AB Klaipėdos Nafta

Financial statements for the year 2004

Contents

Company details

AB Klaipėdos Nafta

Telephone:	+370 46 391 700
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Registration No.:	BĮ 94-479
Company code:	1064889
Registered office:	Burių 19 LT-91003 Klaipėda-C, Lithuania

Supervisory Board

Dominykas Pečiulis (Chairman)
Vanda Krenienė
Vytautas Aršauskas

Board of Directors

Vladas Gagilas (Chairman)
Saulius Spėčius
Robertas Tamošiūnas
Algimantas Slapšinskas
Arūnas Keraminas

Management

Jurgis Aušra, General Director

Auditors

KPMG Lietuva

Banks

AB Vilniaus Bankas
AB Hansabankas
AB Šiaulių Bankas
AB Sampo Bankas
ABN Amro

vert. tikras

Financial highlights

LTL'000	2004	2003
Key figures		
Turnover	**106,416**	**115,529**
Gross margin	37,705	41,650
Operating result	28,779	27,966
Result before income tax	24,738	26,487
Result for the year	**18,302**	**21,269**
Non-current assets	457,513	497,534
Current assets	38,689	22,304
Total assets	**496,202**	**519,838**
Share capital	342,000	342,000
Capital and reserves	**387,163**	**377,873**
Non-current liabilities	90,062	120,837
Current liabilities	18,977	21,128
Total liabilities	**109,039**	**141,965**
Total equity and liabilities	**496,202**	**519,838**
Net cash flow from operating activities	71,544	91,265
Net cash flow from investing activities	-4,022	-9,694
Net cash flow from financing	-52,373	-74,881
Total cash flow	**15,149**	**6,690**
Average number of employees	**313**	**321**

Financial ratios

	2004	2003
Net profit ratio	17.2%	18.4%
Return on investment	5.8%	5.4%
Gross margin	35.4%	36.1%
Current ratio	203.9%	105.6%
Equity ratio	355.1%	266.2%
Return on equity	4.8%	5.9%

Financial highlights

Calculation of financial ratios

Net profit ratio	$\frac{\text{Net profit x 100}}{\text{Turnover}}$
Return on investment	$\frac{\text{Profit/loss on operating activities before interest etc. x 100}}{\text{Total assets}}$
Gross margin	$\frac{\text{Gross profit x 100}}{\text{Turnover}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Current creditors}}$
Equity ratio	$\frac{\text{Capital and reserves at year end x 100}}{\text{Total liabilities at year end}}$
Return on equity	$\frac{\text{Profit for purposes of analysis x 100}}{\text{Average capital and reserves}}$
Profit for purposes of analysis	Profit/loss on ordinary activities after tax

Annual report

The Management has today discussed and adopted the annual accounts and the annual report.

The annual accounts have been prepared in accordance with International Financial Reporting Standards. We consider that the accounting policies used are appropriate and that the annual accounts thus give a true and fair view.

We recommend the annual accounts to be approved at the Annual General Meeting.

Klaipėda, 10 March 2005

Management:

Jurgis Aušra

Report of the auditor to the shareholders of AB Klaipėdos Nafta

Scope

We have audited the accompanying balance sheet of AB Klaipėdos Nafta as of 31 December 2004, and the related statements of income, changes in equity and cash flows for the year then ended.

Respective responsibilities of management and auditors

These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2004, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report of the auditor to the shareholders of AB Klaipėdos Nafta

Matter of note

Without qualifying our opinion we draw attention that the Company recalculated the real estate tax for the periods from 1999 to 2004 resulting in a decrease of the tax expenses by 4,402 tLTL. The tax authorities rejected the correction due to which a tax dispute arose. At present, the ultimate outcome of the dispute cannot be predicted. An impairment for eventual losses regarding the recovery of the tax surplus has not been included in the financial statements.

