KLAIPĖDOS NAFTA
AKCINĖ BENDROVĖ

To: THE SECURITIES COMMISSION
OF THE REPUBLIC OF LITHUANIA

2008-04-04

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Jurgis Aušra, Director General of SC Klaipėdos Nafta, and Johana Bučienė, Chief Financier of SC Klaipėdos Nafta, hereby confirm that to the best of our knowledge, the attached annual financial statements of SC Klaipėdos Nafta for the year 2007, prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted to be used in European Union, give a true and fair view of the assets, liabilities, financial position and profit (loss) of SC Klaipėdos Nafta.

Director General Jurgis Aušra

Chief Financier Johana Bučienė

Burių g. 19
A.d. 81
LT-91003 Klaipėda-C

Telefonas: + 370 46 391772
Faksas: +370 46 311399

El. paštas: info@oil.lt
www.oil.lt

A/s LT90 7044 0600 0076 4196
AB Vilniaus banko Klaipėdos filialas
Banko kodas 70440

PVM mokėjimo kodas
LT106488917
Įmonės kodas 110648893

Įregistruota valstybinės įmonės registro centre

Translation from Lithuanian into English

SC KLAIPĖDOS NAFTA

ANNUAL REPORT 2007

KLAIPĖDA

September, 2008

KLAIPĖDOS NAFTA
AKCINĖ BENDROVĖ

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Jurgis Aušra, Director General of SC Klaipėdos Nafta, and Johana Bučienė, Chief Financier of SC Klaipėdos Nafta, hereby confirm that to the best of our knowledge, the Annual Report of SC Klaipėdos Nafta for the year 2007 gives a true and fair description of the business development and activities of the Company.

Director General LIETUVOS RESPUBLIKA AKCINĖ BENDROVĖ "KLAIPĖDOS NAFTA" Jurgis Aušra

Chief Financier Johana Bučienė

Burių g. 19
A.d. 81
91003 Klaipėda

Telefonas: + 370 46 391772
Faksas: +370 46 311399

El. paštas: info@oil.lt
www.oil.lt

A/s LT90 7044 0600 0076 4196
AB SEB bankas
Banko kodas 70440

PVM mokėjimo kodas
LT106488917
Įmonės kodas 110648893

Įregistruota valstybinės įmonės registro centre

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

The Annual Report is prepared for the year 2007. All figures are presented as at 31 December 2007, if not indicated otherwise. In this Annual Report SC Klaipėdos Nafta may also be referred to as the Company or Issuer. The Annual Report has been supplemented according to letter No. 06-1219-(11.03-02) dated August 13, 2008 of the Lithuanian Securities Commission.

2. Details about the Company

Name of the Issuer:	SC Klaipėdos Nafta
Legal status:	Stock company
Authorised capital:	LTL 342 000 000
Date and place of registration:	27 September 1994, State Enterprise Register Centre
Company code:	1106 48893
Address:	Burių g. 19, 91003 Klaipėda
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

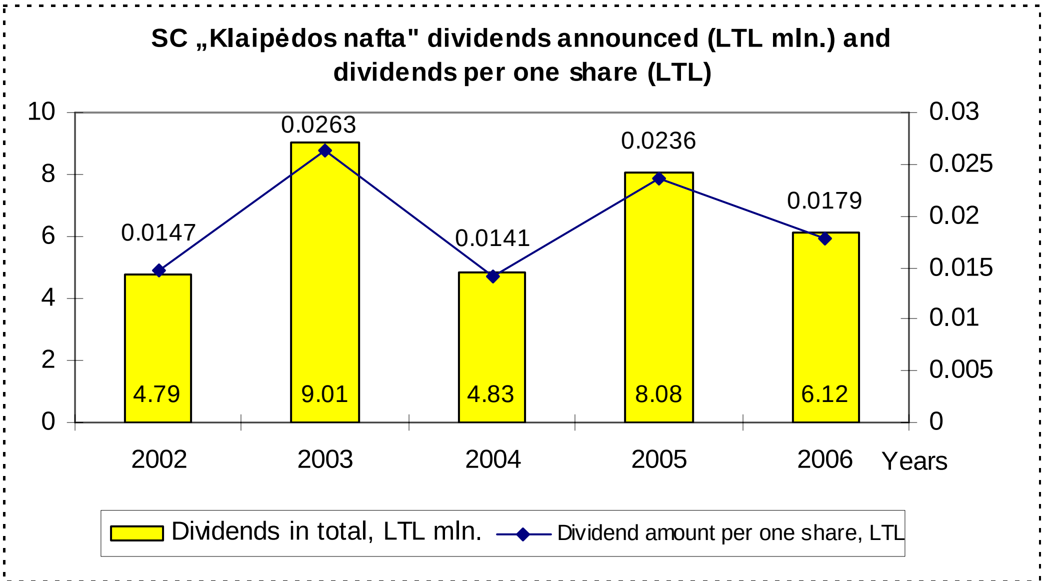
3. Information about Agreements with the Securities Public Turnover brokers

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

4. Activity of the Company

4.1. Significant events of the accounting period

The General Shareholders' Meeting, held on 19 April 2007, approved financial statements for the year 2006 and profit appropriation for 2006 business financial year. Dividends in the amount of LTL 6,123 million were paid to the shareholders for the year 2006.



The Company has met the targeted figures for 2007: received LTL 78,7 million earnings from sales – services and earned pre-tax profit of LTL 11,2 million. The Company repaid loans in the amount of LTL 12, 8 million according to the loan repayment schedules.

4.2. The core activity of the Company

The Company’s core activity are reloading of oil products and other related services. The Company transships crude oil and oil products (fuel oil, vacuum gasoil, diesel, gasoline, jet fuel, etc.) from railway tanks into tankers, transships crude oil and oil products from tankers into railway tanks, provides a temporary storage (accumulation) of oil products, determines qualitative parameters of oil products, injects chemical additives, accepts 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.

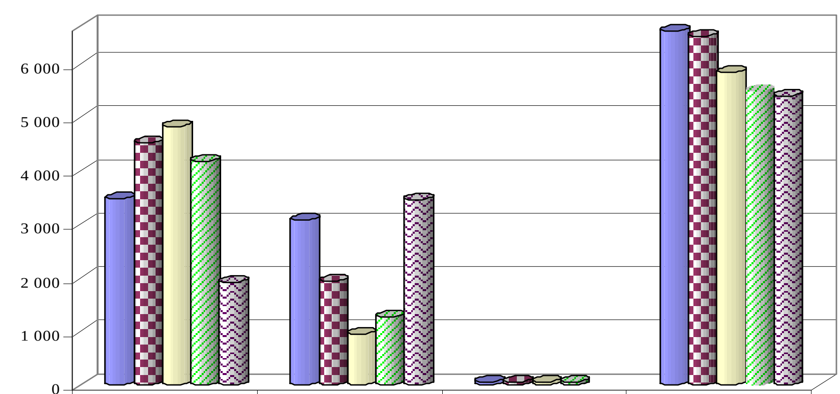
In 2007 the Company transshipped **5 402,5 thousand tons** of oil products:

		Thousand tons
1. Fuel oil	-	3 658,1
2. Gasolines	-	428,7
3. Diesel	-	437,5
4. Vacuum gasoil	-	841,9
5. Jet fuel	-	36,3

During the year 2007 the transshipment of oil products was less by 1,9 %, if compared to the transshipment of 2006 (5 509 thousand tons). The reason of this reduction is the reduced flow of oil products from SC Mažeikių Nafta because of the accident that occurred at this Refinery at the end of 2006. During 2007 SC Mažeikių Nafta transshipped 1 932,7 thousand tons, i.e. 54 % less than in 2006 (4 185 thousand tons). In 2007 the transshipment from SC Mažeikių Nafta made only 36 % of the total transshipped volume of oil products.

The Company compensated the reduced flow of oil products from SC Mažeikių Nafta by attracting additional flows of oil products from Russian and Byelorussian Oil Refineries. Long-term agreements regarding delivery of oil products of Russian origin were concluded in order to ensure constant flow of cargoes. In 2007 oil products transshipped from Russian and Byelorussian Oil Refineries amounted to 3 469,8 thousand tons, i.e. three times more than in 2006 (1 264 thousand tons).

Transshipment of oil products (thous. tons) during 2003-2007



Years	From SC „Mažeikių nafta" (export)	From Russian and Byelorussian refineries (transit)	Orimulsion (import)	In total
2003	3 477	3 081	60	6 618
2004	4 523	1 942	63	6 528
2005	4 830	953	61	5 844
2006	4 185	1 264	60	5 509
2007	1 933	3 470		5 403

4.3. The objective state of the Company, an overview of its performance

During 2007 the Company from its main operating activities received LTL 78,664 million earnings, i.e. 10 % or LTL 7,328 million more if compared to the turnover of 2006 (LTL 71,336 million) as well as due to the optimal management of operating expenses so as not to exceed the approved amount of the expenses of operating – financial activities earned pre-tax profit of LTL 11,167 million, by 27 % or LTL 2,367 million exceeding the targeted pre-tax profit (LTL 8,8 million) approved for the year 2007.

During 2007 the Company repaid loans in the amount of LTL 12 825 thousand and paid interests of LTL 2 023 thousand according to the loan repayment schedules. During the reporting period the Company did not incur any new financial liabilities.

As of 31 December 2007 non-repaid portion of the loan amounted to LTL 31 211 thousand. According to the provisions of the Loan Agreement the amount of LTL 15 606 thousand shall be paid in 2008 and the rest portion of the loan - LTL 15 605 thousand shall be repaid during the year 2009. The fulfilment of the loan liabilities is secured by the guarantee of the Government of the Republic of Lithuania.

