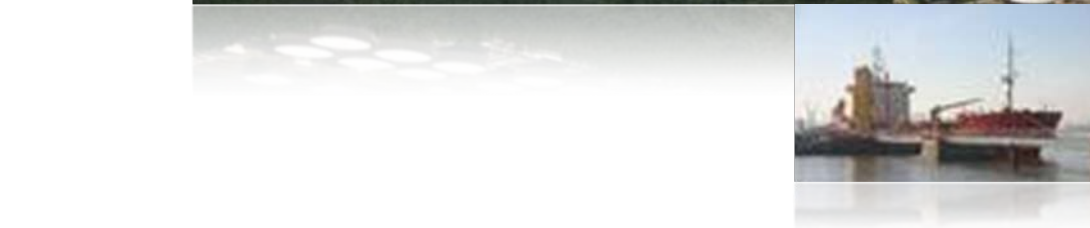
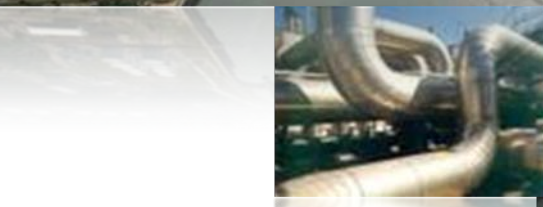


**FINANCIAL STATEMENTS OF SC KLAIPEDOS NAFTA
FOR THE YEAR 2012 PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**



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

Report on the financial statements

We have audited the accompanying financial statements of AB Klaipėdos nafta ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 5 - 45.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on legal and other regulatory requirements

Furthermore, we have read the Annual Report for the year 2012 set out on pages 47 - 75 of the financial statements and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

On behalf of KPMG Baltics, UAB

A handwritten signature in blue ink, appearing to read 'Rokas Kasperavičius', written over a light blue horizontal line.

Rokas Kasperavičius
Partner, pp
Certified Auditor

Klaipėda, the Republic of Lithuania
05 April 2013

Statement of financial position

	Notes	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Non-current assets			<i>(restated)</i>	<i>(restated)</i>
Intangible assets	4	1,354	465	395
Property, plant and equipment	5	444,711	383,399	387,555
Other financial assets	12	-	5,352	8,124
Investment into subsidiaries	7	1,000	-	-
Investment into associates	8	585	427	41
Total non-current assets		447,650	389,643	396,115
Current assets				
Inventories	9	1,134	1,674	4,098
Prepayments		438	223	192
Trade receivables	10	13,579	4,335	4,711
Other receivables	11	4,141	2,565	821
Other financial assets	12	13,234	110,427	38,433
Cash and cash equivalents	13	79,834	9,983	29,501
Total current assets		112,360	129,207	77,756
Total assets		560,010	518,850	473,871




(cont'd on the next page)

Explanatory notes, set out on pages 11-45, are an integral part of these financial statements.

Statement of financial position (cont'd)

	Notes	31 December 2012	31 December 2011 <i>(restated)</i>	31 December 2010 <i>(restated)</i>
EQUITY AND LIABILITIES				
Equity				
Share capital	1	380,606	342,000	342,000
Share premium		13,512	-	-
Legal reserve	14	22,561	19,000	19,000
Reserve for own shares	14	55,000	-	-
Other reserves		23,727	68,043	68,043
Retained earnings		41,006	70,795	25,943
Total equity		536,412	499,838	454,986
Non-current liabilities				
Deferred income tax liability	24	7,194	7,709	8,345
Non-current employee benefits	15	816	785	926
Total non-current liabilities		8,010	8,494	9,271
Current liabilities				
Trade payables	16	7,157	4,671	4,569
Payroll related liabilities	17	3,869	2,559	2,558
Provisions	18	164	493	1,279
Income tax payable		2,524	1,761	214
Prepayments received		53	49	84
Dividends payable		39	39	48
Other payables and current liabilities	19	1,782	946	862
Total current liabilities		15,588	10,518	9,614
Total equity and liabilities		560,010	518,850	473,871




Explanatory notes, set out on pages 11-45, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2013
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2013
Head of Accounting Department	Rasa Gudė		21 March 2013

Statement of comprehensive income

	Notes	<u>2012</u>	<u>2011</u> <i>(restated)</i>
Sales	20	138,881	141,276
Cost of sales	21	<u>(81,336)</u>	<u>(82,913)</u>
Gross profit		57,545	58,363
Operating expenses	22	(10,734)	(7,733)
Other income		<u>108</u>	<u>42</u>
Profit from operating activities		46,919	50,672
Income from financial activities	23	1,847	1,981
Loss from financial activities	23	(116)	(20)
Share of the associate's comprehensive income		<u>108</u>	<u>138</u>
Profit before income tax		48,758	52,771
Income tax expense	24	<u>(7,321)</u>	<u>(7,919)</u>
Net profit		41,437	44,852
Other comprehensive income (expenses)		<u>-</u>	<u>-</u>
Total comprehensive income		41,437	44,852
Basic and diluted earnings (losses) per share, in LTL	25	0.11	0.13




Explanatory notes, set out on pages 11-45, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2013
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2013
Head of Accounting Department	Rasa Gudė		21 March 2013

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Reserve for own shares	Other reserves	Retained earnings	Total
Balance as at 31 December 2010		342,000	-	19,000	-	68,043	25,973	455,016
Change of accounting policy		-	-	-	-	-	(30)	(30)
Balance as at 31 December 2010 (after the change of accounting policy)		342,000	-	19,000	-	68,043	25,943	454,986
Change of accounting policy		-	-	-	-	-	(401)	(401)
Net profit for the year		-	-	-	-	-	45,253	45,253
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	44,852	44,852
Balance as at 31 December 2011 (after the change of accounting policy)		342,000	-	19,000	-	68,043	70,795	499,838
Net profit for the year		-	-	-	-	-	41,437	41,437
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	41,437	41,437
Dividends declared	26	-	-	-	-	-	(56,981)	(56,981)
Transfers between reserves		-	-	3,561	55,000	(44,316)	(14,245)	-
Increase in share capital	14	38,606	13,512	-	-	-	-	52,118
Balance as at 31 December 2012		380,606	13,512	22,561	55,000	23,727	41,006	536,412

Explanatory notes, set out on pages 11-45, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2013
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2013
Head of Accounting Department	Rasa Gudė		21 March 2013

Cash flow statement

	Notes	<u>2012</u>	<u>2011</u>
			<i>(restated)</i>
Cash flows from operating activities			
Net profit	25	41,437	44,852
Adjustments for noncash items:			
Depreciation and amortization	21,22	22,990	22,782
Change in vacation reserve		438	6
Impairment and write-off of non-current tangible assets		1,029	66
Change in employee benefit liabilities		31	(141)
Change in allowance for doubtful receivables	12	(4)	(4)
Accrued emission rights		(329)	(376)
Share of profit of equity-accounted investees		(108)	(138)
Accrued income		(926)	(756)
Reserve of restructuring		-	(547)
Profit on sale of property, plant and equipment		-	(26)
Other non-cash adjustments		-	12
Income tax expenses		7,321	7,914
Interest income	23	<u>(1,817)</u>	<u>(1,886)</u>
		70,062	71,758
Changes in working capital:			
(Increase) decrease in inventories		540	2,424
Decrease (increase) in prepayments		(215)	(31)
Decrease (increase) in trade and other accounts receivable		(9,244)	376
Decrease (increase) in other receivables		(1,834)	(624)
Increase (decrease) in trade and other payables		2,525	(460)
(Decrease) increase in prepayments received		4	(35)
Increase (decrease) in other current liabilities and payroll related liabilities		(125)	70
		<u>61,713</u>	<u>73,478</u>
Income tax (paid)		(5,235)	(7,008)
Interest received		931	530
Net cash flows from operating activities		<u>57,409</u>	<u>67,000</u>
Cash flows from investing activities			
(Acquisition) of property, plant, equipment and intangible assets		(39,948)	(18,627)
(Acquisition) of Investments held-to-maturity		(429,257)	(112,619)
Sales of investments held-to-maturity		533,051	44,363
Acquisition of other investments		(1,050)	(260)
Sale of non-current assets		-	625
Net cash flows from investing activities		<u>62,796</u>	<u>(86,518)</u>




(cont'd on the next page)

Explanatory notes, set out on pages 11-45, are an integral part of these financial statements.

Cash flow statement (cont'd)

	Notes	<u>2012</u>	<u>2011</u> <i>(restated)</i>
Cash flows from financing activities			
Increase in share capital		6,627	-
Dividends (paid)	26	<u>(56,981)</u>	-
Net cash flows from financing activities		<u>(50,354)</u>	-
Net increase (decrease) in cash flows		69,851	(19,518)
Cash and cash equivalents on 1 January		<u>9,983</u>	<u>29,501</u>
Cash and cash equivalents on 31 December		<u>79,834</u>	<u>9,983</u>

Explanatory notes, set out on pages 11-45, are an integral part of these financial statements.

<u>General Manager</u>	<u>Rokas Masiulis</u>		<u>21 March 2013</u>
<u>Director of Finance and Administrative Department</u>	<u>Mantas Bartuška</u>		<u>21 March 2013</u>
<u>Head of Accounting Department</u>	<u>Rasa Gudė</u>		<u>21 March 2013</u>

Explanatory notes to financial statements

1 General information

SC Klaipėdos Nafta (hereinafter referred to as “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, 91003 Klaipėda, Lithuania.

The main activities of the Company – transshipment of oil products and other related services.

The Company was established by SC Naftos Terminalas (Lithuania) and Lancater Steel Inc. (USA) acquiring 51 and 49 percent of shares respectively. The Company was registered on 27 September 1994.

As of 31 December 2012 all the shares were owned by 1,858 shareholders. The Company’s share capital – LTL 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) is fully paid. It is divided into 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) ordinary shares with a par value of one (1) LTL. 72.32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during the year 2012. The Company’s shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange.

As of 31 December 2012 and 31 December 2011 the shareholders of the Company were:

	31 December 2012		31 December 2011	
	Number of shares held (thousand)	Part of ownership (%)	Number of shares held (thousand)	Part of ownership (%)
Government of the Republic of Lithuania represented by the Ministry of Energy	275,241	72.32	241,544	70.63
UAB Concern Achema Group	38,975	10.24	32,766	9.58
Other (less than 5 per cent each)	66,390	17.44	67,690	19.79
Total	380,606	100.00	342,000	100.00

The average number of employees in 2012 was 327 (308 – in 2011).

2 Accounting principles

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 for preparation of the financial statements

Statement of compliance

Annual 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).

Effect of application of new standards and their amendments as well as new interpretations on the Financial Statements

The applied accounting principles set out below have been applied consistently to all periods presented in these financial statements except for the new / revised standards and interpretations the Company has implemented which are effective as for financial periods beginning on or after 1 January 2012:

2 Accounting principles (cont'd)

- Amendments to IAS 1 *“Presentation of financial statements. Presentation of other comprehensive income components”* (Effective for annual accounting periods beginning on or after 1 July 2012. Applied retrospectively). The amendments require that an economic entity present those of other comprehensive income articles which might in future be reclassified to the profit (loss) statement separately from those which will never be reclassified. If other comprehensive income articles are presented before deducting related taxes, the total amount of the taxes must be distributed between these sections. The statement’s name *“Statement of comprehensive income”* is changed into the *“Statement of income (loss) and other comprehensive income”*, but it is allowed to use other names too. The amendments are not relevant to the Company’s financial statements, because the economic entity has not reported other comprehensive income.

Adoption of new and/or amended IAS, IFRSs and IFRIC interpretations

Several new and revised International Financial Reporting Standards and interpretations have been issued, will be mandatory for financial reporting periods starting from 1 January 2013 and subsequent years. The Company has decided not to adopt these new standards and interpretations early. Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Company’s Management, are stated below:

- IAS 19 (2011) *“Employee benefits”* (Effective for annual accounting periods beginning on or after 1 January 2013. Applied retrospectively.). According to the amendment it is required that actuarial gains and losses be immediately recognized within other comprehensive income. The amendment repeals the “corridor” method previously applied to the recognition of actuarial gains and losses and eliminates the option to recognize all of the defined benefit obligations and changes of the plan’s assets within the income (loss) statement, what is currently allowed by the requirements of IAS 19. The amendment also requires that the expected return of the plan’s assets recognized within the profit (loss) statement be calculated on the basis of the discount rate applied to the defined benefit obligation. If the Company applied the amendments from 1 January 2012, its defined benefit obligation will decline by 816 thousand LTL and the retained earnings and deferred income tax liabilities as at 31 December 2012 would consequently increase by 122 thousand LTL and 122 thousand LTL respectively.

- 13 IFRS *“Fair value measurement”* (Applicable prospectively to annual accounting periods beginning on or after 1 January 2013.) IFRS 13 replaces the fair value measurement guideline by one source of the fair value measurement guideline presented within the separate IFRS. It defines the fair value, establishes a system of fair value measurement and sets out information about the requirements of fair value measurement disclosure. IFRS 13 explains how to determine the fair value, when it is required or permitted by other IFRSs. The standard does not present new requirements of assets and liabilities assessment by the fair value; it does not repeal practicability exceptions for assessment by the fair value established in particular standards. The standard provides a detailed system of information disclosure, in which additional requirements of information disclosure are established, which could enable users of financial statements to assess methods and data used to determine the fair value and when the fair value is re-determined using significant unobservable data – the impact of these disclosures on profit or loss or other comprehensive income. The Company does not consider that IFRS 13 will have a significant impact on the financial statements, because the management determines that the methods and assumptions used to determine the fair value correspond to the requirements of IFRS 13.

- Amendments to IFRS 7 *“Disclosures” – “Transfers of financial assets and financial liabilities”*. (Effective for annual accounting periods beginning on or after 1 January 2013 and for interim periods of these annual accounting periods. Applied retrospectively.). The amendments determine new requirements of disclosure related to financial assets and liabilities, which are offset within the statements of financial condition; or they are subject to the general offset agreement or similar agreements. The Company does not believe that these amendments will have an impact on the financial statements, as it does not offset its financial assets and liabilities and has not concluded general offset agreements.

- Amendments to IAS 12 *“Deferred tax. Recovery of underlying assets”*. (Effective for annual accounting periods beginning on or after 1 January 2013. Applied retrospectively.). These amendments introduced a rebuttable presumption that the balance value of the investment property measured at fair value can be recovered only by selling that property. The management’s intention would not be important except for those cases, when the investment property is depreciated and is held according to a business model which aims to utilize all economic benefits related to the investment property during its useful life. This is the only case, when this presumption may be rebutted. The

Company assumes that these amendments will not have an impact on the financial statements, as the Company does not have deferred tax assets and liabilities related to the investment property, measured at fair value in accordance with IAS 40.

- IFRS 10 *“Consolidated financial statements”* and IAS 27 (2011) *“Separate financial statements”*. (Effective for annual accounting periods beginning on or after 1 January 2014. Earlier application is permitted, if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied earlier.). IFRS 10 provides a general model that is applicable to all economic entities in which investments are made, within the control analysis, including economic entities that are currently considered as companies of a special purpose according to the interpretation of SIC 12. IFRS 10 provides new requirements of control evaluation that differ from the requirements set in IAS 27 (2008).

2 Accounting principles (cont'd)

According to the new general control model, the investor controls over the economic entity in which investments are made, when: it either can or have the right to receive variable returns from its relationship with the economic entity, in which the investments are made; it may affect that the return on the exercise of its power to govern the economic entity, in which investments are made; and there is a relation of power to manage and the return. The new standard also includes the requirements of disclosure and the requirements related to the preparation of the consolidated financial statements. These requirements are transferred from IAS 27 (2008). The Company assumes that the new standard will not have an impact on the financial statements as control assessment of the economic entities, in which investments are made, under the new standard should not change the previous conclusions on control of the Companies, in which investments are made.

▪ IFRS 11 *“Joint arrangements”* (Effective for annual accounting periods beginning on or after 1 January 2014. Applied retrospectively in accordance with the provisions of transitional period. Earlier application is permitted, if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied earlier.). IFRS 11 *“Joint arrangements”* repeals and replaces IAS 31 *“Interests in joint ventures”*. IFRS 11 does not provide the essential changes of the definition of the “jointly controlled activity”, although the definition of the “control”, and together indirectly also the definition of the “joint control” has changed due to IFRS 10. According to the new standard, two types of joint arrangements are distinguished and different accounting model is applied for each of them:

- ✓ joint arrangements – when jointly controlling parties so-called executors of joint arrangements have the rights to the assets of that activity and liabilities to fulfill the obligations related to that activity;
- ✓ joint venture – when jointly controlling parties so-called partners of joint venture have the rights to the net assets of that activity.

IFRS 11 excludes from IAS 31 “jointly controlled entities” those cases in which such a distinction in some cases is not effective, although for joint arrangements is foreseen a certain structure. Such activity is considered as similar to the jointly controlled assets and (or) activity under IAS 31, and now is called as the joint activity. The remained jointly controlled entities referred to IAS 31 now are called as joint ventures cannot choose freely which method to use: equity or proportionate consolidation method; now they must always use the equity method in their consolidated financial statements. The Company assumes that IFRS 11 will not have a significant impact on the financial statements, because it is not a party of any joint agreements.

▪ IFRS 12 *“Disclosure of interests in other entities”* (Effective for annual accounting periods beginning on or after 1 January 2014. Applied retrospectively.). IFRS 12 requires disclosure of additional information relating to the significant decisions and assumptions, made in determining the nature of owned interests in the entity or structure, nature of owned interests in subsidiaries, joint arrangements and associated companies and unconsolidated structural entities. The Company assumes that the new standard will not have a significant impact on the financial statements.

▪ IAS 27 (2011) *“Separate financial statements”* (Effective for annual accounting periods beginning on or after 1 January 2014. Earlier application is permitted, if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied earlier.). IAS 27 (2011) provides the requirements of IAS 27 (2008) accounting and disclosure for separate financial statements with small explanations. In addition, IAS 27 (2011) includes the requirements of IAS 28 (2008) and IAS 31 for separate financial statements. The standard does not analyze control principle and the requirements, related to preparation of consolidated financial statements included in IFRS 10 *“Consolidated financial statements”*. The Company assumes that IAS 27 (2011) will not have a significant impact on the financial statements, because the economic entity’s accounting policy is not being changed.

