AB Klaipėdos Nafta

Annual accounts for the year ended 31 December 2006

Contents

Company details

AB Klaipėdos Nafta

Telephone:	+370 46 391 700
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Registration No.:	BĮ 94-479
Company code:	1106 48893
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 Baltics UAB

Banks

AB SEB Vilniaus Bankas
AB Bankas Hansabankas
AB Šiaulių Bankas
AB Sampo Bankas

Financial highlights

LTL'000	2006	2005	2004
Key figures			
Turnover	**71,336**	**84,956**	**106,416**
Gross margin	30,315	31,310	37,705
Operating profit	17,872	17,186	28,779
Profit before income tax	15,820	14,563	24,738
Result for the year	**12,807**	**10,071**	**18,302**
Non-current assets	441,819	449,553	457,513
Current assets	16,013	25,648	38,689
Total assets	**457,832**	**475,201**	**496,202**
Share capital	342,000	342,000	342,000
Capital and reserves	**397,134**	**392,409**	**387,163**
Non-current liabilities	43,541	56,986	90,062
Current liabilities	17,157	25,806	18,977
Total liabilities	**60,698**	**82,792**	**109,039**
Total equity and liabilities	**457,832**	**475,201**	**496,202**
Net cash flow from operating activities	28,686	48,422	71,544
Net cash flow from investing activities	-9,693	-22,218	-4,022
Net cash flow from financing	-25,850	-37,968	-52,373
Total cash flow	**-6,857**	**-11,764**	**15,149**
Average number of employees	**303**	**306**	**313**

Financial ratios

Net profit ratio	18.0%	11.9%	17.2%
Return on investment	3.9%	3.6%	5.8%
Gross margin	42.5%	36.9%	35.4%
Current ratio	93.3%	99.4%	203.9%
Equity ratio	654.3%	474.0%	355.1%
Return on equity	3.2%	2.6%	4.8%

Financial highlights

Calculation of financial ratios

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

Management's statement on the annual financial statements

The Management has today discussed and authorized the annual financial statements.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the annual financial statements thus give a true and fair view.

Klaipėda, 8 March 2007

Jurgis Aušra
General Director

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Independent auditors' report to the shareholders of AB Klaipėdos Nafta

Report on the financial statements

We have audited the accompanying financial statements of AB Klaipėdos Nafta (the "Company"), which comprise the balance sheet as at 31 December 2006, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out in pages 12 to 34.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion we draw attention to the following matters of note:

- As presented in the Note 16 to the financial statements, the Company is a party to a tax dispute with the Tax Authorities concerning the calculation of tax on real estate for the years 2000-2004. A significant uncertainty exists as to the outcome of the dispute which may have a significant effect on the valuation of the real estate tax of 5,315 tLTL recognised under other receivables in the balance sheet.
- As presented in the Note 16 to the financial statements, on 1 March 2006 the Company received a claim amounting to approximately 5,137 tLTL regarding an alleged violation of contractual obligations with Riverlake Energy (S) PTE LTD. Currently, the claim is under investigation at the Klaipėda regional court. A significant uncertainty exists as to the possible outcome of the case and the related losses which might be incurred by the Company. No provisions have been recognised in these financial statements.

Report on legal and other regulatory requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2006 set out on pages 35-40 of the Annual Accounts and have not identified any material inconsistencies between the financial information included in the Annual Report and the financial statements for the year ended 31 December 2006

Klaipėda, 8 March 2007
KPMG Baltics, UAB

Leif René Hansen
Danish State Authorised
Public Accountant

Rokas Kasperavičius
Lithuanian
Certified Auditor

Income statement

for the year ended 31 December 2006

	Note	2006	2005
		LTL'000	LTL'000
Revenue		71,336	84,956
Cost of sales	3	-41,021	-53,646
Gross profit		**30,315**	**31,310**
Operating expenses	4	-13,257	-14,342
Other income		814	218
Operating income		**17,872**	**17,186**
Finance income		297	717
Net finance costs		-2,349	-3,340
Financial items, net	5	**-2,052**	**-2,623**
Income before income tax		**15,820**	**14,563**
Income tax (expenses)	6	-3,013	-4,492
Profit for the year		**12,807**	**10,071**
Basic earnings per share (Litas)	20	0.04	0.03

The notes, set out on pages 12-34, form an integral part of these financial statements.

Balance sheet

as at 31 December 2006

	Note	31/12/2006	31/12/2005
		LTL'000	LTL'000
ASSETS			
Non-current assets			
Intangible assets		148	165
Property, plant and equipment	7	438,879	422,700
Construction in progress	7	2,526	26,100
Held to maturity investments	8	266	588
Total non-current assets		441,819	449,553
Current assets			
Loans granted	9	0	1,231
Inventories	10	1,277	2,249
Trade accounts receivable	11	3,656	3,803
Other current assets	12	6,270	6,698
Cash and cash equivalents	13	4,810	11,667
Total current assets		16,013	25,648
TOTAL ASSETS		457,832	475,201

The notes, set out on pages 12-34, form an integral part of these financial statements.