4.4. Environment protection

In 2007 the Company performed its activities without any incidents and delays. The Company performs constant environmental monitoring of:

- underground water (in 2007 no increase of soil and ground water pollution was observed);
- discharged waste water (Biological treatment facilities of the Company guarantee five times less pollution of open water basins than has been determined in the Integrated Permit of Pollution Prevention and Control);
- impact on ambient air (Limits of volatile organic compounds and nitrogen oxides defined in the Hygien Norm of 2007 outside the boundaries of the sanitary zone of the Company were not exceeded);
- stationary sources of air pollution (the amount of pollutants defined in the Environment Protection Permit for 2007 was not exceeded in 72 registered, i.e. ventilators, stacks, etc., and in 9 non-registered sources of pollution, i.e. railway estacades, pump-stations, jetties, etc.).

In 2007 the Company spent LTL 3,6 million of its own funds on measures decreasing environmental pollution: performed commissioning of combustion unit used to burn volatile organic compounds emitted out of tankers loading gasoline; repainted eight storage tanks of light oil products using heat reflecting paint; installed the second sealing ring on gasoline storage tanks; installed automatic control system of the product level in storage tanks and discharge of rain water, etc.

4.5. Description of the main risks incurred by the Company

Such factor as growing competitiveness among the similar terminals in the ports of Estonia, Latvia and Russia, which also, like SC 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, favourable geographical position and product supply contracts.

Favourable ambient conditions also influence transshipment of oil products. At the beginning of 2007 the Company could not accept tankers because of very heavy weather conditions (storms). Besides, to due to fuel oil overflow at the terminals of Western countries a queue of tankers waiting for discharge at Roterdam had formed. This chain reaction reached and terminals of neighbouring countries – Latvia, Estonia (the tankers could not arrive in the targeted time to ship oil products out of the Company). Due the mentioned reasons, because of the lack of empty storage tanks the Company could not discharge rail tank-cars in due time, therefore the expenses of the Company increased for buying services of “Lithuanian Railways”.

4.6. Analysis of the results of the performance

The financial results for 2007 show a successful performance of the Company. According to audited data in 2007 the Company earned a net profit of LTL 8,739 million (LTL 12,807 million in 2006).

The main audited financial results of the Company (LTL mln.)

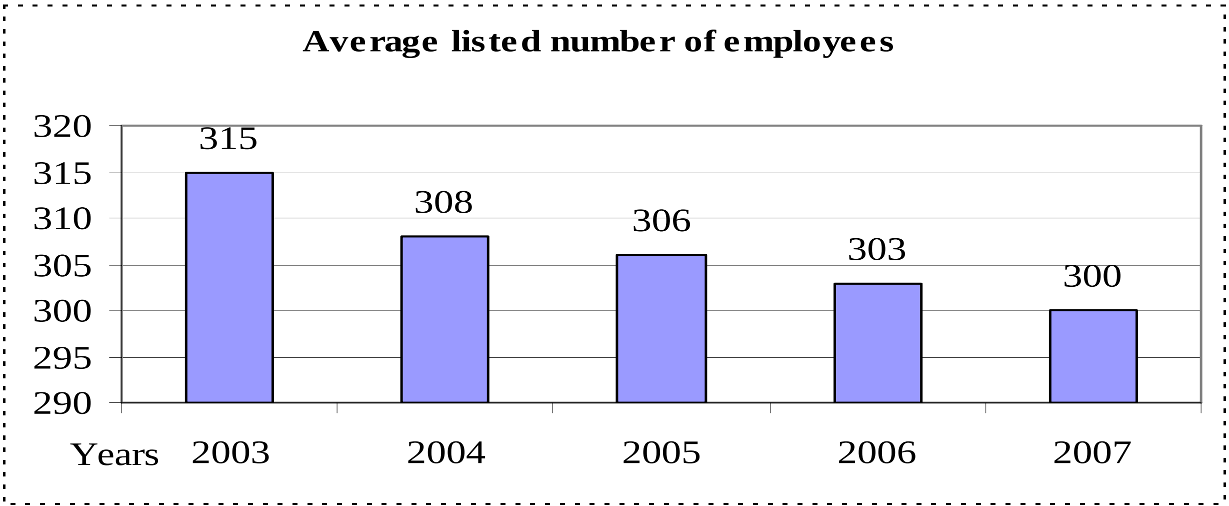
Key figures	2007	2006
Turnover	**78,664**	**71,336**
Gross profit	24,802	30,315
Operating result	12,696	17,058
Result before taxation	11,167	15,820
Net profit	**8,739**	**12,807**
Non-current assets	427,709	441,819
Current assets	18,662	16,013
Total assets	**446,371**	**457,832**
Share capital	342,000	342,000

Under the conditions of growing competitiveness among the similar oil terminals and price increase of energy resources and other services the Company operated effectively. This is evidenced by profitability ratios of 2007: net profit / turnover - 11,1% (18,0 % - in 2006); gross margin (gross profit / turnover) 31,5 % (42,5% - in 2006).

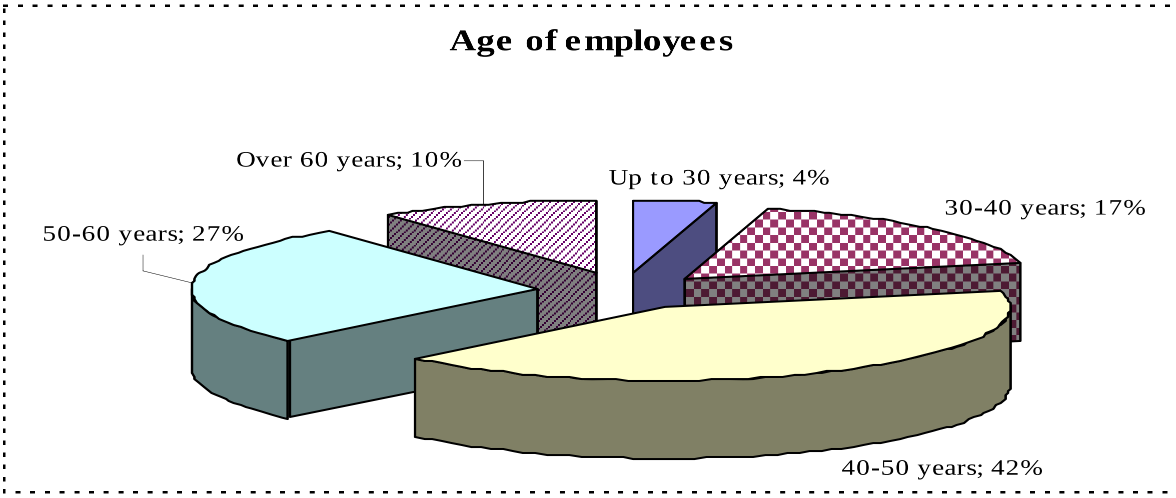
The decreasing debt – ownership coefficient (all liabilities / authorised capital) 0,14 (0,18 in the year 2006) shows that the risk related to the Company's ability to cover interest and debt liabilities is decreasing.

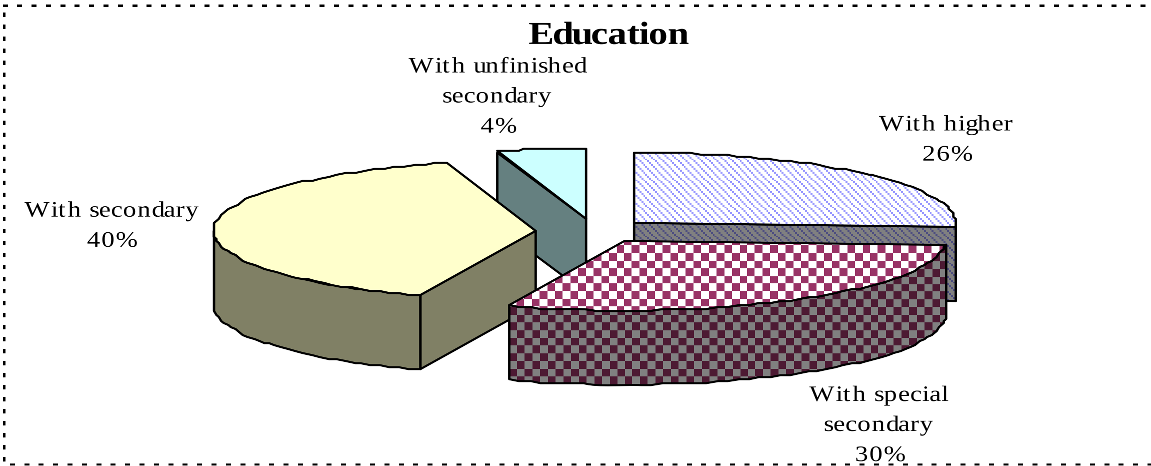
4.7. Employees

During the year 2007 the average listed number of employees – 300 employees if compared to 303 in 2006 - reduced by 1 %.



Number of employees as on 31 December 2007: 301 (28 administration staff and 273 production staff). 31 % of women and 69 % of men worked at the Company on December 31 2007 as in the year 2006. There was no change in the average age of employees (46-47 years) as well as in the education acquired.





Salaries of respective personnel groups of SC Klaipėdos Nafta:

Personnel group	Average listed number			Average salary in LTL		
	Year 2005	**Year 2006**	**Year 2007**	**Year 2005**	**Year 2006**	**Year 2007**
Managers	5	5	5	12483	17461	19858
Specialists and employees	88	87	87	3961	4585	4987
Workers	213	211	208	2311	2750	3065
In total:	306	303	300	2795	3275	3643

In 2007 there were 2 small accidents: 1 – on a way to work, 1 – at work.

The Company constantly 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 organizes training courses on a regular basis, helping the specialists to obtain practical skills in case of a fire, a spillage of oil products at the Terminal's jetties and on the port territory. Personnel of other companies performing contractual works on the Terminal's territory receive instructions regarding labour safety, fire-fighting requirements set at the Oil Terminal (378 persons received such instructions during 2007).