Klaipėda, 10 March 2005
KPMG Lietuva

Leif Rene Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
ACCA and Lithuanian
Certified Auditor

Income statement

	Note	2004	restated 2003
		LTL'000	LTL'000
Turnover		106,416	115,529
Cost of sales	14	-68,711	-73,879
Gross margin		**37,705**	**41,650**
Operating expenses	15	-9,305	-13,762
Other income	16	379	78
Operating income		**28,779**	**27,966**
Financial income (expenses), net	17	-4,041	-1,479
Income before result in associated entities		**24,738**	**26 487**
Share of profit of associates	6	0	0
Income before income tax		**24,738**	**26,487**
Income tax (expenses)	19	-6,436	-5,218
Result for the year		**18,302**	**21,269**
Basic earnings per share (Litas)	21	0.05	0.06

Balance sheet

	Note	2004	2003
		LTL'000	LTL'000
ASSETS			
Non-current assets			
Intangible assets		283	310
Property, plant and equipment	3	450,811	484,264
Construction in progress	3,4	5,623	9,352
Prepayments for non-current assets		284	1,177
Loans granted	5	0	1,873
Investments in associates	6	0	0
Other financial assets	7	512	558
Total non-current assets		457,513	497,534
Current assets			
Current portion of loans granted	5	3,357	1,844
Inventories	8	1,977	2,779
Trade accounts receivable	9	5,243	3,643
Accounts receivable from related parties	18	0	2
Other current assets	10	4,681	5,754
Cash and cash equivalents	11	23,431	8,282
Total current assets		38,689	22,304
TOTAL ASSETS		496,202	519,838

Balance sheet

	Note	2004	2003
		LTL'000	LTL'000
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		342,000	342,000
Legal reserve		11,220	10,352
Retained earnings		33,943	25,521
Total shareholders' equity		387,163	377,873
Non-current liabilities			
Interest bearing loans	12	68,142	99,301
Interest bearing leasing liabilities	12	8,834	12,815
Deferred tax liability	19	13,086	8,721
Total non-current liabilities		90,062	120,837
Current liabilities			
Current portion of interest bearing loans and lease liabilities	12	12,239	15,193
Accounts payable to related parties	18	79	51
Accounts payable to contractors and suppliers		2,355	2,963
Salaries and social security payable		495	789
Other current liabilities	13	3,809	2,132
Total current liabilities		18,977	21,128
Total liabilities		109,039	141,965
TOTAL EQUITY AND LIABILITIES		496,202	519,838
Commitments and contingencies	20		

Statement of changes in equity

LTL'000	Share capital	Legal reserve	Retained earnings (restated) note 23	Total
At 31 December 2002 as previously reported	**325,000**	**9,128**	**14,250**	**348,378**
Correction of error, related to the amount of real estate tax expenses for the period 1999-2002 (note 23)			2,562	2,562
Effect of change in accounting policy related to evaluation of surplus oil products			-2,466	-2,466
At 31 December 2002 as restated	**325,000**	**9,128**	**14,346**	**348,474**
Increase of share capital	17,000			17,000
Allowance for assets contributed in kind			-4,079	-4,079
Dividends for 2002			-4,791	-4,791
Transfer to legal reserves		1,224	-1,224	0
Result for the year (restated)			21,269	21,269
At 31 December 2003	**342,000**	**10,352**	**25,521**	**377,873**
Dividends for 2003			-9,012	-9,012
Transfer to legal reserves		868	-868	0
Result for the year			18,302	18,302
At 31 December 2004	**342,000**	**11,220**	**33,943**	**387,163**

Cash flow statement

LTL'000	2004	2003
Cash flows from operating activities		
Result for the period before taxation	24,738	26,487
Adjustments for		
Depreciation and amortisation	45,572	49,172
Interest (income) expense, net	4,041	9,364
Fees for early repayment of loans	0	3,687
Allowance for inventories and accounts receivable	-2,572	233
Effect of equity method application on long-term financial investments	0	0
Reversal of impairment and loss on sale of investment	0	0
Reversal of allowances for other accounts receivable and impairment	0	0
(Gain) loss on fixed assets disposal	-87	-20
Other income from surplus of oil products	-462	-78
	71,230	88,845
Changes in current assets and liabilities:		
Change in accounts receivable	-1,600	1,239
Change in accounts receivable from related parties	2	216
Change in other current assets	1,073	936
Change in inventories	253	-165
Change in accounts payable to related parties	-51	-1,115
Change in other current liabilities	68	822
Interest received	569	487
Net cash from ordinary activities	71,544	91,265
Cash flows from investing activities		
Acquisition of fixed assets	-8,111	-10,391
Proceeds from sale of property, plant and equipment	45	20
Proceeds from repayment of long-term loans and other financial assets	4,044	677
Net cash from investing activities	-4,022	-9,694
Cash flow from financing activity		
Fees paid for early repayment of loans	0	-3,687
Interest paid	-4,561	-9,966
Dividends paid	-8,545	-4,750
(Repayment) of loans financing	-39,267	-56,478
? Net cash ~~from~~ to financing activities	-52,373	-74,881
Net increase (decrease) in cash and cash equivalents	**15,149**	**6,690**
Cash and cash equivalents at 1 January	**8,282**	**1,592**
Cash and cash equivalents at 31 December	**23,431**	**8,282**

The cash flow statement cannot be assembled based solely on the accounting material published.

