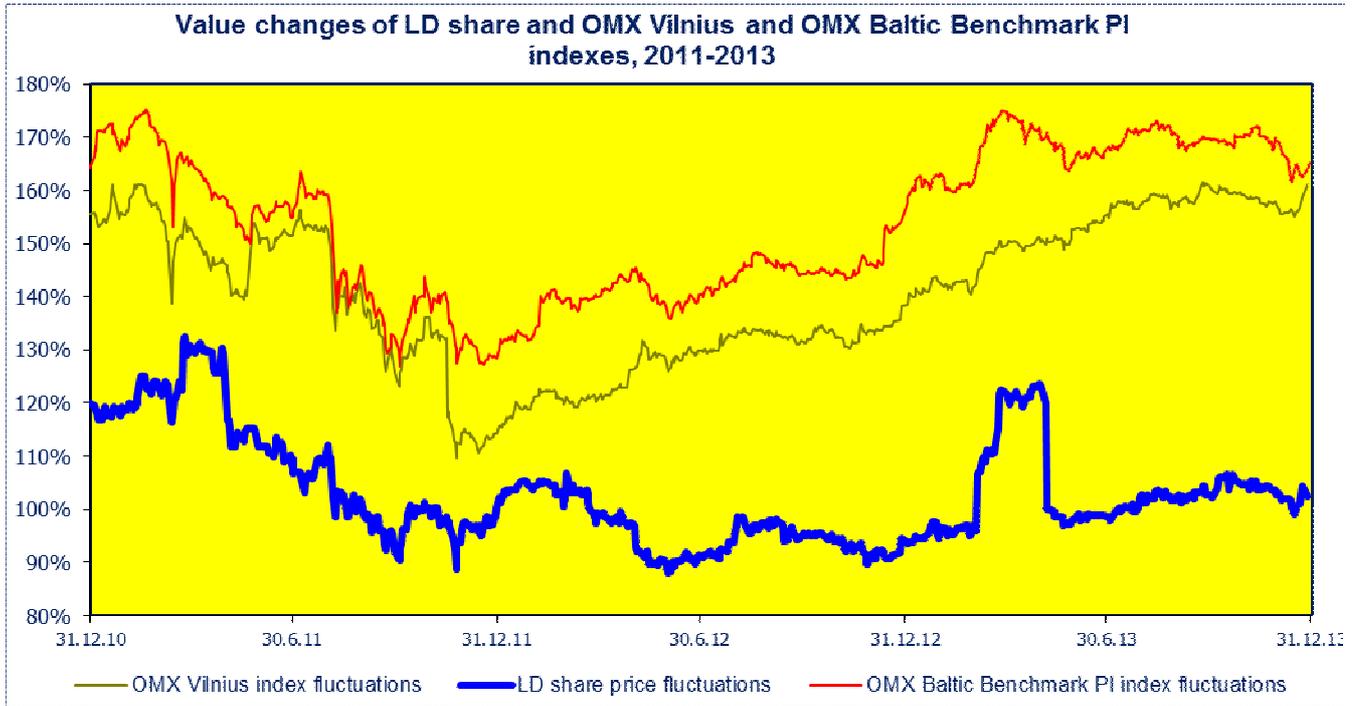
**Share price dynamics at NASDAQ OMX Vilnius, 2011–2013**

	Period		
	2013	2012	2011
Highest price per share, LTL	2.607	2.244	2.828
Lowest price per share, LTL	1.930	1.830	1.730
Weighted average price per share, LTL	2.277	2.040	2.336
Price per share as at the end of the period, LTL	2.151	1.930	2.068
Market capitalization as at the end of the period, M LTL	625.3*	905.4	970.1

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

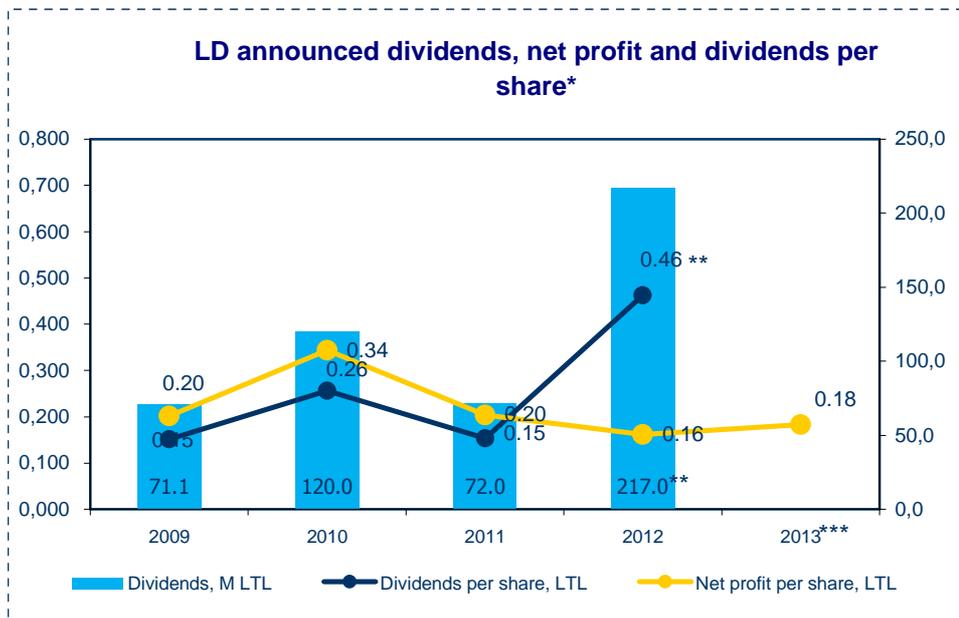


The OMX Baltic Benchmark PI and OMXV indices are total return indices that include all the shares listed on the Main and Secondary lists of the stock exchange. The indices do not include the share prices of companies where one shareholder controls 90% or more of issued shares. The aim of the indices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



**Dividends**

During Company’s Annual General Meeting of Shareholders, which was held on 30 April 2014 decision regarding Approval of the Profit Appropriation of AB Lietuvos Dujos for 2013 was not adopted.