The Collective Agreement signed on 20 June, 2006 was valid in the Company in the year 2007. The Employer and the workers' collective have agreed regarding work, work payment, working and rest time, qualification improvement, safety and health protection, other social and economic conditions.

4.8. Information on purchased and disposed own shares

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

4.9. Information about Company's branches and representative offices.

The Company has no branches or representative offices.

4.10. Significant events after the year end

During January – February 2008 the Company transshipped 1 416,4 thousand tons of oil products and earned LTL 20,3 thousand of sales income resulting in an increase of sales by 32 % if compared to the mentioned period of 2007.

According to the Loan repayment schedule in January 2008 the Company repaid a portion of the loan in the amount of LTL 7, 803 million.

4.11. Activity plans and forecasts of the Company

In 2008 the Company is planning to increase the annual transshipment of oil products by 8% (up to 5,85 million tons per year). It is expected that one of the major clients SC Mažeikių Nafta will recover delivery of light oil products. Volume of sales and services in the amount of LTL 79,86 million and profit before taxation in the amount of LTL 8,8 million have been approved for the year 2008.

During 2008 the loans in the amount of LTL 15,6 million shall be repaid according to the Loan repayment schedules.

In order to attract additional flows of oil products and to increase the security of Oil Terminal, in 2008 the Company is planning to invest LTL 5,0 million of its own funds for modernization of the Terminal's storage tanks and equipment.

4.12. Financial assets, risk management of the Company

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 and always maintain sufficient cash and their equivalents.

A detailed information regarding the Company's assets and liabilities and risk management is presented in Note 20 of "The Company's financial statements for the year 2007, prepared in accordance with International Accounting Standards adopted for use in EU together with the Conclusion of Independent Auditor".

5. Other information about the Issuer

5.1. Procedure of changing Articles of Association

The Company in its activities follows Articles of Association, Civil Code and other laws, post-law acts. The General Shareholders' Meeting shall change the Articles of Association.

5.2. The structure of the Issuer's authorized capital

The Company's authorized capital registered on 31 December 2007 amounts to LTL 342 000 000. The authorized capital is divided into 342 000 000 ordinary shares with a par value of LTL 1.

The structure of SC Klaipėdos Nafta’s authorized capital according to the type of shares:

Type of shares	Number of shares unit	Par value in LTL	Total par value in LTL	(%) in the authorized capital
Ordinary shares	342 000 000	1	342 000 000	100

All the shares of SC Klaipėdos Nafta have been fully paid.

All the shares issued by the Company are ordinary registered shares granting its owners (shareholders) equal rights.

An ordinary registered share of the Company shall grant the following property rights to its owner (shareholder):

1. to receive a part of the Company’s profit (dividend);
2. to receive funds of the Company in the event the Authorized Capital of the Company is being reduced in order to pay funds of the Company to the shareholders;
3. to receive a part of the assets of the Company in liquidation;
4. to receive shares free of charge if the Authorized Capital is increased out of the funds of the Company (except in the cases specified by the imperative norms of the valid laws);
5. to have the preferential right in acquiring shares or convertible debentures issued by the Company except in cases when the General Shareholders’ Meeting by a qualified majority of votes that shall not be less than 3/4 of the participating and voting shares for solution of this matter, resolves to withdraw the preferential right in acquiring the Company’s newly issued shares or convertible debentures for all the shareholders;
6. to lend to the Company in the manner prescribed by law, however, when borrowing from its shareholders the Company has no right to pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the Lender has his place of residence or business, which was in effect on the day of conclusion the Loan Agreement. In such a case the Company and its shareholders shall be prohibited from negotiating a higher interest rate;
7. other property rights established by the laws.

An ordinary registered share of the Company shall grant the following non-property rights to its owner (shareholder):

1. to attend the General Shareholders’ Meetings and to vote according to voting rights carried by their shares (unless otherwise provided for by the laws);
2. to receive information on the Company to the extent allowed by the imperative norms of the valid laws;
3. to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the Manager of the Company and Board members of their obligations prescribed by the laws and the Articles of Association of the Company as well as in other cases laid down by laws.
4. the right to vote at General Shareholders’ Meetings may be withdrawn or restricted in cases established by laws, also in case share ownership is contested;
5. other non-property rights established by the laws and these Articles of Association.

5.3. Restrictions regarding transfer of securities

None

5.4. Shareholders

The shareholders who have owned more than 5 % of the authorized capital of the Company as on 31 December 2008:

Shareholder’s name (Company’s name, address, Company Register Code)	Number of shares (pcs.) owned by proprietary right	Part (%) of authorized capital
State of LR, represented by Ministry of Economy, Gedimino pr.38/2, Vilnius, 188621919	241 544 426	70, 63
AS HANSAPANK, Liivalaia 8, Tallinn, 10060701	24 331 098	7, 11

SC Klaipedos Nafta is a strategic enterprise according to the Law on the Enterprises having strategic importance for the national security of the Republic of Lithuania. More than ½ of the Company’s shares carrying the right to vote shall belong to the State in these (strategic) enterprises.

At the end of the year (on 31 December 2007) the total number of the Shareholders of SC Klaipedos Nafta was 1 227. 22,26 % of the shares (76 124 476) belong to 1 225 minority shareholders. Among them Director General of the Company Jurgis Aušra has 111 100 shares, Chief Financier Johana Bučienė – 20 000 shares of the Company.

Shareholders of the Company as on 31 December 2007 and 2006:

Shareholders	31 December 2007		31 December 2006	
	Number of shares owned (thousands)	Part of ownership	Number of shares owned (thousands)	Part of ownership
State of LR, represented by Ministry of Economy	241 544	70,63 %	241 544	70,63 %
Legal persons of Lithuania	8 186	2,39 %	2 647	0,77 %
Natural persons of Lithuania	43 085	12,60 %	47 649	13,94 %
Legal persons from abroad	46 848	13,70 %	47 480	13,88 %
Natural persons from abroad	2 337	0,68 %	2 680	0,78 %
In total:	342 000	100,00 %	342 000	100,00 %

5.5. Shareholders with special control rights and description of their rights

None.

5.6. Full restrictions of voting rights.

None.

5.7. All the mutual agreements of the shareholders the Issuer is aware of and in respect of which the transfer of securities and/or voting rights can be restricted

None.

5.8. Company’s Management

The Supervisory Board is the Company’s collegial supervising body which elects members of the Board, supervise activities of the Board and the Chief Executive Officer, makes decisions on other issues regarding Company’s activities prescribed to the competence of the Supervisory Board. On 19 April 2007 the General Shareholders’ Meeting of SC Klaipėdos Nafta elected the following members of the Supervisory Board for a four year term of office:

DOMINIKAS PEČIULIS – Chairman of the Supervisory Board. Deputy Manager of State property privatization and management section of Enterprise economy and management Department of the Ministry of Economy. He owns no shares of the Company. He does not participate in the management and capital of any other enterprise.

VYTAUTAS ARŠAUSKAS – a member of the Supervisory Board. A senior specialist of Oil section of Energy resources Department of the Ministry of Economy. He is also Chairman of the

Supervisory Board of AB “Suskystintos dujos” and a member of the Supervisory Board of AB “Mažeikių nafta”. He does not participate in the capital of any other enterprise.

VANDA KRENIENĖ - a member of the Supervisory Board. A senior specialist of Analysis and forecast section of Economy Strategy Department of the Ministry of Economy. She does not participate in the management and capital of any other enterprise.

During the year of 2007 the Company’s Supervisory Board did not receive any loans, guarantees, no any other payments or property transfers were made or accrued.

The Management Bodies of the Company: the Board and the Chief Executive Officer - Director General. The Board of the Company is responsible for the adequate strategic management of the Company. The Company’s Board adopts the main strategic decisions influencing increase of the Shareholders’ ownership. The Board members:

VLADAS GAGILAS – Chairman of the Board. Director of Energy resources Department of the Ministry of Economy. A member of the Board of AB “Lietuvos dujos”. He does not own any shares of the Company. He was elected the Chairman of the Board for a four year term of office (the years 2007 – 2010) on 19 April 2007.

SAULIUS SPĖČIUS – a member of the Board. Adviser to the Prime Minister on the issues related to state investments, a member of privatization commission. He does not own any shares of the Company. A member of the Supervisory Boards of AB “Lietuvos energija” and AB “Rytų skirstomieji tinklai”. He was elected a member of the Board for a four year term of office (the years 2007 – 2010) on 19 April 2007.

ROBERTAS TAMOŠIŪNAS – a member of the Board. Manager of Oil section of Energy resources Department of the Ministry of Economy. He does not own any shares of the Company. He does not participate in the management and capital of any other enterprise. He was elected a member of the Board for a four year term of office (the years 2007 – 2010) on 19 April 2007.

ALGIMANTAS SLAPŠINSKAS – a member of the Board. Chief specialist of Analysis and forecast section of Economy Strategy Department of the Ministry of Economy. He does not own any shares of the Company. He does not participate in the management and capital of any other enterprise. He was elected a member of the Board for a four year term of office (the years 2007 – 2010) on 19 April 2007.

LAURENTINA GARBAUSKIENĖ - a member of the Board. Chief specialist of State property privatization section of Enterprise law and privatization Department of the Ministry of Economy. She does not own any shares of the Company. She does not participate in the management of any other enterprise. She was elected a member of the Board for a four year term of office (the years 2007 – 2010) on 19 April 2007.

During 2007 the Board convened 12 meetings, at which the Board members discussed and took decisions regarding increase and assurance of transshipment of oil products, policy of transshipment rates, operating - financial results and other important issues to the Company.

During the year of 2007 the Company’s Board did not receive any loans, guarantees, no any other payments or property transfers were made or accrued.

The Company is managed by Director General. Director General is not a member of the Board.