▪ IAS 28 (2011) *“Investments in associated companies and joint ventures”* (Effective for annual accounting periods beginning on or after 1 January 2014. Applied retrospectively). Earlier application is permitted, if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied earlier.). Small amendments have been made to IAS 28 (2008):

- ✓ Associated companies and joint ventures held for sale. The investment in an associated or joint venture, or such portion of the investment that meets the designation criteria of assets held for sale, the entity shall apply IFRS 5 “Non-current assets held for sale and discontinued operations”. Any held part of investment not classified as held for sale must be accounted by using the equity method up to transfer of the part that is classified as held for sale. After the transfer, the economic entity must account any retained part by using the equity method, if that retained part continues to be an associate or joint venture.
- ✓ *Change of property part in associated or joint venture.* Previously, within IAS 28 (2008) and IAS 31 it has been interpreted that due to significant impact or termination of joint control in all cases it is necessary to re-evaluate the retained property part, even if the significant impact has been reached due to the joint control. Now, according to IAS 28 (2011) it is stated that under these circumstances the retained part of investment does not require the re-evaluation.

The Company assumes that the amendments to the standard will not have a significant impact on the financial statements, because the economic entity does not have investments in associated or joint ventures, which would be affected by the mentioned amendments.

2 Accounting principles (cont'd)

- Amendments to IAS 32 *“Offsetting financial assets and financial liabilities”* (Effective for annual accounting periods beginning on or after 1 January 2014. Applied retrospectively. Earlier application is permitted, but it is required to disclose additional information in accordance with the amendments to IFRS 7). The amendments do not impose a new rule of offsetting financial assets and financial liabilities, but the offset's criteria are explained there, which are applied in case of discrepancies in their application. The amendments interpret that currently the economic entity has a legally enforceable right of offset, if this right: does not depend on the event in future; and legally enforceable by the entity and all counterparties under normal operating conditions as well as in the case of default, insolvency or bankruptcy. The Company assumes that the amendments to the standard will not affect the financial statements, because the economic entity does not perform the offsetting financial assets and financial liabilities and has not concluded general offset agreements.

2.2. Foreign currency

Functional currency

The amounts shown in these financial statements are measured and presented in local currency, Litas (LTL), which is the functional currency of the Company. Since 2 February 2002, the Litas has been pegged to the Euro at the rate of LTL 3.4528 = EUR 1.

Transactions and balances

Foreign currency transactions are converted 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 conversion of monetary assets and liabilities denominated in foreign currencies using the exchange rate available at the reporting date are recognised in the statement of comprehensive income as finance income or expenses.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are converted into Litas at foreign exchange rates available at the dates the values were determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are converted using the exchange rate available at the date of the transaction.

2.3. Operating segments

Business segment – a separated business constituent part, the business risks and profitability of which differ from other business constituent parts.

The Management making strategic decisions consists of a leading person adopting decisions responsible for distribution of the Company's resources and evaluation of activity's results of the business segments.

The Management of the Company has identified the following business segments:

- KN – oil terminal in Klaipėda supplying oil products, providing transshipment and other related services.
- LNG terminal – strategic project of the Republic of Lithuania, implementation of which will create an alternative source for OAO Gazprom's natural gas in Lithuania. The project shall involve procurement of floating storage and regasification unit, construction of the jetty and installation of superstructure, dredging of jetty's access, building of gas pipeline and all other costs of the project implementation.
- SFB - Subačius fuel base in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers.

2.4. Investments into subsidiaries

The Company investments into subsidiaries accounts at cost. A subsidiary is an entity that is controlled by the Company. The financial statements of the subsidiary are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. The Company determines at each reporting date whether it is necessary to recognise an additional impairment loss on the Company's investment in its subsidiary. The Company determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the Statement of Comprehensive income.

2 Accounting principles (cont'd)

2.5. Investment into associates

The Company accounts for investments into associates using the equity method. An associate is an entity in which the Company has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting rights of another company.

Under the equity method the investment in the associate is carried in the Statement of Financial position at cost plus post acquisition changes in the Company's share of the associate's net assets. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The share of profit of an associate is shown on the face of the Statement of comprehensive income. This is the profit attributable to equity holders of the associate and, therefore, is recorded below profit after tax and including non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. After application of the equity method the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "Result of an associate" in the Statement of Comprehensive income.

Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest to investee. Unrealized losses are eliminated the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2.6. 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.

2.7. Property, plant and equipment

Assets are attributed to property, plant and equipment if their useful life exceeds one year. Non-current tangible assets 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 capitalised borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after non-current tangible assets have been put into operation, such as repair and maintenance costs, are normally charged to profit or loss in the period the costs are incurred.

Depreciation is calculated on a straight-line basis over the following estimated useful lives (in years):

Buildings and structures:	7 - 70
Buildings	40 - 51
Storage tanks 5.000 m ³	15 - 21
Storage tanks 20.000 m ³	43
Reinforced concrete bridges	70
Rail gantry	55 - 65
Machinery and equipment:	3 - 40
Petrol vapour combustion units; heat-exchangers	11 - 39
Marine loading arms	12
Other non-current tangible assets:	3 - 40
Technological pipelines	40 - 41
Control cables	12

2 Accounting principles (cont'd)

Parts of an item of non-current tangible assets have different useful lives, they are accounted for as separate items (major components) of non-current tangible assets.

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 non-current tangible assets.

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.

When non-current tangible assets are 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 statement of comprehensive income. Gains and losses on disposal of property, plant and equipment are determined as a difference between proceeds and the carrying amount of the non-current tangible assets disposed.

2.8. Financial assets – initial recognition and assessment

Initial recognition and assessment

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. The Company establishes classification of financial assets on initial recognition.

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 of the Company include cash and short-term deposits, trade debts and other receivables, loans and other receivables, held-to-maturity investments.

Subsequent measurement

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

Financial assets and financial liabilities classified in this category are designated by the 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 measured in the statement of financial position at fair value. Related profit or loss on revaluation is charged directly in the statement of comprehensive income. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively. The Company not had such financial assets or financial liabilities in 2012 and 2011.

Held-to-maturity investments

Financial assets (which are non-derivative financial instruments) 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 held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables (which are non-derivative financial instruments) are 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 statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2 Accounting principles (cont'd)

Available-for-sale financial assets

Available-for-sale financial assets are financial assets (which are non-derivative financial instruments) 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 statement of comprehensive income.

2.9. 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 not transferred 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.

2.10. 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 legally 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. Benefits recognised are recognised at present value discounted using market rate.

The present value of defined benefit obligation is determined by discounting estimated future cash flows based on the interest rate of the long-term Lithuanian Government's bonds, expressed in the same currency as the benefits with a repurchase period similar to that of the planned payment period. Actuarial gains or losses are at once recognised through the Statement of profit (loss). From 1 January 2013, actuarial profit and loss will be recognised in other comprehensive income directly.

2.11. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is estimated taking the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. The cost of inventories consists of 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 is written-off.

2 Accounting principles (cont'd)

2.12. Cash and cash equivalents

Cash includes cash in bank accounts. 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, deposits held at call with banks, and other short-term highly liquid investments with maturities of less than three months.

2.13. Borrowings

Borrowing costs in relation to loans for acquisition of property, plant and equipment are recognised as part of transaction costs and added to the acquisition cost of the asset accordingly.

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 Statement of Comprehensive income over the period of borrowings.

2.14. Financial and operating lease

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.

Financial lease

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized 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 the Statement of Comprehensive income.

Capitalized 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 recognized as expenses in the Statement of Comprehensive income on a straight line basis over the lease term.

A lease contract for operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit with Höegh LNG Ltd. signed by the Company on 2 March 2012 meets the criteria of finance lease.

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 statement of financial position of the Company are accounted for depending on the type of assets. Income from operating lease is recognised as other income in the statement of comprehensive 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.

2.15. 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, also adjustments in respect of prior years. The tax rates used to compute the amount are those that are enacted by the date of the Statement of Financial position.

2 Accounting principles (cont'd)

An income tax expense comprises current and deferred income tax. Charge is based on profit for the year and considers deferred taxation after assessment of deferred income tax. Income tax is calculated based on the Lithuanian tax legislation.

The effective income tax rate applicable for companies of the Republic of Lithuania in 2012 was 15 % (15 % - in 2011).

Tax losses can be carried forward for an unlimited period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 5 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 income tax is recognized in respect to 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 reporting date.

A deferred tax asset is recognised in the Statement of Financial position 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.

2.16. Dividends

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

2.17. 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 profit (loss) per share, there is no difference between the basic and diluted earnings per share.

2.18. Provisions

General

Provisions are recognised when the Company has a present legal or constructive obligation in respect of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Company expects the provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Expenditures related to the provisions reconciled with recoverable provisions are recognised through the Statement of Comprehensive income.

Restructuring

A restructuring provision can only be recognised if it corresponds to all the criteria of the general provision. The Company shall follow a detailed and formal business plan or part of it, influenced by the location and number of employees, a detailed calculation of the related expenses and the time period required. The associated employees shall have a clear understanding about implementation of the plan of restructuring or that the process has already commenced.

Greenhouse gas (GHG) emissions

On the initiative of the United Nations Organisation, 55 countries concluded an agreement (Kyoto protocol) with a view to reduce the greenhouse gas emissions into the atmosphere by introducing financial incentives for reduction of environment pollution by greenhouse gases.

The European Union has passed the European Parliament and Council directive 2003/87/EC which determines the trading system of emission rights for greenhouse gas emissions in the Community. According to the system, national governments of participating countries are responsible for allocation of a limited number of emission rights to local companies emitting greenhouse gases. An emission certificate rights provides a right to emit certain relative amount of greenhouse gases (e.g. during 2005-2007 one emission rights provides a right to emit 1 ton of carbon dioxide (CO₂)). There is an active market for trading in emission rights (so called climate exchanges).

2 Accounting principles (cont'd)

Companies participating in the scheme are obliged to report their actual pollution for each calendar year. The first period starts from 2005 and ends in 2007 and another period starts from 2008 and ends in 2012. Companies that participate in the project from 2005 are obliged to report about real extent of pollution of each calendar year. When available allowances are not sufficient to cover actual pollution, then a penalty of EUR 100 per ton of carbon dioxide should be paid for the excess (applicable for the period 2008 - 2012).

The Company applies a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at a nominal (null) amount, as it is allowed by IAS 20 "Accounting of subsidy of the state and presentation of the state support in the statements". Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held. Costs of allowances are recorded under cost of sales caption in the Statement of Comprehensive income.

Allowances purchased from the third countries are accounted for by cost price method and are treated as recoverable rights according to which they are reconciled with EUA liability and revalued by fair value and the change in fair value is recorded in the Statement of income.

2.19. Revenue recognition

Revenues are recognized if it is expected that the Company will get economic benefit associated with a transaction and when the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenues from oil transhipment

The Company recognises revenues from oil transhipment taking into account the stage of services provided. The level of service provided is measured as percentage of transhipment cost expenses from the total cost of services. In the case reliable evaluation of the service agreement is impossible, the revenues are recognised only as a part of expenses incurred that can be compensated.

Sales of goods

Revenues from sales of goods are recognised upon delivery and transfer of risks of products and customer acceptance.

2.20. 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.

2.21. Impairment of assets

Financial assets

Financial assets are reviewed for objective evidence of impairment at each statement of financial position date. The financial asset is impaired if there is an objective evidence of impairment as a result of a loss event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset that can be reliably estimated.

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 statement of comprehensive income. 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 statement of comprehensive income. 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.

2 Accounting principles (cont'd)

In relation to trade and other receivables, an allowance 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 contract. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Financial asset not assessed at fair value in the profit or loss is revised at each reporting date in order to assess its impairment. The financial asset is impaired if there is an objective evidence of impairment as a result of a loss event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Non-financial assets

The Company reviews at each reporting date the carrying amounts of non-financial asset, excluding inventories and deferred income tax assets, in order to assess whether an indication of impairment exists. If such indication exists the Company estimates the asset's recoverable amount.

Non-financial 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 statement of comprehensive income. 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 statement of comprehensive income as the impairment loss.

Recoverable amount of an asset or cash-generating unit is its value in use or costs to sell depending which is greater. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For impairment testing the asset that cannot be assessed individually is grouped into the minimum asset's group generating cash inflows during continuous use and that is independent from other asset or asset's groups generating cash flows (cash generating unit or CGU).

Where the carrying amount of an asset exceeds its recoverable amount the impairment loss is recognised in profit or loss. Impairment losses related to the value of CGU are proportionally attributed to decrease the carrying amount of the asset, prescribed to the unit (unit group).

Previously recognised impairment losses are reversed only if there is any indication that such losses no longer exist or have decreased. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined net of depreciation or amortisation had no impairment loss been recognised for the asset in prior years. The reversal is accounted in the same caption of the statement of comprehensive income as the impairment loss.

2.22. Use of estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires the Management to make estimates and assumptions that affect the application of accounting principles and figures related to assets, liabilities, income and expenses. The estimates and assumptions are based on historic experience and other factors complying with existing conditions and based on the results of which a conclusion is being made regarding carrying amounts of assets and liabilities that could not be derived at from any other resources. Actual results can differ from calculations.

Estimates and assumptions are regularly revised and are based on historic experience as well as on other factors including future expectations which are believed to be based on the existing circumstances.

Information on critical estimates and assumptions are detailed below:

Impairment losses of property, plant and equipment

The Company assesses at each reporting date the carrying amounts of property, plant and equipment whether there is any indication that an asset may be impaired. If such an indication exists the Company estimates the asset's recoverable amount. For impairment testing the asset, that is cash-generating in the continuous use and is independent from other asset or asset groups generating cash flows (cash generating unit or CGU), is grouped into the smallest group.

2 Accounting principles (cont'd)

The recoverable amount is calculated as one of the greater of two values: the value in use and net sales value. The value in use is calculated by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount of the asset, that is not cash-generating, is assessed according to the recoverable amount of the cash-generating unit that owns this asset.

Impairment losses of receivables

The Company at least once per quarter evaluates impairment of receivables. The Company assesses whether there is any indication of decrease of future cash flows related to the receivables portfolio until impairment of the specific receivable in this portfolio will be estimated.

Information demonstrating negative change in loan repayment, economic conditions of the country or region, affecting the receivables of the Company can serve as evidence.

The Management estimates possible cash flows from debtors following its historic experience of losses, associated with risks of receivables or similar credit. Methods and assumptions applied for estimation of the amount and time of future cash flows are revised regularly for minimising differences between the calculated and actual amount of loss.

Useful lives of immovable property, plant and equipment

Useful lives of assets are revised every year and if necessary are adjusted to reflect the present estimation of the rest useful life taking into account technological changes, economic use of the asset in the future and its physical condition.

Determining whether an arrangement contains a lease

At inception of an arrangement the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- The fulfilment of the arrangement is dependent on the use of the specific asset or assets and;
- The arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. The assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expenses in the period that such determination is made.

2.23. Contingencies

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

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.

2.24. Subsequent events

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

2.25. Offsetting

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 Change in accounting policy and comparative figures

In order to reveal financial position of the Company and the results of the activity more accurate, accounting policy was changed on 31 December 2012. The Management of the Company decided that costs incurred during LNG terminal project which, according to 16 IAS criteria, are not capitalised, will be allocated to 2010 – LTL 35 thousand, and 2011 – LTL 473 thousand operating expenses and accounted for in articles of operating expenses of the statement of comprehensive income.

Statement of financial position

	31 December 2010	Change in accounting policy	31 December 2010	31 December 2011	Change in accounting policy	31 December 2011
			(restated)			(restated)
ASSETS						
Tangible assets	387,590	(35)	387,555	383,872	(473)	383,399
Other articles on assets	86,316	-	86,316	135,451	-	135,451
Total assets	473,906	(35)	473,871	519,323	(473)	518,850
EQUITY AND LIABILITIES						
Retained earnings	25,973	(30)	25,943	71,196	(401)	70,795
Income tax liabilities	219	(5)	214	1,833	(72)	1,761
Other articles of liabilities and equity	447,714	-	447,714	446,294	-	446,294
Total equity and liabilities	473,906	(35)	473,871	519,323	(473)	518,850

Statement of comprehensive income

	31 December 2010	Change in accounting policy	31 December 2010	31 December 2011	Change in accounting policy	31 December 2011
			(restated)			(restated)
Operating expenses	(17,002)	(35)	(17,037)	(7,260)	(473)	(7,733)
Other articles of statement of comprehensive income	46,753	-	46,753	60,504	-	60,504
Income tax expenses	(3,654)	5	(3,649)	(7,991)	72	(7,919)
Net profit	26,097	(30)	26,067	45,253	(401)	44,852

4 Intangible assets

	Software
Acquisition cost:	
Balance as of 31 December 2010	1,408
Acquisitions	58
Transfers from construction in progress	208
Sold and written-off property	(60)
Balance as of 31 December 2011	1,614
Acquisitions	167
Transfers from non-current tangible assets	1,300
Retirements and disposals	(13)
Balance as of 31 December 2012	3,068
Accumulated depreciation and impairment:	
Balance as of 31 December 2010	1,013
Depreciation for the year	196
Sold and written-off property	(60)
Balance as of 31 December 2011	1,149
Depreciation for the year	239
Depreciation transferred from non-current tangible assets	339
Sold and written-off property	(13)
Balance as of 31 December 2012	1,714
Net book value as of 31 December 2012	1,354
Net book value as of 31 December 2011	465
Net book value as of 31 December 2010	395

The amortisation charge of the Company's non-current intangible assets for the year 2012 amounts to LTL 239 thousand (LTL 196 thousand – in 2011). LTL 173 thousand of amortisation charge have been included into cost of sales (LTL 192 thousand - in 2011) and the remaining amount has been included into operating expenses.

