SC KLAIPĖDOS NAFTA

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2007

KLAIPĖDOS NAFTA
AKCINĖ BENDROVĖ

INTERIM FINANCIAL STATEMENTS FOR THE YEAR 2007 (ENDED 31-12-2007) (NOT AUDITED)

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Rules on Preparation And Submission Of Periodic And Additional Information Of the Lithuanian Securities Comission and the Law on Securities Of The Republic Of Lithuania, 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 interim financial statements of SC Klaipėdos Nafta for the year 2007 (ended 31-12-2007), prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union, give a true and fair view of the liabilities, financial position and profit or loss of SC Klaipėdos Nafta.

Director General Jurgis Aušra

Chief Financier Johana Bučienė

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Įmonės kodas 110648893, PVM mokėtojo kodas LT106488917, Įmonės registravimo Nr. BĮ 94-479,
AB SEB Vilniaus bankas (banko kodas 70440), A/s Nr. LT90 7044 0600 0076 4196

Interim income statement

	Notes	31 December 2007	31 December 2006
		Unaudited	**Audited**
Sales		78 370	71 336
Cost of sales	3	(57 587)	(41 021)
Gross profit		**20 783**	**30 315**
Operating expenses		(8 596)	(12 257)
Operating profit		**12 187**	**17 058**
Other operating income (expenses), net		322	814
Income from financial and investment activities		281	297
Expenses from financial and investment activities		(2 131)	(2 349)
Profit before tax		**10 659**	**15 820**
Income tax	5	(2 014)	(3 013)
Net profit		**8 645**	**12 807**
Basic and diluted earnings per share (in LTL)		0.03	0.04

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

Director General	Jurgis Aušra		25 February 2008
Chief Financier	Johana Bučienė		25 February 2008

Interim balance sheet

	Notes	31 December 2007	31 December 2006
		Unaudited	**Audited**
ASSETS			
Non-current assets			
Intangible assets		132	148
Property, plant and equipment	7	427 080	441 405
Non-current financial assets	7	86	266
Total non-current assets		**427 298**	**441 819**
Current assets			
Inventories	8	2 170	1 277
Trade receivables		2 715	3 656
Prepaid income tax		1 261	417
Prepayments, other receivables and other current assets		6 953	5 853
Cash and cash equivalents	4	5 730	4 810
Total current assets		**18 829**	**16 013**
Total assets		**446 127**	**457 832**

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Interim balance sheet (cont'd)

	Notes	31 December 2007 Unaudited	31 December 2006 Audited
EQUITY AND LIABILITIES			
Equity			
Share capital		342 000	342 000
Legal reserve		13 790	13 140
Other reserves		35 221	29 187
Retained earnings		8 646	12 807
Total equity		**399 657**	**397 134**
Amounts payable after one year and liabilities			
Non-current loans	9	15 605	31 211
Deferred tax liability	5	12 033	12 330
Total amounts payable after one year and liabilities		**27 638**	**43 541**
Amounts payable within one year and liabilities			
Current portion of non-current loans	9	15 605	12 825
Dividends payable	1	118	60
Trade and other payables		1 863	1 652
Payroll related liabilities		1 123	1 570
Other current liabilities		123	1 050
Total amounts payable within one year and liabilities		**18 832**	**17 157**
Total equity and liabilities		**446 127**	**457 832**

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

Director General	Jurgis Aušra		25 February 2008
Chief Financier	Johana Bučienė		25 February 2008

Interim statement of changes in equity

	Share capital	Legal reserve	Other reserves	Retained earnings	Total
At 31 December 2005	**342 000**	**12 140**	**28 198**	**10 071**	**392 409**
Transfer from reserves	-	-	(10 133)	10 133	-
Transfer to reserves	-	1 000	11 122	(12 122)	-
Dividends approved	-	-	-	(8 082)	(8 082)
Net profit for the period	-	-	-	12 807	12 807
At 31 December 2006	**342 000**	**13 140**	**29 187**	**12 807**	**397 134**
Transfer from reserves	-	-	(2 500)	2 500	-
Transfer to reserves	-	650	8 535	(9 185)	-
Dividends approved	-	-	-	(6 122)	(6 122)
Net profit for the period	-	-	-	8 645	8 645
At 31 December 2007 (unaudited)	**342 000**	**13 790**	**35 222**	**8 645**	**399 657**

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

Director General	Jurgis Aušra		25 February 2008
Chief Financier	Johana Bučienė		25 February 2008