JURGIS AUŠRA – Director General, appointed on February 11 2002. Higher education. He graduated from Kaunas Politechnical Institute and acquired speciality of power engineer. On December 31 2007 he owned 111 100 shares of the Company. He does not participate in the management of any other enterprise. He owns shares of AB “Klaipėdos mediena”, comprising less than 1 % of authorized capital of the said company.

JOHANA BUČIENĖ - the Chief Financier. Higher education. She graduated from Lithuanian Academy of Agriculture, She has been working as the Chief Financier of SC Klaipedos Nafta since 1994. On December 31 2007 she owned 20 000 shares of the Company. She also owns ordinary registered shares of AB “Dilikas”, comprising less than 1 % of authorized capital of the said company.

During the year of 2007 the total salary (including bonuses and other payments) calculated to the Managers of the Company amounted to LTL 1 223,6 thousand (during 2006–LTL 1 086 thousand). During the year of 2007 the Company’s Managers did not receive any loans, guarantees, no property transfers were made or accrued.

No agreements of the Company and its managing bodies or employees were concluded regarding compensation in case of their resignation or their dismissal without essential reason or their job termination due to the change in the control of the Company.

5.9. Transactions with related Parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. Information regarding transactions with related Parties is presented in Note 22 of “The Company’s financial statements for the year 2007, prepared in accordance with International Accounting Standards adopted for use in EU together with the Conclusion of Independent Auditor”.

6. Information on adherence to the Governance Code

The Company discloses its adherence to the Governance Code and its specific provisions approved by Vilnius Stock Exchange for the companies listed on the regulated market in Appendix 1 to the Annual Report.

7. Details on public information

Securities of SC Klaipėdos Nafta are quoted in the lists of the National Stock Exchange. At present there are 342 000 000 ordinary shares, the par value of each being LTL 1, on the Current List of Vilnius Stock Exchange.

All material events related to the Company’s activity and the information on time and venue of General Shareholders’ Meetings and other information are announced in the daily “Respublika” and submitted to the news agency “BNS”, Vilnius Stock Exchange and the Lithuanian Securities Commission in accordance with the Lithuanian Legislation.

During the year 2007 the Company announced 25 official reports about material events and other important information on the website of Vilnius Stock Exchange.

I, Eugenijus Vilūnas, a translator of SC Klaipėdos Nafta, verify an exact translation of the foregoing document into the English language.

APPENDIX 1 to the Annual Report of SC KLAIPĖDOS NAFTA for 2007
Disclosure concerning the compliance of SC KLAIPĖDOS NAFTA, listed on the regulated market, with the Governance Code

SC KLAIPĖDOS NAFTA, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The development strategy and objectives of AB KLAIPĖDOS NAFTA have been set up in its internal documents (Annual Report placed publicly on the website of Vilnius Stock Exchange) according to the separate directions and objectives of its activities. The Company updates its development plans subject to the situation on the market as well as to the changes in the regulatory environment.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Board of the Company adopts the main strategic resolutions, influencing optimization of the shareholder value (separation of the functions of Company's operation, establishment of subsidiaries, other actions optimizing effectiveness of the Company's operation and its profit).
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Supervisory Board, the Board of the Company and the Chief Executive Officer implement this recommendation.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's bodies respect the rights and interests of the persons participating in or connected with the Company's operation: 1. Employees – since its establishment the Company has been cooperating and performing social partnership with the representatives of its employees (the Board of the Company by its resolutions assigns additional means for the execution of the Collective Agreement and extra stimulation of the employees, etc.). 2. Creditors - the Company takes on and fulfils its financial and other obligations in accordance with the borrowing program approved by the Board of the Company. 3. Other persons – by the resolution of the shareholders' meeting part of the Company's profit is dedicated to support (social, art, cultural, sports activities, etc.).
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Supervisory Board of the Company is responsible for the effective supervision of the activities of the Company's management bodies (it elects and recalls members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and the Chief Executive Officer; submits proposals and comments to the general shareholders' meeting regarding the strategy of the Company's operation, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts). The Board of the Company is responsible for the effective strategic management of the Company (approves the strategy of its operation; adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, transactions, different commitments, etc.).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	No	The Company does not follow the provisions set up in Principle III, IV regarding formation of committees. Taking into account the specific character of the Company's operation, it is strictly regulated by the legal acts and supervised by the respective state institutions. Therefore in the process of decision-making by the bodies of the Company the transparency of the decision-making, their effectiveness is ensured; the principles of non-discrimination of the Company's clients, of costs-reduction and other principles are realized.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Board of the Company is comprised of five members. The Supervisory Board is elected of three members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for re-election of the members.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chief Executive Officer of the Company is not a member of its Board. The Chairman of the Supervisory Board and the members has neither been the members of the Board of the Company nor the Chief Executive Officer.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The collegial body of the Company is elected following the order established by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	No	Information about the candidates to become members of a collegial body is presented before the general shareholders' meeting except the data about their independence.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	No	We will seek to realize it in future.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	No	The collegial body ensures that its members are competent however periodic evaluation is not performed.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation. Up to now there has been neither need nor practice in the Company to offer a tailored program focused on introducing all new members of the Supervisory Board with their duties, corporate organization and activities.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	Up to now the independence of the elective members of the collegial body has not been evaluated and the content of the notion sufficiency of independent members has not been discussed. Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the general shareholders' meeting taking into account interests of the controlling shareholder in one or another way.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the	No	The criteria of independence of the collegial bodies have not been determined in the documents of the operation of the Company's collegial bodies. However taking into consideration the presented criteria it is possible to state that the members of the Company's Supervisory Board meet all the criteria of independence evaluation except item 4.

course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	 Not applicable	

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The Company has not yet applied in practice disclosure of the criteria of independence set out in the Code (See item 3.6).
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Up to now the Company has not applied practice of evaluation and disclosure of independence of the members of the collegial body.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the collegial body are not remunerated from the Company's funds for their participation in the meetings.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	No	The members of the collegial body duly perform their functions: they actively attend the meetings and devote sufficient time to perform their duties as members of the collegial body. However up to now no practice has existed in the Company as to notification of the shareholders about the attendance of the members of the collegial body at the meetings during the last financial year.

4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company follows the stated recommendations. The members of the collegial body before making decisions, the criteria of which have been determined in the Articles of Association of the Company, discuss their possible effect on the shareholders. The information of the shareholders is only in accordance with the legal acts.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	No	The Company's Articles of Association as well as the Rules and Regulations of the Company's Board do not provide for the approval of such transactions by the Supervisory Board. Following the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company major transactions shall be approved by the Company's Board.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	The Company's collegial bodies are provided with all the necessary financial conditions for their work and are independent of the Company's Management.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	The committees are not established, however the Board performs their separate functions: it regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	The committees are not established, however the Board performs their separate functions: it regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	The committees are not established, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The committees are not established, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The committees are not established, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.	No	The committees are not established, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.

4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	No	The committees are not established, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and	No	The committees are not established, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.

removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed *inter alia* data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organisations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organisation and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organisation and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The internal documents of the Company do not provide for a separate assessment of the collegial body's activities because it was not required by the legal acts of the Republic of Lithuania. Decisions on the Company's activities are made by the Board of the Company which reports to the shareholders' meeting.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	A collegial body of supervision - the Supervisory Board and a collegial body of management - the Board implement this provision in the Company.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The meetings of the Company's Supervisory Board are convened at least once in a quarter and the meetings of the Company's Board are carried out according to the schedule approved by the Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company observes provisions stated in this recommendation.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The Company observes provisions stated in this recommendation. The provision concerning determination of the remuneration of the Board's members is not applied because they are not remunerated from the Company's funds for their participation in the meetings.

Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's capital consists of ordinary registered shares that grant the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company observes provisions stated in this recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarise with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	According to the Law on Companies of the Republic of Lithuania and Articles of Association important transactions are approved by the Board.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	All the shareholders of the Company are informed about the venue, date and time of the general shareholders' meeting. Prior to the general shareholders' meeting all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the general shareholders' meeting.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarise with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	No	The Company discloses the documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, through the information disclosure system of the Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company can implement their right to participate at the shareholders' meeting both in person and through a representative should he be duly authorised. The Company also furnishes its shareholders with the opportunity to vote by completing the general voting ballot.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	Taking into account the structure of the shareholders and the valid regulations for organisation of the shareholders' meeting there is no necessity to additionally install costly system of IT.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's supervisory and management bodies have been acting in such a manner so as to avoid conflict of interests. Therefore such conflicts have never occurred in practice. The provision regarding notification will be implemented in a more detailed manner by specifying it in the local acts of the Company.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorised by the meeting.	Yes	The members of the Company's supervisory and management bodies have been acting in such a manner so as to avoid conflict of interests. Therefore such conflicts have never occurred in practice.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Not applicable	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Company's Board have been familiarised with these provisions and they must observe these recommendations.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company has not made any public statement of its remuneration policy during the year under review because it was not foreseen by the legal acts of the Republic of Lithuania. The Company's remuneration policy is determined by analysing situation on Lithuanian labour market.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Refer to the comment in item 8.1 above.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	Refer to the comment in item 8.1 above.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, *inter alia*, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Refer to the comment in item 8.1 above.

8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	Refer to the comment in item 8.1 above.
8.6. Without prejudice to the role and organisation of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	Refer to the comment in item 8.1 above.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.	No	Refer to the comment in item 8.1 above.