5 Property, plant and equipment

	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Construction in progress	Total
Acquisition cost:					
Balance as of 31 December 2010 (restated)	405,669	332,141	13,284	4,909	756,003
Acquisitions	57	678	146	18,504	19,385
Retirements and disposals	(1,964)	(3,388)	(297)	(22)	(5,671)
Reclassification into reserves	-	-	-	(60)	(60)
Transfers into intangible assets	-	-	-	(208)	(208)
Transfers from construction in progress	1,910	3,845	105	(5,860)	-
Balance as of 31 December 2011 (restated)	405,672	333,276	13,238	17,263	769,449
Acquisitions	38,884	5,769	883	40,517	86,053
Retirements and disposals	(2,280)	(2,400)	(432)	-	(5,112)
Transfers into non-current intangible assets	-	(1,096)	(204)	-	(1,300)
Reclassifications	312	4,677	-	(4,989)	-
Balance as of 31 December 2012	442,588	340,226	13,485	52,791	849,090
Accumulated depreciation and impairment:					
Balance as of 31 December 2010	158,250	199,083	10,856	259	368,448
Depreciation for the year	10,988	10,819	779	-	22,586
Retirements and disposals	(1,964)	(2,789)	(291)	-	(5,044)
Impairment for the year	-	60	-	-	60
Reclassifications	-	(353)	353	-	-
Balance as of 31 December 2011	167,274	206,820	11,697	259	386,050
Depreciation for the year	11,509	10,515	727	-	22,751
Retirements and disposals	(2,029)	(2,399)	(431)	-	(4,859)
Impairment for the year	131	191	20	434	776
Depreciation transferred to non-current intangible assets	-	(202)	(137)	-	(339)
Balance as of 31 December 2012	176,885	214,925	11,876	693	404,379
Net book value as of 31 December 2012	265,703	125,301	1,609	52,098	444,711
Net book value as of 31 December 2011	238,398	126,456	1,541	17,004	383,399
Net book value as of 31 December 2010	247,419	133,058	2,428	4,650	387,555

5 Property, plant and equipment (cont'd)

The company has completed modernisation (installation works) on trestle's road No. 2 of discharge system of heavy oil products and started exploitation within 2012. Total value of the object is LTL 5,332 thousand. In 2012 the Company has continued works in the following objects:

- **Liquefied natural gas terminal project.** On 30 June 2011 SC Klaipėdos Nafta signed an Agreement with the Lead Adviser for preparation and implementation of liquefied natural gas (LNG) terminal's project – an international company FLUOR. The Extraordinary General Shareholders' Meeting of SC Klaipėdos Nafta held on 27 July 2011 approved the conclusion of the Agreement. The Agreement provides for the Lead Adviser during four years to prepare the technical development plan of the Project, assist in selection of technologies, perform actions in order to get obligatory permits, solve the matters related to the safety of the project, navigation as well as other issues associated with the technical implementation of the Project. Further, the Adviser will perform works related to the economic part – will produce business model of the Terminal, financial model and develop strategy of the Terminal's performance. The Adviser will also supervise technical realization of the Project during its entire execution period - until the end of 2014 when the Terminal will start its activities.

As of 31 December 2012 the construction in progress of LNG Terminal's project amounted to LTL 35,598 thousand – the major part of which was payments of LTL 25,103 thousand paid according to the Agreement to the Lead Adviser for preparation and implementation of liquefied natural gas terminal's project as well as for legal and other research services.

- **Reconstruction of HFO (i.e. heavy fuel oil products) storage tank park,** which involves demolishing of 4 storage tanks with the capacity 5,000 m³ and construction of 2 storage tanks with the capacity 32,250 m³. The investment will increase flexibility of the Company's reloading activities thus enabling to reload additional flows of oil products and will make the Terminal more attractive to its clients by giving them an opportunity to accumulate greater batches (up to 90 thousand tonnes) of the products. The investment amounts to LTL 29 million. The Company intends to complete construction at the end of 2013. The total value of the works performed amounted to LTL 3,869 thousand.

At the site of the universal storage tanks under construction the Company plans updating of the piping of the existing storage tanks of oil products that will provide technical possibility to accommodate part of the HFO storage tanks for reloading of LFO (i.e. light oil products).

- **Utilization of carbohydrate vapours from railway trestles.** On 10 June 2010 the Company started its investment project "Procurement of vapour recovery unit" after implementation of which the environment pollution will be reduced. On 29 September 2011 the Contract was concluded with "John Zink International Luxembourg SARL" regarding procurement of the equipment. The major part of the equipment under the Agreement was delivered in the third quarter of 2012, a part of construction works has been accomplished, owner-contractor agreement and contract for installation of electrical and automation equipment have been concluded. The Company has already invested LTL 5,042 thousand into this project. The total amount of investments into the project "The Procurement of vapour recovery unit" will amount about LTL 7,000 thousand.
- **Updating of HFO unloading system of rail gantry track 1.** The total value of the works performed amounted to LTL 4,964 thousand.

According to decision No. 204, dated 15 February 2012, of the Government of the Republic of Lithuania "On the investment of state-owned property and the increase of the authorized capital of AB "Klaipėdos nafta" and Agreement on shares which was made on 11 June 2012 between the Company and the Republic of Lithuania, represented by the Ministry of Energy, the authorized capital of the Company was increased by monetary and non-monetary contributions of the shareholders. The Ministry of Energy paid to the Company for the shares by non-monetary contribution of the agreement by transferring fixed tangible assets which are located in Subacius Oil Products Terminal. The total value of transferred non-current tangible assets amounted to LTL 45,491 thousand.

The depreciation charge of the Company's property, plant and equipment for the year 2012 amounts to LTL 22,751 thousand (LTL 22,586 thousand – in 2011). LTL 22,609 thousand of depreciation charges have been included into cost of sales (LTL 22,474 thousand – in 2011), LTL 92 thousand of depreciation charges have been reclassified into inventories (LTL 127 thousand – in 2011) and the remaining amount has been included into operating expenses.

Part of the property, plant and equipment with the acquisition cost of LTL 78.142 thousand as on 31 December 2012 was completely depreciated (LTL 61.431 thousand on 31 December 2011) however it was still in operation.

In 2012 the Company revised its property, plant and equipment and accounted for the impairment of LTL 776 thousand for the assets that is no longer used due to the changed technological conditions. In 2011 the Company accounted for the impairment of LTL 60 thousand for the assets.

6 Information about segments

The Management of the Company has the following business segments:

- KN – oil terminal in Klaipėda supplying oil products, providing transshipment and other related services.
- LNG terminal – strategic project of the Republic of Lithuania, implementation of which will create an alternative source for Gazprom’s natural gas in Lithuania. The project shall involve procurement of floating storage and regasification unit, construction of the jetty and installation of superstructure, dredging of jetty’s access, building of gas pipeline and all other costs of the project implementation.
- SFB - Subačius fuel base in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers.

Main indicators of the business segments of the Company included into the statement of comprehensive income for the financial year as of 31 December 2012 and Statement of financial position as of 31 December 2012, are described below:

31 December 2012	SGDT	SKB	KN	Total
Revenues from external customers	-	2,620	136,261	138,881
Profit before income tax	(1,497)	521	49,734	48,758
Segment net profit	(1,497)	443	42,491	41,437
Interest revenue	-	-	1,817	1,817
Interest expense	-	-	-	-
Depreciation and amortisation	(19)	(701)	(22,270)	(22,990)
Net profit (loss) in associated companies	-	-	108	108
Impairment of assets	-	(569)	(207)	(776)
Acquisitions of non-current assets	22,418	45,924	12,655	80,997
Segment total assets	34,689	45,687	479,634	560,010
Segment total liabilities	772	540	22,286	23,598

31 December 2011	SGDT	SKB	KN	Total
Revenues from external customers	-	-	141,276	141,276
Profit before income tax	(514)	-	53,285	52,771
Segment net profit	(514)	-	45,366	44,852
Interest revenue	-	-	1,886	1,886
Interest expense	-	-	-	-
Depreciation and amortisation	(6)	-	(22,776)	(22,782)
Net profit (loss) in associated companies	-	-	138	138
Impairment of assets	-	-	(60)	(60)
Acquisitions of non-current assets	12,180	-	3,966	16,146
Segment total assets	12,180	-	506,670	518,850
Segment total liabilities	8,174	-	10,838	19,012

7 Investment into subsidiaries

On 17 December 2012 a new subsidiary – a closed stock company – JSC LITGAS was established and registered, which will execute the activities of trade and/or supply of the liquefied natural gas. The Company owns 100 percent of shares of JSC LITGAS. The authorised capital of LTL 1 million of JSC LITGAS has been formed by monetary contribution of the Company on 13 December 2012.

JSC LITGAS did not perform any activity during 2012. The anticipated activities of supply of the liquefied natural gas will be started to be executed by JSC LITGAS from the commencement of the activities of the liquefied natural gas terminal, after meeting the requirements set by the legal acts.

The Management of the Company, following item 2, Article 6 of the Lithuanian Law No IX-576, dated 16 November, 2011, on consolidated financial statements of the Groups of Companies, evaluated that LITGAS, UAB, in the view of the Group of Companies, shall be considered as insignificant because its assets at the end of the financial year has not exceeded 5 percent of the Company's assets, and decided not to prepare consolidated financial statements for the year 2012.

8 Investments into associates

Sarmatia Sp. z o.o.

On 19 December 2007 the Company acquired 1 per cent of shares in the international pipeline company SARMATIA and purchased 180 shares at a nominal value of PLN 500 each. In 2010 during the increasing of the authorized capital of SARMATIA the Company additionally purchased 100 shares with the par value of PLN 500 each (43 thousand LTL). In 2012, during the increasing of authorised capital the Company additionally purchased 120 shares with the par value of PLN 500 each (50 thousand LTL).

The Company is entitled to appoint one board member to the management of SARMATIA, thus it can have significant influence. Therefore this investment was recorded using the equity method. SARMATIA is a private company not listed on the stock exchange.

JSC "Baltpool"

On 20 April 2011 the Company acquired 33 percent of BALTPPOOL UAB shares. The Company purchased 156,627 newly issued ordinary registered shares at LTL 1 par value each. The total price of the new share issue as evaluated by independent appraisers was equal to LTL 260,001 (two hundred sixty thousand and one). At present SC Klaipėdos Nafta owns 33 per cent of BALTPPOOL UAB shares and their voting rights at the General Shareholders' Meeting of BALTPPOOL UAB.

Financial information regarding the Company's investments into Sarmatia and Baltpool is presented in the table below as of 31 December 2012:

	Sarmatia		Baltpool		Total
	2012	2011	2012	2011	2012
Share of the associate's financial position:					
Non-current assets	-	-	87	99	87
Current assets	78	5	910	6,027	988
Non-current liabilities	-	-	4	3	4
Current liabilities	-	-	486	5,701	486
Capital	78	5	507	422	585
Share of the associate's comprehensive income:					
Income	3	2	390	609	393
(Losses)	(31)	(20)	(306)	(518)	(337)
Share of the associate's profit (loss)	(28)	(18)	84	91	56

Reconciliation of investments in associates, net value:

	Investments value
As of 31 December 2011	427
Acquired during the year	50
Increase of value	108
As of 31 December 2012	585

9 Inventories

	31 December 2012	31 December 2011
Oil products for sale	362	1.503
Spare parts, construction materials and other inventories	772	171
	1.134	1.674

As of 31 December 2012 the Company had accounted write-off of inventories in the amount of LTL 6,168 thousand (LTL 5,979 thousand on 31 December 2011), that have been written off down to the net realisable value. The Company makes write-off the inventories to the net realisable value if they are not used for more than 6 months.

Write-off has been accounted for mostly construction materials and spare parts, which were not used during the reconstruction (1996 – 2005).

Write-off of inventories to the net realizable value of LTL 188 thousand for the year ended of 31 December 2012 (31 December 2011 - LTL 7 thousand) are included under operating expenses in the Statement of comprehensive income.

As of 31 December 2012 the Company stored 148.2 thousand tons of oil products delivered for transshipment in its storage tanks (143.8 thousand tons as on 31 December 2011). Such oil products are not recognised in the Company's financial statements, they are accounted for in the off-balance sheet accounts as the Company has no ownership rights into oil products.

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. On 31 December 2012 the Company stored 1,162 tons of heavy oil products collected in its Waste Water Treatment Facilities (31 December 2011 – 1,945 tons).

10 Trade receivables

	31 December 2012	31 December 2011
Receivables for trans-shipment of oil products and other related services	13,579	4,335
	13,579	4,335

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

On 31 December 2012 trade debts to the Company in the amount of LTL 3,012 thousand were denominated in EUR (LTL 1,926 thousand – on 31 December 2011).

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

The age analysis of trade receivables as of 31 December 2012 and 2011 is as follows:

	Trade and other receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 59 days	60 – 89 days	90 – 359 days	More than 360 days	
2012	11,066	2,494	19	-	-	-	13,579
2011	4,223	73	-	-	39	-	4,335
2010	4,710	-	1	-	-	-	4,711

Credit quality of financial assets neither past due nor impaired

With respect to trade 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.

11 Other receivables

	31 December 2012	31 December 2011
Accrued income	2,315	1,388
VAT receivable	1,715	715
Accrued interest on term deposits	46	409
Other receivables	78	66
	<u>4,154</u>	<u>2,578</u>
Less: impairment allowance	(13)	(13)
	<u>4,141</u>	<u>2,565</u>

Change in allowance for receivables for the years 2012 and 2011 has been included into operating expenses in the Statement of Comprehensive income.

12 Other financial assets

	31 December 2012	31 December 2011
Loans and receivables		
Cession of rights in Vnesekonom bank	100	100
Loan to UAB „Žavesys“	357	361
Less: impairment allowance for receivables	(457)	(461)
Total loans and receivables	<u>-</u>	<u>-</u>
Investments held- to-maturity		
Short-term deposits	-	44,174
Investments into the state government bonds of the Republic of Lithuania	9,474	61,717
Investments into the government bonds of Lithuanian banks	3,760	4,476
Investments into the government bonds of foreign banks	-	5,412
Total investments held-to-maturity	<u>13,234</u>	<u>115,779</u>
Total other financial assets	13,234	115,779
Current part	13,234	110,427
Non-current part	-	5,352

Carrying values of other financial assets are denominated in the following currencies:

Currency	31 December 2012	31 December 2011
LTL	10,648	38,531
EUR	2,586	77,248
	<u>13,234</u>	<u>115,779</u>

On 24 January 2003 AB „Naftos terminalas“, as a part of settlement for the shares acquired, transferred to the Company the right of demand for the deposit of USD 95,266 thousand (or LTL 277,243 thousand) in the liquidated Vnesekonom bank and the right to the loan provided to UAB “Zavesys”. Cost of sales of the right in the liquidated Vnesekonom bank amounts to LTL 100 thousand. The Company’s Management considers the receivables subject to the acquired rights of demand to be doubtful therefore they have been accounted for by cost less 100 % allowance.

The Company is implementing new policies of free funds investments of the Company aimed at investment transactions with reliable (long-term borrowing rating according to Fitch A-, except government securities of the Republic of Lithuania) banking instruments not only in Lithuania but also abroad. The investment policies give priority to investments in Lithuania and only if there is no other alternative - in foreign countries. Investment possibility into the securities of the Lithuanian Government has also been provided for. The Company has not acquired the securities of the Lithuanian Government during 2012 (LTL 5,352 thousand has acquired in 2011), which the payoff maturity term is longer than one financial year.

12 Other financial assets (cont'd)

As of 31 December 2012 the Company had no term deposits (LTL 44,174 thousand – in 2011) which the term is longer than three months. In 2011 the average maturity of term deposits was 256 days and an annual average effective interest rate was 2.04 %. On 31 December 2012 the Company had debt securities of the Republic of Lithuania in the amount of LTL 9,474 thousand (LTL 63,520 thousand – in 2011) with the average maturity of 461 days (256 days – in 2011) and an average effective interest rate of 2.59 % (2.04 % - in 2011). The Company hold bank bonds in the amount of LTL 3,760 thousand (LTL 9,171 thousand – in 2011) with the average redemption term of 456 days (216 days – in 2011) and average effective interest rate of 4.50 % (3.46 % - in 2011).

The maximum exposure of these investments to credit risk at the reporting date was represented by carrying value of the securities and term deposits, classified as investments held to maturity.

13 Cash and cash equivalents

	31 December 2012	31 December 2011
Cash at bank	67,221	5,136
Short-term deposits	12,613	3,044
Government bonds of foreign countries	-	1,803
	79,834	9,983

Cash in bank earns variable interest depending on the closing balance of every day. As of 31 December 2012 the Company had term deposits of LTL 12,613 thousand (LTL 3,044 thousand – in 2011) with the average maturity of 196 days (38 days – in 2011) and an average interest rate of 0.95 % (1.00 % - in 2011). The Company had no Government bonds of foreign countries (LTL 1,802 thousand has acquired in 2011) with the average maturity of 72 days and an average effective interest rate of 3.81 % in 2011.

Calculated values of cash and cash equivalents are denominated in the following currencies:

Currency	31 December 2012	31 December 2011
EUR	22,523	3,993
LTL	57,311	5,990
	79,834	9,983

The quality of cash and cash equivalents as well as investments held to maturity can be assessed using Fitch long - term borrowing ratings:

	31 December 2012	31 December 2011
AA -	3	17,462
A +	67,218	40,305
A	12,613	-
A -	-	1,803
BBB +	6,029	54,511
BBB	7,205	11,681
	93,068	125,762

The maximum exposure of these investments to credit risk at the reporting date was represented by carrying value of the securities and term deposits, classified as investments held to maturity.

14 Issued capital

During 2012 the authorized capital of the Company was increased by LTL 38,606 thousand unit's ordinary shares with a par value of one (1) LTL, per share issue price of LTL 1.35. The Company's share capital was increased by monetary and non-monetary contributions of the shareholders.

	Share capital	Share premium	Contributions
As of 31 December 2011	342,000	-	-
Non-monetary contributions	33,697	11,794	45,491
Monetary contributions	4,909	1,718	6,627
As of 31 December 2012	380,606	13,512	52,118

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit, calculated in accordance with International Financial Reporting Standards, are compulsory until the reserve reaches 10 per cent of the share capital.

Shareholders of the Company approved profit appropriation for the year 2011 at the General Meeting of Shareholders held on 27 April 2012. Share of the profit that was assigned and transferred to the legal reserve was 3,561 thousand LTL.

Reserve to purchase own shares

Reserve to purchase own shares is concluded for acquisition of own shares. The Company's reserve to purchase own shares is made providing the possibility to buy up own shares.

Other reserves

Other (distributable) reserves are formed based on the decision of the General Shareholders' Meeting on profit distribution. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. The largest portion of the Company's other reserves are formed for investments.

15 Employee benefit liabilities

On 31 December 2012 the liabilities related to the payment of termination benefits to the employees terminating the employment on the normal retirement date were LTL 816 thousand (LTL 926 thousand – in 2011) as follows:

	Pension benefit liability
As of 31 December 2011	785
Calculated per year	78
Paid per year	(47)
As of 31 December 2012	816

The main preconditions applied to assess long-term employee benefit liability are presented below:

	31 December 2012	31 December 2011
Discount rate	4.00 %	5.75 %
Staff turnover rate	4 %	5 %
Future salary increases	3 %	3 %

16 Trade and other payables

	31 December 2012	31 December 2011
Payable to contractors	1,985	1,204
Payable for rent of land	504	514
Payable for railway services	594	336
Other trade payables	4,074	2,617
	7,157	4,671

Trade payables are non-interest bearing and are normally settled on 30-day payment terms. On 31 December 2012 trade payables of LTL 87 thousand were denominated in EUR (LTL 610 thousand - in 2011).