Notes to the financial statements

1. Background information

The Company

AB Klaipėdos Nafta (hereinafter - "the Company") was founded by AB Naftos Terminalas (Lithuania) and Lancaster Steel Inc. (USA), acquiring 51% and 49% of the shares respectively. AB Klaipėdos Nafta was registered on 27 September 1994. The registered address of the Company is Burių St. 19, Klaipėda, Lithuania.

Since 1994 a number of share capital increases took place and consequently the shareholders proportions changed and as of 31 December 2004 the share capital of the company amounted to 342,000 tLTL comprising 342,000,000 ordinary shares at par value of 1 Litas each. All shares are authorised, issued and fully paid. The shareholders structure as of 31 December 2004 and 2003 was as follows:

	2004		2003	
	Number of shares (thousand)	Ownership (percent)	Number of shares (thousand)	Ownership (percent)
Government of Lithuania, represented by the Ministry of Economy	241,544	70.6	228,938	66.9
AB Naftos Terminalas	0	0.0	17,000	5.0
Other (less than 5% each)	100,456	29.4	96,062	28.1
	342,000	100.0	342,000	100.0

2. Significant accounting policies

Statement of compliance

The annual accounts of AB Klaipėdos Nafta have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee (IASC) that remain in effect as of 31 December 2004.

Basis of preparation

The financial statements are presented in the local currency Litas.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

Revenue recognition

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

Oil products originated after the ballast water purification in the Company's waste water treatment facilities and surplus identified in the Company's reservoirs and pipelines are recognised as other income according to the market price at the recognition date.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to know amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Accounts receivable and loans

Receivables and loans are initially stated at the fair value of the consideration given and are carried at amortised cost, after allowance for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value, where cost is defined as acquisition cost with an addition of transportation costs, after allowance for obsolete and slow moving items.

Intangible assets

Intangible fixed assets are stated at cost less accumulated amortisation and impairment loss. Amortisation is provided on the straight-line basis over their useful lives. Useful lives are from 1 to 3 years.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss. Depreciation is provided on the straight-line basis over the expected useful lives of the assets.

The Company capitalises property, plant and equipment improvements and purchases with an acquisition cost of more than 2,000 Litas and an estimated useful life of more than 1 year. Presented below are useful lives of the Company's property, plant and equipment:

Buildings and structures	15-40 years
Machinery and equipment	5-40 years
Other tangible non-current assets	3-7 years

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items in property, plant and equipment.

Repairs are charged to the income statement in the period they are incurred.

Renewals are added to the carrying amount of the property, plant and equipment when it is probable that the future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company.

Construction in progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Investments

The Company's investments in associated entities and subsidiaries (where the Company has a control or where the Company has influence) are stated in accordance with the equity method, so that the Company includes its proportionate share of post-acquisition results of operations of such subsidiaries and associated entities in the income statement. As a result, the recorded value of the investment corresponds to the Company's proportionate share of the equity hold in the subsidiaries and associated entities.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are amortised or impaired.

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised in the income statement.

Financial lease

The Company recognises financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is the same as for the similar property, plant and equipment.

Operating lease

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discounts or premium on settlement.

Gains and losses are recognised in the net income or loss when the liabilities are derecognised, as well as through the amortisation process.

Borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation or borrowing costs commence when the activities to prepare the asset are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5% of net profit for the year calculated in accordance with the Lithuanian accounting principles are required until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed to the shareholders.

Transactions in foreign currency

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

Income tax

Income tax charge is based on taxable income for the year and considers deferred taxation. Income tax is calculated based on Lithuanian tax legislation.