Balance sheet

	Note	2006	2005
		LTL'000	LTL'000
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		342,000	342,000
Legal reserve		13,140	12,140
Other reserves		29,187	28,198
Retained earnings		12,807	10,071
Total shareholders' equity		397,134	392,409
Non-current liabilities			
Interest bearing loans and lease liabilities	14	31,211	44,036
Deferred tax liability	6	12,330	12,950
Total non-current liabilities		43,541	56,986
Current liabilities			
Current portion of interest bearing loans and lease liabilities	14	12,825	15,379
Accounts payable to related parties		60	73
Accounts payable to contractors and suppliers		1,652	3,803
Current tax liability		0	3,327
Salaries and social security payable		1,570	1,499
Other current liabilities	15	1,050	1,725
Total current liabilities		17,157	25,806
Total liabilities		60,698	82,792
TOTAL EQUITY AND LIABILITIES		457,832	475,201
Commitments and contingencies	16		

The notes, set out on pages 12-34, form an integral part of these financial statements.

Statement of changes in equity

LTL'000	Share capital	Legal reserve	Other reserves	Retained earnings	Total
At 31 December 2004	**342,000**	**11,220**	**21,880**	**12,063**	**387,163**
Dividends for 2004				-4,825	-4,825
Transfer to legal reserves		920	6,318	-7,238	0
Result for the year				10,071	10,071
At 31 December 2005	**342,000**	**12,140**	**28,198**	**10,071**	**392,409**
Dividends for 2005				-8,082	-8,082
Reallocation of reserves			-10,133	10,133	0
Transfer to legal reserves		1,000	11,122	-12,122	0
Result for the year				12,807	12,807
At 31 December 2006	**342,000**	**13,140**	**29,187**	**12,807**	**397,134**

The notes, set out on pages 12-34, form an integral part of these financial statements.

Statement of cash flows

LTL'000	2006	2005
Cash flows from operating activities		
Result for the period after taxation	12,807	10,071
Adjustments for		
Depreciation and amortisation	18,351	34,366
Interest (income) expense, net	2,157	2,623
Impairment of inventories	-112	28
Allowance for accounts receivable	120	0
Loss on fixed assets disposal	307	634
Other non-monetary items	0	-1,197
Income tax expenses	3,013	4,492
	36,643	51,017
Changes in current assets and liabilities:		
Change in accounts receivable	872	-577
Change in inventories	1,084	-272
Change in other current liabilities	-2,768	993
Total changes in working capital	-812	144
Interest received	232	633
Income tax paid	-7,377	-3,372
Net cash from ordinary activities	28,686	48,422
Cash flows from investing activities		
Acquisition of fixed assets	-11,334	-24,344
Proceeds from sale of property, plant and equipment	88	0
Repayment of loans granted	1,231	2,126
Proceeds from investments held to maturity	322	0
Net cash from investing activities	-9,693	-22,218
Cash flow from financing activity		
Interest paid	2,389	-3,337
Dividends paid	-8,082	-4,831
Loans repaid	-11,114	-25,819
Financial lease payments	-4,265	-3,981
Net cash used for financing activities	-25,850	-37,968
Net increase (decrease) in cash and cash equivalents	**-6,857**	**-11,764**
Cash and cash equivalents at 1 January	**11,667**	**23,431**
Cash and cash equivalents at 31 December	**4,810**	**11,667**

The notes, set out on pages 12-34, form an integral part of these financial statements.

Notes to the financial statements

1. Background information

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.

As of 31 December 2006 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 2006 and 2005 was as follows:

	2006		2005	
	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	241,544	70.6
Hansabank Clients	26,420	7.7	7,075	2.1
Skandinavska Enskilda Banken Clients	11,234	3.3	18,776	5.5
Other (less than 5% each)	62,802	18.4	74,605	21.8
	342,000	100.0	342,000	100.0

The company provides services of storage and transshipment of oil and oil products to Lithuanian and foreign customers. In 2006 income from oil transshipment amounted to 69,718 tLTL in 2005 (83,015 tLTL in 2005).

During 2006 the Company transshipped 5,509 thousand tons of oil products (5,844 thousand tons in 2005). The maximum capacity is 7,100 thousand tons.

The major customer is a Lithuanian oil refinery, AB Mažeikių Nafta. Sales to this company amounted to 49,775 tLTL or 71% of the total oil transshipment sales in 2006 (65,247 tLTL or 79% in 2005). The quantity of oil of AB Mažeikių Nafta, transshipped in 2006, amounted to 4,185 thousand tons (4,830 thousand tons in 2005).

The Company owns 34% of UAB Laivų Bunkeris share capital. The company does not operate and had not submitted its financial statements since 2003. The Company does not have any liabilities in relation to UAB Laivų Bunkeris. The carrying amount of the investment, which is booked at acquisition cost less impairment losses, amounts to 0 LTL as at 31 December 2006.

Notes to the financial statements

2. Significant accounting policies

Statement of compliance

Shares of the Company are quoted in the current lists at Vilnius Stock Exchange and Baltic Stock Exchange.

The financial statements 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 interpretations approved by the IFRIC, effective as of 31 December 2006 that have been adopted by the European Union.

Basis of the measurement

The financial statements are prepared on the historical cost basis except for:

- derivative financial instruments, which are stated at their fair value;
- investments held to maturity, loans and finance lease liabilities, which are accounted for at amortized cost.