17 Liabilities related to labour relations

As of 31 December 2012 the Company's liabilities, related to labour relations, were basically comprised of vacation reserve of LTL 1,750 thousand, social insurance payable for December of LTL 878 thousand and accrual of bonuses in the amount of LTL 1,200 thousand for the annual results (As of 31 December 2011 the Company's liabilities, related to labour relations, were mainly comprised of vacation reserve of LTL 1,317 thousand and accrued bonuses in the amount of LTL 1,200 thousand for the annual results).

18 Provisions

	Emission rights provision	Restructuring provision	Total
As of 1 January 2011	732	547	1,279
Calculated per year	96	-	96
Used restructuring provision	-	(547)	(547)
Offsetting emission rights purchased	(335)	-	(882)
As of 31 December 2011	493	-	493
Calculated per year	(544)	-	(544)
Offsetting emission rights purchased	215	-	215
As of 31 December 2012	164	-	164
Long-term part	-	-	-
Short-term part	164	-	164

Emission rights provision is recorded after measuring the deficit of the emission allowances granted by the national allocation plan and the actual emissions of the specific year. Every year independent auditors shall audit the quantity of the allowances used.

	2008	2009	2010	2011	2012	Total
Allocated *	19,691	19,692	19,692	19,691	19,691	98,457
Planned to be used	(29,241)	(25,619)	(28,325)	(27,793)	(23,851)	(134,829)
Planned to be acquired	-	-	-	-	-	-
Purchased and used	-	-	10,000	-	5,753	15,753
Purchased	-	-	-	9,000	-	9,000

* Emission allowances allocated by the national allocation plan.

19 Other current liabilities

	31 December 2012	31 December 2011
Accrued expenses	1,131	437
Tax payable on real estate	309	485
Other liabilities	342	24
	1,782	946

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

20 Sales income

	2012	2011
Sales of oil transshipment services	131,543	132,223
Sales of heavy oil products collected in the Waste Water Treatment Facilities	3,233	5,699
Revenues for storage of oil products	2,785	3,280
Other sales related to transshipment	1,320	74
	138,881	141,276

The reduction of revenues of 2012 was greatly determined by the reduced transshipment of oil products from AB „Orlen Lietuva“ due to the planned capital repair works in this refinery and the seasonally reduced transshipment of oil products from Russia. In 2011 the Company's revenues increased due to successful sales of oil products recovered from bilge waters that brought LTL 5,699 thousand.

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

21 Cost of sales

	2012	2011
Depreciation and amortization	22,609	22,474
Natural gas	19,640	18,027
Wages, salaries and social security	17,845	17,845
Railway services	6,034	7,465
Electricity	5,316	5,478
Rent of land and quays	2,046	2,056
Cost of sold inventories	1,470	3,025
Repair and maintenance of non-current assets	1,848	1,758
Tax on real estate	1,208	1,948
Insurance of assets	1,148	942
Services for tankers	596	863
Inventories for resale	547	-
Work safety costs	323	318
Emission rights expenses	(329)	96
Other	1,035	618
	81,336	82,913

22 Operating expenses

	2012	2011
		<i>(restated)</i>
Salary, social security	5,272	4,155
Consulting and legal costs	1,216	1,414
Impairment	776	60
Communication	506	210
Charity	596	360
Depreciation and amortisation	289	182
Expenses for Business trips	253	163
Expenses for refresher courses	222	73
Expenses related to the management of securities	207	177
Repair and maintenance of non-current assets	174	219
Representation, advertising	152	55
Communication costs	109	138
Other	962	527
	10,734	7,733

Operating expenses were mostly increased by LNG terminal administration costs.

23 Income (expenses) from financial and investment activities – net

	2012	2011
		<i>(restated)</i>
Interest income	1,817	1,886
Fines collected	30	95
Financial income, total	1,847	1,981
(Losses) from currency exchange	(115)	(18)
Other financial activity (expenses)	(1)	(2)
Financial result, total	1,731	1,961

24 Income tax

	2012	2011
		<i>(restated)</i>
Components of the income tax expense (income)		
Income tax of the year	7,836	8,660
Income tax adjustment of the previous year	-	(105)
Current year income tax expense	7,836	8,555
Deferred tax expense	(515)	(636)
Income tax expense recorded in the Statement of Comprehensive income	7,321	7,919

Reconciliation between income tax expense of the Company and the result of taxable income of the Company multiplied by income tax rate for the years 2012 and 2011 is as follows:

	2012	2011
		<i>(restated)</i>
Accounting profit before tax	48,758	52,771
Applying 15 % profit tax rate of the Company	7,314	7,916
Income tax adjustment of the previous year	-	(105)
Non-deductible expenses of income tax (charity)	(89)	(54)
Other non-deductible expenses	96	162
Applying 15% effective income tax	7,321	7,919

24 Income tax (cont'd)

Deferred income tax consists of:

	Statement of Financial position		Statement of Comprehensive income	
	2012	2011	2012	2011
Impairment of non-current assets	1,215	1,098	(117)	(9)
Accelerated depreciation for tax purposes	973	1,017	43	72
Write-offs of inventories to realizable value	925	897	(28)	(1)
Accrued annual bonuses	173	180	7	(180)
Accrued emission rights	43	124	81	56
Long-term employee benefit liability	122	118	(5)	21
Vacation reserve	61	47	(16)	-
Temporary differences in receivables for tax purposes	-	-	-	231
Restructuring reserve	-	-	-	82
Other temporary differences	3	-	-	2
Associates' equity method	(25)	(9)	16	21
Oil products	-	(123)	(123)	(442)
Accrued income	(105)	-	105	-
Investment incentive of non-current assets	(10,579)	(11,058)	(478)	(489)
Deferred income tax expenses/ (income)			(515)	(636)
Deferred income tax assets/ (liabilities), net	(7,194)	(7,709)		

Recorded in the Statement of financial position as follows:

Deferred income tax assets	3,515	3,481
Deferred income tax liability	(10,709)	(11,190)
Deferred income tax liability, net	(7,194)	(7,709)

As of 31 December 2012 the Company did not recognise LTL 69 thousand (LTL 70 thousand – in 2010) of the deferred income tax asset related to the decrease in receivables as the Management does not expect the income tax asset to be recognised as deductible expenses in the future. In the Statement of Financial position deferred income tax asset and deferred income tax liability are set-off as they both are related to the same tax authority.

While assessing deferred income tax asset and liability components as of 31 December 2012 and 2011 the Company has used the income tax rate of 15 %.

25 Earnings per share, basic and diluted

Basic earnings per share are calculated by dividing net profit of the Company by the number of the shares available. Diluted earnings per share equal to basic earnings per share as the Company has no instruments issued that could dilute shares issued. Basic and diluted earnings per share are as follows:

	2012	2011
		<i>(restated)</i>
Net profit attributable to shareholders	41,437	44,852
Weighted average number of ordinary shares (thousand)	361,198	342,000
Earnings per share (in LTL)	0.11	0.13

26 Dividends

	2012	2011
Dividends declared	(56,981)	-
Weighted average number of shares (thousand)	361,198	342,000
Dividends declared per share (expressed in LTL per share)	0.16	-

The Extraordinary General Shareholders' Meeting held on 27 July 2012 approved profit appropriation for the year 2011 and allotted dividends to the Shareholders for 2011.

The remaining amount of declared dividends to the shareholders, who were not found according to the stated addresses, is accounted for under "Dividends payable" caption in the Statement of financial position "Current amounts payable and liabilities" as of 31 December 2012. As of 31 December 2012 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 39 thousand (as of 2011: LTL 39 thousand).

27 Financial assets and liabilities and risk management

Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company – AB "Orlen Lietuva" – on 31 December 2012 accounted for approximately 36 % (about 32% as of 31 December 2011), "LITASCA S.A."- 37 % as of 31 December 2012 (about 10 % as of 31 December 2011) of the total Company's receivables from all its customers. The average payment term for AB "ORLEN LIETUVA" is 10 calendar days, for "LITASCA S.A. – 7 calendar days, whereas the usual payment terms for all other customers are 5 days. A possible credit risk for the Company's 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 reliable customers 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 Statement of Financial position. 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 date of Statement of Financial position.

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

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company's assets held to maturity bear fixed interest rates.

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 2012 were 7.21 and 7.13, respectively (12.28 and 12.13 as at 31 December 2011).

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 Managements' main responsibility is to monitor that the liquidity ratio of the Company is close to or higher than 1. During the years 2012 and 2011 the Company's liquidity is high because the Company has no financial commitments and accumulates cash funds for the performance of its strategic objectives.

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

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2012, 2011 assessed on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	-	6,831	326	-	-	7,157
Balance as of 31 December 2012	-	6,831	326	-	-	7,157
Trade and other payables	-	4,671	-	-	-	4,671
Balance as of 31 December 2011	-	4,671	-	-	-	4,671
Trade and other payables	-	4,569	-	-	-	4,569
Balance as of 31 December 2010	-	4,569	-	-	-	4,569

Fair value of financial assets and liabilities

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.

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		
	2012	2011	2010	2012	2011	2010
Financial assets						
Cash	79,834	8,180	29,501	79,834	8,180	29,501
Trade receivables	13,579	4,335	4,711	13,579	4,335	4,711
Other financial assets	13,234	117,582	46,557	13,234	117,582	46,557
Financial liabilities						
Trade payables	7,157	4,671	4,569	7,157	4,671	4,569

Other financial assets are substantially comprised of investments held-to-maturity (Note 12).

A market price of the investment in international pipeline company SARMATIA and the Lithuanian energy resources market BALTPool cannot be reliably estimated, therefore the investment is accounted for at carrying value (Note 8). It was also impossible to measure 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 following methods and assumptions are used to estimate the fair value of each class of financial assets and liabilities:

- The carrying amount of current trade accounts receivable, current trade accounts payable approximates fair value.
- 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.

Capital management

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.

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic 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.

On 3 July 2012, changed Articles of the Company were registered in the Registry of Legal Entities with increased authorised capital of 380,606 thousand LTL. The Company's authorised capital in the amount of 38,606 thousand LTL was increased by distributing new emission of shares of the Company with par value to the existing shareholders of the Company

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

The Company's activities are financed using only its equity. The Company had no loans in 2012 and 2011.

28 Commitments and contingencies

Operating lease commitments

The Company has concluded a land rent contract with Klaipeda State Port Authorities until 2055. The terms and condition of the contract do not provide any restrictions on the Company's activities, associated with dividends, additional borrowings or additional long-term rent. In 2012 the Company's land rent expenses amounted to LTL 2,046 thousand (Note 21) (LTL 2,056 thousand – in 2011).

Total amount of future minimum payments of land rent:

	31 December 2012	31 December 2011
Within one year	2,050	2,056
From one to five years	8,223	8,223
After five years	76,062	78,128
	86,335	88,407

Financial lease

On 2 March, 2012, the Company concluded Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) with the right of its redemption providing that the delivery term of FSRU into the Seaport of Klaipeda should be 1 September, 2014 – 1 December, 2014. This contract meets the criteria of financial lease. On 31 December, 2012, the total amount of future payments totalled to LTL 911,464 thousand.

Long-term construction agreements

On 20 November, 2012, the Company signed Construction Agreement with Rudesta, UAB for the amount of LTL 25,780 thousand. The Agreement is a part of the Company Investment Project "Reconstruction of Heavy Fuel Facilities' Park. (Demolition of 4 storage tanks, of 5,000 m³ capacity each, and installation of 2 storage tanks of 32,250 m³ capacity each) Construction Works." The Contractor shall perform all the works according to the Agreement within less than one year.

On 19 December, 2012, SC Kauno Dujotiekio Statyba submitted the security for validity of tender offer in the amount of LTL 700 thousand regarding open procurement procedure "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)". The security is valid until 26 March, 2013.

Legal claims

On 18 April 2011 the Company received a notification from Klaipeda District Court of a claim from UAB Naftos Grupe submitted against the Company for compensation of allegedly incurred losses in the amount of LTL 17 091 thousand, for return of the product surplus, allegedly owned by UAB Naftos Grupe and stored by the Company, to UAB Naftos Grupe and for recognition of the termination of the Services Agreement No. 12-12-2005 dated 22 December 2004 allegedly due to the Company's fault.

After the evaluation of the service contract with non-market conditions concluded on 22 December 2004 between the Company and „Naftos grupė“ UAB and its influence on the result of the Company activity over the period from January 2005 to June 2010, it has been determined, that because of this contract the Company could incur losses of LTL 40 million.

28 Commitments and contingencies (cont'd)

On July 5, 2011 the Company seeking to recover the part of the incurred losses, submitted a counter application to „Naftos grupė“ UAB. Total sum of the claim is LTL 42.6 million.

At present, the case is examined at 1st instance. Currently the intention is to end the hearing. The court should make a decision in April, 2013. Management's opinion is that The Company is unlikely to suffer any additional expenses related to the claim, therefore it is unnecessary to account for the provisions as on 31 December 2012.

Guarantees

The Company as the owner of excise warehouse in order to secure due fulfilment of tax obligations subject to Guarantee Issuance Agreement No. 41000507-01, dated 8 November 2010, signed with Lithuanian Branch of AS UniCredit Bank for the amount of LTL 5,000 thousand has submitted a letter of payment guarantee to the state tax Inspectorate of Klaipėda district. The validity term of the Letter of Guarantee was extended from 2012 until 8 November 2013.

In accordance with requirements of the Order No. 469 of the Minister of the Environment of the Republic of Lithuania on “Procedure of preparation, adjustment and implementation of waste management activity termination plan”, the Company has a guarantee from SC SEB bank to present to Klaipėda region environmental department under the Ministry of Environment of the Republic of Lithuania. This guarantee was issued only for ensuring of implementation of measures provided in the Company's waste management activity termination plan; the amount of this guarantee is 1,720 thousand LTL, valid up to 12 January 2014.

State tax inspectorate did not make full taxing inspection of the company for the period from 01/01/2007 to 31/12/2012. In accordance with applicable laws, state tax inspectorate may at any time inspect registers of the Company's accounting and records for 5 years before accounting period and may calculate additional fees and sanctions. The management of the company is not aware of any circumstances, because of which significant additional tax liabilities should be calculated for the Company.

29 Related party transactions

The parties are considered related when one party has a 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 in 2012, 2011 and 2010 were as follows:

Transactions with Lithuanian State controlled enterprises and institutions

		Purchases from related parties	Sales to related parties	Receivables from related parties	Payables to related parties
State Tax Inspectorate at the Finance Ministry of the Republic of Lithuania	2012	11,823	-	16	2,851
	2011	8,832	-	-	1,704
	2010	8,903	-	130	1,075
State Social Insurance Fund Board under the Ministry of Social Security and Labour	2012	7,350	-	-	878
	2011	4,762	-	-	11
	2010	5,334	-	-	-
State Enterprise Klaipėda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	2012	2,046	-	-	504
	2011	2,056	-	-	514
	2010	2,350	-	-	587
AB Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation	2012	6,061	-	-	594
	2011	8,396	-	-	336
	2010	7,845	-	-	1,425
AB „Lesto“, owned by the State of Lithuania represented by the Ministry of Energy	2012	2,448	-	-	350
	2011	2,419	-	-	296
	2010	5,159	-	-	343
Other related parties	2012	-	17	3	-
	2011	-	28	3	-
	2010	147	5	35	-
Transactions with related parties, in total:	2012	29,728	17	19	5,177
	2011	26,465	28	3	2,861
	2010	29,738	5	165	3,430

29 Related party transactions (cont'd)

Remuneration to the Management and other payments

The Company's Management is comprised of General Manager, Deputy General Manager, Production Director, Finance Director, Commercial Director and LNG Terminal Director.

	31 December 2012	31 December 2011
Labour related disbursements	1,523	1,704
Number of managers	6	7

During twelve months of 2012 and 2011 the Management of the Company did not receive any loans, guarantees, or any other payments or property transfers were made or accrued.

30 Subsequent events

- **On 18 January 2013**, Nordea Bank Finland PLC was announced the winner of the tender "Procurement of the overdraft services" (hereinafter referred to as the Procurement), performed under the publicised negotiated procedure.

During the implementation of the Procurement 3 final tender offers were submitted by 17 January 2013, one of which was rejected for failure to comply with the requirements of Procurement documents. Upon evaluation of the final tender offers according to the lowest price criterion, Nordea Bank Finland PLC was recognised to be the winner.

The Company has sent an invitation to Nordea Bank Finland PLC to conclude a public procurement contract. The main conditions of the overdraft agreement:

- ✓ amount of the overdraft – LTL 120,000 thousand;
 - ✓ term of the overdraft – as from the date of conclusion of the agreement until 30 June 2015, with a possibility to extend the agreement for the term of up to 12 months with not worse conditions, provided that the Bank will adopt the decisions needed for this purpose;
 - ✓ upon request of the Company, the amount of the overdraft may be increased by 30%, i. e. up to LTL 156,000 thousand. For increase of amount of the overdraft no administrative fee shall be applied;
 - ✓ annual interest rate – floating. Base interest rate – 3 months VILIBOR. Interest margin is 0.94%, which may not be changed during the whole term of validity of the agreement.
- **On 22 January 2013** the Company received a letter from the Public Procurement Office regarding presentation of the documents of international procurement "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure (hereinafter, the Procurement) for evaluation, by which, inter alia, the Company was obligated to suspend the procedure of conclusion of the contract for Procurement until the Public Procurement Office gives an evaluation of the documents and decisions presented by the Company (contracting authority).
 - The following resolutions were adopted at the Extraordinary General meeting held on **25 January 2013**:
 - ✓ to conclude the contract for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works (hereinafter referred to as the Works), necessary in constructing the connection between the Liquefied Natural Gas (LNG) Terminal's embankment within the port area of Klaipėda State Sea Port (near the northern part of Kiaulės nugara island) and Lithuanian natural gas transportation system (gas pipeline Jurbarkas–Klaipėda (part Tauragė–Klaipėda) near Klaipėda DSS-2, situated at Kiškėnai village, Dvilai eldership, Klaipėda district municipality) (hereinafter referred to as the Contract) with the winner of the Company international public tender, conducted by a way of public negotiations "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works", who proposed the lowest price for all the scope of works – the consortium of Kauno dujotiekio statyba, AB and Šiaulių dujotiekio statyba, UAB (hereinafter referred to as the Contractor).
 - ✓ The total fixed price for all the works under the Contract shall be LTL 137,999 thousand without VAT. This fixed price can increase only in the exclusive cases provided for in the Contract. The Company shall be paying the indicated fixed sum only for the indicated fixed sum only for the actual works performed under the Contract.