In Lithuania in 2004 and 2003 the standard income tax rate was 15%. The Company was eligible for a corporate income tax exemption granted in 1996 due to the foreign investments made during 1995 and 1996. Taxable income for 2001 was taxed at the rate of 12% (50% of the prevailing 24% tax rate for 2001). Till 30 September 2002 taxable income was taxed at the rate of 7.5% (50% of the prevailing 15% tax rate for 2002) and the standard rate of 15% for the later periods. Tax losses can be carried forward for 5 subsequent years.

Deferred taxes are calculated using the balance sheet liability method. Deferred income tax reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on the tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognised when it is probable that sufficient taxable income will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Company re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation, bad debt allowances and impairment evaluation. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operating decisions. The related parties in this report consist of the Company's subsidiaries and associated entities, management, shareholders and their family members.

Contingencies

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

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

Subsequent events

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

Segment reporting

The Company operates in one business and geographical segment.

Comparative figures

Where necessary, the comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Property, plant and equipment

Movements of the Company's property, plant and equipment during 2004 can be specified as follows:

	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Construction in progress (see Note 4)	Total
Cost at 1 January 2004	377,845	294,922	6,979	9,352	689,098
Additions during the period	307	1,024	294	7,304	8,929
Retirements	-261	-707	-255	-7	-1,230
Transfers between captions	4,614	5,615	548	-10,777	0
Adjustment of acquisition cost	-732	-5,737	-16	0	-6,485
Cost at 31 December 2004	381,773	295,117	7,550	5,872	690,312
Depreciation and impairment at 1 January 2004	78,707	111,220	5,555	0	195,482
Depreciation for the period	21,097	24,003	472	0	45,572
Corrections	-280	0	280	0	0
Adjustment of accumulated depreciation	-8,534	1,846	203	0	-6,485
Depreciation of disposals	-27	-704	-244	0	-975
Depreciation and impairment at 31 December 2004	90,963	136,365	6,266	0	233,594
Carrying amount at 31 December 2004	290,810	158,752	1,284	5,872	456,718
Carrying amount as of 31 December 2003	299,138	183,702	1,424	9,352	493,616
Average depreciated rate	6%	8%	6%		

For the loans received the Company has provided a pledge of property, plant and equipment for the amount of 214,636 tLTL as of 31 December 2004, out of which the loans granted by the Ministry of Finance of Lithuania were secured by the pledged assets of 107,904 tLTL, and the loans granted by the banks were secured by the pledged assets of 106,732 tLTL. The repayment of loans from the banks is guaranteed by the Ministry of Finance of Lithuania.

The Company has acquired 6 reservoirs under finance lease agreements. The book value of these assets amounted to 34,170 tLTL as of 31 December 2004 (34,347 tLTL as of as of 31 December 2003), including subsequent expenditure, capitalised in 2004, amounting to 3,493 tLTL. These assets secure the financial lease obligation, which amounted to 12,816 tLTL as at 31 December 2004.

The depreciation charge for 2004 amounts to 45,572 tLTL (49,101 tLTL as of 31 December 2003). 45,287 tLTL is included in the cost of sales captions and 285 tLTL in the operating expenses caption of the income statement for 2004 (48,917 tLTL and 184 tLTL respectively for the year 2003).

4. Construction in progress

The balance of construction in progress amounted to 5,612 tLTL as at 31 December 2004 (9,352 tLTL as at 31 December 2003). At the end of 2004 the major part of the construction in progress amounting to 4,607 tLTL represents the construction of biological water treatment facilities. The project shall be finished in March-April 2005. The planned completion costs incurred in 2005 amount to approx. 900 tLTL and are financed from the internal resources.

New projects

In 2003 the Company prepared an investment program for the period 2004-2010. This program will allow the Company to be more flexible in the market and to enhance reload capacities for oil products as well as crude oil. All the investments are going to be financed from internal resources according to the management plans.

According to this program, total investment for 2005-2010 shall amount to 185.8 million LTL, including 19.7 million LTL in 2005.

5. Loans granted

On 24 January 2003 as part of a settlement for acquired shared AB Naftos Terminalas transferred to the Company rights to the loans granted to UAB Žavesys, AB Girių Bizonas and AB Klaipėdos Mediena.