Functional and presentation currency

These financial statements are presented in Litas (LTL), which is the Company's functional currency. Except as indicated, the financial information presented in Litas has been rounded to the nearest thousand.

Changes in Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on a going concern basis.

Foreign currency transactions

Transactions in foreign currencies are translated to Litas at the official exchange rate of the Bank of Lithuania prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than LTL are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Litas at the rates established by the Bank of Lithuania at the balance sheet date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Litas in the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Notes to the financial statements

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Litas at the rates established by the Bank of Lithuania at the date the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

The official exchange rates of the main currencies, used for the revaluation of balance sheet items as at the year-end were as follows (LTL units to currency unit):

	31 December 2006	31 December 2005
EUR	3,4528	3,4528
USD	2,6304	2,9102

Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability

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.

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 known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Notes to the financial statements

Intangible assets

Intangible assets acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use. The estimate useful life of software is 3-10 years.

Property, plant and equipment

Property, plant and equipment are 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 capitalizes the improvement costs of property, plant and equipment and acquisitions with a not less acquisition cost of 2,000 LTL and a useful life of more than 1 year. Presented below are useful lives of the Company's property, plant and equipment:

Buildings and structures	7-70 years
Machinery and equipment	3-40 years
Other tangible non-current assets	3-20 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.

Depreciation methods, useful lifetimes and residual values are reviewed when preparing the financial statements.

Notes to the financial statements

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. Cost of sold or consumed inventories is recorded in the profit and loss account based on the FIFO principle.

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 such indication exists or when it is required to test for impairment, the Company calculates the recoverable amount of the assets. The recoverable amount is the greater of the net selling price and the value in use. The recoverable amount is estimated for individual assets, except for cases when the asset does not generate any cash flows not is dependent on other assets or asset groups. When the carrying amount of an asset exceeds its recoverable amount, the value of the asset is impaired and is decreased to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the income statement under those costs items which are related to the activity of the impaired asset.

At each balance sheet date the Company estimates whether there is any indication that the previously recognised impairment no longer exists or is decreased. If such indication exists, a recoverable amount is estimated. Impairment losses recognised in prior years are reversed only upon the change of estimates which were used for determination of the recoverable amount, compared to the last recognition of the impairment. In this case the carrying amount of the asset is increased up to its recoverable amount. The increased value cannot exceed the recoverable amount after estimation of depreciation, which would have been if no impairment had been previously recognised. Such a reversal is recognised in the income statement unless the asset is accounted for at a revalued value and the reversal, in this case, would be recognised as an increase of revaluation. Subsequent to such reversal the depreciation rate (if such applied) is adjusted so that in the future the difference between the reversed carrying amount and the residual value would be distributed over the remaining useful lifetime of the asset.

Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. After the initial recognition the lease asset is recognised an amount equal to the lower of its fair value and the present value of the minimum lease payments. Assets acquired by way of finance lease are accounted for as to accounting principles applicable of such assets.

Other lease is operating lease and, except for the investment property, assets leased under operating lease is not recognised in the Company's financial statements. Investment property under operating lease is accounted for at fair value in the Company's balance sheet.

Notes to the financial statements

When preparing the financial statements for 2005 the Company applied IFRIC 4 "Determination of lease elements in a transaction", which is obligatory for accounting periods as of 1 January 2006.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, 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 are required until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed to the shareholders and can be used only to increase share capital.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

Current income tax expense is the expected tax payable on taxable income for the year using tax rates enacted substantively at the reporting date in Lithuania and any adjustments to tax payable in respect of previous years.

In Lithuania in 2005 the standard income tax rate was 15%. As of 1 January 2006 the Law on Temporary Social Tax was introduced in Lithuania, prescribing an additional 4% tax payable together with the income tax for a period of 1 year, which is calculated based on the income tax regulations. As of 1 January 2007 the social tax will be 3%. After 2007 the corporate income tax will be standard - 15%.

Notes to the financial statements

Deferred taxes are calculated using the balance sheet method, providing for 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 substantively enacted at the balance sheet date.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the temporary differences 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 requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. 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.

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the company by the weighted number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Segment reporting

The Company operates in one business and geographical segment.

Notes to the financial statements

International Financial Reporting Standards, interpretations and amendments to published standards that are not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006 and have not been applied in preparing the financial statements.

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.

- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has not yet completed its analysis of the impact of the new Standard.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). The adoption of IFRIC 10 is not expected to have any impact on the consolidated financial statements.

Notes to the financial statements

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Company's operations. as the Company has not entered into any share-based payments arrangements.

- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Company's operations.