30 Subsequent events (cont'd)

- ✓ all the works under the Contract shall be finished till 1 October 2014. The performance terms may only be extended in the exclusive cases set forth in the Contract.
- ✓ to establish, that the Agreement may be concluded only after the expiry of the period of deferment of 15 days which is applicable to the conclusion of the Agreement in accordance with paragraph 22 of Article 2 of the Law of the Republic of Lithuania on Public Procurement, and in case there shall be no obligations or decisions, issued by the institutions, having the relevant authorities, which would prohibit to sign the Agreement with the concrete Contractor, which has won the public procurement.”
- **On 28 January 2013** the Company received documents from the Klapėda Regional Court regarding a claim filed by German concern PPS Pipeline Systems GmbH to invalidate the decisions of the commission of international procurement “Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the negotiated procedure (hereinafter, the “Procurement”).

The claimant in its claim *inter alia* asked the court:

- ✓ to acknowledge, that while participating in the Procurement the consortium of AB Kauno dujotiekio statyba and UAB Šiaulių dujotiekio statyba had a non-allowed competition advantage, because of which its offer had to be rejected;
- ✓ to annul the decision of the Company’s public procurement commission, according to which the queue of offers was approved, and the offer of consortium was acknowledged as the winner;
- ✓ to oblige the Company to approve the new queue of the offers.
- **On 28 January 2013** the Company received a notification of 29 January 2013 from the Vilnius Regional Administrative Court (hereinafter, the Court) regarding filing of a response to the complaint of AB Achema (hereinafter, Achema) concerning the resolutions of the National Control Commission for Prices and Energy (hereinafter, the NCCPE). The Company is involved in the case as a third person concerned.

In its complaint Achema asks to annul the following:

- ✓ Paragraphs 3.1 and 4 of Resolution No. 03-317 of the NCCPE “Regarding the establishment of the funds for 2013 intended for compensation, in full or in part, for expenses of the construction and operation of the liquefied natural gas terminal, its infrastructure and the connection”, dated 19 October 2012. By the said paragraphs the NCCPE determined the funds for 2013, intended for compensation of the expenses (in full or in part) of the construction of the liquefied natural gas terminal (hereinafter, the LNGT), its infrastructure and the connection (LTL 113,798 thousand) and for covering of the LNGT funds administration expenses (LTL 302 thousand) and established that the NCCPE has the right to adjust such amounts of expenses in case of changes in essential circumstances, which have a significant effect on the funding and implementation of the SGDT.
- ✓ Paragraph 2 of Resolution No. 03-330 of the NCCPE “Regarding the adjustment of the upper limits of the natural gas transmission and distribution prices of AB Lietuvos Dujos and establishment of an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium) for 2013.” dated 26 October 2012. By the said paragraph, the NCCPE established an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium), which is intended for compensation of the expenses of construction of the LNGT, its infrastructure and the connection in 2013 (LTL 37.53 for 1,000 m3 (value added tax exclusive).
- **On 6 February 2013**, on the basis of Part 3 and 4 of Article 25 of the Law on Companies of the Republic of Lithuania, the Company has received from the shareholder of the company the Republic of Lithuania, represented by the Ministry of Energy of the Republic of Lithuania, proposal to elect following candidates for the supervisory board members of the company in the extraordinary general meeting of shareholders, scheduled for 11 February 2013:
 - ✓ Eimantas Kiudulas, currently possessing General Manager’s position at Klaipėda Free Economic Zone Management Company;
 - ✓ Romas Švedas, an independent expert, lecturer;
 - ✓ Agnė Amelija Kairytė, currently acting as the Deputy of the Head of Law Division of the Ministry of Energy of the Republic of Lithuania.
- **On 6 February 2013** the Company concluded the Overdraft Facility Agreement with the winner of the public procurement “Procurement of Overdraft Services” by way of negotiated procedures with publication of a tender notice Nordea Bank Finland Plc (hereinafter, the “Bank”). The Agreement shall enter into force upon the approval of the general shareholder meeting of the Company.

30 Subsequent events (cont'd)

- **On 8 February 2013** the Company received a letter from the Public Procurement Office regarding evaluation of international tender "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure (hereinafter, the Tender).

According to the aforementioned letter of the Public Procurement Office inter alia the Company was obligated to annul the following decisions adopted by the public procurement commission of the Company:

- ✓ decisions of 3 and 5 December 2012 regarding amendment of the evaluation criteria of tender offers and respective procedural rules;
 - ✓ decision of 20 December 2012 regarding opening of the envelopes with the final tender offers of the participants of the Tender;
 - ✓ decision of 20 December 2012 regarding evaluation of final tender offers of the participants of the Tender, conclusion of the queue of tender offers, acknowledgement of the winner of the Tender and conclusion of the contract and respective announcements to the participants of the Tender in connection therewith
- The following resolutions were adopted at the Extraordinary General meeting held on **11 February 2013**:
 - ✓ to enter into the Agreement for Assignment of the Rights of Claim with the winner of the public procurement "Procurement of Overdraft Services" by way of negotiated procedures with publication of a tender notice – Nordea Bank Finland Plc, acting in Lithuania through the Lithuanian Branch of Nordea Bank Finland Plc (hereinafter, the "Bank").
 - ✓ to enter into an agreement with the Bank for assignment of the rights of claim to the receivable funds intended for covering all or some of the expenses of installation of the liquefied natural gas terminal, its facilities and the connection to the Bank, this agreement for assignment of the rights of claim being intended to secure the Overdraft Agreement between the Company and the Bank, pursuant to which:
 - ✓ the amount of the overdraft granted under the Overdraft Agreement must be LTL 120,000 thousand. Upon the unilateral request of the Company, the amount of the overdraft may be increased by 30%, i.e. up to LTL 156,000 thousand;
 - ✓ the overdraft must be given for a term until 30 June 2015, with a possibility to extend the agreement for an additional term of 12 months under conditions which may not be worse;
 - ✓ the overdraft interest: the base interest rate – 3 months' VILIBOR and the Bank's interest margin – no more than 0.94%;
 - ✓ the Company would assume the obligation not to pay dividend until obtaining of the deed of completion of construction of the liquefied natural gas terminal project.
 - ✓ the above stated restriction on the payment of dividends shall be applied and any sums under the Overdraft Agreement shall be paid to the Company upon the condition, that based on the Resolution of the Government of the Republic of Lithuania No.20 "On Dividends for the State-owned Shares of the Companies and Profit Taxes of the State-Owned Companies" from 14 January 1997 (including all later amendments hereto), there should be issued and enter into force the relevant Resolution of the Government of the Republic of Lithuania, by which there shall be established that the Manger of shares of the Company that belong to the State of the Republic of Lithuania, shall be entitled to take the decisions that the Company would abstain from payment of dividends until obtaining of the deed of completion of construction of the liquefied natural gas terminal project."
 - ✓ to revoke the Supervisory Council of the Company in corpore.
 - ✓ based on voting results the following three candidates, which had received the most votes, were elected into the Supervisory Council of the Company for the term of 4 years: Eimantas Kiudulas, Romas Švedas, Agnė Amelija Kairytė.
 - **On 19 February 2013** the Company, executing the obligations, indicated in the letter of 8 February 2013 of the Public Procurement Office regarding evaluation of procurement "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure (hereinafter, the Procurement) (on the obligations of the Public Procurement Office the Company notified on 8 February 2013, by announcing the notification on material event), has renewed the Procurement procedure and has sent the invitations to the participants of the Procurement on presentation of final offers. The offers shall be evaluated according to the criterion of the most economically advantageous tender offer.
 - **On 1 March 2013** the winner of the international tender of the SC Klaipėdos Nafta "Procurement of Engineering and Construction Works of Port Infrastructure (Jetty) with Suprastructure (Equipment) of Liquefied Natural Gas Terminal" was selected Stock Company (herein after referred to as the SC) BMGS. 3 final tender offers were submitted by 18 February 2013. Upon evaluation of the final tender offers according to the lowest price criterion, SC BMGS, which undertook to carry out all works for the total amount of 27,19 EUR (93,88 mln. LTL) excluding VAT, was recognised to be the winner.

30 Subsequent events (cont'd)

The company sent an invitation to company SC BMGS to conclude a public procurement contract which must be signed after the period of deferment of fifteen days which is applicable to the conclusion of the public procurement contract. The contract will enter into force to its full extent only if the Board and the general meeting of shareholders of the company.

Klaipėda State Seaport Authority shall reimburse to the SC Klaipėdos Nafta the amount of 14.20 mln. EUR (49.02 mln. LTL) excluding VAT. The SC Klaipėdos Nafta shall bear the costs for the amount of 12.99 EUR (44.86 mln. LTL) excluding VAT.

- **On 5 March 2013** the manager of shares of the Company, held by the Republic of Lithuania, the Ministry of Energy of the Republic of Lithuania presented to the Government of the Republic of Lithuania the draft of the resolution on dividends of the Company, whereby it is suggested to assign the Ministry of Energy to adopt the decisions to allocate to dividends 1% of the distributable profit until finalization of the liquefied gas terminal project.
- **On 6 March 2013** 2 final offers were received at international tender executed by the company "Procurement of engineering, procurement and construction works for natural gas pipeline system" (EPC).
- **On 8 March 2013** the Company and the SC Lietuvos dujos have executed a Service Agreement on Liquefied Natural Gas (hereinafter referred to as the „LNG“) Terminal's Connection to the Operating Natural Gas Transmission System (hereinafter referred to as the "Agreement"). Following the Agreement the parties agreed that in accordance with established technical parameters the Company shall have the right to connect the LNG terminal to the natural gas transmission system and shall have the right to use the natural gas transmission system from 3 December 2014.
- **On 8 March 2013** the Company received documents from Klaipėda Regional Court regarding the lawsuit filed by the SC "Kauno dujotiekio statyba" ir JSC "Šiaulių dujotiekio statyba" regarding the international procurement (hereinafter referred to as the "Procurement") "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure.

The claimants inter alia request the court:

- ✓ to annul the decision of the Company dated 8 February 2013, whereby the decisions on evaluation criterions of tender offers, opening of the envelopes with the final tender offers and evaluation of the final tender offers, conclusion of queue of tender offers, acknowledgement of the winner and signature of the Procurement agreement were annulled;
- ✓ to annul the amendment of conditions of the Procurement executed on the base of the announcement of the Company dated 13 February 2013, whereby the criterion of the most economically advantageous tender offer was established as a criterion for evaluation of the tender offers;
- ✓ to return the parties to the initial state, i. e. to the stage existed prior the supposed violation – to obligate the Company to continue the Procurement according to the results of the Procurement, announced on 20 December 2012;

Klaipėda Regional Court by its judgement of 8 March 2013 granted the request of the claimants SC "Kauno dujotiekio statyba" and JSC "Šiaulių dujotiekio statyba" on application of interim measures and suspended the Procurement until the day, when decision of the court in this case shall be passed and come into force.

- **On 12 March 2013** the Company filed a separate appeal against the ruling of the Klaipėda Regional Court of 8 March 2013 according to which the request of claimants SC "Kauno Dujotiekio Statyba" and JSC "Šiaulių Dujotiekio Statyba" on imposition of interim measures was satisfied and the international procurement "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure with a publication of notice was suspended until the day when a decision of the court in this case is passed and comes into force

By its separate appeal the Company requests to annul the ruling of the Klaipėda Regional Court of 8 March 2013 by which the interim measures were imposed. In case the court of first instance annuls the ruling on imposition of interim measures itself, the Company requests to allow execution of the ruling on lifting of the interim measures in the urgent manner.

- **On 15 March 2013** the Company received a notice from Vilnius Regional Administration Court (hereinafter referred to as the "Court") of 13/03/2013 concerning giving a response to the claim of the SC "Kauno dujotiekio statyba" and JSC "Šiaulių dujotiekio statyba" (hereinafter referred to as the "Claimants") by which they ask to avoid decision No. 4S-619 of the Public Procurement Service (hereinafter referred to as the PPS) dated 08/02/2013 on offer's acknowledgement as a winner according to which the Company was obliged to avoid the results of the procurement No. 124121 and decisions regarding group of economy objects, which consists of the SC "Kauno dujotiekio statyba" and JSC "Šiaulių dujotiekio statyba". The company is involved in this case as a concerned person.

30 Subsequent events (cont'd)

- **On 18 March 2013** the Company concluded a contract for engineering and construction works of port infrastructure with superstructure with the Stock Company "BMGS", the announced winner of the tender, on "Procurement of engineering and construction works of port infrastructure (Jetty) with superstructure (Equipment) of liquefied natural gas terminal" regarding engineering and construction works of port infrastructure with superstructure (Equipment) of liquefied natural gas terminal. The contract will enter into full force only if the general meeting of shareholders will approve the conclusion of the contract.
- **On 18 March 2013** the first meeting of the new Supervisory Council of the Company was held. During this meeting, Agnė Amelija Kairytė, the Deputy Head of the Law Division of the Ministry of Energy and the representative of the Ministry of Energy of the Republic of Lithuania, which implements the rights of the shareholder of the SC Klaipėdos nafta, – the Republic of Lithuania, that owns 72.32 per cent of all the shares of the Company, had been elected as the Chairman of the Supervisory Council of the Company.

During its first meeting, the Supervisory Council had also recalled the Audit Committee of the Company *in corpore* and for the term of 4 years has elected the new Audit Committee. Linas Sasnauskas and Simonas Rimašauskas were chosen as the independent members of the Audit Committees for the new term and Eimantas Kiudulas had also been elected to the Audit Committee for one more term.

- **On 20 March 2013** the Chairman of the Board of the Company, Mr. Arvydas Darulis, informed the Supervisory Council, other Board members and the Company that he retreats from office and submitted his resignation papers to the Company.
- **On 28 March 2013** the Company decided to complete the procurement of purchase of financial services, related to planned financing of the Company's investment to the infrastructure of the liquefied natural gas terminal – a long term credit of EUR 73,000 thousand and a guarantee of USD 50,000 thousand or a long term credit of EUR 14,500 thousand and a guarantee of USD 50,000 thousand or a guarantee of USD 50,000 thousand – without conclusion of a contract. The procurement was completed in accordance with the Item 4 of the part 4 of the Article 7 of the Law on Public Procurement as none of the tenderers has submitted final proposals within the specified term.

Taking into account the need of financing of infrastructure of the liquefied natural gas terminal, the Company will renew the procurement of the financial services (the long term credit and execution guarantee) in a short time.

No other significant events have occurred after the date of financial statements.

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, Rokas Masiulis, General Manager of SC Klaipėdos Nafta, Mantas Bartuska, Finance Director of SC Klaipėdos Nafta and Rasa Gaudė, Head of accounting department, hereby confirm that to the best of our knowledge the above-presented unaudited Interim condensed Financial Statements of SC Klaipėdos Nafta for for the year 2012, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of SC Klaipėdos Nafta.

General Manager

Rokas Masiulis

Director of Finance and Administrative Department

Mantas Bartuška

Head of accounting department

Rasa Gudė

**ANNUAL REPORT
FOR THE YEAR 2012**

Klaipėda
March 2013

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FOREWORD BY GENERAL MANAGER OF AB KLAIPEDOS NAFTA



The year 2012 was successful for the Company in maintaining high profitability margins as well as in the implementation of the Liquefied Natural Gas Terminal (further – LNGT) construction project, which is strategically important to the Republic of Lithuania.

Despite the overhaul carried out in the oil refinery factories of the main customers, Orlen Lietuva and Mozyr (Belarus), the Company was able to earn a net profit of more than LTL 41.4 million. Over LTL 56 million of dividends were paid to the shareholders for the results of 2011. By increasing the Company's authorized share capital, the infrastructure of Subačius fuel storage facility was taken over allowing the Company to launch a new business of long-term rent of oil products storage facilities.

The year 2012 was crucial for the implementation of the Liquefied Natural Gas Terminal Project as the Company was solving the issues concerning the Project's financing and organization of infrastructure construction. In 2012, (1) the Company signed an agreement with Norwegian company Høegh LNG Ltd. according to which it will lease a floating regasification and storage unit (FSRU) for a 10 year period with a purchase option at maturity and, (2) the Law on the Liquefied Natural Gas Terminal was adopted establishing a legal standard for general principles and requirements of the construction of the LNGT in the territory of the Republic of Lithuania, its performance and operation, as well as creating the legal, financial and organizational conditions for the implementation of the LNGT project; (3) the environmental impact assessment was approved and this resulted in the permit for the development of the terminal's economic activity; (4) the bilateral cooperation agreement was signed with Klaipėda State Seaport Authority on the construction of the LNGT jetty and on the dredging of the port basin in the LNGT site; (5) public tenders were announced for the construction of gas pipeline from the LNGT to the gas transmission pipeline and for the construction of jetty for mooring of the FSRU; (6) the approval of The National Control Commission for Prices and Energy was received for the partial compensation of the LNGT investments (LTL 113.8 for 2013); and (7) the tender for purchase of LNG was started.

In addition to the successful implementation of the LNGT project, the Company's ordinary course of business involves the continuity of the investment program, which includes the adjustment of the Company's technological processes and equipment to the changing oil products market, and the development of environmental projects. In 2012, (1) the upgrade of the unloading device has been completed, which will provide faster unloading of heavy oil products in the future; (2) the hydrocarbon vapor recovery unit that will reduce the spread of unpleasant odors in the environment was acquired and its installation is currently nearly completed; (3) the reconstruction of heavy oil products storage park and construction of two new 32 thousand m³ universal storage tanks were started which will increase storage capacity of light oil products.

2013 is going to be an important year for the LNGT Project as all major contracts related to the LNGT will be signed and most attention will be paid to the control of the construction works. In addition, the goal in the operations of the oil terminal will be to maintain good results in the changing business environment and to ensure utilization of the new investments.

The Company's strategic plans can be achieved only with the help of our competent staff; therefore, I believe that the objectives for future plans and potential challenges will be met by providing the maximum long-term return to the shareholders, motivation and valuable experience to the Company's employees, and security and social support to the public.



General Manager of AB Klaipėdos Nafta

Rokas Masiulis

REPORTING PERIOD

The Annual Report is prepared for the period from 1 January 2012 until 31 December 2012. In this Annual Report, AB Klaipėdos Nafta is referred to as the Company.