\*2009–2012 taking into account the discontinued (transmission) activity.

\*\*After the reallocation of reserves formed in previous years, in 2013 dividends of 46 Lithuanian cents per share were allocated.

\*\*\*During Company’s Annual General Meeting of Shareholders, which was held on 30 April 2014 decision regarding Approval of the Profit Appropriation of AB Lietuvos Dujos for 2013 was not adopted.

**Agreements with intermediaries of public trading in securities**

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

AB SEB bank details	
Company code	112021238
Bank license No.	2 (on 29 November 1990 issued by the Bank of Lithuania with its subsequent amendments)
Registered office address	Gedimino pr. 12, Vilnius, Lietuva
Telephone number	+370 5 268 2800, short 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 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 of 2/3 of 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 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 of the analysis of the correctness of the accounting methods applied by the Company, monitoring the independence of the external audit company and the audit process, the analysis of the efficiency of internal control, internal audit and risk management systems.

## Composition of the Board of Directors from 23 April 2012 until 25 April 2013

No.	Full name	Position title	Start and end of term
Member of the Board of Directors:			
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.

**Composition of the Board of Directors from 25 April 2013**

No.	Full name	Position title	Start and end of term
<b>Members of the Board of Directors:</b>			
1.	Dr Valery Golubev	Chairman of the Board of Directors	April 2013–April 2016
2.	Dr Achim Saul	Deputy Chairman of the Board of Directors	April 2013–April 2016
3.	Uwe Fip	Member of the Board of Directors	April 2013–April 2016
4.	Kirill Seleznev	Member of the Board of Directors	April 2013–April 2016
5.	Valdas Lastauskas	Member of the Board of Directors	April 2013–April 2016

Note: On 11 June 2013 the Extraordinary General Meeting of Shareholders was held, which approved the Board of Directors of such composition the term of office of which will last till April 2016.

In 2013, tantiemes paid to the members of the Board of Directors totalled LTL 540 thousand, averaging LTL 108 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 GÉRIMŲ NAMAI, UAB JKP Namai, J. Kabašinskas Consultancy	April 2010–April 2013 April 2013–April 2016
2.	Agnė Žičiūtė	Member	AB Lietuvos Dujos	April 2010–April 2013 April 2013–April 2016

**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; April 2013–April 2016*
2.	Dr Joachim Martin Hockertz	Deputy General Manager – Director of Commerce	From 1 July 2002
3.	Jonas Janiulionis	Deputy General Manager – Technical Director	From 13 September 2002 till 4 March 2013.
4.	Tomas Šidlauskas**	Deputy General Manager – Technical Director	From 27 March 2013
5.	Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	From 3 May 2004.
6.	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.

\*\* From 5 March 2013 till 26 March 2013 Tomas Šidlauskas temporarily served as Deputy General Manager - Technical Director.

In 2013, payouts to the top executives of the Company totalled LTL 3,555 thousand, averaging LTL 623.7 thousand per top executive, excluding severance pay.

**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 votes held, %
<b>Board of Directors (as of 31 December 2013)</b>			
Dr Valery Golubev	Chairman of the Board of Directors	–	–
Dr Achim Saul	Deputy Chairman of the Board of Directors	–	–
Uwe Fip	Member of the Board of Directors	–	–
Kirill Seleznev	Member of the Board of Directors	–	–
Valdas Lastauskas	Member of the Board of Directors	–	–
<b>Audit Committee (as of 31 December 2013)</b>			
Juozas Kabašinskas	Independent member	–	–
Agnė Žičiūtė	Member	0.000	0.000
<b>Top executives (as of 31 December 2013)</b>			
Viktoras Valentukevičius	CEO – General Manager of the Company	0.013	0.013
Dr Joachim Martin Hockertz	Deputy General Manager – Director of Commerce	–	–
Tomas Šidlauskas	Deputy General Manager – Technical Director	–	–
Vladimir Obukhov	Deputy General Manager – Director for Gas Purchase	–	–
Giedrė Glinskienė	Deputy General Manager – Chief Financial Officer	–	–

**Subsidiaries and joint ventures**

According to the data of 31 December 2013, AB Lietuvos Dujos jointly with the Finnish company Gasum Oy and AB Amber Grid controls UAB GET Baltic.

<b>UAB GET Baltic particulates</b>	
Legal form	Private limited company
Date and place of registration	13 September 2012 State Enterprise Centre of Registers
Company code	302861178
Registered office address	Aguonų str. 24, Vilnius, Lithuania
Telephone number	+370 5 2360 000
Telephone number	+370 5 2360 001
E-mail address	info@getbaltic.lt
Website	www.getbaltic.lt
Authorised capital	2,000,000 Lt
Share of the authorised capital controlled by AB Lietuvos Dujos	34%
Average number of employees in 2013	2

During 2013 the authorized capital of UAB GET Baltic remained unchanged, it consisted of 2,000,000 ordinary shares, the par value of each of which was LTL 1. 34% of UAB GET Baltic shares are owned by AB Lietuvos Dujos, 34% - by Gasum Oy and 32% - by AB Amber Grid. The main activity of the Company is licensed natural gas market operator activity; on 9 November 2012 the NCCPE issued to UAB GET Baltic a license for this activity. As from 21 January 2013 the company started officially acting as a natural gas market operator.