8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;		

• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	8.8. – 8.12. During the year under review the Company has not applied any schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements. This has not been provided for by the existing remuneration procedure and employment contracts with directors and other employees.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	Refer to the comment in item 8.8 above.
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarise with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The execution of this recommendation is ensured by the accurate supervision and control of the state institutions and organisations regulating the Company's activities. The publicity of the Company's activities creates conditions for the stakeholders to participate in corporate governance in the manner prescribed by law, by the Articles of Association and the Collective Agreement. The management bodies consult with the employees on corporate governance and other important issues, employee participation in the Company's share capital is not limited.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	No	The information regarding the Company's financial situation, performance and corporate governance is regularly disclosed by distributing press releases and notifying about material events, in presentations. The documents are published in Lithuanian and English on the publicly accessible website of the Vilnius Stock Exchange. The Company prepares financial statements according to the International Financial Accounting standards.
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of the Vilnius Stock Exchange so that the submitted information could simultaneously be announced thus guaranteeing its simultaneous dissemination to everybody.

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of the Vilnius Stock Exchange so that the submitted information could simultaneously be announced thus guaranteeing its simultaneous dissemination to everybody and it is planned to constantly place the information on the Company's website.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	No	The Company takes into account this recommendation and it is planned to place the information on the Company's website in the future.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The Company observes this recommendation when an independent firm of auditors conducts an audit of the Company's annual financial statements and report.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The Company's Board proposes a candidate firm of auditors to the general shareholders' meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors is not paid by the Company for consultations on tax and business issues.

AB KLAIPĖDOS NAFTA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

Ernst & Young Baltic UAB
Subačiaus g. 7
P.d. 2849
LT-01008 Vilnius Lietuva
Tel. (8 5) 274 22 00
Faks. (8 5) 274 23 33
Vilnius@lt.ey.com
www.ey.com/lt

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Registras – Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus 7
P.O. Box 2849
LT-01008 Vilnius Lithuania
Tel. + 370 5 274 22 00
Fax + 370 5 274 23 33
Vilnius@lt.ey.com
www.ey.com/lt

Code of legal person 110878442
VAT payer code LT108784411
Register of Legal Persons

Independent auditor's report to the shareholders of AB Klaipėdos Nafta

Report on the Financial Statements

We have audited the accompanying 2007 financial statements of AB Klaipėdos Nafta, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), which comprise the balance sheet as of 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Audito'rs Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Klaipėdos Nafta as of 31 December 2007, and 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.

Emphasis of Mater

Without qualifying our audit opinion, we would like to draw your attention to the fact that the Company is involved in a tax dispute with State Tax Inspectorate Under the Ministry of Finance regarding the calculation of the real estate tax for the years 2000-2004, as described in Note 21 in more detail. Significant uncertainty exists regarding the possible resolution of the tax dispute, which may have a significant impact on the evaluation of the receivable from the state budget in the amount of LTL 4,399 thousand that is accounted for under the other current assets caption in the balance sheet. No adjustments have been recorded in these financial statements that may be required as an outcome of this uncertainty.

ERNST & YOUNG

Furthermore, Riverlake Energy (S) PTE LTD brought a civil case against the Company on 1 March 2006 for the alleged breach of contractual obligations whereby the plaintiff claims USD 1,804 thousand (the equivalent of LTL 4,252 thousand as of 31 December 2007), as described in Note 21 in more detail. The first Court took a decision in favor of the Company, however the plaintiff appealed to the Court of Appeal of Lithuania. Significant uncertainty exists regarding the possible outcome of the litigation and potential losses for the Company. No adjustments have been recorded in these financial statements that may be required as an outcome of this uncertainty.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Management Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 3 March 2008.

Balance sheet

	Notes	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Intangible assets		132	148
Property, plant and equipment	3	427,491	441,405
Non-current financial assets	4	86	266
Total non-current assets		**427,709**	**441,819**
Current assets			
Inventories and prepayments			
Inventories	5	1,974	1,277
Prepayments		65	-
Total inventories and prepayments		2,039	1,277
Prepaid income tax		1,401	417
Trade and other receivables	6	2,716	3,656
Other current assets	7	10,055	5,853
Cash and cash equivalents	8	2,451	4,810
Total current assets		**18,662**	**16,013**
Total assets		**446,371**	**457,832**

(cont'd on the next page)

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

Balance sheet (cont'd)

	Notes	31 December 2007	31 December 2006
EQUITY AND LIABILITIES			
Equity			
Share capital	1	342,000	342,000
Legal reserve	9	13,790	13,140
Other reserves	9	35,221	29,187
Retained earnings		8,739	12,807
Total equity		**399,750**	**397,134**
Non-current liabilities			
Non-current loans	10	15,606	31,211
Deferred income tax liability	17	12,184	12,330
Total non-current liabilities		**27,790**	**43,541**
Current liabilities			
Current portion of non-current loans	10	15,605	8,255
Current portion of non-current financial lease obligations	10	-	4,570
Dividends payable		118	60
Trade and other payables	11	1,745	1,652
Payroll related liabilities		1,123	1,570
Other current liabilities	12	240	1,050
Total current liabilities		**18,831**	**17,157**
Total equity and liabilities		**446,371**	**457,832**

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

General Director	Jurgis Aušra		3 March 2008
Chief Accountant	Johana Bučienė		3 March 2008

Income statement

	Notes	2007	2006
Sales	13	78,664	71,336
Cost of sales	14	(53,862)	(41,021)
Gross profit		**24,802**	**30,315**
Operating expenses	15	(12,106)	(13,257)
Profit from operations		**12,696**	**17,058**
Other operating income (expenses), net		322	814
Profit from operating activities		**13,018**	**17,872**
Income from financial and investment activities	16	281	297
(Expenses) from financial and investment activities	16	(2,132)	(2,349)
Profit before tax		**11,167**	**15,820**
Deferred income tax benefit	17	146	620
Current year income tax (expenses)	17	(2,574)	(3,633)
Net profit		**8,739**	**12,807**
Basic and diluted earnings per share, in LTL	18	0.03	0.04

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

General Director	Jurgis Aušra		3 March 2008
Chief Accountant	Johana Bučienė		3 March 2008

Statement of changes in equity

	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 31 December 2005		**342,000**	**12,140**	**28,198**	**10,071**	**392,409**
Net profit for the year		-	-	-	12,807	12,807
Total income and expense for the year		-	-	-	12,807	12,807
Dividends declared	19	-	-	-	(8,082)	(8,082)
Transfer from reserves		-	-	(10,133)	10,133	-
Transfer to reserves	9	-	1,000	11,122	(12,122)	-
Balance as of 31 December 2006		**342,000**	**13,140**	**29,187**	**12,807**	**397,134**
Net profit for the year		-	-	-	8,739	8,739
Total income and expense for the year		-	-	-	8,739	8,739
Dividends declared	19	-	-	-	(6,123)	(6,123)
Transfer from reserves		-	-	(2,500)	2,500	-
Transfer to reserves	9	-	650	8,534	(9,184)	-
Balance as of 31 December 2007		**342,000**	**13,790**	**35,221**	**8,739**	**399,750**

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

General Director	Jurgis Aušra		3 March 2008
Chief Accountant	Johana Bučienė		3 March 2008

Cash flow statement

	Notes	2007	2006
Cash flows from (to) operating activities			
Net profit		8,739	12,807
Adjustments for non-cash items:			
Depreciation and amortisation	3	19,049	18,351
Impairment and write-off of property, plant and equipment		854	-
Reversal of allowance for inventories	5	-	(112)
Allowance for doubtful trade receivables	6	176	120
Loss from sale of non-current assets		10	307
Income tax expenses	17	2,428	3,013
Interest expenses, net	16	1,779	2,157
		33,035	36,643
Changes in working capital:			
Decrease in inventories	5	(697)	1,084
Decrease in trade and other receivables	6	765	872
(Increase) in other current assets	7	(473)	-
(Increase) in prepayments		(65)	-
Increase in trade and other payables	11	93	-
(Decrease) in other current liabilities and payroll related liabilities	12	(1,257)	(2,768)
Income tax (paid)		(3,558)	(7,377)
Net cash flows from operating activities		**27,843**	**28,454**
Cash flows from (to) investing activities			
(Acquisition) of non-current assets (except investments)	3	(6,031)	(11,334)
Proceeds from sale of non-current assets (except investments)		47	88
(Acquisition) of investments	1	(86)	-
Disposal of investments		-	322
(Investment) in short -term deposits	7	(3,729)	-
Bonds repurchase proceeds	4	266	-
Repayment of granted loans		-	1,231
Interest, dividends received	16	244	232
Net cash flows (to) investing activities		**(9,289)**	**(9,461)**

(cont'd on the next page)

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

Cash flow statement (cont'd)

	Notes	2007	2006
Cash flows from (to) financing activities			
Dividends (paid)	19	(6,065)	(8,082)
(Repayment) of loans	10	(8,255)	(11,114)
Financial lease (payments)	10	(4,570)	(4,265)
Interest (paid)	16	(2,023)	(2,389)
Net cash flows (to) financial activities		**(20,913)**	**(25,850)**
Net (decrease) in cash and cash equivalents		**(2,359)**	**(6,857)**
Cash and cash equivalents at the beginning of the year		**4,810**	**11,667**
Cash and cash equivalents at the end of the year		**2,451**	**4,810**

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

General Director	Jurgis Aušra		3 March 2008
Chief Accountant	Johana Bučienė		3 March 2008

Notes to the financial statements

1 General information

AB Klaipėdos Nafta (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

Burių Str. 19,
Klaipėda,
Lithuania.

The Company was founded by AB Naftos Terminalas (Lithuania) and Lancaster Steel Inc. (USA), acquiring 51% and 49% of the shares, respectively. The Company was registered on 27 September 1994.

The shares of the Company are traded on the Baltic Secondary List of the Vilnius Stock Exchange.

The financial statements cover individual Company's financial statements as of 31 December 2007.