Notes to the financial statements

3. Cost of sales

Cost of sales comprises the following (thousand Litas):

	2006	2005
Depreciation and amortisation	18,214	34,017
Salaries and social security	12,719	10,921
Heating and steam	4,727	3,359
Electricity	2,175	1,905
Railway services	1,217	1,240
Repair and maintenance of non-current assets	901	933
Other	1,068	1,271
Total cost of sales	41,021	53,646

4. Operating expenses

Operating expenses comprise the following (thousand Litas):

	2006	2005
Salaries, bonuses and social security	4,131	4,036
Rent of land and quays	2,426	2,945
Tax on real estate	3,118	2,908
Insurance of assets	1,002	947
Depreciation and amortisation	521	327
Change in impairment of receivables	120	-14
Change in impairment of inventories	-112	-150
Other	2,051	3,343
Total operating costs	13,257	14,342

Notes to the financial statements

5. Finance income and expenses

Financial income and expenses include the following (thousand Litas):

	2006	2005
Finance income		
Interest income	247	617
Gain from foreign exchange		81
Other	50	19
	297	717
Finance expenses		
Interest and loan administration costs	-2,289	-3,326
Loss from foreign exchange	-59	
Other	-1	-14
	-2,349	-3,340
Net finance expenses	-2,052	-2,623

6. Income tax

The income tax calculation during 2006 can be specified as follows:

	2006	2005
Income tax expense		
Profit before taxation	15,820	14,563
Changes in temporary differences	4,133	5,205
Permanent differences	420	7,078
Taxable result for the period	19,533	26,846
Current income tax (15%)	2,930	4,027
Temporary social tax (4%)	781	0
Setoff with income tax on dividends	-15	-11
Reversal of income tax of previous year	-63	612
Change in deferred tax	-620	-136
Income tax expense	**3,013**	**4,492**

Notes to the financial statements

6. Income tax (continued)

		2006	2005
Temporary differences resulting in deferred tax asset	a)		
Property, plant and equipment		1,310	1,380
Vacation pay accrual		170	110
Allowance for inventory		450	467
Allowance for receivable		90	72
Deferred tax asset before valuation allowance		2,020	2,029
Less: adjustment of realisable value	b)	-90	-72
Deferred income tax asset, net		1,930	1,957
Temporary differences resulting in deferred tax liabilities	a)		
Property, plant and equipment		-14,260	-14,907
Total deferred tax liabilities		-14,260	-14,907
Deferred tax, net	c)	12,330	-12,950

a) The deferred tax asset and liability were evaluated applying 15-19% tax rate in 2005 and 15-18% rate in 2006; a different tax rate was applied taking into account the expected period for realization of temporary differences. Influence of changes in the income tax rate on deferred tax amounted to 400 tLTL (deferred tax liability decreased by this amount).

b) An impairment was calculated on certain deferred tax asset due to uncertainty of its realization;

c) The deferred tax asset and liability are set off in the Company's balance sheets for 2006 and 2005, because the deferred tax asset and liability will be realized at the same time and both are related to the same tax authorities.

Movements of deferred tax liability during the year are as follows:

Thousand Litas	2006	2005
Net deferred tax liability at 1 January	12,950	13,086
Change in deferred tax booked in the profit and loss account	-620	-136
Change in deferred tax booked in statement of changes in equity	0	0
Net deferred tax liability at 31 December	12,330	12,950

Notes to the financial statements

7. Property, plant and equipment

Movements of the Company's property, plant and equipment during 2006 can be specified as follows (in thousand Litas):

	Buildings and structures	Machinery and equipment	Construction in progress	Total
Cost at 1 January 2006	385,551	304,039	26,100	715,690
Additions during the period	0	354	10,763	11,117
Prepayments	0	45	119	164
Retirements	0	-629	-197	-826
Transfers	21,261	12,998	-34,259	0
Cost at 31 December 2006	406,812	316,807	2,526	726,145
Depreciation and impairment at 1 January 2006	107,506	159,384	0	266,890
Depreciation for the period	9,895	8,394	0	18,289
Depreciation of disposals	0	-439	0	-439
Depreciation and impairment at 31 December 2006	117,401	167,339	0	284,740
Carrying amount at 31 December 2006	289,411	149,468	2,526	441,405
Carrying amount as of 31 December 2005	278,045	144,655	26,100	448,800

For the loans received the Company has provided a pledge of property, plant and equipment for the amount of 97,385 tLTL as of 31 December 2006 (95,866 tLTL at 31/12/2005). Loans granted by the banks are also secured by guarantees issued by the Ministry of Finance of Lithuania. The mentioned guarantees are secured by pledging assets to the Ministry of Finance by the value of 81,582 tLTL as at 31 December 2006.

The Company has acquired 6 reservoirs under finance lease agreements. The book value of these assets amounted to 30,505 tLTL as at 31 December 2006 (31,411 tLTL as at 31 December 2005). These assets secure the financial lease obligation, which amounted to 4,569 tLTL as at 31 December 2006 (8,834 tLTL as at 31 December 2005).

The depreciation charge for 2006 amounts to 18,289 tLTL (34,226 tLTL for 2005). Depreciation expenses amounted to 18,214 tLTL and are included in the cost of sales caption, the remaining amount - in the operating expenses caption of the income statement.

In 2005 the management performed an evaluation of useful lifetime of non-current assets based on which longer depreciation periods were applied as of 1 September 2005. Due to the change in accounting estimate, depreciation costs decreased by approximately 60%. Effect of the mentioned accounting estimate on the financial statements is as follows:

	LTL'000
Effect on depreciation costs for 2005	-9,105
Effect on depreciation costs for the year	-27,314

Notes to the financial statements

Due to the mentioned changed in the accounting estimate the operating profit for 2005 before tax increased by approximately 9,105 tLTL, profit for 2006 before tax increased by approximately 27,314 tLTL. As to the management, the new depreciation rates present more fairly the actual useful lifetime of specific assets.