	Interest rate	Maturity date	As of 31/12/2004	As of 31/12/2003
AB Klaipėdos Mediena	6 months EUR Libor+3%	28/12/2005	2,672	4,884
AB Girių Bizonas	6 months EUR Libor+3%	30/06/2005	685	2,496
UAB Žavesys	-	30/03/2021	396	416
			3,753	7,796
Less: allowance for loans granted*			-396	-4,079
Total loans granted, net			3,357	3,717
Less: current portion of loans granted			-3,357	-1,844
Total long-term loans granted			0	1,873

* The allowance for loans granted comprises full allowance for UAB Žavesys.

The loans granted to AB Klaipėdos Mediena and AB Girių Bizonas are secured by pledged assets with a total value of 12,886 tLTL.

6. Investments in associates

Investments can be specified as follows:

	Ownership percentage	2004	2003
UAB Laivų Bunkeris	34	34	34
Application of equity method on UAB Laivų Bunkeris		-34	-34
Total investment		0	0

The Company has accounted for the investment into UAB Laivų Bunkeris using the equity method. The carrying value of the investment was zero after the application of the equity method as of 31 December 2004 and 2003. The entity performed no operations in 2003-2004.

7. Other financial assets

On 24 January 2003 as part of a settlement for acquired shared AB Naftos Terminalas transferred to the Company its ownership of bonds to the Company. The total nominal value of the bonds is 202 tUSD (equivalent to 512 tLTL as of 31 December 2004). They were issued by the bank of foreign trade Vneshtorgbank (Russia). The repurchase of the bonds is to be made on 14 May 2007. The intention is to hold the bonds until the maturity date. The annual interest rate of the bonds is 3%.

8. Inventories

The balance of inventories mainly includes spare parts and surplus oil products amounting to 28,321 tLTL (18,780 tLTL in 2003). As at 31 December 2004 a reserve of 3,264 tLTL for slow moving inventories was recorded (5,447 tLTL as at 31 December 2003) and a provision of 23,001 tLTL (10,554 tLTL as at 31 December 2003) for surplus oil products. Further, a net realisable value adjustment for collected oil products in the amount of 79 tLTL was accounted for in 2004 (780 tLTL in 2003).

Due to the fact that the provision for surplus oil products was not included in the financial statements for 2003, the opening retained earnings for 2004 and the comparative figures in the financial statements for 2004 were restated. The balance of inventories for 2003 was decreased by an amount of 10,554 tLTL and other activity income was decreased by 8,088 tLTL. An amount of 2,466 tLTL related to periods prior to 2003 was adjusted directly in equity.

9. Trade accounts receivable

Trade accounts receivable can be specified as follows (in tLTL):

	2004	2003
Receivable for reloading of oil products	5,137	3,352
Other trade receivable	106	291
Total trade accounts receivable	5,243	3,643
Less: allowance for doubtful trade accounts receivable	0	0
Trade accounts receivable, net	5,243	3,643

10. Other current assets

Other current assets can be specified as follows (in tLTL):

	2004	2003
Prepaid taxes	4,434	4,998
Other accounts receivable	106	134
Deferred expenses	224	722
Prepayments	17	0
Total other current assets	4,781	5,854
Less: allowance for doubtful other current taxes	-100	-100
	4,681	5,754

Prepaid taxes include 3,873 tLTL of real estate tax (4,029 tLTL as at 31 December 2003), which represents the receivable amount of 4,402 tLTL, arising after recalculation of tax for the period 1999-2004, reduced by the balance of payable tax, amounting to 529 tLTL and the setoffs made. Recalculation was made after the mistake in declared values of the real estate has been detected. Correction was recorded retrospectively in accordance with IAS 8 (see statement of changes in equity).

Other accounts receivable include the cost of purchased right of the claim to the cash deposited in the liquidated former USSR bank Vnesekonombank, amounting to 95,266 tUSD (or equivalent 241,452 tLTL). Purchase price of the claim was 100 tLTL. It is considered that the receivable is doubtful, therefore, it is stated at cost less 100% allowance.

11. Cash and cash equivalents

Cash can be specified as follows (in tLTL):

	2004	2003
Cash in banks	1,488	5,149
Cash in hand	91	25
Time deposit	21,852	3,108
Total cash and cash equivalents	23,431	8,282

As of 31 December 2004 the Company had time deposits in the amount of 8,435 tLTL in AB Siauliu Bankas (5 separate deposit agreements) and of 13,417 tLTL in AB Vilniaus Bankas (4 separate deposit agreements). The annual interest rate is 2-3% and the maturity dates range in 30-90 days.