As of 31 December 2007 and 2006 the shareholders of the Company were:

	31 December 2007		31 December 2006	
	Number of shares held (thousand)	Percentage	Number of shares held (thousand)	Percentage
Government of the Republic of Lithuania represented by the Ministry of Economy	241,544	70.63%	241,544	70.63%
Hansabank funds	24,331	7.11%	7,075	2.07%
Skandinavska Enskilda Banken funds	12,703	3.71%	18,776	5.49%
Other (less than 5% each)	63,422	18.55%	74,605	21.81%
Total	342,000	100.00%	342,000	100.00%

All the shares of the Company are ordinary shares with a par value of LTL 1 each and were fully paid as of 31 December 2007 and 2006. The Company did not hold its own shares.

The Company owns 34% of UAB Laivų Bunkeris share capital. The company does not operate and had not submitted its financial statements since 2003. As of 14 November 2007, UAB Laivų Bunkeris was deregistered from the Register of Legal Entities. 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, was null as of 31 December 2007 and 2006.

As of 19 December 2007 the Company purchased 1% of shares of international pipeline company Sarmatia.
The Company purchased 180 shares from the new share emission with a par value of PLN 500 each. The Company accounts for investment at cost in the amount of LTL 86 thousand.

Both investments are accounted for in the non-current financial assets caption.

The Company provides services of storage and transshipment of oil and oil products to Lithuanian and foreign customers.

As of 31 December 2007 the number of employees of the Company was 301 (as of 31 December 2006 – 303).

The Company's management authorized these financial statements on 3 March 2008. The shareholders of the Company have a statutory right either to approve the financial statements or not to approve them and require the management to prepare a new set of the financial statements.

2 Significant accounting policies

These financial statements have been prepared on a historical cost basis.

The financial statements are presented in Litas and all values are rounded to the nearest thousand (LTL 000), except when otherwise indicated.

2.1. Basis of preparation of the financial statements

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter the EU).

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Company has adopted the following new and amended IFRS and International Financial Report Interpretation Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did, however, give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures.* This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. There has been no effect on the financial position or results and comparative information has not been changed.

IFRIC 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".* This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Company.

IAS 1 *Presentation of Financial Statements.* This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are presented in Note 20.

IFRIC 8 *Scope of IFRS 2.* This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Company.

IFRIC 9 *Reassessment of Embedded Derivatives.* IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Company.

IFRIC 10 Interim Financial Reporting and Impairment. The Company adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

2 Significant accounting policies (cont'd)

2.1. Basis of preparation of the financial statements (cont'd)

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

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit and loss, together with all other items of recognised income and expense, either in one single statement or in two linked statements.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by the EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 Consolidated and Separate Financial Statements – Revised and IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.
- IFRS 2 Share-based payments – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). This amendment to IFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Company has not entered into share-based payment schemes with non-vesting conditions attached, and, therefore, does not expect significant implications on its accounting for share-based payments.
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009 once adopted by the EU). The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information related to puttable instruments classified as equity. The Company does not expect these amendments to impact the financial statements of the Company.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

2 Significant accounting policies (cont'd)

2.1. Basis of preparation of the financial statements (cont'd)

- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by the EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and, therefore, part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by the EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application, except for IAS 23 Borrowing costs and IAS 1 Presentation of Financial Statements – Revised.

IAS 23 Borrowing costs – Revised

The revised standard requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. When the Company adopts this standard, borrowing costs related to qualifying assets will be capitalised. Currently the Company cannot estimate the effect of this change on its future financial position and performance.

IAS 1 Presentation of Financial Statements – Revised

The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit and loss, together with all other items of recognised income and expense, either in one single statement or in two linked statements. The Company is still evaluating whether it will have one or two statements.

2.2. Foreign currency translation

Functional currency

The amounts shown in these financial statements are measured and presented in local currency, Litas (LTL). The Litas is the functional currency of the Company.

Since 2 February 2002, the Litas is pegged to the Euro at the rate of LTL 3.4528 = EUR 1.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under finance income or costs.

2.3. Segment reporting

The Company operates in one geographical and business segment, therefore no segment information is presented in these financial statements.

2 Significant accounting policies (cont'd)

2.4. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

2.5. Property, plant and equipment

Assets are attributed to property, plant and equipment if their useful life exceeds one year.

Property, plant and equipment of the Company are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and structures, specifically:	7 - 70
Fire station	40
Reservoirs 5.000 m3	15 - 21
Reservoirs 20.000 m3	43
Cleaning equipment building	51
Ferroconcrete gates	70
Railway trestle	55 - 65
Machinery and equipment, specifically:	3 - 40
Fuel, steam burning equipment	11 - 39
Standers	12
Other property plant and equipment, specifically	3 - 40
Technological pipelines	40 - 41
Signal cables	12

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

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and available for their intended use.

Interest costs on borrowings to finance the construction of property, plant and equipment are not capitalised and are recognised in the income statement when incurred.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement. Gains and losses on disposal of property, plant and equipment are determined as a difference between proceeds and the carrying amount of the assets disposed.

2 Significant accounting policies (cont'd)

2.6. Investments and other financial assets

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

The Company does not have financial instruments stated at fair value as of 31 December 2007 and 2006.

2 Significant accounting policies (cont'd)

2.7. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.8. Employee benefits

Social security contributions

The Company pays social security contributions to the state Social Security Fund (hereinafter the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits related to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is firmly committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits recognised are recognised at present value discounted using market rate.

2.9. Inventories

Inventories are stated at the lower of cost and net realisable value, after impairment evaluation for obsolete and slow-moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. The cost of inventories comprises purchase price, transport, and other costs directly attributable to the cost of inventories. Cost is determined by the first-in, first-out (FIFO) method. Unrealisable inventory has been fully written-off.

2.10. Cash and cash equivalents

Cash includes cash on hand and cash with 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.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

2 Significant accounting policies (cont'd)

2.11. Borrowings

Borrowing costs are expensed as incurred.

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings.

2.12. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets or the arrangement conveys a right to use the asset.

The Company as a lessee

Financial lease, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as expenses in profit or loss on a straight line basis over the lease term.

The Company as a lessor

Lease where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. Initial direct cost incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating lease – the Company as a lessor

Assets leased under operating lease in the balance sheet of the Company are accounted for depending on their nature. Income from operating lease is recognised as other income in the statement of income within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income. Initial direct expenses incurred in order to generate lease income are included in the carrying value of the leased asset.

2.13. Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

2 Significant accounting policies (cont'd)

2.13. Income tax (cont'd)

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

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

Deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.14. Dividends

Dividends are recorded in the financial statements at the moment they are declared by the Annual General Shareholders' Meeting.

2.15. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.16. 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 discounts. Revenue for stevedoring and related services is recognised when the cargo is loaded to ships / unloaded from ships.

Interest, rental and other revenue is recognised on an accrual basis. Other revenue is recognised upon delivery and transfer or risks and rewards of products or rendering of services and customer acceptance, if any.

2.17. Expenses recognition

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

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

2 Significant accounting policies (cont'd)

2.18. Impairment of assets

Financial assets

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

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

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Other assets

Other 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 accounted in the same caption of the income statement as the impairment loss.

2.19. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to the estimation of depreciation (Note 2.5) and impairment evaluation (Note 2.18). Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.20. Contingencies

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

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

2.21. Subsequent events

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

2.22. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain International Financial Reporting Standard specifically requires such set-off.

3 Property, plant and equipment

	Buildings and structures	Machinery and equipment, other property, plant and equipment	Construction in progress and prepayments	Total
Cost:				
Balance as of 31 December 2006	406,812	316,807	2,526	726,145
Additions	-	592	5,384	5,976
Retirements and disposals	-	(541)	(719)	(1,260)
Transfer from construction in progress	3,672	2,185	(5,857)	-
Balance as of 31 December 2007	410,484	319,043	1,334	730,861
Accumulated depreciation and impairment:				
Balance as of 31 December 2006	117,401	167,339	-	284,740
Charge for the year	10,394	8,585	-	18,979
Retirements and disposals	-	(438)	-	(438)
Impairment for the year	307	(218)	-	89
Balance as of 31 December 2007	128,102	175,268	-	303,370
Net book value as of 31 December 2007	**282,382**	**143,775**	**1,334**	**427,491**
Net book value as of 31 December 2006	**289,411**	**149,468**	**2,526**	**441,405**

	Buildings and structures	Machinery and equipment, other property, plant and equipment	Construction in progress and prepayments	Total
Cost:				
Balance as of 31 December 2005	385,551	304,039	26,100	715,690
Additions	-	354	10,763	11,117
Prepayments	-	45	119	164
Retirements and disposals	-	(629)	(197)	(826)
Transfer from construction in progress	21,261	12,998	(34,259)	-
Balance as of 31 December 2006	406,812	316,807	2,526	726,145
Accumulated depreciation and impairment:				
Balance as of 31 December 2005	107,506	159,384	-	266,890
Charge for the year	9,895	8,394	-	18,289
Retirements and disposals	-	(439)	-	(439)
Balance as of 31 December 2006	117,401	167,339	-	284,740
Net book value as of 31 December 2006	**289,411**	**149,468**	**2,526**	**441,405**
Net book value as of 31 December 2005	**278,045**	**144,655**	**26,100**	**448,800**

3 Property, plant and equipment (cont'd)

The depreciation charge of the Company's property, plant and equipment for the year 2007 amounts to LTL 18,979 thousand (LTL 18,289 thousand for the year 2006). An amount of LTL 18,886 thousand for the year 2007 (LTL 18,214 thousand for the year 2006) has been included into cost of sales in the Company's income statement. The remaining amount has been included into operating expenses for the year.

The Company has secured repayment of loans by pledging property plant and equipment in amount of LTL 175,245 thousand (LTL 96,368 thousand was pledged for the syndicated loan that was repaid as of 31 December 2007, however the pledge was not formally cancelled). As of 31 December 2006 pledged property plant and equipment amounted to LTL 179,150 thousand.

Property, plant and equipment of the Company with the acquisition cost of LTL 51,897 thousand were fully depreciated as of 31 December 2007 (LTL 49,696 thousand as of 31 December 2006) but were still in active use.