DETAILS ABOUT THE COMPANY

Name of the Company:	AB Klaipėdos Nafta
Legal status:	Stock Company
Authorized share capital:	380,606,184 litas
Date and place of registration:	27 September 1994 m., State Enterprise Centre of Registers
Company code:	110648893
Address:	Burių g. 19, 91003 Klaipėda
Register of the Company:	State Enterprise Centre of Registers
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail address:	info@oil.lt
Internet site:	www.oil.lt

The Company is one of the largest terminals on the Baltic States market of oil and oil products transit. The Terminal's core activity is to transship oil products delivered by rail cars from Lithuania, Russia, Byelorussia and other countries into tankers. It can also provide Lithuania with imported oil products which are shipped to Klaipėda port by tankers. From 2012, the Company also provides long-term storage services of oil products.

AB KLAIPĖDOS NAFTA provides the following services:

- Transshipment of crude oil and oil products from rail tank-cars into tankers
- Transshipment of crude oil and oil products from tankers into rail tank-cars and road tankers
- Accumulation of crude oil and oil products
- Rent of storage tanks for storage of the state reserve of oil products
- Collection of waste water from sea vessels which is contaminated with oil products
- Mooring of sea vessels
- Determination of quality parameters of oil products
- Adding of chemical additives into oil products
- Supply of fuel and water to sea vessels

The mission of the Company is to be a reliable import and export terminal of oil products for Lithuania and neighbor countries, to enable the region's oil refineries to export on a continuous basis their production by tankers through the Company's terminal to the Western European and further markets.

The vision of the Company is to be a financially sustainable oil products transshipment terminal, implement projects in time and invest in initiatives that will increase economic returns for investors.

The Company is a strategic company of the Lithuanian energy sector. The Company ensures a possibility to import oil products to Lithuania, if necessary. Moreover, the Company was granted storage of the obligatory reserve of oil products of the Republic of Lithuania. In February 2012, the Government of the Republic of Lithuania assigned the Company to implement a strategic project of construction of LNGT until the end of 2014 which is significant for the energy sector of Lithuania.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

The most important notifications of regulated information in 2012, excluding statements about annual and interim results:



HÖEGH LNG

20 January 2012. For the international tender of AB Klaipėdos Nafta "Procurement Of Liquefied Natural Gas Floating Storage and Regasification Unit", according to the order determined by the procedures of public procurement, the tender submitted by the international Norwegian company

“Höegh LNG” was selected as the most economically beneficial. The suppliers had submitted three offers in total.

- **7 February 2012.** The Government of the Republic of Lithuania adopted Resolution No. 175 “On the Government of the Republic of Lithuania on 27 December 2007 No. 1442 Resolution of the National Energy Strategy Implementation Plan for 2008–2012 “supplement”, by which LNGT Project has been included into the National Energy Strategy Implementation Plan of 2008–2012.
- **15 February 2012:**
 - Following the resolution of the Government of the Republic of Lithuania No. 199 “Regarding Establishment of the LNG Terminal” it was approved that the Company would continue the implementation of the LNG Terminal Project;
 - Following the resolution of the Government of the Republic of Lithuania No. 204 “On the investment of state-owned property and the increase of the authorized capital of AB Klaipėdos Nafta” it was decided that authorized capital of the Company would be increased by emission of new shares at par value of 1 litas per share and that new shares will be covered by transferring assets to the Company in trust of PE Lithuanian Oil Product Agency – Subačius Fuel Storage Facility.
- **1 March 2012.** The Board of the Company decided to continue the implementation of the LNGT project and to conclude a contract with Höegh LNG Ltd., the winner of the public procurement “Acquisition of a Floating Liquefied Natural Gas Storage and Regasification Unit”, on lease, operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit for 10 years with the right to redeem the FSRU.
- **2 March 2012.** The Company concluded the contract with Höegh LNG Ltd., the winner of the public procurement tender of the Company, on lease, operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit for 10 years with the right to redeem the FSRU. This contract came into force on 26 March 2012, when the general meeting of Company’s shareholders approved it.
- **26 March 2012.** The extraordinary General Meeting of Shareholders was held, that:
 - approved the decision of the Board of the Company to continue the implementation of the LNGT Project and to conclude a contract on lease, operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit for 10 years with the right to redeem the FSRU with Höegh LNG Ltd., the winner of the public procurement “Acquisition of a Floating Liquefied Natural Gas Storage and Regasification Unit”;
 - determined that the term for delivery of the FSRU to the port of Klaipėda shall be from 1 September 2014 to 1 December 2014;
 - determined a fixed price for lease of the FSRU, whereas the FSRU operation, maintenance (repair) costs shall be reimbursed on occurrence, however not exceeding the agreed amount for the first two years; therefore, the total FSRU lease and operation costs for the first year, including remuneration for the crew and other payments, which are to be indexed annually in compliance with the consumer price index, will not exceed USD 156,200 (VAT excluded) per day;
 - obliged the Company to submit to the supplier of the FSRU a guarantee for payment of not exceeding USD 50 million; the issuance of the guarantee shall be performed by the Company.
 - approved the amendment of the Articles of Association of the Company, the objective of which shall be to install and equip a liquefied natural gas terminal and to prepare it for operation, to ensure cost-effective and rational operation of the liquefied natural gas terminal and/or its subsequent transfer to the operator of the natural gas transmission system controlled by the Republic of Lithuania.
- **27 April 2012.** The ordinary general meeting of the shareholders was held, that:
 - Approved the set of Company’s audited annual financial statements for 2011;
 - Distributed Company’s 2011 profit amounting to LTL 56.981 thousand for dividend payment or LTL 0.17 per share;
 - Approved the decision to increase the Company’s authorized capital with additional contributions of shareholders;
 - Approved the decision of the Board of the Company to lease the Subačius Fuel Storage Facility property, located in Kunčiai village and Subačius town, Kupiškis District Municipality, the balance value of which will exceed 1/20 of the authorized capital after the contribution of this property to the authorized capital of AB Klaipėdos Nafta, to PE Lithuanian Oil Product Agency for the term of 10 (ten) years at the rate of LTL 2.10 (two litas ten cents) for the period from 2012 to 2016, and at the rate of LTL 4.10 (four litas ten cents) for the period from 2017 to 2021 for each ton of stored oil products per month, by annually indexing the rent tariff according to the changes of the Index of Consumer Prices.
 - Approved the amendment of the Company’s Articles of Association specifying the competences of the Board and the general manager as well as obliged to increase the size of authorized capital according to the size of the assets of Subačius Fuel Storage Facility.
- **12 June 2012 m.** The Seimas of the Republic of Lithuania adopted the Law on the Liquefied Natural Gas Terminal which secures the required legal basis for construction of the LNGT in Lithuania, as well as establishes the financial and organizational conditions for technologically and economically reasoned operation of the LNGT and its infrastructure:
 - The Law defines the specific legal regulation that is to be applied to the LNGT Project implemented in the compliance with the decision of the Government of the Republic of Lithuania. The Company implements the LNGT Project, according to the Governmental Resolutions “On Development of the LNG Terminal Project” of 21 July 2010 and “On Construction of the Liquefied Natural Gas Terminal” of 15 February 2012, and other decisions.

- The Law sets the requirements for the company implementing the LNGT Project and Project's financing, specific obligations for public administration bodies and entities dealing with the construction of the LNGT, its connection to the natural gas transmission system and supply of natural gas.
 - It is defined by the Law that the costs of construction and operation of the LNGT, its infrastructure and connection to the natural gas transmission system may be included into the tariff of natural gas transmission following the requirements that are established by the National Control Commission for Prices and Energy.
 - In order to ensure the required activities of the LNGT and its effective competition in the Lithuanian natural gas market, the Law defines the rule of diversification for the natural gas supply, according to which importing entities using natural gas pipelines are obliged to purchase at least 25% of the total quantity of natural gas supplied through the LNGT.
 - Following the EU obligatory requirements related to the safety of the natural gas supply, it is planned that the LNGT starts operation not later than by 3 December 2014. The LNGT will be constructed in the territory of Klaipėda State Seaport.
- **3 July 2012.** The amended Articles of Association of the Company containing the increased authorized capital of LTL 380,606 thousand were registered with the Register of Legal Entities. The authorized capital of the Company was increased after the distribution of the new issue of Company's shares to current shareholders of the Company - the total nominal value of issued shares was LTL 38,606 thousand (the new shares were issued in compliance with the resolutions of the annual general meeting of Company's shareholders that was held on 27 April 2012).
 - **5 July 2012.** The Company and state enterprise Klaipėda State Seaport Authority (hereinafter referred to as the KSSA) has signed the General Bilateral Agreement on Development or Construction of Infrastructure/Superstructure of Klaipėda Seaport (hereinafter referred to as the Agreement) by which the parties agreed on main cooperation conditions during the implementation of LNGT Project:
 - The Agreement provides the obligation of the KSSA to perform the works of preparation in Klaipėda Seaport (hereinafter referred to as the Port) for the LNGT, including, but not limited to: basin dredging works, installation (adjustment) of navigation and radar equipment and systems, personnel training, adoption or amendment of the legal acts that are within the limits of the KSSA competence, performing of additional navigation studies, and performing testing, if required. Due to the adoption of the resolution of the Government of the Republic of Lithuania on the compensation processes and funds for the investments made into the Port infrastructure, in compliance with the Agreement, the Company shall finance and organize the works of the LNGT: of the Port infrastructure (including, but not limited to: construction of jetty designed for the mooring of the FSRU, high pressure gas platform, servicing platform) and superstructure, while KSSA shall compensate costs incurred by the Company for the construction of the Port infrastructure and part of costs for general works. The Company shall not receive any rights to the Port infrastructure, since in compliance with applicable laws only the Republic of Lithuania may own the Port infrastructure. The Company shall use the Port infrastructure according to the contract with KSSA.
 - The Project Implementation Commission composed of members delegated by both parties shall control and coordinate the implementation of the Agreement, the public procurement commission composed of representatives of the Company and KSSA shall organise the procurements for works of infrastructure and superstructure. The parties have agreed that public procurements for infrastructure and superstructure works may start immediately after the signing of the Agreement.
 - The contract granting the right to use the territory of the Port for the construction of LNGT infrastructure was signed together with the Agreement.

The Agreement came into force when the board of KSSA approved it, however, the contractual obligations in full extent came into force on 11 July 2012, when Government of the Republic of Lithuania adopted a resolution on compensation mechanism and sources of funds of KSSA's investments into Port infrastructure.

- **10 July 2012.** The shares that were newly issued by the Company (38,606 thousand) were introduced to the Secondary List of AB NASDAQ OMX Vilnius Stock Exchange and the distribution of new shares was started. The new emission of the Company shares was issued in order to increase the authorized capital of the Company. The total amount of the Company's authorized capital is LTL 380,606 thousand and the amount of Company's shares is 380,606 thousand.
- **11 July 2012.** The Government of the Republic of Lithuania adopted the decision on the amendment of the resolution No. 199 "On Development of Liquefied Natural Gas Terminal". With this decision the Government of the Republic of Lithuania, *inter alia*:
 - Approved that the Company will create (construct) the infrastructure of the Port and obligated KSSA to compensate all expenses of the Company incurred because of the creation (construction) of the Port infrastructure;
 - Defined the mechanism and sources of funds of the compensation for the investments of KSSA that are designated for the LNGT's infrastructure in the Port.
 - Assigned the Ministry of Energy to take actions and adopt decisions, which are required for the application of financing security measures (sovereign guarantee, suretyship, pledges of assets or other) to the Company in order to ensure financing possibilities to LNGT Project and transactions on the purchase of liquefied natural gas.
- **14 August 2012.** The Company and state enterprise Klaipėda State Seaport Authority has concluded the Additional Agreement on the investment and investment compensation order and conditions supplementing the General Bilateral Agreement on Development of Infrastructure/Superstructure of Klaipėda Seaport of 5 July 2012, whereby the cooperation conditions between the Company and the KSSA were specified for the implementation of the LNGT Project.

The parties have agreed *inter alia* on the size of the preliminary investments by the parties into the Seaport's infrastructure and superstructure. It is stated that:

- The investments by the KSSA connected to the preparation of the Port for the activities of LNGT (dredging works, radiolocation equipment, adjustment of Port systems and etc.) shall amount to LTL 106.426 thousand;
- The investments by the Company into the Port infrastructure (jetty, etc.), which are compensated by the KSSA shall amount to LTL 54.204 thousand;
- The investments by the Company into the Port superstructure (equipment and systems necessary for the LNG floating storage and regasification unit) shall amount to LTL 54.805 thousand.

The exact amounts of the investments will be determined after the conclusion of contracts on the purchases of the corresponding works under the procedure set by the Law on Public Procurement of the Republic of Lithuania.

The KSSA's investments into the infrastructure of the Port shall be compensated using two following sources: charges paid by LNGT operator and third parties using the Port infrastructure because they provide services to or are serviced by the LNGT. The annual fee paid by the LNGT operator for using the jetty, that is calculated according to the amount of KSSA's investments into the Port infrastructure, 20 (twenty) years as the return period of investments and 5 (five) % as the internal rate of return (IRR). The fee calculated is decreased by the amount of the charges received by the KSSA for the usage of Port infrastructure as given above and increased by the amount of direct and indirect costs that the KSSA incurred because of the LNGT.

- **29 August 2012.** The Company and state enterprise Lithuanian Oil Products Agency signed a lease contract for 10 (ten) years under which the assets of Subačius Fuel Storage Facility located in Kunčiai village and Subačius town, Kupiškis district municipality, were leased. This contract came into force on 3 September 2012. The parties agreed in this contract that the rent to be paid for lease of the assets will amount to LTL 2.10 plus VAT from 2012 to 2016 and LTL 4.10 plus VAT from 2017 to 2021 for each ton of oil products stored per month. The rate of the rent will be indexed annually based on changes in the consumer price index
- **30 August 2012.** The Company and Litasco SA, a member of Lukoil group, signed a transshipment service agreement of heavy oil products up to the second half of 2014. According to this contract, the Company is going to transship approximately four million tons of heavy oil products. It comprises about 25 % of the Company's total transshipment capacity. Litasco SA, a member of Lukoil group, is one of the largest traders of oil and oil products in the region.
- **28 September 2012.** The extraordinary general meeting of the shareholders was held, that:
 - Approved the decision of the Board of the Company that decided to carry heavy oil storage park reconstruction (of two 32,250 thousand m³ storage tanks and technological pipelines as well as their electrical and automation equipment installation) at a total cost of not more than LTL 28 million ensuring that for this price the winning contractors of the public tenders will carry out the works necessary for the Company to properly operate the storage facilities and technological pipelines. The works shall be completed by 31 December 2013.
 - Decided to amend the Article 17.2 of Company's Articles of Association and define it as follows: "17.2. Before commencement of the office duties of Board members and the Chairman of the Board, the Board member agreements may be concluded with them, the conditions of which shall be established by the Supervisory Council. Remuneration may be established and paid to the independent Board members, based on the decision of the Supervisory Council, which would not be dependable on the results of activities and perspectives of the Company (other remuneration, than the tantems). If the Board member or the Chairman of the Board is elected into the position of the General Manager or is appointed as a Manager of the structural division of the Company, for such work an employment contract shall be concluded with him."
- **19 October 2012.** The National Control Commission for Prices and Energy has decided to compensate the expenses of the construction of LNGT, its infrastructure and connections for 2013 amounting to LTL 113,798 thousand. This is a part of the planned investments of LTL 450 million into the implementation of LNGT Project until 2015. All preliminary financing sources of Project are as follows:
 - About LTL 250 million are the funds borrowed from commercial and/or international financial institutions;
 - About LTL 200 million are the revenues from the additional and integral component to the upper limit of the natural gas transmission price (the LNGT tariff) in 2013 and in 2014 (the LNGT funds collected from gas transmission tariff in 2013 would amount to LTL 113,798 thousand).
 - Besides, the Company is going to apply to commercial banks for a bank guarantee of \$ 50 million intended for securing the performance of the contract for lease of the FSRU.
 - The Company is also going to address commercial banks for a bank guarantee intended for securing the performance of the gas supply contract, and for a bank loan intended for formation of the working capital necessary for the purchasing of LNG.
 - In order to secure the proper performance of possible financial obligations to financial institutions, the Company has submitted an application to the Ministry of Energy of the Republic of Lithuania, asking it to apply to the Ministry of Finance of the Republic of Lithuania for including a limit of state guarantees intended for securing loans for investments into the LNGT infrastructure (LTL 200 million), into the draft Law of the Republic of Lithuania on Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2013.

- **22 October 2012.** The Regional Environmental Protection Department of Klaipėda under the Ministry of Environment of the Republic of Lithuania granted the development consent on construction and operation of LNG Import Terminal and related objects of infrastructure in the southern part of Klaipėda State Seaport near Pig's back Island. This consent finalized the procedure of environmental impact assessment of LNGT Project.
- **30 October 2012.** The Company announced information about the procurement of LNG in the *Financial Times* issue of 22 October 2012. According to the announcement, the Company shall conclude the sale and purchase agreement under the following conditions:
 - The annual contract amount - 0.75 billion m³/26,500,000 million metric British thermal units.
 - Term of the Agreement – 10 years preferably, but other suggestions will also be considered.
 - The first sales of LNG – from the beginning of LNGT operation (planned for 1 January 2015), unless the parties agree otherwise.

Sixteen companies have expressed their interest to take part in the procurement tender of LNG organised by the Company. Expressions of interest could have been submitted by any interested entity. The Company is planning to sign the Heads of Agreement whereby it shall be agreed on main conditions of LNG supply in 2013.

- **20 November 2012.** The Company has signed a construction agreement worth more than LTL 21 million with UAB Rudesta. This contract is a part of AB Klaipėdos Nafta investment project “Reconstruction of Heavy Oil Products Storage Facilities Park” (demolition of 4 storage tanks, 5000 m³ capacity each, and installation of 2 storage tanks, 32 250 m³ capacity each). The contractor, UAB Rudesta, shall perform the whole reconstruction within one year. After the implementation of the project, AB Klaipėdos Nafta will have possibility to accept both light and heavy oil products into its two new storage tanks. The Company is expecting to start operations of the new storage facilities in the beginning of 2014.
- **17 December 2012.** A new subsidiary of the Company was registered - JSC LITGAS, which will perform the activities of trade or supply of LNG. The Company owns 100 percent of shares of JSC LITGAS. The authorized capital of JSC LITGAS amounts to LTL 1 million and was formed by the shareholder's cash contribution. JSC LITGAS was established according to the decisions of the Board of the Company on 16 November 2012 and on 6 December 2012.