According to the syndicated loan agreement (Note 12) the Company has pledged cash in AB Vilniaus Bankas and future cash flows to the bank accounts. The cash in AB Vilniaus Bankas accounts amounts to 1,365 tLTL as at 31 December 2004 (4,859 tLTL as at 31 December 2003).

12. Interest bearing loans and lease liabilities

Lending institution	Ref	Principal amount (in Litas)	Interest rate effective at 31/12/04	Balance at 31/12/04	Balance at 31/12/03
Syndicated loan AB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva	a)	90,012	6 months EUR LIBOR+1.95%	20,000	39,997
Club loan AB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva	b)	37,570	6 months EUR LIBOR+1.1%	35,980	37,570
Ministry of Finance of Lithuania	c)	20,419	6 months EUR LIBOR+2.5%	20,419	20,419
UAB Hanza Lizingas	d)	44,424	LIBOR+3.5%	12,816	16,531
AB Vilniaus Bankas	e)	17,186	LIBOR+2.98%	0	12,761
UAB Vilniaus banko Lizingas		272	12%, 8.1%	0	31
Total long term loans and lease liabilities				89,215	127,309
Less: current portion				-12,239	-15,193
Total long term portion net of current maturities				76,976	112,116

a) The syndicated loan comprises loans received from AB Vilniaus Bankas (36,012 tLTL), AB Hansabankas (36,000 tLTL), AB Bankas Nord/LB Lietuva (18,000 tLTL). AB Vilniaus Bankas is performing as a general syndicator (the loan was converted to EUR from USD in August 2003 and amounted to 5,792 tEUR as at 31 December 2004). According to the last amendment the syndicated loan matures on 25 September 2009.

b) The Company repaid the loan from ABN Amro bank by acquiring a loan of 10,881 tEUR from three banks: AB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva. The loan is secured with a guarantee issued by the Ministry of Finance. The loan matures on 31 July 2009.

c) During 2002 the Ministry of Finance repaid loans to ABN AMRO Bank that were defaulted by the Company. According to the contract signed on 25 September 2002 the Company has to repay the amount of 6,763 tUSD (23,889 tLTL as at 31 December 2002) to the Ministry of Finance. The loan repayment starts on 28 February 2006 and has to be fully repaid until 31 May 2008. The loan is administrated by AB Turto Bankas on behalf of the Ministry of Finance. On 1 July 2003 the loan agreement was amended and the loan was converted to EUR from USD and amounted to 5,914 tEUR (equivalent of 20,419 tLTL) as at 31 December 2004. Interest rate was also changed to 6 months EUR LIBOR plus 2.5%.

d) On 20 December 2000 the Company sold its light oil products storage reservoirs to UAB Hanza Lizingas for an amount of 20,000 tLTL and operates the mentioned property, plant and equipment under a lease back arrangement, classified as long-term financial lease in these financial statements. Financial lease obligations should be repaid by 30 December 2007.

e) As at 31 December 2004 the company fully repaid the loan from AB Vilniaus Bankas, earlier than prescribed in the loan agreement, i.e., 31 January 2008. The Company has pledged property, plant and equipment for the loan granted according to the loan agreement.

All long-term loans are denominated in EUR, except for lease liabilities, which are denominated in Litas.

The loan granted by AB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva is guaranteed by the Government of Lithuania. Property, plant and equipment is pledged on behalf of the Ministry of Finance for the guarantee issued.

The syndicated loan and the loan from the Ministry of Finance are secured by the pledge of property, plant and equipment. For syndicated loan the company has also pledged cash in AB Vilniaus Bankas accounts, including future cash flows to those accounts. The balance of this cash amounted to 1,365 tLTL.

The future maturity of long-term loans is as follows:

Year	Amount to be repaid
2005	8,258
2006	16,278
2007	17,007
2008	19,251
2009	15,605
Total long-term loans	76,399

Minimum lease payments of long-term lease liabilities can be specified as follows:

Year	Amount to be repaid
2005	4,668
2006	4,695
2007	4,725
Total minimum lease liabilities	14,088
Less: interest	-1,272
Present value of minimum lease liabilities	12,816
Representing finance lease liabilities:	
Current	3,981
Non-current	8,835
Total	12,816

During 2005 the Company had to repay loans in the amount of 8,258 tLTL and lease liabilities in the amount of 3,981 tLTL (in total 12,239 tLTL). The current repayment obligations fall throughout the year.