Construction in progress

At the end of 2006 the major part of construction in progress (1,996 tLTL) comprised the change of oil loading standers. It is planned to finish the project in the beginning of 2007.

8. Held to maturity investments

On 24 January 2003 as part of a settlement for acquired shared AB Naftos Terminalas transferred to the Company its ownership of bonds. The total nominal value of the bonds is 101 tUSD (equivalent to 266 tLTL as at 31 December 2006). Bonds were issued by the bank of foreign trade Vneshtorgbank (Russia). On 14 November 2006 Vneshtorgbank repurchased 50 % of the bonds. A full 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%.

9. Loans granted

Loans comprise:

	Maturity	31 12 2006	31 12 2005
AB Klaipėdos Mediena	2006 03 23	0	1,231
UAB Žavesys	2021 03 30	379	382
		379	1,613
Impairment allowance		-379	-382
Total loans granted		0	1,231

Notes to the financial statements

10. Inventories

In tLTL	2006	2005
Spare parts, construction materials and other inventory	3,931	4,078
Oil products	348	1,285
	4,279	5,363
Impairment	-3,002	-3,114
Fair value of inventories	1,277	2,249

Impairment is mainly recorded on construction materials and spare parts which were not used during reconstruction.

Oil products comprise oil products collected in cleaning equipment (182 tLTL) as well as diesel fuel in the boiler and fire station. During 2006 the Company sold 3,100 tons of oil products collected in cleaning equipment at an amount of 1,810 tLTL.

The Company accounts for and stores in reservoirs more than 37 thousand tons of oil products which formed due to technological processes during reloading. Such oil products are not recognised in the Company's financial statements.

Inventories of third parties

As at 31 December 2006 the Company stored 217,874 tons of oil products ready for reloading, which belonged to clients (144,370 tons as at 31 December 2005), by the value of 173 million LTL (137 million LTL - 31 December 2005). The Company has insured these oil products as well as civil liability by 10,000 tLTL for each event.

11. Trade accounts receivable

Trade accounts receivable are as follows (in tLTL):

	2006	2005
Receivable for reloading of oil products	3,717	3,758
Other trade receivable	62	45
Total trade accounts receivable	3,779	3,803
Allowance for doubtful trade accounts receivable	-123	0
Trade accounts receivable, net	3,656	3,803

Notes to the financial statements

12. Other current assets

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

	2005	2004
Excess of taxes paid	5,939	6,426
Other accounts receivable	172	112
Deferred expenses	215	224
Prepayments	44	36
Total other current assets	6,370	6,798
Allowance for doubtful other current assets	-100	-100
	6,270	6,698

Tax receivable represents excess of tax paid of 4,615 tLTL of real estate tax (4,615 tLTL in 2005) and an excess of income tax of natural persons amounting to 700 tLTL (700 tLTL in 2005) that arose after recalculation of tax on real estate for the period 2000-2004. The recalculation was made after the mistake in declared values of the real estate had been detected. Description of the tax dispute in relation to the mentioned is presented in note 16.

13. Cash and cash equivalents

Cash can be specified as follows (in tLTL):

	2006	2005
Cash in banks	2,062	3,527
Cash in hand	194	414
Time deposit	2,554	7,726
Total cash and cash equivalents	4,810	11,667

As of 31 December 2006 the Company had time deposits at the amount of 2,554 tLTL in AB Šiaulių Bankas (2 separate deposit agreements). The annual interest rate is 3% and the maturity dates range from 32 to 33 days.

According to the syndicated loan agreement (Note 14) the Company has pledged cash and future inflows in AB SEB Vilniaus Bankas, the value of which was 2,021 tLTL as at 31 December 2006 (3,481 tLTL as at 31 December 2005).

Notes to the financial statements

14. Interest bearing loans and lease liabilities

Lending institution	Ref	Principal amount (in Litas)	Interest rate	Balance at 31/12/06	Balance at 31/12/05
Syndicated loan AB SEB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva	a)	90,012	6 months EUR LIBOR+1.95%	6,666	13,332
Club loan AB SEB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva	b)	37,570	6 months EUR LIBOR+1.1%	32,800	34,390
Ministry of Finance of Lithuania	c)	20,419	6 months EUR LIBOR+2.5%	0	2,762
UAB Hanza Lizingas	d)	44,424	LIBOR+3.5%	4,570	8,835
Accrued interest for club loan				0	96
Total long term loans and lease liabilities				44,036	59,415
Less: current portion				-12,825	-15,379
Total long term portion net of current maturities				31,211	44,036

a) The syndicated loan comprises loans received from AB SEB Vilniaus Bankas (36,012 tLTL), AB Hansabankas (36,000 tLTL), AB Bankas Nord/LB Lietuva (18,000 tLTL). The loan will be repaid during 2007.

b) The Company repaid the loan from ABN Amro bank by acquiring a loan of 10,881 tEUR from three banks: AB SEB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB Lietuva. The not paid part amounted to 9,500 tEUR as at 31 December 2006. The loan is secured with a guarantee issued by the Ministry of Finance. The loan matures on 31 July 2009.

c) The early repayment of the loan from Ministry of Finance, amounting to 5,114 tEUR (17,658 tLTL) was made in 2005. The loan was fully repaid in February 2006.