For the start-up period, the following members of the Board of the Company were elected as the Board members of JSC LITGAS: Inga Černiuk, Mindaugas Jusius, Rytis Ambrazevičius, Rokas Masiulis and Arvydas Darulis. The General Manager of the Company, Rokas Masiulis, was elected as the General Manager of JSC LITGAS.

Significant events occurred after the end of the financial year:

- **25 January 2013.** An extraordinary general meeting of shareholders of the Company has approved the decision of 21 December 2012 of the Board of the Company to sign the contract with the winner of the public procurement “for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works”, which proposed the lowest price for proposed scope of work – the consortium of AB Kauno dujotiekio statyba and AB Šiaulių dujotiekio statyba for the total price of LTL 137,999,391 excl. VAT. The fixed price may be increased only in the extraordinary cases provided under the contract. AB Klaipėdos Nafta shall be paying the indicated fixed sum for the completed works according to the progress performed under the contract. All the works under the Contract shall be finished until 1 October 2014. The contract deadline may only be extended in the extraordinary cases defined in the contract.
The contract may be signed only after the expiration of the period of deferment of 15 days which is applicable to the signing of the contract in accordance with paragraph 22 of Article 2 of the Law of the Republic of Lithuania on Public Procurement, and in case there shall be no obligations or decisions, issued by the institutions, having the relevant authorities, which would prohibit to sign the contract with the concrete contractor, which has won the public procurement.
- **28 January 2013.** AB Klaipėdos Nafta received documents from the Klaipėda Regional Court regarding the claim filed by German company PPS Pipeline Systems GmbH to invalidate the decisions of the commission of international procurement of “Engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the procedure of open negotiations.
- **6 February 2013.** The Company concluded the Overdraft Facility Agreement with the winner of the public procurement “Procurement of Overdraft Services” by way of negotiated procedures with publication of a tender notice Nordea Bank Finland Plc. On the intention to announce the procurement of the aforementioned financial service the Company notified on 16 October 2012, on announcement thereof – on 9 November 2012 and on the winner of the procurement – on 18 January 2013, by announcing the notifications on material event.
- **8 February 2013.** The Company received a notice from the Public Procurement Office regarding evaluation of international procurement of “Engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the negotiated procedure. The Company announced the notification on material event on 22 January 2013.

According to the notice of the Public Procurement Office mentioned above, *inter alia*, the Company obliged to annul the following decisions adopted by the public procurement commission of the Company:

- The decisions of 3 and 5 December 2012 regarding the amendment of the evaluation criteria of tender offers and respective procedural rules;
- The decision of 20 December 2012 regarding the opening of the envelopes with the final tender offers of the participants of the Tender;

- The decision of 20 December 2012 regarding evaluation of final tender offers of the participants of the Tender, conclusion of the queue of tender offers, acknowledgement of the winner of the Tender and conclusion of the contract and respective announcements to the participants of the Tender in connection therewith.



- **11 February 2013.** An extraordinary general meeting of shareholders of the Company approved the decision of the Board of the Company to enter into the Agreement for Assignment of the Rights of Claim with the winner of the public procurement "Procurement of Overdraft Services" by way of negotiated procedures with publication of a tender notice – Nordea Bank Finland Plc, acting in Lithuania through the Lithuanian Branch of Nordea Bank Finland Plc. On the intention to announce the Procurement of the financial service mentioned above, the Company announced the intention on 16 October 2012, announced the procurement on 9 November 2012, announced the winner on 18 January 2013, by announcing the notifications on material event.

Shareholders of the Company approved the decision of the Board of the Company to enter into an agreement with the Bank for assignment of the rights of claim to the receivable funds to the Bank which were intended for covering all or part of the expenses of installation of the LNGT, its facilities and the connection to gas transmission system. This agreement for assignment of the rights of claim being intended to secure the Overdraft Agreement between the Company and the Bank, pursuant to which:

- Amount of the overdraft is LTL 120.000.000;
- Term of the overdraft – as from the date of conclusion of the agreement until 30 June 2015, with a possibility to extend the agreement for the period of up to 12 months with conditions being not worse than initially agreed;
- The amount of the overdraft can be increased by 30%, i. e., up to LTL 156,000,000. For the increase in the amount of overdraft the administrative fee shall not be applied;
- The annual interest rate is fluctuating. Base interest rate – 3 months VILIBOR. Interest margin is 0.94%, which shall not be changed during the whole term of validity of the agreement.

Besides, one of the conditions of the overdraft agreement is a prohibition to pay dividends to shareholders of the Company until the deed of completion of construction of the LNGT is provided to the Bank.

The above stated restriction on the payment of dividends shall be applied and any sums under the Overdraft Agreement shall be paid to the Company upon the condition, that based on the Resolution of the Government of the Republic of Lithuania No. 20 "On Dividends for the State-owned Shares of the Companies and Profit Taxes of the State-Owned Companies" from 14 January 1997 (including all later amendments hereto), there should be issued and entered into force the relevant Resolution of the Government of the Republic of Lithuania, by which there shall be established that the manager of shares of the Company which belong to the State of the Republic of Lithuania, shall be entitled to take the

decisions that the Company would abstain from payment of dividends until obtaining the deed of completion of construction of the LNGT.

On 11 February 2013, the shareholders of the Company also decided to revoke the Supervisory Council of the Company in corpore and decided to elect three new candidates having received the most votes into the Supervisory Council of the Company for the term of 4 years. Based on voting results the following three candidates were elected: Eimantas Kiudulas, Romas Švedas, Agnė Amelija Kairytė.

Also to ensure adequate implementation of requirements of resolution no. 665 adopted by the Government of the Republic of Lithuania on 6 June 2012 “on the description of procedures for assurance of state rights and interests in the state-owned enterprises” in the Company, new version of the Articles of Association were approved by the shareholders, which included amendments to the competences of the Board, reflecting the 2012 recommendations of the Board to the administration of the Company.

- **18 February 2013.** The new Supervisory Board was registered with the Register of Legal Entities. According to the results of the extraordinary general shareholders’ meeting on 11 February 2013, following three candidates, who received the majority of shareholders’ votes, were registered for the term of 4 years: Eimantas Kiudulas, Romas Švedas, Agnė Amelija Kairytė.
- **18 February 2013.** The Company executing the obligations indicated in the letter dated 8 February 2013 of the Public Procurement Office regarding evaluation of procurement of “Engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the negotiated procedure, renewed the Procurement procedure and sent the invitations to the participants of the procurement to present final offers. The tenders shall be evaluated according to the criterion of the most economically beneficial offer.
- **1 March 2013.** The Company announced AS BMGS as the winner of the international procurement “Engineering and Construction Works of Port Infrastructure (Jetty) with Superstructure (Equipment) of Liquefied Natural Gas Terminal”. AS BMGS undertook to carry out all works for the total amount of EUR 27.19 million (LTL 93.88 million) excluding VAT.

The contract between the Company and AS BMGS on the procurement of engineering and construction works of port infrastructure (jetty) with superstructure (equipment) of LNGT will enter into full force only if the Board and the general meeting of shareholders of the Company approve the conclusion of the contract.



In accordance with the bilateral agreement between the Company and KSSA on the improvement and creation of Port Infrastructure/Superstructure, part of the costs of the contract shall be reimbursed by KSSA (all costs for the Klaipėda State Seaport Infrastructure and part of the costs of General Works). KSSA shall reimburse to the Company the amount of EUR 14.2 million (LTL 49.02 million) excluding VAT. The Company shall incur the costs for remaining part of works amounting to EUR 12.99 million (LTL 44.86 million) excluding VAT.

- **5 March 2013.** The Ministry of Energy of the Republic of Lithuania, the manager of the shares of the Company held by the Republic of Lithuania, presented to the Government of the Republic of Lithuania the draft project of the resolution on dividends of the Company whereby it is suggested to assign the Ministry of Energy to adopt the decisions to allocate to dividends 1% of the distributable profit until the finalization of the LNGT Project.
- **8 March 2013.** The Company and AB Lietuvos Dujos concluded the Service Agreement on LNGT’s Connection to the Operating Natural Gas Transmission System providing the Company shall have a right to connect the LNGT to the natural gas transmission system and shall have a right to use the natural gas transmission system as of 3 December 2014.
- **8 March 2013.** The Company received documents from the Klaipėda Regional Court regarding lawsuit filed by AB “Kauno dujotiekio statyba” and UAB “Šiaulių dujotiekio statyba” regarding the international procurement “Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the negotiated procedure with a publication of notice.
- **12 March 2013.** The Company filed a separate appeal against the ruling of the Klaipėda Regional Court of 8 March 2013 according to which the request of claimants AB Kauno Dujotiekio Statyba and UAB Šiaulių Dujotiekio Statyba on imposition of interim measures was satisfied and the international procurement “Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the negotiated procedure with a publication of notice was suspended until the day when a decision of the court in this case is passed and comes into force.

By its separate appeal the Company requests to annul the ruling of the Klaipėda Regional Court of 8 March 2013, by which the interim measures were imposed. In case the court of first instance annuls the ruling on imposition of interim measures itself, the Company requests to allow execution of the ruling on lifting of the interim measures in the urgent manner.

- **15 March 2013.** The Company received a notification on 13 March 2013 from the Vilnius Regional Administrative Court regarding filing of a response to the complaint of AB Kauno dujotiekio statyba and UAB Šiaulių dujotiekio statyba, whereby the applicants ask the court to annul the decision No. 4S-619 of 8 February 2013 of the Public Procurement Office by which the Company was obliged to annul the results of procurement No. 124121 and the decisions regarding acknowledgement

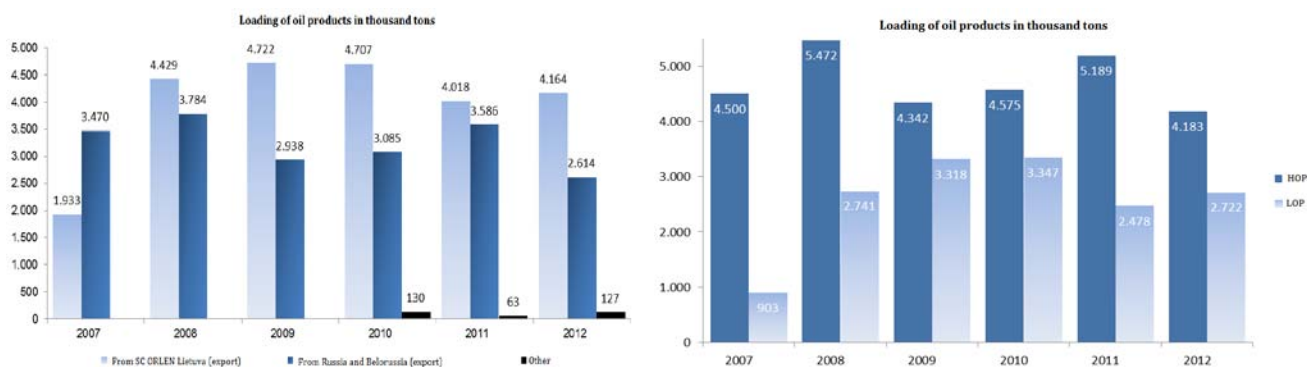
the proposal as on top of the group of economic subjects comprised of the applicants. The Company is brought into the proceedings as the party concerned.

- **18 March 2013.** The Company concluded the contract on Engineering and Construction Works of Port Infrastructure and Superstructure with AB BMGS - the winner of the international procurement tender of "Engineering and Construction Works of Port Infrastructure (Jetty) with Superstructure (Equipment) of LNGT". The main conditions of the Contract *inter alia* include the following:
 - The total fixed price for the works under the contract shall not exceed EUR 27,190,000 excluding VAT (LTL 93,881,632 excluding VAT). The fixed contract price can be increased only in the extraordinary cases provided under the contract. The Company shall pay the fixed contract price only for the actual Works performed according to the progress.
 - All works under the contract shall be completed until 1 October 2014. The deadline for completion may only be extended in the extraordinary cases defined in the contract.
 - The contract shall enter into force after the approval of the general shareholder meeting of the Company.
- **18 March 2013.** The first meeting of the new Supervisory Council of the Company was held. During this meeting the Deputy of the Law Division and Acting Chancellor of the Ministry of Energy and the representative of the Ministry of Energy of the Republic of Lithuania, which implements the rights of the shareholder of the Company – the Republic of Lithuania, that owns 72.32 percent of all shares of the Company, Agnė Amelija Kairytė, was elected as the Chairman of the Supervisory Council of the Company.

During its first meeting the Supervisory Council also recalled the Audit Committee of the Company in corpore and for the term of 4 years elected the new Audit Committee. Linas Sasnauskas and Simonas Rimašauskas were chosen as the independent members of the Audit Committee for the new term and Eimantas Kiudulas had also been elected to the Audit Committee for one more term.
- **20 March 2013.** The Chairman of the Board of the Company, Mr. Arvydas Darulis, informed the Supervisory Council, other Board members and the Company that he resigns from office and submitted his resignation papers to the Company. According to the Article 33.10 of the Law on Companies of the Republic of Lithuania, the mandate of the Chairman of the Board will expire on 4 April 2013.

Following the requirements of the Law of the Republic of Lithuania, all main events concerning the Company and information about the time and venue of the general shareholders' meeting are published on the website of the Company www.oil.lt and in AB NASDAQ OMX Vilnius Stock Exchange.

The Company has published 72 official announcements about the main events and other regulated information on AB NASDAQ OMX Vilnius Stock Exchange (www.nasdaqomxbaltic.com) in 2012.



BUSINESS ENVIRONMENT

During 2012 the Company transshipped 6,905 thousand tons of oil products. 61% (68% in 2011) of total transshipment volume was transshipment of heavy oil products (HOP). The fluidity of HOP depends on the product temperature and ambient temperatures. The following oil products are attributed to HOP: types of fuel oil and its substitutes, vacuum gas oil, orimulsion, oil ant etc. Light oil products (LOP) are oil products, the fluidity of which does not depend on the product temperature and ambient temperatures. The following oil products are attributed to LOP: types of gasoline, diesel fuel, jet fuel and etc.

In 2012, Belarusian and Russian flows of oil products decreased by 27% compared to 2011 (decrease from 3,586 thousand tons to 2,614 thousand tons). Comparing 2012 with 2010 the decrease was by 15% (from 3,085 thousand tons to 2,614 thousand tons). The Company anticipated the trends of decrease in heavy oil products from Belarus and Russia due to the

planned modernization of oil refineries increasing the oil processing depth and decreasing the output of HOP which are the main oil products transshipped by the Company from the eastern oil refineries. In order to ensure stable revenue level during the period of changes, in 2012 the Company signed a contract with the Swiss company Litasco SA (Lukoil Baltija Group Company) under "take-or-pay" conditions ensuring the Company's revenue will be not less than in 2012, regardless of variations on the physical flows of oil products. The same type of contract was signed with the company Somitekno Ltd on transshipment of vacuum gas oil. The Company, taking into account the changes in the market, is oriented and plans to continue the conclusion of new contracts with customers under "take-or-pay" conditions, because they provide a stable income from operations even during the unstable flow of oil products.

A long-term contract until the end of 2024 concluded with AB Orlen Lietuva ensures the basic handling flows of fuel oil, gasoline and diesel fuel. The annual volume of transshipment of AB Orlen Lietuva oil products exceeds 60% of the total transshipment volume of the Company. In 2012 the Company transshipped 4% or 170 thousand tons more oil products of AB Orlen Lietuva compared to 2011.

RISK FACTORS

Risk factors of the oil products terminal

Competitive environment risk factors

The main competitors of the Company are the following terminals of Klaipėda and other Baltic Sea ports as well as Black Sea ports which are transshipping heavy and light oil products exported from Russia, Byelorussia and Lithuania: Krovinių terminalas (Lithuania), Ventspils Nafta (Latvia), Ventbunkers (Latvia), BLB (Latvia), Alexela (Estonia), Vopak EOS (Estonia), Vesta (Estonia), Odessa, Sevastopol, Feodosia terminals (Ukraine), Peterburg Oil Terminal (Russia) and the new terminal Ust-Luga (Russia). The most significant factors influencing the competitiveness of the Company on the market are as follows: technical characteristics of the port and terminal (number and depth of the jetties, maximum allowed draughts of sea vessels, capacities of terminal storages, efficiency of the loading equipment, etc.) and infrastructure servicing the terminal (roads, railway networks, etc.), cost of logistics.

The Russian Government strives to export all oil products produced in Russian oil refineries through Russian ports; therefore, Russia creates more favorable conditions for the oil refineries which are delivering their oil products to national ports, thus aiming to increase the competitiveness of the national ports in the Baltic Sea region.

It is reasonable to expect that the Company will maintain oil product flow from Russian companies in winter season because of the good reputation of the Company, current market share, long-term agreements with cargo owners, and benefits of ice-free port.

Commercial risk factors

The main client of the Company is AB ORLEN Lietuva. Its share represents more than 50% of the Company's annual transshipment volume. On 17 November 2011 the Company signed an agreement with AB ORLEN Lietuva which is valid until 2024 and guarantees stable flows of oil products from AB ORLEN Lietuva.

Annual transshipment volume of oil products from Belarusian oil refineries amounts to 35% of the total transshipment volume of the Company. Since Belarus has no direct access to the sea, Belarus must use transit services of neighboring countries and their ports in order to export oil products to the Western countries. Therefore, the cooperation with Belarusian companies and institutions is highly important in order to divert their transit of oil products through Klaipėda port.

Due to the significant share of Belarusian transit of oil products in Company's activities there is a risk (including but not limited to political, economic, etc.) that the Belarusian oil refineries may decide to export oil products using ports of other countries (Latvian, Estonian or Ukrainian). The Company may not be able to find new customers within short period of time which would replace the lost transshipment volume and, therefore, may not be able to maintain the same volume of transshipment of oil products as in previous years.

Capacity utilization as well as earnings and profitability of the Company greatly depend on the situation on the oil market. In case of low oil refining margins oil refineries reduce the volume of oil refining, i.e., produce less oil products which could be exported using the Company's or other competitive terminals. Therefore, due to less profitable oil refining and the relatively decreasing flows of export oil products, the competition for transshipment of these flows is becoming more intense and it affects transshipment volume of the Company and the size of applied tariffs. If the oil refining margins are high, the reverse processes are observed.