On 30 January 2013 the Board of Directors of AB Lietuvos Dujos adopted a decision to liquidate its subsidiary UAB Palangos Perlas. All assets of the subsidiary UAB Palangos Perlas were transferred to the Company in

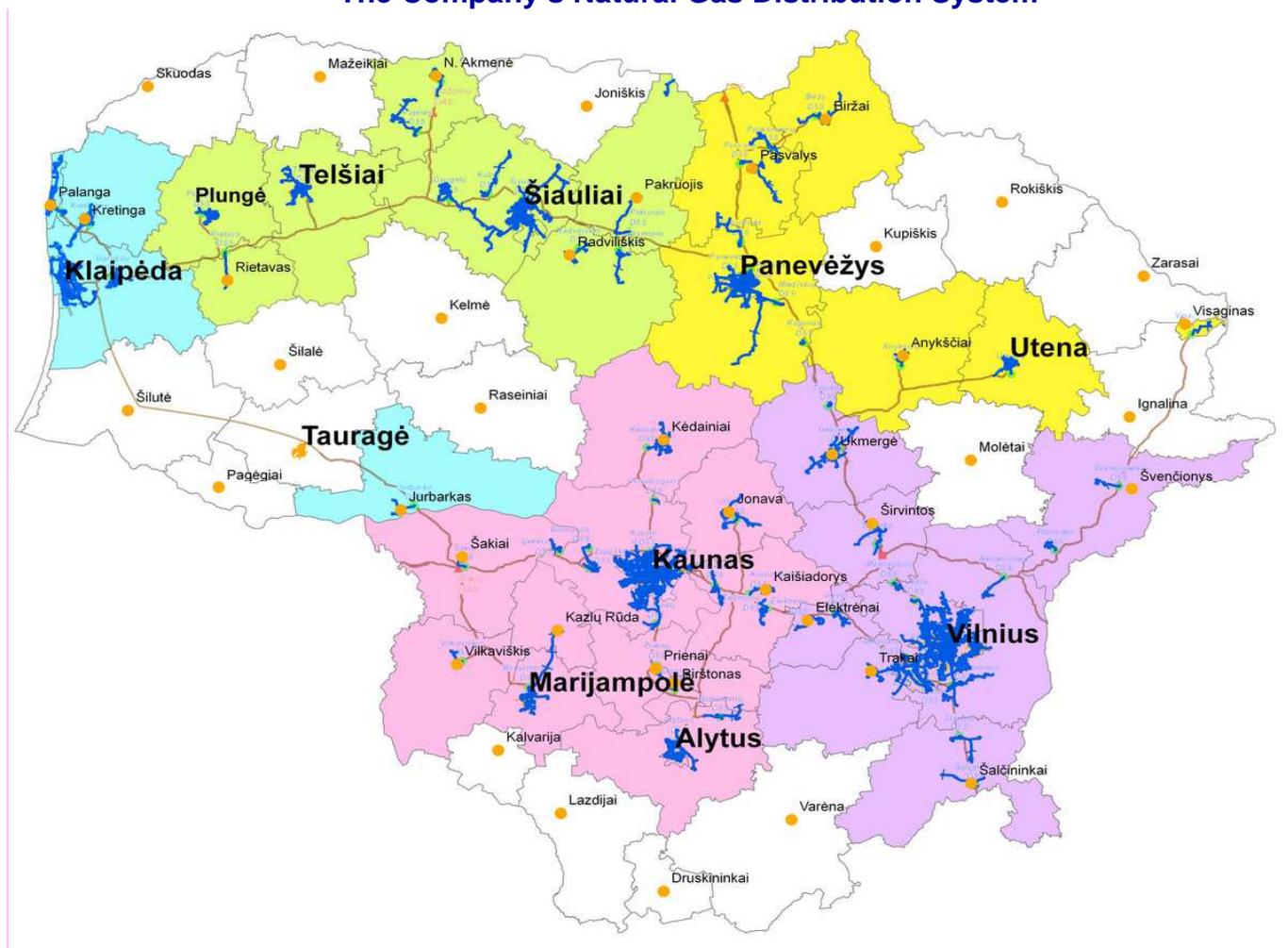
May 2013. On 2 August 2013, the subsidiary UAB Palangos Perlas was liquidated and removed from the Register of Legal Entities on 8 August 2013.

### **Transactions of associated parties**

Information is presented in the financial statements of the Company and of the Group for 2013.

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

### The Company's Natural Gas Distribution System



- Gas distribution pipelines
- Municipalities that do not have gas distribution infrastructure or it does not belong to LD

	Length of gas pipelines operated, km	Gas pressure regulating devices, unit	Volume of distributed natural gas, MCM
Vilnius branch	2.5	321	159.1
Kaunas branch	2.6	234	263.7
Klaipėda branch	1.0	71	173.7
Šiauliai branch	1.3	104	95.4
Panevėžys branch	0.9	97	164.4
<b>Total</b>	<b>8.3</b>	<b>827</b>	<b>856.3</b>

The length of gas distribution pipelines operated by the Company is **8.3 thousand km**.