Interim cash flow statement

Seq. No.	Items	31 December 2007	31 December 2006
		Unaudited	Audited
I.	**Cash flows from operating activities**		
I.1.	Cash receipts of the accounting period	86 763	86 946
I.1.1.	Cash receipts from clients	85 144	80 257
I.1.2.	Other receipts	619	6 689
I.2.	Cash payments of the asccounting period	-58 565	-47 495
I.2.1.	Cash payments to the suppliers of raw materials, goods and service providers	-29 840	-15 239
I.2.2.	Cash payments related to labour relations	-17 097	-16 416
I.2.3.	Taxes paid to the budget	-6 599	-12 243
I.2.4.	Other payments	-5 029	-3 597
	Net Cash flows from operating activities	27 198	39 451
II.	**Cash flows from investing activities**		
II.1.	Acquisition of non-current assets (except investments)	-5 853	-14 903
II.2.	Transfer of non-current assets (except investments)		
II.3.	Acquisition of long-term investments		
II.4.	Transfer of long-term investments		
II.5.	Loan granting		
II.6.	Loan repayment		
II.7.	Dividends, interests received		20
II.8.	Other increase of cash flows from investing activities	246	287
II.9.	Other decrease of cash flows from investing activities		
	Net Cash flows from investing activities	-5 607	-14 596
III.	**Cash flows from financial activities**		
III.1.	Cash flows associated with the owners of the Company	-6 214	-8 093
III.1.1.	Share issue	- 86	
III.1.2.	Owners' contributions to cover losses		
III.1.3.	Purchase of the Company's shares		
III.1.4.	Dividend payment	-6 128	-8 093
III.2.	Cash flows associated with other financing sources	0	-18 448
III.2.1.	Increase of financial debts	0	0
III.2.1.1.	Receipt of loan		
III.2.1.2.	Bond issue		
III.2.2.	Decrease of financial debts	-15 173	-18 448
III.2.2.1.	Loan repayment	-8 256	-11 040
III.2.2.2.	Bond redemption		
III.2.2.3.	Interests paid	-2 037	-2 367
III.2.2.4.	Payments of lease (financial lease)	- 4 880	-5 041

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Interim cash flow statement (cont'd

Seq. No.	Items	**31 December 2007**	**31 December 2006**
		Unaudited	**Audited**
III.2.3.	Increase of other Company's liabilities		
III.2.4.	Decrease of other Company's liabilities		
III.3.	Other increase of cash flows from financial activities		10
III.4.	Other idecrease of cash flows from financial activities		
	Net cash flows from financial activities	-21 387	-26 531
IV.	**Cash flows of special items**	0	0
IV.1.	Increase of cash flows of special items		
IV.2.	Decrease of cash flows of special items		
V.	**Impact of currency exchange rate alteration on the balance of cash and cash equivalents**	- 8	- 9
VI.	**Net increase (decrease) in cash flows**	195	-1 684
VII.	**Cash and cash equivalents at the beginning of the period**	2 256	3 940
VIII.	**Cash and cash equivalents at the end of the period**	2 451	2 256

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

Director General	Jurgis Aušra		25 February 2008
Chief Financier	Johana Bučienė		25 February 2008

Notes to the interim condensed financial statements

1 General information

SC 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 provides storage and transshipment of oil and oil products services. The Company was registered on 27 September 1994. The Company's shares are listed in the Baltic Secondary List on the Vilnius Stock Exchange.

As at 31 December 2007 and 31 December 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 %
Lithuanian legal persons	8 186	2,39 %	2 647	0,77 %
Lithuanian natural persons	43 085	12,60 %	47 649	13,94 %
Foreign legal persons	46 848	13,70 %	47 480	13,88 %
Foreign natural persons	2 337	0,68 %	2 680	0,78 %
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 31 December 2006. The share capital did not change during the years 2007 and 2006. The Company neither held its own shares in the year 2007 nor in 2006.

The General Shareholders' Meeting, held on 19 April 2007, approved profit appropriation for the financial year of 2006 and allocated dividends in the amount of LTL 6 122 890 to the shareholders for the year 2006. According to the Contract with SEB Vilniaus Bankas the Company transferred the dividends of the year 2006 to the Bank and the Bank paid the dividends to the shareholders. The dividends of the year 2006 in the amount of LTL 6 056 895 were paid to the shareholders in the year 2007 (dividends of the year 2006 in the amount of LTL 4 324 415 were transferred to the main shareholder - the Government of LR represented by the Ministry of Economy) ; however LTL 65 995 were not paid because part of the shareholders did not inform about their data or did not address the Bank so that the amounts of the dividends payable could be transferred to them.
As on 31 December 2007 The Company owes its shareholders the dividends in the amount of LTL 9 353 allocated in the year 1999; the amount of LTL 772 allocated in the year 2000; the amount of LTL 18 338 allocated in the year 2002; the amount of LTL 23 999 allocated in the year 2002. The total amount of the unpaid dividends to the shareholders is LTL 118 457. It is accounted for in the line "Dividends payable" of the interim balance sheet.