13. Other current liabilities

Other current liabilities consist of the following:

	2004	2003
Income tax payable	2,071	0
Land rent payable	1,024	0
Accrued vacation pay	595	501
Advances received	36	70
Interest accrued	16	32
Real estate tax	0	1,093
Accrued railroad expenses	0	324
Other	67	112
Total current liabilities	3,809	2,132

14. Cost of sales

Cost of sales consists of the following:

	2004	2003
Depreciation and amortisation	45,442	48,988
Salaries	8,441	7,981
Social security	2,525	2,467
Heat and steam	4,310	6,710
Railroad expenses	2,807	2,839
Electricity	2,008	2,020
Repair and maintenance of non-current assets	1,567	763
Other	1,611	2,111
Total cost of sales	68,711	73,879

15. Operating expenses

Operating expenses consist of the following:

	2004	2003
Real estate tax	2,908	2,906
Land lease expenses	2,340	1,754
Salaries	2,037	1,716
Social security	560	717
Adjusted up to net realisable value/allowance for inventories/ impairment loss	1,090	149
Asset insurance	974	779
Road tax	512	563
Promotion	465	745
Expenses for infrastructure maintenance	278	1,400
Materials and supplies	115	1,034
Communication expenses	107	87
Fines and overdue interest	0	40
Expenses related to legal dispute resolution	0	512
Allowance for loans receivable	-3,583	0
Other	1,502	1,360
Total operating expenses	9,305	13,762

16. Other income

Other income includes oil products, which originated after the ballast water purification in the Company's waste water treatment facilities and the surplus identified in the Company's reservoirs and pipelines, in the amount of 12,447 tLTL in 2004 (8,166 tLTL as at 31 December 2003). This income is reduced by the provision amounting to 12,447 tLTL (8,088 tLTL as at 31 December 2003).

The mentioned products are accounted for under the inventories caption (Note 8).

17. Financial income (expenses) net

Financial income (expenses) consist of the following:

	2004	2003
Financial income		
Interest income	563	487
Foreign exchange gain	76	20,797
Other	7	828
	646	22,112
Financial expenses		
Interest expenses and loan administration fees	-4,493	-9,851
Fee for early repayment of loan	-24	-3,687
Foreign exchange loss	-124	-9,872
Other	-46	-181
	-4,687	-23,591
Total financial income (expenses), net	-4,041	-1,479

Foreign currency exchange gain and loss in 2003 mainly occurred due to revaluation of loan balances denominated in USD. As of 31 December 2004 all loans were translated in EUR.

18. Transactions with related parties

The related parties of the Company include associated company, shareholders, and members of the Board of Directors.

There were no significant transactions with related parties for the year 2004 and significant balances with related parties as at 31 December 2004.

Transactions with the members of Board

The Company had no transactions with the members of the Board in 2004 and 2003.

Dividends payable

As of 31 December 2004 and 2003 dividends payable amounted to 79 tLTL and 51 tLTL respectively.

19. Income tax (expenses)

Movements in deferred tax accounts of the Company during 2004 and 2003 can be specified as follows:

		2004	2003
Income tax expenses			
Net result before income tax according to IFRS		36,723	34,575
Changes in temporary differences		3,480	11,762
Permanent differences		964	3,138
Temporary differences recorded in equity		0	-4,079
Loss carryforward realised	a)	-26,887	-45,396
Taxable result for the period		14,280	0
Current income tax expense		2,142	0
Reimbursed income tax on dividends		-71	0
Reversal of prior year income tax		0	-450
Change in deferred income tax		4,365	5,668
Income tax expenses		6,436	5,218
Temporary differences resulting in deferred tax asset	b)		
Property, plant and equipment		2,135	2,538
Vacation pay accrual		89	75
Allowances and impairment		0	817
Low value inventories write-off		0	338
Allowance for inventory		490	726
Allowance for loans		74	612
Loss carryforward		0	3,260
Deferred tax asset before valuation allowance		2,788	8,366
Less: valuation allowance	c)	-74	-612
Deferred income tax asset, net		2,714	7,754
Temporary differences resulting in deferred tax liabilities	b)		
Property, plant and equipment		-15,800	-16,475
Total deferred tax liabilities		-15,800	-16,475
Deferred tax, net	d)	-13,086	-8,721