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.

Notes to the financial statements

14. Interest bearing loans and lease liabilities (continued)

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

The loan granted by AB SEB Vilniaus Bankas, AB Hansabankas and AB Bankas Nord/LB is guaranteed by the Government of Lithuania. Property, plant and equipment are pledged on behalf of the Ministry of Finance for the guarantee issued (refer to note 7).

The syndicated loan and the loan from the Ministry of Finance are secured by the pledge of property, plant and equipment (note 7). For syndicated loan the company has also pledged cash in AB SEB Vilniaus Bankas accounts, including future cash flows to those accounts.

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

Year	Amount to be repaid
2007	8,255
2008	15,605
2009	15,606
Total long-term loans	39,466

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

Year	Amount to be repaid
2007	4,753
Total minimum lease liabilities	4,753
Less: interest	-183
Present value of minimum lease liabilities	4,570

During 2007 the Company will have to repay loans in the amount of 8,255 tLTL and lease liabilities in the amount of 4,570 tLTL (in total 12,825 tLTL). The current repayment obligations fall throughout the year.

15. Other current liabilities

Other current liabilities consist of the following (in tLTL):

	2006	2005
Real estate tax	420	727
Land rent payable	587	586
Advances received	36	89
Other	7	323
Total current liabilities	1,050	1,725

Notes to the financial statements

16. Off-balance sheet commitments and contingencies

Claims

On 1 March 2006 the Company received a claim through the Klaipeda regional court, in which the plaintiff Riverlake (S) PTE LTD raised a demand to cover alleged losses of approximately 5,137 tLTL and alleged unfulfilled contractual obligations. Currently the claim is under investigation at the Klaipeda regional court. Management of the Company is of the opinion that the claim is unreasonable as the Company is a provider of loading services only and does not have any ownership right to the cargo identified in the dispute.

Tax dispute

Other receivables include a receivable from the State regarding real estate tax amounting to 4,615 tLTL and a receivable regarding income tax of natural persons amounting to 700 tLTL. In 2004 the company recalculated the tax on real estate and submitted adjusted real estate tax declarations on 1 December 2004.

During the years 2005-2006 the tax administrator performed two reviews of the calculation of the real estate tax in the company for the period from 1 January 2000 to 31 December 2004. The tax administrator did not acknowledge the re-calculation of the tax and requires payment of the tax of 5,383 tLTL for 2000-2004 as well as a penalty amounting to 538 tLTL. The Company submitted a complaint to the Central tax administrator, later to the Commission of Tax Disputes under the Ministry of Finance of the Republic of Lithuania. The Commission took a resolution to change the decision of the Tax authorities under the Ministry of Finance and asked the Tax authorities of Klaipėda to perform a repeated review and take a decision. In 2006 the Tax authorities performed a repeated review and confirmed the additional tax on real estate amounting to 3,999 tLTL and a penalty of 399 tLTL. The Company appealed to the Central Tax Administrator and expects a favourable decision in 2007.

17. Transactions with related parties

The related parties of the Company are an associated company, the management, shareholders and board members, Government of the Republic of Lithuania.

Amounts paid to the management for services rendered during the year amounted to 1,086 tLTL (795 tLTL in 2005), including bonuses and other payments amounting to 449 tLTL (214 tLTL in 2005).

The Government has a significant influence in the Company. For the related party disclosure purposes, the state institutions, except for municipalities, are considered as related parties.

Notes to the financial statements

Transactions with State institutions

Tax expense	2006	2005
Income tax	2,915	3,953
Tax on real estate	2,601	2,908
Other operating taxes	146	372
Social security tax	3,974	3,456
Total	9,636	10,689

Excess of tax paid	2006	2005
Income tax prepayment	142	0
Prepayment of tax on real estate (note 16)	4,615	4,615
Other	450	531
Total	5,207	5,146

Taxes payable	2006	2005
Income tax	0	3,327
Tax on real estate	420	727
Other operating taxes	130	11
Social security tax	571	514
Total	1,121	4,579

Deferred taxes	2006	2005
Deferred tax liability	12,330	12,950

State guarantees

The State has issued guarantees in respect of the Company's loans, the value of which amounts to 32,800 tLTL as at 31 December 2006 (34,390 tLTL in 2005). Description of the loans is presented in note 14.

Transactions with Board members

The Company did not enter into any transactions with the Board members in 2005 and 2006.

Notes to the financial statements

Payable dividends

As at 31 December 2006 and 2005 dividends payable comprise 60 tLTL and 73 tLTL respectively.

18. Basic earnings per share

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

	2006	2005
Net income, attributable to the shareholders (in tLTL)	12,807	10,071
Number of shares outstanding (in thousand items)	342,000	342,000
Basic earnings per share (Litas)	0.04	0.03

Diluted earnings per share are the same as basic earnings per share.

19. Personnel expenses and number of employees

	2006	2005
Salaries and wages	9,912	9,230
Premiums and bonuses	3,665	2,647
	13,577	11,877
Number of employees at the end of the year	303	308

Salary costs, amounting to 9,833 tLTL, are included in the cost of sales. Salary costs, amounting to 3,359 tLTL are included in operating costs. Salary costs, amounting to 385 tLTL are capitalized in non-current assets.