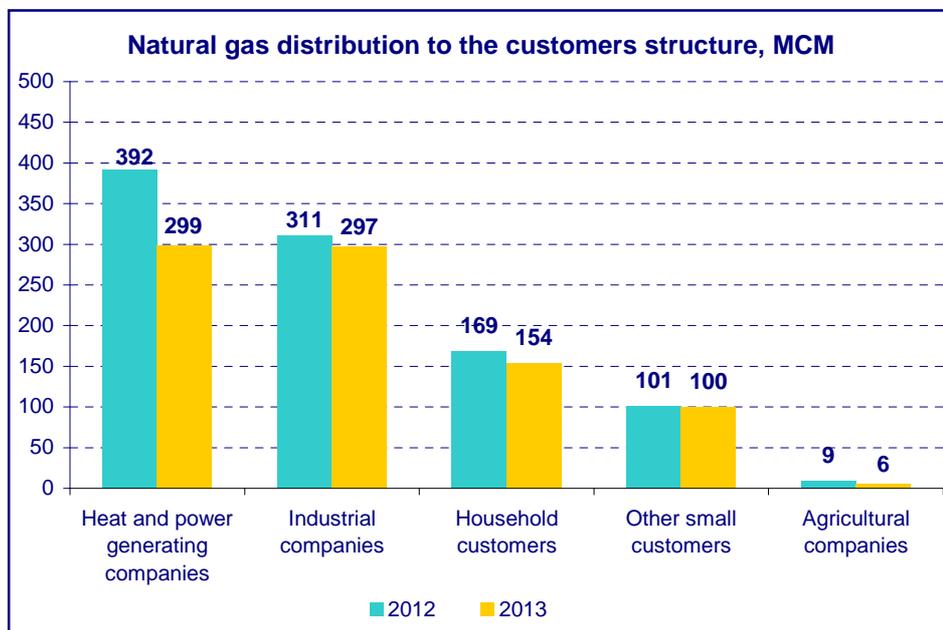
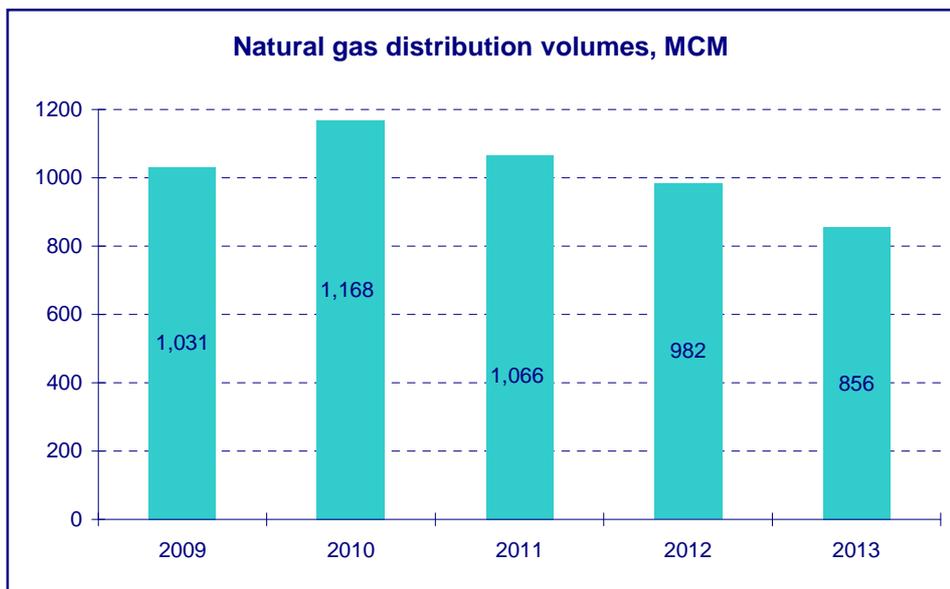
Core business activity of the Company:

- **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.

## DISTRIBUTION OF NATURAL GAS

In 2013, the Company transported via the distribution pipelines 856.3 million m<sup>3</sup> of natural gas – 12.8% less than in 2012 (982.1 million m<sup>3</sup>).

Compared to 2012, in 2013 the natural gas distribution volumes decreased mainly due to the lower gas consumption by the heat and power production plants, substitution of natural gas for other types of fuels and state subsidies granted to renewable energy resources and renovation (the number of consumers who have installed the biofuel and alternative fuel boilers increased).



### Investments in the distribution system

In 2013, the investments in the construction of new gas distribution systems amounted to LTL 26.7 million (2012: LTL 21.3 million); 88.5 km of new distribution pipelines were constructed. Of this total, LTL11.8 million was allocated for the projects of 15.9 km pipeline – to ensure the reliability of gas supply by connecting gas pipelines to circular systems. This ensured the continuous and reliable supply of natural gas, whereas the probability of termination of gas supply to consumers during accidents and repairs was completely reduced.

In 2013, 3 thousand new customers were connected to the natural gas system, i.e. 36% more than in 2012 when 2.2 thousand customers were connected. The country's economic recovery and the reduction in

connection fees caused this growth. In 2013, investments in the connection of new customers amounted to LTL 14.9 million.

In 2013, investments in the reconstruction of the distribution system amounted to LTL 11.8 million, LTL 11.3 million were invested in 2012. In 2013, largest amounts were invested in the reconstruction of pipelines by inserting the new polyethylene pipes into the old steel ones.

LTL 1.2 million were used for the reconstruction of gas pressure regulating devices.

Works for the modernization and installation of the cathodic protection, telemetry, telecommunications systems and gas metering devices were performed, on which the Company spent about LTL 3.6 million.

In accordance with the procedure approved in 2011 by the 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 2013, 79 local natural gas systems of common use with the total length of 45.1 km were bought back.

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

The Company acting in accordance with legal act provisions and performing the distribution system operator's functions ensures the reliable, effective and secure maintenance of gas distribution systems, localisation and liquidation of accidents and troubles, and provision of adequate quality gas distribution services to customers.

In 2013, 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 upgrading of LD workforce qualifications, the real-world process simulation facility equipped at Panevėžys branch has been effectively used.

Gas system maintenance works are carried out according to the maintenance schedules 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 and reconstruction programme that is drawn up by the Company.