The Company has finished capital maintenance of 9 cisterns in 2007 and transferred the assets in amount of LTL 3,672 thousand from construction in progress to buildings and structures and started to use and depreciate them.

Furthermore, the Company built up vessels' loading stander and oil cleaning equipment in the amount of LTL 2,185 thousand and transferred them to machinery and equipment, other property, plant and equipment caption in 2007.

The Company impaired 2 buildings in the year 2007 in the amount of LTL 307 thousand as they are not used in the Company's activities. Furthermore, the Company wrote off property, plant and equipment in the amount of LTL 218 thousand previously impaired.

4 Non-current financial assets

On 24 January 2003 as part of settlement for acquired shares AB Naftos Terminalas transferred to the Company its ownership of bonds. The total nominal amortised value of the bonds is USD 101 thousand (equivalent to LTL 266 thousand as of 31 December 2006). Bonds were issued by the bank of foreign trade Vneshtorgbank (Russia). On 14 November 2006 Vneshtorbank repurchased 50% of the bonds. A full repurchase of the bonds was made on 14 November 2007. The annual interest rate of the bonds was 3%.

As described in Note 1, the Company also accounts for two investments in this caption.

5 Inventories

	2007	2006
Spare parts, construction materials and other inventory	2,305	3,931
Oil products	1,554	348
	3,859	4,279
Less: net realisable value allowance	(1,885)	(3,002)
	1,974	1,277

Impairment is mainly recorded for construction materials and spare parts which were not used during reconstruction. The decrease in impairment is due to the fact that the Company has written off part of the impaired inventories.

Oil products mainly comprise oil products collected inside the cleaning equipment. The increase in oil products is due to the fact that the Company did not perform sales of oil in 2007 (the sales were performed in 2006).

The Company stores in reservoirs more than 55 thousand tons of oil products as of 31 December 2007 (37 thousand tons as of 31 December 2006), which accumulates due to technological process during reloading. Such oil products are not recognised in the Company's financial statements they are accounted for in the off-balance sheet accounts.

The acquisition cost of the Company's inventories accounted for at net realisable value as of 31 December 2007 amounted to LTL 1,885 thousand (LTL 3,002 thousand as of 31 December 2006). Changes in the allowance for inventories for the years 2007 and 2006 have been included into operating expenses.

The amount of write-down of inventories recognised as expenses is LTL 11,205 thousand for the year 2007 (LTL 5,633 thousand for the year 2006).

6 Trade and other receivables

	2007	2006
Receivable for reloading of oil products and other related services	2,954	3,717
Other receivables	61	62
	3,015	3,779
Less: allowance for doubtful trade receivables	(299)	(123)
	2,716	3,656

Changes in allowance for doubtful trade receivables for the year 2007 and 2006 have been included into operating expenses in the income statement.

Trade and other receivables are non-interest bearing and are generally on 6 - 15 days terms.

As of 31 December 2007 trade receivables with the gross nominal value of LTL 244 thousand (as of 31 December 2006 – nil) were impaired and fully provided for.

6 Trade and other receivables (cont'd)

Movements in the provision for impairment of trade receivables were as follows:

	Collectively impaired
Balance as of 31 December 2005	-
Charge for the year	123
Balance as of 31 December 2006	123
Charge for the year	176
Balance as of 31 December 2007	299

No individual impairment was made in 2007 and in 2006.

Trade and other accounts receivable are written off when the management is certain that the amount will not be recovered.

The ageing analysis of trade and other receivables as of 31 December 2007 and 2006 is as follows:

		Trade receivables past due but not impaired					
	Trade and other receivables neither past due nor impaired	Less than 30 days	30 – 59 days	60 – 89 days	90 –359 days	More than 360 days	Total
2006	3,505	-	1	-	150	-	3,656
2007	2,564	-	64	-	32	56	2,716

Credit quality of financial assets neither past due nor impaired

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognised, creditworthy third parties.

7 Other current assets

		2007	2006
Excess of taxes paid	21	5,675	5,664
Short-term deposits		3,729	-
Accrued income		294	-
Deferred expenses		272	215
Other accounts receivable		574	409
Prepayments		-	44
		10,544	6,332
Less: allowance for doubtful other current assets		(489)	(479)
		10,055	5,853

Changes in allowance for doubtful other current assets for the year 2007 and 2006 have been included into operating expenses in the income statement.

7 Other current assets (cont'd)

As of 31 December 2007 the Company had two term deposits in amount of LTL 3,729 thousand. The maturity range is 127 – 155 days and annual interest rate is 4.45%. As of 31 December 2006 the Company only had term deposits shorter than 3 months that were accounted for under cash and cash equivalents caption.

8 Cash and cash equivalents

	2007	2006
Cash at bank	2,352	2,062
Cash on hand	99	194
Term deposit	-	2,554
	2,451	4,810

As of 31 December 2006 the Company had two term deposits in the amount of LTL 2,554 thousand. The maturity range was 32 – 33 days and annual interest rate was 3%. As of 31 December 2007 the Company only had term deposits longer than 3 months that are accounted for in the other current assets caption (Note 7).

As of 31 December 2006 the Company pledged cash in AB SEB Bankas accounts, including future cash flows to these accounts. The syndicated loan was repaid as of 31 December 2007.

9 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with International Financial Reporting Standards, are compulsory until the reserve reaches 10% of the share capital. Distributing the profit of 2007, the Company has to transfer to the legal reserve not less then LTL 437 thousand.

Other reserves

Other (distributable) reserves are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. The biggest part of the Company's other reserves are formed for investments, charity and employee bonuses.

10 Borrowings

Lender		Original currency	Principal amount (in LTL thousand)	Interest rate	Balance as of 31 December 2007	Balance as of 31 December 2006
Syndicated loan AB SEB Bankas, AB Bankas Hansabankas, AB DnB NORD Bankas	a)	EUR	90,012	6-month EUR LIBOR + 1.95%	-	6,666
Loan AB SEB Bankas, AB Bankas Hansabankas, AB DnB NORD Bankas	b)	EUR	37,570	6-month EUR LIBOR + 1.1%	31,211	32,800
UAB Hansa Lizingas		LTL	4,570	LIBOR + 2.5%	-	4,570
					31,211	44,036
Less current portion					(15,605)	(12,825)
Non-current loans, net of current portion					15,606	31,211

a) The syndicated loan comprises loans received from AB SEB Bankas (LTL 36,012 thousand), AB Bankas Hansabankas (LTL 36,000 thousand) and AB DnB NORD Bankas (LTL 18,000 thousand). The loan was repaid in 2007.

b) The Company has a loan from the three local banks: AB SEB Bankas, AB Bankas Hansabankas and AB DnB NORD Bankas. The unpaid part amounted to EUR 9,039 thousand (equivalent to LTL 31,211 thousand) as of 31 December 2007 (as of 31 December 2006 - EUR 9,500 thousand, the equivalent of LTL 32,800 thousand). The loan is secured with a guarantee issued by the Ministry of Finance. The loan matures on 31 July 2009.

Actual interest rates are close to effective interest rates.

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

	As of 31 December 2007	
Year	Fixed interest rate	Variable interest rate
2008	-	15,605
2009	-	15,606
	-	31,211

The Company has secured repayment of loans by pledging property plant and equipment in the amount of LTL 175,245 thousand (property plant and equipment in amount of LTL 96,368 thousand was pledged for the syndicated loan that was repaid as of 31 December 2007, however the pledge was not formally cancelled). As of 31 December 2006 pledged property plant and equipment amounted to LTL 179,150 thousand.

As of 31 December 2006 the Company also pledged cash in AB SEB Bankas accounts, including future cash flows to these accounts. The syndicated loan was repaid as of 31 December 2007.

As of 31 December 2007 the Company has fully repaid its financial lease liabilities to UAB Hansa Lizingas (payable as of 31 December 2006 amounted to LTL 4,570 thousand).

11 Trade and other payables

	2007	2006
Payable for railway services	714	474
Payable for maintenance works	250	105
Other trade payables	781	1,073
	1,745	1,652

Trade payables are non-interest bearing and are normally settled on 30-day terms.

12 Other current liabilities

	2007	2006
Accrued expenses	161	-
Real estate tax	-	420
Land rent payable	-	587
Advances received	62	36
Other	17	7
	240	1,050

Other payables are non-interest bearing and have an average term of one month.

13 Sales

	2007	2006
Sales of loading/unloading services	75,631	69,687
Other sales related to loading	3,033	1,649
	78,664	71,336

Other sales related to loading include moorage, sales of fresh water, transportation of crew and other sales related to loading.

14 Cost of sales

	2007	2006
Depreciation and amortisation	18,950	18,214
Wages, salaries and social security	13,304	12,719
Heating and steam	9,624	4,727
Railway services	4,476	1,217
Electricity	2,635	2,175
Repair and maintenance of non-current assets	1,127	901
Other	3,746	1,068
	53,862	41,021

Increase in heating and steam expenses were caused by the increase in prices and increase in loading service provision.

The increase of railway transport services expenses was caused by unfavourable weather conditions in January and February, when the Company was unable to perform loading services and subsequently the provider of the railway services billed the Company for demurrage of wagons. The increase was also caused by the increase in prices and loading service provision.