a) Tax loss carry forward has been fully utilised in 2004;

b) Deferred income tax assets and liabilities were estimated at 15% rate in 2004 and 2003;

c) As at 31 December 2004 and 2003 allowances were made for some deferred tax assets due to uncertainty in respect of their realisation in the future;

d) Deferred income tax asset and liability are netted off in the balance sheet of the Company as at 31 December 2004 and 2003, because deferred income tax liability will be realised simultaneously with the deferred tax asset and they are both related to the same tax authority.

Notes without references

20. Commitments and contingencies

Agreement with AB Mažeikių Nafta

The Company concluded an agreement with AB Mažeikių Nafta, which is valid till 31 December 2009. The agreement sets a conditional price of 14.40 Litas per ton for reloading services. The fee can be adjusted annually by the lower of five percent or the inflation rate. If AB Mažeikių Nafta fails to provide the Company with the minimum volume of oil products stated in the agreement, an adjusted tariff rate is applicable.

The Company is also obliged to co-operate with AB Mažeikių Nafta, if AB Mažeikių Nafta decides to build a pipeline for oil products transporting to the Company's location. The Company is obliged to connect the pipeline, if constructed, to the Company's system of pipelines.

Arrangement with Klaipėda Municipality

The Company has committed itself to acquire municipality-owned sports hall in the port territory, and to compensate Klaipėda Municipality costs of replacement of this hall to another one in another location. Commitment is limited to, but is not less than, the amount of 2,500 tLTL. Privatisation of the mentioned sports hall shall take place in May 2005, and it will be carried by making public offer.

Legal dispute

State enterprise Klaipėdos State Seaport Authority has filed a court case against the Company in the amount of 585 tLTL claiming for increased payments for land rent fee. According to the claim from Klaipėdos State Seaport Authority the allowed increase in vessels' draught at the embankment rented by the Company was executed, and therefore, the increased land rent fee was billed instead of the fee defined in the agreement between the parties, dated 8 November 1998 with all its amendments.
The Company's management believes that the case will be resolved in the favour of the Company. As of 31 December 2004 the outcome of the case was uncertain. The company has recorded the accrual amounting to 585 tLTL in the financial statements for 2004 regarding this dispute.

Third party inventories held

As of 31 December 2004 the Company was storing 101,390 tons of oil products on behalf of its customers (215,319 tons as of 31 December 2003), which had a value of approximately 79,119 tLTL (110 million Litas as of 31 December 2003). The Company has insurance coverage for these products.

21. Basic earnings per share

Basic earnings per share reflect the Company's net income, divided by the weighted average number of shares. Calculation of the basic earnings per share is presented below:

	2004	2003
Net income, attributable to the shareholders (in tLTL)	18,302	21,269
Number of shares outstanding (in thousand items)	342,000	340,276
Basic earnings per share (Litas)	0.05	0.06

22. Personnel expenses and number of employees

	2004	2003
Salaries and wages (including social insurance)	13,111	12,754
Premiums and bonuses	1,003	127
	14,114	12,881
Number of employees at the end of the year	311	314

Personnel costs, amounting to 551 tLTL, are included in the balance of construction in progress.

23. Correction of errors

Part of surplus oil products, amounting to 4,059 tLTL, by mistake was not included in the inventories item as at 31 December 2003.

Furthermore, a mistake in calculation of real estate tax for 1999-2004 has been detected, after correction of which the expenses of real estate tax for the mentioned period decreased by the amount of 4,402 tLTL.

The financial statements for 2003 have been adjusted to correct these errors. Where necessary, opening retained earnings of 2003 have been also restated. The effect of the adjustments of the mentioned financial statements is summarised below:

	Effect on 2004	Effect on 2003	Effect prior to 2003
Increase in other income	0	4,059	0
Decrease in operating expenses	373	1,467	2,562
Increase in profit	373	5,526	2,562
Increase in inventory	4,059	4,059	0
Increase in other current assets	4,402	4,029	2,562
Increase in equity	8,461	8,088	2,562