### **SUPPLY OF NATURAL GAS**

In 2013, LD purchased natural gas from OAO Gazprom according to a long-term (until 2015 incl.) natural gas supply agreement, on the UAB GET Baltic Natural Gas Exchange, from AB Amber Grid for technical transmission system balancing.

By fulfilling the requirements of the legislation, the Company stores contingency gas reserve volumes in the Incukalns (the Republic of Latvia) Underground Gas Storage Facility. In the event of incidents and/or extreme situations the accumulated gas volumes would ensure the 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.

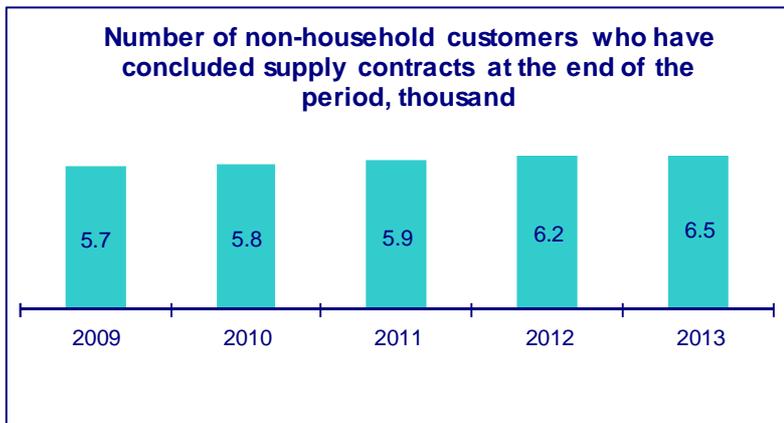
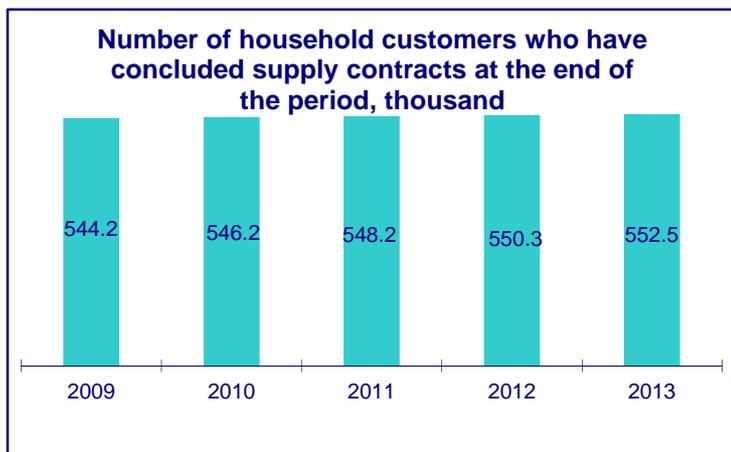
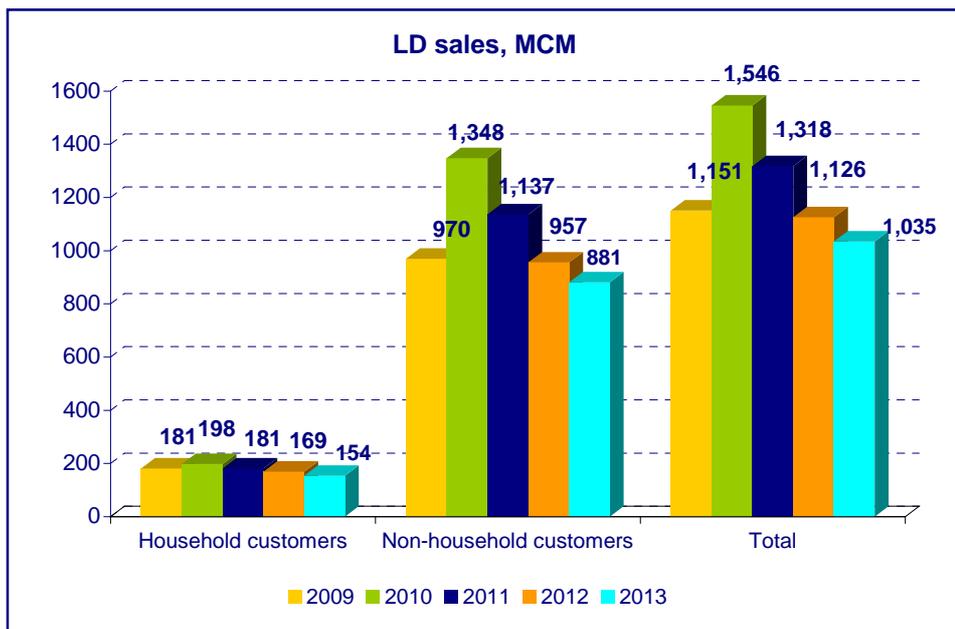
### **Customers**

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 2013, LD supplied to gas consumers 1,035.3 million m<sup>3</sup> of natural gas or 8% less than in 2012 when it was supplied 1,125.6 million m<sup>3</sup> of natural gas. The volume of natural gas supplied to the non-household consumers amounted to 881.4 million m<sup>3</sup> and the volume of natural gas supplied to the household consumers amounted to 153.9 million m<sup>3</sup>. The sold volumes of natural gas decreased mainly as a result of installation of biofuel and alternative fuel boilers by separate non-household consumers and household consumers, and the electricity production quota reductions.