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

2 Accounting principles

The interim condensed financial statements for the twelve months period ended 31 December 2007 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2006.

2.1. Basis of preparation of the financial statements

The accounting polices adopted in preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2006, except for the adoption of new Standards and Interpretations, noted below. Adoption of these Standards and Interpretations did not have any significant effect on the financial position or performance of the Company.

2 Accounting principles (cont'd)

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.
- Amendments to IAS 1 (Capital Disclosures) (effective for annual periods beginning on or after 1 January 2007). 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 of managing capital.
- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

<u>IFRS and IAS Interpretations that have been issued but are not yet effective</u>

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

- *IFRS 8 Operating Segments* (shall become effective not earlier than 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.
- Amendments to IAS 23 Borrowing Costs (effective once adopted by the European Union but not earlier than for annual periods beginning 1 January 2009, earlier application permitted). Revised IAS 23 requires that all borrowing costs must be capitalized to the extent they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice to immediately recognize such costs as an expense is eliminated.

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. The Company is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

3 Cost of sales

The Company's cost of sales has mainly increased over the reporting period due to the increased power resources expenses, which over the reporting period amounted to LTL 12 430,1 thousand (in the year 2006 – LTL 6 903,6 thousand) and increased railway transport services expenses, which amounted to LTL 4 476,2 thousand (in the year 2006 – LTL 1 251,3 thousand). The power resources costs increased due to increased natural gas prices by 21 %, average electricity cost increased by 11%, volume of transshipments of heavy oil products, which need more power resources than diesel oil or gasoline, also increased by 53 %.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 railway cars.

4 Cash and cash equivalents

	31 December 2007	31 December 2006
	Unaudited	Audited
Cash at bank	2 352	2 062
Cash in hand	99	194
Term deposits	3 729	2 554
	5 730	4 810

5 Income tax

The income tax calculation during 2007 can be specified as follows:

	31 December 2007 Unaudited	31 December 2006 Audited
Profit before taxation	10 659	15 820
Changes in temporary differences	2 870	4 133
Permanent differences		420
Taxable result for the period	13 629	19 533
Current income tax (15%)	2 029	2 930
Temporary social tax	399	781
Setoff with income tax on dividends		-15
Reversal of income tax of previous year	-117	-63
Change in deferred tax	-297	-620
Income tax expense	2 014	3 013

6 Segment information

The activities of the Company are organized as one major segment – provision of oil and oil products storage and transshipment services.

7 Property, plant and equipment

Movements of the Company's property, plant and equipment during 2007 can be specified as follows:

	Buildings and structures	Machinery and equipent	Construction in progress	Total
Cost at 1 January 2007	406 812	329 034	2 526	738 372
Additions during the period	3 671	2 777	5 907	12 355
Prepayments				
Retirements	0	-494	-719	-1 213
Transfers	-307		-6 702	-7 009
Cost at 31 December 2007	410 176	331 317	1 012	742 505
Depreciation and impairment at 1 January 2007	117 400	179 568	0	296 968
Depreciation for the period	10 394	8 995	0	19 389
Depreciation of disposals	0	-932	0	-932
Depreciation and impairment at 31 December 2007	127 794	187 631	0	315 425
Carrying amount at 31 December 2007	282 382	143 686	1 012	427 080
Carrying amount as of 31 December 2006	289 411	149 468	2 526	441 405

For the loans received the Company has pledged its non-current tangible assets the balance value of which on 31 December 2007 amounted to LTL 96 367 thousand (LTL 97 385 thousand – on December 2006). On September 25 2007 the Company repaid to the Banks the loan received in the year 1998 and on 23 January 2008, on expiry of the pledging right, removed the pledged assets (the balance value of which on 31 December 2007 was LTL 96 367 thousand) from the register of mortgage.
The repayment of bank loans has also been covered by the guarantee issued by the Ministry of Finance of the Republic of Lithuania. For the issued guarantee the Company has pledged to the Ministry of Finance of LR the property with the balance value in the amount of LTL 78 877 thousand as on 31 December 2007 (on 31 December 2006 – LTL 81 582 thousand).
The Company has acquired 6 storage tanks under lease with option to purchase the residual value of which on 31 December 2007 amounted to LTL 29 599 thousand ((on 31 December 2006 – LTL 30 505 thousand). These assets secure the lease obligation which amounted to LTL 4 569 thousand on 31 December 2006. In the year 2007 the Company fully repurchased the six storage tanks and in 2008, on expiry of the pledging right, has removed the tanks from the register of mortgage.

Depreciation expenses for the year 2007 amounted to LTL 19 389 thousand (during the year 2006 – LTL 18 289 thousand).

On 31 December 2006 the investments held until the maturity date were accounted for in the non-current financial assets.