15 Operating expenses

	2007	2006
Salaries, bonuses and social security	4,222	4,131
Tax on real estate	2,717	3,118
Rent of land and quays	2,346	2,426
Insurance of assets	1,005	1,002
Depreciation and amortisation	99	521
Change in impairment of receivables	89	120
Change in impairment for property, plant and equipment	89	-
Change in impairment of inventories	-	(112)
Other	1,539	2,051
	12,106	13,257

16 Income (expenses) from financial and investment activities, net

	2007	2006
Interest income	244	247
Gain from foreign exchange	12	-
Other	25	50
Financial income, total	281	297
Interest and loan administration (costs)	(2,023)	(2,289)
(Loss) from foreign exchange	(47)	(59)
Other financial (expenses)	(62)	(1)
Financial (expenses) , total	(2,132)	(2,349)
	(1,851)	(2,052)

17 Income tax

Components of the income tax expense (income)	2007	2006
Current year income tax (15%)	2,256	2,930
Temporary social security tax (3% - 2007, 4% - 2006)	443	781
Set-off with income tax on dividends	(8)	(15)
Prior year current income tax correction	(117)	(63)
Current year income tax expenses	2,574	3,633
Deferred tax (income)	(146)	(620)
Income tax expenses charged to the income statement	2,428	3,013

	2007	2006
Deferred tax asset		
Receivables	118	90
Accumulated vacation reserve	154	170
Inventories	282	450
Property, plant and equipment (depreciation and interest)	1,194	1,310
Deferred tax asset before valuation allowance	1,748	2,020
Less: valuation allowance	(118)	(90)
Deferred income tax asset, net	1,630	1,930
Deferred tax liability		
Property, plant and equipment	(13,634)	(14,260)
Accrued income	(180)	-
Deferred income tax liability	(13,814)	(14,260)
Deferred income tax, net	(12,184)	(12,330)

17 Income tax (cont'd)

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. In 2007 valuation allowance was made for the deferred tax asset component – trade receivable impairment, which according to the management will not be tax deductible in the future. Deferred income tax asset and deferred income tax liability are set-off in the balance sheet of the Company, as they both are related to the same tax authority.

While assessing deferred income tax asset and liability components for the year ended 31 December 2006 the Company has used the income tax rate of 18% for those items, which will be realised in 2007, and 15% rate was used for the items which will be realised in 2008 and later. Accordingly deferred tax as of 31 December 2007 was assessed using 15% for the items to be realised in 2008 and later.

Movements in pre-tax components of temporary differences and the related total deferred tax amounts for the Company are as follows:

	Balance as of 31 December 2006	Recognised in income statement	Balance as of 31 December 2007
Receivables	602	186	788
Accumulated vacation reserve	943	83	1,026
Inventories	3,002	(1,117)	1,885
Property, plant and equipment (depreciation and interest)	8,735	(776)	7,959
Property, plant and equipment	(94,364)	3,470	(90,894)
Other	-	(1,205)	(1,205)
Total temporary differences	(81,082)	641	(80,441)
Impairment	(602)	(186)	(788)
Deferred income tax, net	(12,330)	207	(12,184)

The reported amount of income tax expenses attributable to the period can be reconciled to the theoretical amount of income tax expenses that would arise from applying statutory income tax rate to pre-tax income as follows:

	2007	2006
Profit before tax	11,167	15,820
Income tax expenses computed using the statutory tax rate (18% in 2007 and 19% in 2006)	2,010	3,005
Permanent differences	512	80
Change in tax rate	31	6
Set-off with income tax on dividends	(8)	(15)
Prior year income tax correction	(117)	(63)
Income tax expenses charged to the income statement	2,428	3,013

18 Earnings per share, basic and diluted

Basic earnings per share amounts are calculated by dividing net profit for the year by the number of ordinary shares outstanding during the year. Diluted earnings per share equal basic earnings per share as there were no potential shares issued. Basic and diluted earnings per share are as follows:

	2007	**2006**
Net profit attributable to shareholders	8,739	12,807
Weighted average number of ordinary shares (thousand)	342,000	342,000
Earnings per share (in LTL)	0.03	0.04

19 Dividends

	2007*	**2006***
Dividends declared	6,123	8,082
Weighted average number of ordinary shares (thousand)	342,000	342,000
Declared dividends per share (expressed in LTL per share)	0.018	0.024

* The year when dividends are declared

The shareholders of the Company declared dividends in the amount of LTL 6,123 thousand for the year 2006 (LTL 8,082 thousand for 2005). The major part of the amount was paid out in year 2007.

20 Financial assets and liabilities and risk management

Credit risk

The Company has significant concentration of trading counterparties. The main two customers of the Company – AB Mažeikių Nafta and UAB Naftos Grupė – on 31 December 2007 account for approximately 80% (approximately 85% as of 31 December 2006) of the total Company's trade receivables. The average payment terms for those two customers are 6 - 15 days whereas the usual payment terms for all other customers are 6 days. The credit risk for these two customers is managed by a continuous monitoring of outstanding balances.

The Company's procedures are in force to ensure on a permanent basis that services are provided to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts and cash and other short-term deposits recognised at the balance sheet date.

The Company trades only with recognised third parties, so there is no requirement for collateral.

Maximum exposure to credit risk amounts to LTL 8,896 thousand and LTL 8,466 thousand as of 31 December 2007 and 2006, respectively.

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

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets.

The major part of the Company's borrowings is with variable rate, related to EUR LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2007 and 2006.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Company's equity, other than current year profit impact.

	Increase/decrease in percentage points	Effect on profit before tax
2007		
EUR	+ 0.5	(156)
EUR	- 1.0	312
2006		
LTL	+2.0	(91)
LTL	-0.5	23
EUR	+0.85	(335)
EUR	-0.5	197

Foreign exchange risk

All monetary assets and liabilities of the Company are denominated in Litas or Euro, and the exchange rate of the latter is fixed in respect to Litas; therefore, the Company practically is not exposed to the foreign exchange rate risk.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.
The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2007 were 0.99 and 0.89, respectively (0.93 and 0.86 as of 31 December 2006, respectively).

The Company's objective is to maintain a balance between continuity of funding and flexibility. The Company's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Company is close to or higher than 1. The Company is close to managements' expectations in the liquidity area in years 2007 and 2006.

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

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2007 and 2006 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	8,149	8,599	15,891	-	32,639
Trade and other payables	-	1,745	-	-	-	1,745
Other financial liabilities	-	240	-	66	52	358
Balance as of 31 December 2007	-	10,134	8,599	15,957	52	34,742
Interest bearing loans and borrowings	-	5,789	9,162	32,367	-	47,318
Trade and other payables	-	1,652	-	-	-	1,652
Other financial liabilities	-	594	-	50	10	654
Balance as of 31 December 2006	-	8,035	9,162	32,417	10	49,624

Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

Set out is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2007	**2006**	**2007**	**2006**
Financial assets				
Cash	2,451	4,810	2,451	4,810
Trade and other receivables	2,716	3,656	2,716	3,656
Other financial assets	4,121	30	4,121	30
Financial liabilities				
Bank loans	31,211	39,466	31,211	39,466
Financial lease liabilities	-	4,570	-	4,570
Trade and other payables	1,745	1,652	1,745	1,652
Other financial liabilities	296	654	296	654

The increase in other financial assets in the year 2007 is due to the fact that 2 term deposit agreements in the amount of LTL 3,729 with maturity longer than 3 months are accounted for in this caption (Note 7). The Company had no term deposits with maturity longer than 3 months as of 31 December 2006.

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

A market price was not available for the investment in international pipeline company Sarmatia, therefore the investment is accounted for at cost in the balance sheet of the Company. It was also impossible to derive the fair value for the period using comparable transactions. The Company did not measure the investment by discounting the expected cash flows because the cash flows could not be reliably determined.

The fair value of loans, other financial liabilities and other financial assets have been calculated using market interest rates.

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

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

<u>Capital management</u>

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Company is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

The Company has externally imposed capital requirements from banks. They require that liabilities/capital ratio does not exceed 3. The management monitors that the Company is in line with the requirement. No other capital management tools are used.

21 Commitments and contingencies

In 2006 Riverlake Energy (S) PTE LTD brought a claim against the Company for USD 1,804 thousand (equivalent to LTL 4,252 thousand as of 31 December 2007) compensation of alleged expenses and agreement liabilities performance. During the year 2007 the case was heard in court and decision in favour of the Company was made, however the plaintiff filed an appeal to the Court of Appeal of Lithuania.

From 2006 the Company is involved in litigations with State Tax Inspectorate Under the Ministry of Finance of the Republic of Lithuania in relation to the real estate tax calculation for the period 2000 to 2004 and a respective fine. Based on the acceptance of both sides the arguable amount was decreased from LTL 5,315 thousand to LTL 4,399 thousand due to the change in taxable values and due to the shortening of the period. During the year 2007 Commission on Tax Disputes under the Government of the Republic of Lithuania took a resolution unfavourable for the Company, however, the Company submitted an appeal regarding the resolution to Vilnius Regional Administrative Court. No decision was taken as of the date of issue of the financial statements.

The Company's management expects that both above mentioned issues will be solved in favour of the Company.

Capital commitments

As of 31 December 2007, capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 962 thousand (LTL 1,649 thousand as of 31 December 2006).

22 Related party transactions

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Company and transactions with them as of 31 December 2007 as well as of 31 December 2006 were as follows.

Transactions with State institutions

Tax expense	**2007**	**2006**
Income and social tax	2,530	2,915
Tax on real estate	2,717	2,601
Other operating taxes	110	146
Social security tax	2,868	3,974
	8,225	9,636

Excess of tax paid	**2007**	**2006**
Income and social tax prepayment	1,445	417
Prepayment of tax on real estate	4,478	4,615
Other	1,197	1,049
	7,120	6,081

Taxes payable	**2007**	**2006**
Tax on real estate	-	420
Other operating taxes	-	130
Social security tax	49	571
	49	1,121

State guarantees

The State has issued guarantees in respect of the Company's loans, the value of which amounts to LTL 31,211 thousand as of 31 December 2007 (LTL 32,800 thousand as of 31 December 2006) (Note 10).

Remuneration of the management and other payments

The Company's management remuneration amounted to LTL 1,224 thousand in 2007 (LTL 1,086 thousand in 2006). In 2007 and 2006 the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

23 Subsequent events

There were no major subsequent events after the balance sheet date.