According to data as of 31 December 2013, the Company sold natural gas to 559 thousand non-household and household consumers, i.e. to energy companies, industrial and other enterprises, organizations and

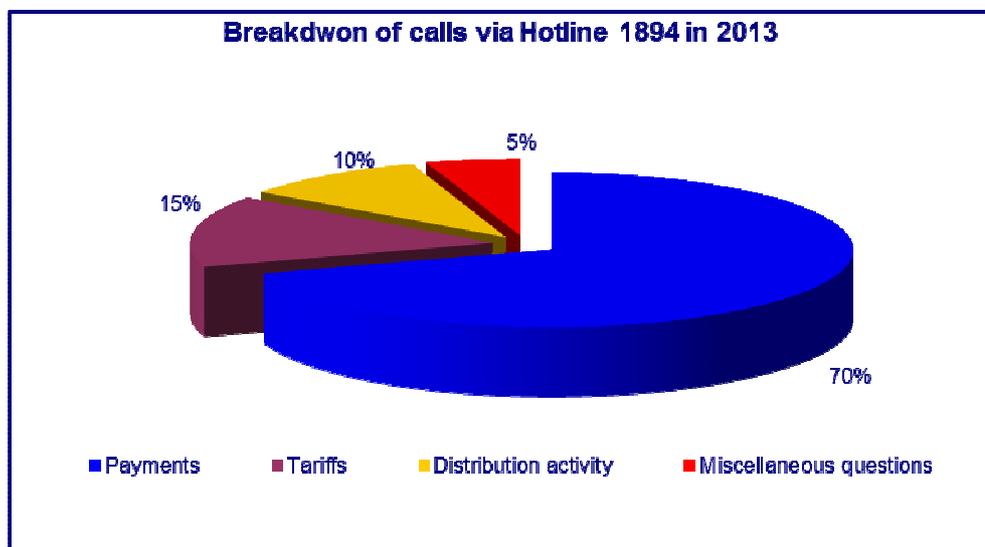
households. In 2013, the share of LD on the household customers' market which comprises about 6% of the natural gas amount consumed throughout Lithuania was almost 99%.



## Customer service

In 2013, natural gas customers were serviced by the Company's employees at their own premises either by phone, e-mail or at the Company's divisions more than 600 thousand times.

More than 130 thousand customer calls were received by Call Centre via Hotline 1894. This shows an increase in consumer confidence and effectiveness of this service. Detailed breakdown of calls is presented in the chart.



In 2013, the number of inquiries of customers by e-mail continued to rise. In 2013, the number of inquiries received from the customers by e-mail of the Company was 33% higher, compared with 2012, and compared with 2011 – even higher by 125%. The number of inquiries by SMS messages in which the customers inquired or transmitted short relevant information – declared the actual meter readings, or requested to send by e-mail passbooks and the like increased by 16%.

The number of non-household customers who gave up paper bills and started to receive gas bills by e-mail increased by 3.3% (up to 85.9%).

The number of customers wishing to connect to the natural gas system also increased. 4,281 applications to connect to the Company's gas system (i.e. 14.7% more than in 2012) were submitted in 2013. In total 3.0 thousand new natural gas customers were connected to the Company's gas system, i.e. 36% more than in 2012.

In 2013, more than 130 customers across Lithuania were provided with advice on issues of efficient gas consumption, and thermal images were taken in their premises to identify the areas with the highest loss of thermal energy. It should be noted that the thermal images were taken only at the beginning of 2013, as because of bad weather conditions at the end of the year it was impossible to take them.

## Customer service quality improvement

In 2013, the Company continued to implement a staff training programme in the field of rendering customer services during which training was provided to over 250 technical support employees servicing customers.

In order to maintain a high level of customer service and to improve it further, the Company has carried out the research of "mystery customers" and internal service quality. After the analysis of specific customer service situations, the employees were given feedback – comments and suggestions on how to improve customer service in the future. Teams of professional customer service consultants composed of employees from different departments are created in all branches of the Company. Consultants are actively involved in internal service quality assessments and provide advice to other employees on how to solve customer service problems.

During the customer satisfaction survey on the quality of the customer service rendered by the Company's staff and conducted in November 2013, new customers who in 2013 became natural gas customers were

questioned. The survey results showed that the Company's service quality is as high as the average score of 9.3 out of 10 and the ratings of almost 90% of customers participating in the survey on the quality of the customer services rendered to them were good, very good or excellent.

## ENVIRONMENTAL PROTECTION

LD in 2008 implemented the environmental management system, which in 2012 was certified by an accredited institution, UAB Bureau Veritas. Non-compliances with the requirements of ISO 14001 Standard were not identified during the audit of the environmental protection system of the Company carried out in 2013.

Every year the Company conducts environmental performance evaluation and identifies significant environmental aspects on the basis of the results of which environmental objectives are set and integrated into the strategic objectives of LD, and then the tasks for their implementation are formed.

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

Due to the very nature of the natural gas operation maintenance system and because of the occupational safety system requirements for carrying out repair and maintenance works, a small proportion of gas volumes are emitted from the gas pipeline system into the atmosphere.

<b>Gas consumption for technological needs related to gas emissions into the atmosphere (MCM)</b>	
<b>2013</b>	<b>2012</b>
10.8	12.6

In 2013, there were no accidents or failures in the natural gas systems resulting in high emissions of gas into the atmosphere or major environmental damage. Some gas transportation interruptions occurred due to the fault of third parties; however, gas emissions into the atmosphere were not significant.

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

It is very important to maintain, enhance, and improve the skills of workers and raise their environmental awareness, especially of technical personnel, as the smooth operation and security of the Company depends on their quality of work and mistakes made. Relevant seminars, professional skills competitions, trainings are held periodically to employees and preventive materials are distributed so that to prevent employee actions that could cause serious damage to the surrounding environment.

Natural resources are conserved in carrying out various administrative activities, for instance, the non-household consumers started to use electronic bills; products from recycled materials are used; buildings are repaired to ensure higher energy efficiency class, and so on.