On 24 January 2003 SC Naftos Terminalas as part of settlement for the acquired shares transferred to the Company its ownership of bonds. The bond value accounted by depreciated cost is USD 101 000 (on 31 December 2006 the equivalent in Litas made LTL 266 thousand). The bonds were issued by Foreign Trade bank Vneshtorgbank (Russia) with annual interest rate of 3 %. On 14 November 2006 bank Vneshtorgbank repurchased 50 % of the bonds. On 14 November 2007 the bank repurchased the rest 50 % of the bonds.
In the year 2007 the Company invested PLZ 90 thousand (equivalent to LTL 86 thousand as at 31December 2007) into a newly organized company named SARMATIA. Poland, Lithuania, the Ukraine, Georgia and Azerbaijan are seeking to realize an alternative project of the pipeline Odessa-Brody-Plock-Gdansk by which oil from the Caspian region will reach Europe. The Company has acquired 1 % of SARMATIA shares.

8 Inventories

During the year 2007 the Company has written-off inventories in use and inventories which can no longer be used with an acquisition cost of LTL 2 491 thousand. The impairment in the amount of LTL 1 313 thousand was accounted for the part of these inventories. Write-off expenses amounting to LTL 1 178 thousand were accounted for in the income (loss) statement.

9 Borrowings

	31 December 2007 Unaudited	31 December 2006 Audited
Non-current borrowings		
Non-current loan *	15 605	31 211
Current portion of non-current borrowings		
Current portion of non-current loan*	15 605	1 589
Current portion of financial lease**		4 570
Current portion of non-current syndicated loan***	-	6 666
	15 605	12 825
	31 210	44 036

*During the reporting period the Company repaid LTL 12 825 thousand of the loans. It has fully repaid the loans to AB SEB Vilniaus Bankas, AB Bankas Hansabankas and AB DnB NORD Bankas according to Syndicated Loan Agreement No. 846. As of 31 December 2007 non-current portion of the loan amounted to LTL 15 605 thousand and current portion of the loan amounted to LTL 15 605 thousand. The fulfilment of the loan liabilities is secured by the guarantee of the Government of the Republic of Lithuania. According to the loan terms the loans shall be fully repaid by 31 July 2009.

**During the reporting period the Company paid LTL 4 570 thousand of the financial lease payments to UAB Hanza Lizingas and fully repurchased 6 heavy fuel oil storage tanks of 20 000 cubic metres On 31 December 2007 the Company has no obligations with regard to a financial lease.

During the reporting period the Company did not incur any new financial liabilities.

10 Commitments and contingencies

In the financial statements for the year 2006 there was a disclosure of Riverlake Energy (S) PTE LTD lawsuit brought against the Company for USD 1804 thousand compensation of assumed expenses and agreement liabilities performance. In the year 2007 the case was decided and a decision to reject the claim was taken. The plaintiff lodged an appeal against this decision.

In the financial statements for the year 2006 there was also a disclosure of the Company's claim to the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania related to the real estate tax calculation for the period from 2000 till 2004 and a respective fine. With 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 reduction of the period. During the year 2007 the Commission on Tax Disputes under the Government of the Republic of Lithuania took a resolution unfavourable for the Company, however, the Company submitted appeal regarding the resolution to the Vilnius Regional Administrative Court.

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

11 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have 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:

- The Government of the Republic of Lithuania (the Company's shareholder) and companies controlled by it;
- The State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania
- Company's Board's members;
- Company's management.

As of 31 December 2007 and as of 31 December 2006 the Company did not have any payables or receivables from the Government of the Republic of Lithuania and the Company's Board members. During the years 2007 and 2006 the Company has neither accounted nor paid any sums to the Government of the Republic of Lithuania and the Company's Board members, except for dividends paid to the Government of LR, as described in Note 1.

Payables and receivables from the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania are listed below:

	31 December 2007	31 December 2006
	Unaudited	**Audited**
Receivables		
Overpayment of real estate tax	4 478	4 195
Income and social taxes paid in advance	2 082	418
Overpayment of personal income tax	718	733
Overpayment of other taxes	479	100
Payables		
VAT payable	-	-
Trade payables	-	-

<u>Management remuneration and other payments</u>

During the of 2007 remuneration (including bonuses and other payments) in the amount of LTL 1 223,6 thousand were accounted for to the Company's management, including Director General, Production Director, Technical Director, Director of Commerce and Chief Financier (for the 2006 – LTL 1 086 thousand). During the year 2007 the management of the Company did not receive any loans, guarantees, no any other payments or property transfers were made or accrued.

12 Subsequent events

By 31 January 2008 the Company repaid part of the loan in the amount of LTL 7 803 thousand to the banks (AB SEB Bankas, AB Hansabankas, AB DnB NORD Bankas) according to the Loan Agreement. The current portion of the loan in the amount of LTL 7 802 thousand is left for the year 2008.