Social security costs on salaries amounted to 4,186 tLTL.

Notes without reference

20. Financial risk management

The company operates in international markets, therefore is exposed to credit, foreign exchanges and liquidity risks.

Credit risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures. The Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

Foreign exchange risk

The Company's policy is to match cash flows arising from highly probable future sales and purchases and other expenditures in each foreign currency.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents.

Market risk

The Company undertakes market risks arising due to changes in interest rates, currency exchange and other general and specific changes in the market. The Company manages this risk periodically by estimating eventual losses which may arise due to unfavourable changes in market conditions.

21. Fair value of financial instruments

Fair value of financial instruments is defined in accordance to IAS 39 "Financial instruments - Disclosure and Presentation". Fair value is an amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidated sale. As sales of financial assets of the Company is not developed, it is necessary to use assumptions for determination of fair value, which are based on the present economical conditions and risks specific to each class of financial instrument.

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

Cash. This is cash the nominal value of which is similar to fair value.

Amounts and loans receivable. Fair value of amounts and loans receivable is similar to their book value.

Investments held to maturity. As at 31 December 2006 and 2005 the fair value of these investments was similar to their book value.

Notes to the financial statements

Balance at banks and other credit institutions and liabilities to credit institutions. The fair value of asset and liabilities to banks and other credit institutions, the term of which is shorter than 1 year, is similar to their book value. Amortised cost of the asset and liabilities the term of which is longer, is similar to their fair value.

The management is of the opinion that as at 31 December 2006 the interest rate risk in relation to financial assets and liabilities was minimal as fluctuation of the book values from relevant fair values was not material.

Annual report of AB Klaipėdos Nafta for 2006

1. Accounting period in respect of which the annual report was prepared

The Annual Report is prepared for the year 2006; all figures are presented as at 31 December 2006, if not indicated otherwise. In this Annual Report AB Klaipėdos Nafta may also be referred to as the Company, Terminal or Issuer.

2. Details about Issuer

Commercial name of Issuer:	AB Klaipėdos Nafta
Legal name of Issuer:	AB Klaipėdos Nafta
Authorised capital:	342,000,000 LTL
Date and place of registration:	27 September 1994, State enterprise Register Centre
Company code:	1106 48893
Registration No.:	009920
Date of establishment	27 September 1994
Activity period:	Not limited
Address:	Burių g. 19, A. d. 81, LT-91003 Klaipėda-C
Legal status:	Stock company
Legislation under which the Issuer operates:	Legislation of the Republic of Lithuania
Issuer's register	State enterprise Register Centre
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail addresses:	info@oil.lt
Internet site:	www.oil.lt

3. Nature of the Issuer's primary activity

The Company's primary activity are reloading of oil products and other related services.

The Company transfuses oil and oil products (fuel oil, vacuum gazol, diesel, gasoline, jet fuel, etc.) from the railway tanks into tankers, transfuses oil and oil products from tankers into railway tanks, provides a temporary storing of oil products and oil, determines qualitative parameters of oil products, adds chemical supplements, accepts the water polluted with oil products from ships, supplies ships with water, moors incoming tankers.

The Company has customs- and excise warehouses allowing the clients to perform sales/purchase procedures of oil products..

In 2006 the Company reloaded **5 506,7 thousand tons** of oil products:

		Thousand tons
1. Fuel oil	-	2 437,5
2. Gasolines	-	1 185,9
3. Diesel	-	966,4
4. Vaccum gazol	-	438,0
5. Jet fuel	-	417,0
6. Orimulsion	-	59,9
7. Gas condensate	-	2,0

The Company's major client is AB Mažeikių Nafta. During 2006 AB Mažeikių Nafta reloaded 4 182,2 thousand tons of oil products (76 % of the total loading of oil products).

4. Agreements with the Securities Public Turnover brokers

The Company has an agreement with SEB Vilniaus Bankas Financial Markets department for servicing public turnover of the securities.

5. An objective overview of the Company's financial position, performance and development, description of the main risks and uncertainties incurred by the Company

Today the Company is one of the most modern terminals in Europe. Since 2001 experts of the well-known company British Petroleum, trading oil products, each year gives positive evaluations of the civil security of works performed in the terminal, environmental security and fire prevention.

In 2006 the Company consistently and successfully continued its activities. The Company operates profitably since 2002, repays loans for the terminal's reconstruction in due time and continues to modernize the terminal.

The Company's efficiency is reflected by an increasing gross margin - 42,5 % (in 2005 – 36,9 %) and an increasing return in equity - 3,2 % (in 2005 - 2,6 %).

A decreasing debt-equity ratio, which is 0,18 (in 2005. – 0,24, in 2004 – 0,32) shows that the risk related to the Company's ability to cover interest and debt liabilities is decreasing.

Such factor as growing competitiveness among the similar terminals in the ports of Estonia, Latvia and Russia, which also, like AB Klaipėdos Nafta, are expanding their possibilities and increasing their efficiency, may be attributed to the main risks and uncertainties incurred by the Company. The most significant factors influencing the competitiveness of oil terminals in the Baltics are as follows: port characteristics, loading and storing capacity of a terminal, financial position of companies allowing to apply a flexible price policy, technical logistics chains, favourable geographical position and product supply contracts.