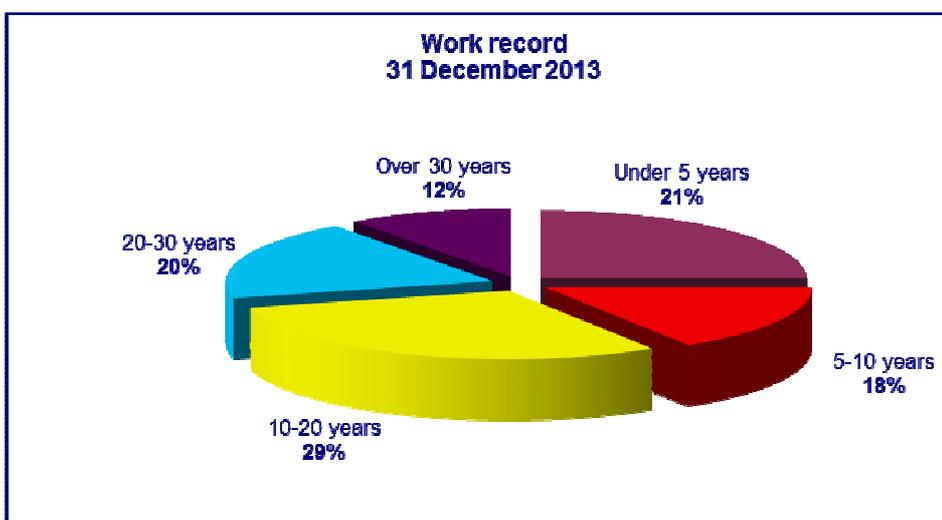
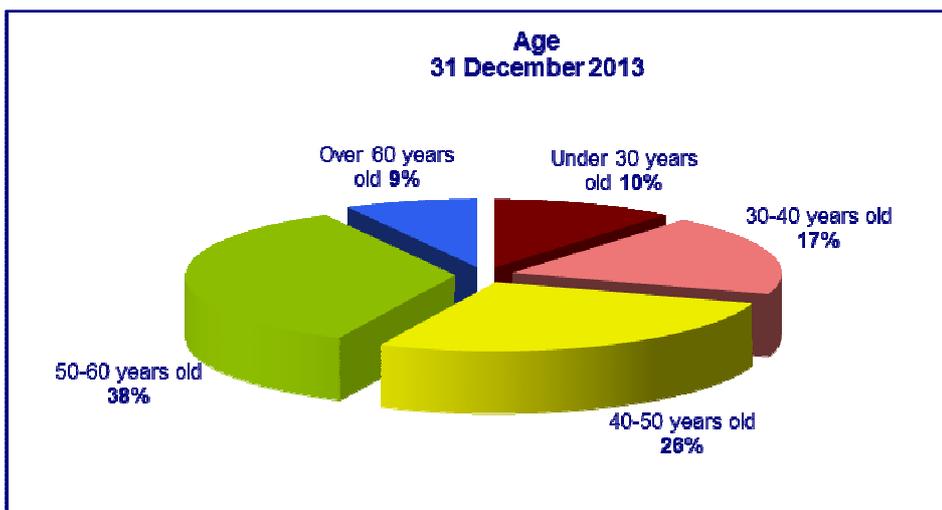
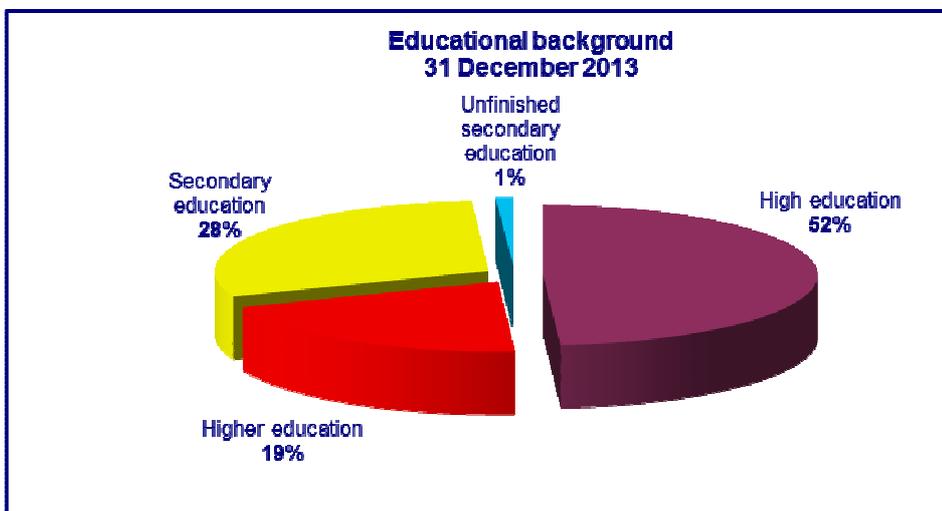
LD periodically contributes to social environmental projects by human resources and financial support. In 2013, the Company provided a support for the installation of recreational infrastructure on the Vecekrugo Dune in the Curonian Spit National Park.

## HUMAN RESOURCES

As of 31 December 2013, the number of employees on the roll of LD was 1,364, that is 19.3% less than at the end of 2012 when there were 1,690 employees in the Company. This important change in the number of employees, as the result of the unbundling of the transmission activity while implementing the EU's Third Energy Package and the relevant requirements of Lithuanian legislation.

At the end of 2013 the average age of the LD employees was 47 years and the average work experience was 16 years.

The majority of employees in the Company are men (67%), women (33%). This is determined by the specific activity of the Company: traditionally the engineering-technical jobs and hard outdoor jobs are more often chosen by men. The most women work in the administration and client service divisions.



## Employees

The key asset of the Company is its human capital – people with their experience and ability to do their jobs. Employees' skills, knowledge, and abilities that meet the quality of provided services ensure a safe exploitation of natural gas distribution system. Staff skills, knowledge and professionalism of the company is determined by the quality of services provided to consumers.

LD draws 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 and a high culture of work, 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 (hereafter 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 worker units. The main objective of the PAI system is to achieve the 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. All managerial staff of all the levels and specialists attends the PAI.

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

Employees	Number of employees, 31.12.2013	Average monthly salary, LTL*
Managing staff	122	8,802
Specialists	831	3,357
Workers	411	2,625
<b>Total:</b>	<b>1,364</b>	<b>3,586</b>

\*Average salary was calculated taking into account the activity accounting specifics, including salaries of employees who were employed by the Company till 31 July 2013 and were transferred to AB Amber Grid.

### Collective Bargaining Agreement

LD branches have their trade union subunits that are united into a Lithuanian Gas Sector Employees Trade Union Association. The Collective Bargaining Agreement was signed at the company. This Agreement provides additional social security and other benefits for employees. Neither the labour contracts, nor the Collective Bargaining Agreement provide for any extraordinary rights or duties for the Company's employees. The rights and duties that are provided by these documents are the ones usually applied in general practice. The continuous dialogue between the Company administration and trade union representatives ensures the social interests of the work team and the transparency and efficiency of solutions.

### Company events

The day of the Gasman is traditionally celebrated in the Company; also there are held professional skills competitions and Christmas events for employees and their children. Sports events are held annually, the purpose of which is to strengthen the spirit of teamwork between employees, to maintain friendly relations, and to develop high level communication skills. To expand the international relations various events which are attended by representatives of natural gas companies from Germany, Latvia, Estonia, and Finland are held.

### Professional development and training

Considering the existing competency module and organizational needs, training is organized and conducted for the Company's employees. Training is carried out purposefully and includes the development of general and professional competencies, stimulates employee involvement and creates a culture of a continuously learning organization.

Seeking to optimally use the funds allocated for qualification training programmes and to use the time of employees effectively, more and more remote training programmes are organized each year. In 2013, all employees of the Company attended training programmes. In 2013, training programmes of general flammable gas system, fire and some computer systems were carried out remotely.

The Company has an electronic library where a lot of technical literature can be found both in Lithuanian and in foreign languages, as well as management articles and short teachings developing managerial skills. Besides the electronic library, a large amount of books which can be read by all LD employees are accumulated. This encourages cooperation between various divisions as well as sharing of knowledge and experience.

The aim is to promote the sharing of knowledge and experience; therefore, the employees are given the opportunity to prepare the training materials themselves and teach courses organized by the Company. University students are offered with apprenticeship opportunities.

All employees of LD attended various educational programmes in 2013. Almost 800 employees were raising the level of management competency and participated in leadership, law, sales, personnel management, marketing, client service, stress management and other training programmes; more than 1.000 employees strengthened their technical knowledge and studied new technology.

Objects corresponding to present-day natural gas environmental conditions are equipped at the hands-on training facility at the Panevėžys branch where employees can perform many tasks in practice. Since the spring of 2013, 42 employees of the Company refined their practical skills there. In 2013, a new class for refining of welding work skills was equipped in Panevėžys.

A Certification Centre which was granted the right to carry out the energy workers certification according to energy facilities, the requirements indicated in the description of the certification process of employees installing and operating devices was established in the Company on 1 July 2013. 108 energy employees from various companies were certified during the second half of 2013.

## 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 the 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 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)) 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 problems of the EU energy structures 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 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 Chamber of Commerce of Germany and the Baltic countries (AHK) “E.ON Ruhrgas International GmbH” hold over 5% of shares of the Company.

## SPONSORSHIP PROGRAMS

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 organizations and establishments. In 2013, LD rendered support to more than 80 institutions, organizations or supported their individual projects and thus significantly contributed to the promotion of various communal initiatives:

- **Support to improve public health:** to the Vilnius University Hospital Santariškės Clinic (support for the implementation of medical equipment and technology upgrade project), to the Vilnius Maternity Hospital (for the partial refurbishment of the premises), etc.
- **Support for sports projects:** 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 2014 (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 Biathlon Federation (support to Lithuania's biathlon teams' participation in various world and European championships and World and European Cup events), etc.
- **Support of socially vulnerable public communities:** support to the Public Entity "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 Alma Adamkienė 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 Vilnius "Feniksas" Sports Club for the Disabled (support to the participation of the club athletes in international volleyball tournaments), etc.
- **Support for art and cultural projects:** National Museum – Palace of the Grand Dukes of Lithuania (support for the organization of exhibitions and other projects); the Kernavė State Culture Reservation Direction (support for organizing the festival "Days of Live Archaeology in Kernavė"); to the PE Lithuanian Press Photo Club (support for organizing the annual exhibition "Lithuanian Press Photo 2013"), to the Lithuanian Artists Union (support for organizing an educational painting plain air event); the Lithuanian Association of Glass Producers (support for the glass artists for their participation in international exhibitions in Russia, Ukraine, Poland), etc.

## 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.

In pursuit of responsible business activities, 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 annual report.

Each year the employees of the Company voluntarily conduct socially responsible projects across Lithuania while devoting time to the socially disadvantaged, needy members of society – adults and children.

The Company's informal Veterans Club brings together professionals who have worked for many years in the Company; around 40 former LD employees actively participate in it. Former colleagues transfer their knowledge and experience to the younger generation. This support and mutual cooperation is very useful while carrying out the Company's activities, trying to collect historical materials of Lithuanian gas, and cherishing long-standing traditions.

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, services' quality, and clients' expectations. 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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