Aiming to attract new clients, the Company applies a balanced rate policy for loading oil products.

The company is operating in the international markets, thus is exposed to foreign exchange and liquidity risks. The risk of counter-parties default, are controlled by application of credit terms and monitoring procedures. The Company applies procedures ensuring that services are provided only to reliable clients.

The Company follows the policy of managing cash flows from expected future income with acquisitions and other costs in relevant foreign currencies.

The Company's policy is to maintain sufficient cash and cash equivalents.

6. Analysis of financial and non financial results

The financial results for 2006 show a successful performance of the Company. According to audited data in 2006 the Company earned a net profit of 12,807 million LTL, which is by 27% more than in 2005 (10,071 million LTL).

The main audited items of the balance sheet and profit and loss account are presented below.

Balance sheets of the Company (thousand LTL)

	2006	2005
Key figures		
Turnover	**71,336**	**84,956**
Gross profit	30,315	31,310
Operating result	18,389	17,186
Result before taxation	15,820	14,563
Net profit	**12,807**	**10,071**
Non-current assets	441,819	449,553
Current assets	16,013	25,648
Total assets	**457,832**	**475,201**
Share capital	342,000	342,000
Capital and reserves	**397,134**	**392,409**
Non-current liabilities	43,541	56,986
Current liabilities	17,157	25,806
Total liabilities	**60,698**	**82,792**
Total equity and liabilities	**457,832**	**475,201**

Profitability ratios:

Profitability ratios	2006	2005
Net profit	18,0 %	11,9%
Return on investment	3,9 %	3.6 %
Gross margin	42,5%	36,9 %
Return on equity	3,2%	2,6%

7. References and additional notes regarding data presented in the financial statements

All financial data presented in this annual report are calculated in accordance with International Financial Reporting Standards (IFRS) and are audited, if not indicated otherwise.

8. Information on purchased and disposed own shares

During the accounting period the Company did not acquire any own shares.

9. Significant events after the year end

During January – February 2007 the Company reloaded 1,034 thousand tons of oil products and earned 14,939 thousand LTL of sales income resulting in an increase of sales by 43 % or 4,506 thousand LTL for the mentioned period.

10. Information on the Company's activity plans, development and forecasts

In 2007 the Company is planning to increase the loading volume of oil products by 5%. It is expected that loading of dark oil products will increase until the major client AB Mažeikių Nafta recovers the flow of light oil products. Due to this reason, the Company expects a growth of the operating-financial activity costs.

In order to attract additional flows of oil products and to fulfil the EU requirements for equipment of similar terminals, in 2007 the Company is planning to invest 9 million LTL of own funds for modernization of the terminal's reservoirs.

Key financial ratios of the Company's operating-financial activity for 2007:

	Planned for 2007
Annual loading of oil products, million tons	5,8
Volume of sales and services, million LTL	75,9
Operating-financial costs, million LTL	67,2
Profit before taxation, million LTL	8,8
Investments, million LTL	9,0

11. Shareholders

In 2006 the shareholders structure did not change: 70.6% shares are owned by the State, represented by the Ministry of Economy of Lithuania, 29.4 % - minority. The Company's authorized capital amounts to 342,000,000 LTL, comprising 342,000,000 ordinary shares at par value of 1 LTL.

12. Employees

The salary payment procedure to the Company's general director, functional directors and the chief accountant is approved on an annual basis by the Board, which defines coefficients of monthly salaries and a procedure of extra payment.

	2006	2005
Average number of employees	303	306
Including:		
Administration staff	29	29
Production staff	274	280

In 2006 there were 5 small accidents: 4 – on a way to work, 1 – at work.

The Company pays great attention to improvement of qualifications of employees, performs certification of those who work with potentially dangerous equipment and perform dangerous work. The Company organises training courses on a regular basis, helping the specialists to obtain practical skills in case of terror act, fire at the storage of light oil products, effusion of oil products in the Company's quays and port territory.

13. Information on adherence to Code of Company Management

The Company's supervising body is the Council.

Members of the Council: Dominikas Pečiulis (Chairman), Vanda Krenienė, Vytautas Aršauskas.

The Company's executive bodies: the Board and the Management (General Director).

The Board members: Vladas Gagilas (Chairman), Saulius Spėčius, Robertas Tamošiūnas, Algimantas Slapšinskas, Arūnas Keraminas.

During 2006 the Board convened 12 meetings, at which the Board members discussed and took decisions on the following issues: increase and assurance of loading of oil products, policy of loading rates, financial results and other important issues.

The Company is managed by the General Director Jurgis Aušra, the Company's Chief Accountant is Johana Bučienė.

The Company's activities are based on the management structure, which was approved at the meeting, dated 22 September 2004 (minutes No. J3–8). Certain activity areas are headed by the Commerce Director, Chief Accountant, Production Director, and Technical Director, who directly report to the General Director.

14. Details on public information

Shares of AB Klaipėdos Nafta are quoted in the current list of the National Stock Exchange.

All material events related to the Company's activity and the information on time and place of general shareholders meetings and other information to the shareholders and other persons are announced in the daily "Respublika" and submitted to the news agency "BNS" in accordance with the Lithuanian Legislation.

Chairman of the Board Vladas Gagilas