The allowed draught of 12,5 meters at jetties No. 1 and No. 2 of Klaipėda State Seaport which are operated by the Company, At the terminals of Ventspils and Tallinn the allowed depth exceeds 14 meters which enables a full load of Aframax type tankers (up to 100,000 tons). Klaipėdos Nafta, because of the restrictions of allowed draught of up to 12.5 meters can load such type of tankers only up to 80-85 thousand tons. Therefore, Klaipėdos Nafta loses its competitive edge against the neighboring ports as this translates into higher marine logistics costs for oil products shipped by Aframax type tankers.

Political risk factors

Risk factors related to politics of Russian Federation and Belarus

The governments of Russia and Belarus have always strictly regulated the export of oil and its products from the country by defining strict export quotas and tariffs on oil products transported by railway in such way giving preference to one or another

port. There is a possibility that the decisions by both, Russian Federation and Belarus, regarding the granting of quotas and export through ports of the preferred countries as well as regulation of railway tariffs can be based not only on economic but also on political motives.

Consequently, there is a risk that political decisions adopted by Russia and Belarus, relating to the granting of quotas of oil product export to particular foreign ports or reducing such quotas to Klaipeda port, despite the strategically advantageous geographic position of the Company, would lead to the decrease in the transshipment volume of the Company.

Moreover, there is a risk that, due to the political reasons related to regime of A. Lukashenko, the President of Belarus, the EU may apply economic sanctions to Belarus. Such economic sanctions may result in restriction or suspension of import of certain goods or products made in Belarus to the EU countries or may absolutely terminate the trade relations between the EU and Belarus. Belarus may apply similar economic measures and restrict the export of oil products produced in Belarus through the EU ports. Therefore, there is a risk that any economic sanctions applied by the EU to Belarus would reduce the Company's transshipment volume of oil products produced in Belarus.

Risk factors related to politics of Latvia

The distance from the Company's terminal to the main oil refineries, which are the producers of oil products which are transhipped by the Company, is shorter than the distance from these refineries to the Latvian and Estonian oil terminals. Therefore, it is economically more favorable to transship oil products from these oil refineries at the Company's terminal and Klaipeda Port than at the neighboring terminals located at the Baltic Sea ports. However, if the Government of the Republic of Latvia or the Latvian Railways decide to significantly reduce their transit tariffs, a risk may arise that it will be economically more favorable for certain customers to transship their oil products at the terminals of Latvian ports (or even to transport oil products by railway to the terminals of Estonian ports). Nonetheless, the advantageous geographic position of the Company helps to reduce such risk.

Technological factors

Technological characteristics of the oil terminal are of major importance for quick and effective satisfaction of potential customers' needs and at the same time for generation of additional revenue.

It is planned that the Seaport of Klaipeda will increase the allowed draught of sea vessels at the Company's jetties up to 13 meters in 2013 and in future perspective up to 14 meters. In case of changes in the plans or delays of the dredging works, Klaipeda Nafta will be less competitive compared to the neighboring ports on maximum loading parameters of large tankers and will not attract high tonnage tankers.

The investment plans of KSSA, as well as the Company's investment plans regarding expansion of the oil product storage-tank farm by 10 percent will allow to service sea vessels of greater tonnage and expand the assortment of oil products available for transshipping. The facilities of the oil terminal, which are located in 35.7 ha area, allow handling of up to 9 million tons of exported and imported oil products and crude oil per year. Total capacity of all storage tanks amounts to 405 thousand m³. Each batch of oil products delivered from different oil refineries is stored separately, i.e., is not mixed with others. This allows preserving the initial quantity and quality of the delivered oil products. Modern laboratory of the oil terminal controls the quality parameters.

Tankers of capacity up to 100 thousand tons with allowed draught of 12.5 m are handled at two jetties which are located at the port entrance channel which was dredged to 14 meters depth. The Terminal operates a facility for road tanker loading where four road tankers can be loaded at the same time. A unique biological waste water treatment technology guarantees that the treated clear water, discharged into open water basins, complies with the European Union regulations. Total capacity of waste water treatment plant is 160 m³ per hour. Up to 400 thousand m³ of water is collected and treated annually.

The Company's oil terminal equipment was manufactured by the following Western and USA companies: "KANON", "BORNEMANN", "INGERSOLL DRESSER", "ROTORK", "ENRAF", "ROSSMARK", "AEG" and etc. Also installed are AJAX-HEKATRON automatic fire detection and extinguishing system, HONEYWELL shutdown system and BAILEY computerized control system of the transshipment process.

Risk factors of the LNGT project

Risk	Description	Commentary/Risk management
Regulatory and political	Relevant legislation may not be approved or adopted legislation may be amended	<ul style="list-style-type: none"> ▪ LNG terminal project has made a significant progress and important changes in project's legal or regulatory environment could result in significant losses due to the financial commitments already made. ▪ After the parliamentary elections held in October 2012, the new country's Government was elected, which defined the field of energetics as one of the priorities. The new Prime Minister of Lithuania, A. Butkevičius, and the designated Minister of Energy, J. Neverovičius, have repeatedly mentioned in their speeches that the new government supports the LNG terminal project and seeks for its rapid implementation. The Governing Coalition's work is stable and it has the guaranteed majority in Seimas.
Construction	Construction works of the jetty and pipeline may take longer and cost more than expected	<ul style="list-style-type: none"> ▪ Construction works of the jetty and pipeline will be procured following the manner of purchase of Engineering, procurement and construction (EPC). In such a way, schedule and cost of the works are indicated during the conclusion of the contract with the contractors. All the risks associated with these activities not completed on time and the increase in the price of work is transferred to the contractor. Various measures are taken to secure the contract (for example, pre-payment guarantee, performance guarantee, guarantee for defect adjustments, payment detentions for defect adjustments, etc.). ▪ The schedule and construction costs of the LNG terminal project were estimated according to suggestions of the main consultant of the projects, Fluor. Fluor has extensive experience in the development and successful implementation of such projects all around the world.
Financial	The Company may not receive the necessary funding for the creation of the infrastructure of the LNG Terminal	<ul style="list-style-type: none"> ▪ The NCC has already approved the LNG terminal investment plan (LTL 453 million) and plans to assign LTL 200 million as the gas transmission tariff component. Tariff funds have already been started to collect and it is planned to collect the total of over LTL 114 million during 2013. ▪ Klaipėdos Nafta has also signed an agreement with Nordea Bank Finland Plc. on the overdraft of LTL 120 million. ▪ The company has announced a public invitation to tender for obtaining a long-term loan (LTL 253 million). Both, the institutional and commercial banks, have expressed the willingness to grant loans.
Third parties	The delivery of the vessel-storage to the port of Klaipėda may be delayed	<ul style="list-style-type: none"> ▪ Höegh LNG is one of the leading maritime companies supplying the technologies of LNG transportation and regasification. The company has received the loan of EUR 250 million for the construction of LNG terminal's vessel-storage for Klaipėdos Nafta. ▪ The specialists of both, Höegh LNG and Klaipėdos Nafta supervise the construction works of the vessel-storage in South Korean Hyundai Shipyard according to the strict schedule. The construction works are performed on schedule.
	The port dredging works may take longer than expected	<ul style="list-style-type: none"> ▪ Klaipėda State Seaport Authority (KSSA) is responsible for the execution of port dredging works. This agreement is embodied in the special agreement between Klaipėdos Nafta and KSSA. The obligation of the port authority to complete the port dredging of time is as well provided the resolution of the Government. Works have been started and are carried out according to the schedule.
	The pipeline Jurbarkas – Klaipėda may not be completed on time	<ul style="list-style-type: none"> ▪ The construction works of the main pipeline Jurbarkas - Klaipėda has already been started and should be completed in 2013, i.e. one year earlier than the launch of the LNG Terminal.

ENVIRONMENT PROTECTION

The Company performing its activities must follow the legal acts on environment protection that provide the usage, marking and storage of various materials, ensure that all equipment used would comply with their usage requirements. In the objects operated by the Company, where is the higher risk of damage to the environment by emitted pollutants or amount of accumulated waste, the Company works according to the licenses of integrated prevention and control of pollution (PIPC) issued by the regional departments of environment protection and according to the most accessible methods of production. The Company is obliged, in compliance with all these rules, to implement such procedures and technologies that would enable

to handle appropriately any hazardous materials. The Company is responsible for the management and elimination of any environmental pollution and for the maintenance of adequate equipment condition.

In order to reduce the environmental risks, the Company implemented the systems of automatic fire detection and extinguishing, computer-assisted loading process control, and technologies for air, soil and water protection from pollution in accordance with the EU standards. The management of systems for extreme situations, fire protection and territory protection comply with the requirements of the Republic of Lithuania institutions of fire protection, labour security, civil safety, environment protection, port control. The inspectors of British Petroleum and SHELL which carried out the danger and risk analysis and evaluation of the Company gave positive conclusions on the safety of the Company's terminal.

In order to further reduce the environment pollution by hydrocarbon vapors, the Company plans to finish the LOP project and the construction of oil vapor recuperation unit in 2013.

During 2012, the Company did not experience any accidents or malfunctions which could affect environment. The Company performs constant environmental monitoring of:

- underground and surface water (it has been measured that underground pollution with oil products, which accumulated over the period of activities of the old terminal, is reducing);
- discharged waste water (biological treatment facilities of the Company guarantee less pollution of open water basins than allowed in the Integrated Permit of Pollution Prevention and Control);
- impact on ambient air (limits of volatile organic compounds and nitrogen oxides defined by the EU and national limit values were not exceeded outside the boundaries of the sanitary zone of the Company. The equipment for burning volatile organic compounds, which arise from loading of gasoline into tankers, collected and burned 237 tons of hydrocarbon vapors during the reporting year (2011 – 447 tons);
- stationary sources of air pollution (the amount of pollutants allowed in the Environment Protection Permit was not exceeded).

During 2012 the Company utilized 5,557 tons (2011 – 9,026 tons) of bilge waters and biologically treated mud, handed over to other companies 191 tons (2011 – 101 tons) of sorted wastes and collected 2,013 tons (2011 – 1,525 tons) of secondary raw materials (metal scrap, oil products, paper).

In 2012 the expenses for environment protection totaled to LTL 3,053 thousand (2011 – LTL 2,801 thousand). Additionally LTL 120 thousand (2011 – LTL 51 thousand) were allocated for different environmental studies (investigation of pollutants and etc.) and LTL 19 thousand (2011 – LTL 23 thousand) of pollution tax was paid.

SUBAČIUS FUEL STORAGE FACILITY

After the approval of the share emission agreement with the Republic of Lithuania on 11 June 2012, the Company started to manage the Subačius fuel storage facility in Kunčių village, Kupiškis region. The infrastructure of the Subačius fuel storage facility consists of the following: (1) the park of 338,000 m³ of storage tanks adapted to store light oil products; (2) the rail access point modernized in 2007 which can simultaneously handle 14 rail tank wagons; (3) modern rail tank loading platform; (4) renovated laboratory that can detect the main quality parameters of oil products; (5) vehicles and other service buildings and equipment.

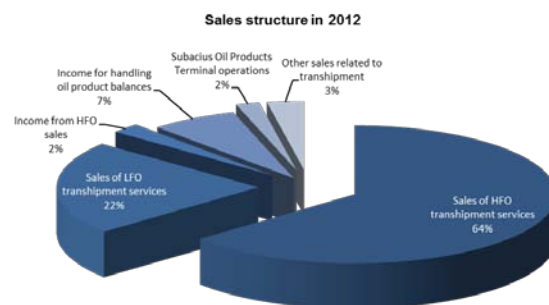
The main operations of Subačius fuel storage facility are the following: long-term storage of oil products (currently the majority of storage tanks are filled with the obligatory reserve of oil products of Lithuania), and the loading of tank trucks which service the entities in the Aukštaitija region. In addition, the Company is carrying out social activities which create the opportunity for the local residents and legal entities having the status of social companies to receive services of sanitation, passenger transport, snow clearing and other services of heavy transport under favourable conditions.



RESULTS OF FINANCIAL ACTIVITIES

Operating results

The year 2012 was an exceptional year for the Company. The changes of 2012 in the market of oil products when the flow of heavy oil products declined due to the ongoing modernization of oil refineries and increasing competition for declining flows pressured the Company to seek commercial means of ensuring stable revenues. The obtained infrastructure of Subačius fuel storage facility has expanded the Company's scope of services by the service of long-term storage of oil products. The Company continued the implementation of the LNGT Project which was recognized as the economic project of national importance by the Seimas of the Republic of Lithuania in 2012.



Revenue

In 2012 the Company's revenue amounted to LTL 138,881 thousand, compared to 2011 (LTL 141,276 thousand), a decrease of LTL 2,395 thousand. Despite the decrease of 10% in the volume of transshipment of oil products the revenues of 2012 for the transshipment services decreased only by 2% because of the increase in tariffs for the Russian and Belarusian customers and because of the partial transition to "take-or-pay" based contracts.

Revenues from transshipment services make over 90% of the Company's total revenue (2012 – 95%, 2011 – 94%).

Structure of sales revenue of AB Klaipėdos Nafta

Sales, thousand LTL	2011		2012			
	OT		OT	SFSF	Total	
Revenue from transshipment services	132,223	94%	128,923	2,620	131,543	95%
Revenue from HOP sales	5,669	4%	3,233	-	3,233	2%
Other sales revenue related to transshipment	3,354	2%	4,105	-	4,105	3%
Total	141,276	100%	136,261	2,620	138,881	100%

Other sales revenue related to transshipment includes mooring services, sale of fresh water, transport of crew, sold reserves.

Abbreviations:

OT – oil terminal

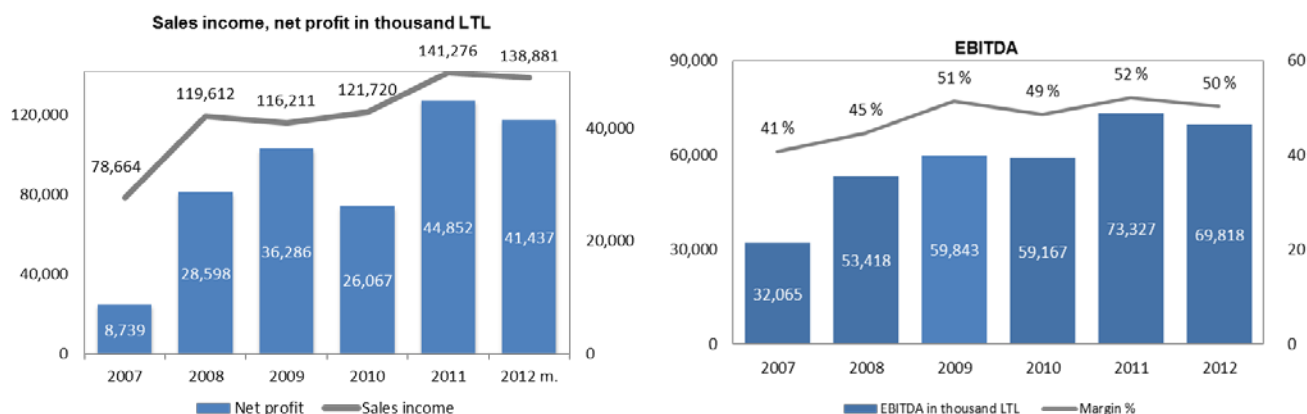
SFSF – Subačius fuel storage facility

Profit

Net profit for 2012 amounts to LTL 41,437 thousand, a decrease of 8% or LTL 3,415 thousand compared to 2011 (LTL 44,852 thousand).

The decrease in the net profit for 2012 was influenced by additional LNGT Project administrative costs of LTL 1 million and decrease in revenues by 2% for the transshipment of oil products because of the repairs carried out in the Russian and Belarusian oil refineries.

Earnings before taxation, interest, depreciation and amortization (EBITDA) of 2012 amounts to LTL 69,818 thousand, a decrease of 5% compared to 2011 (LTL 73,327 thousand).

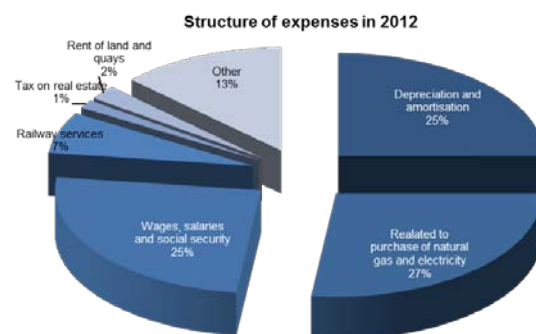


Costs

In 2012 cost of sales (LTL 81,336 thousand) decreased by 2% or LTL 1,577 thousand compared to 2011 (LTL 82,913 thousand). Operating costs increased by 38% or LTL 3,001 thousand (2012 – LTL 10,734 thousand, 2011 – LTL 7,733 thousand).

In 2012 the major components of cost of sales were: energy costs (gas and electricity) of 31% (LTL 24,956 thousand), depreciation and amortization of 28% (LTL 22,609 thousand), wages for production personnel of 22% (LTL 17,845 thousand), railway services of 7% (LTL 6,034 thousand).

The growth of costs was influenced by additional costs of LTL 1 million of LNGT administration.



Key financial and operating figures

The main ratios of the Company's financial position are as follows (in thousand Litass, if not indicated otherwise):

Operating figures	2010	2011	2012
Transshipment of oil products (net, thousand tons)	6.905	7.667	7.922
Investments (acquisitions)	40.729	18.627	12.803

Financial figures	2010	2011	2012
Sales revenue	138.881	141.276	121.720
Gross profit	57.545	58.363	45.266
Operating profit	46.919	50.672	28.269
EBITDA	69.818	73.327	59.167
EBIT	46.919	50.673	28.269
Profit before taxation	48.758	52.771	29.715
Net profit	41.437	44.852	26.067
Non-current assets	447.650	389.643	396.115
Current assets	112.360	129.207	77.756
Total assets	560.010	518.850	473.871
Shareholder's equity	536.412	499.838	454.986

Profitability			
Return on equity (ROE)	8,0%	9,4%	5,8%
Return on assets (ROA)	8,7%	10,2%	6,0%
Gross profit margin	41%	41%	37%
Operating profit margin	34%	36%	23%
EBITDA margin	50%	52%	49%
EBIT margin	34%	36%	23%
Net profit margin	30%	32%	21%
Turnover			
Accounts receivable, days	47	18	17
Accounts payable, days	23	15	13
Financial structure			
Debt ratio	0,04	0,04	0,04
Capital to assets ratio	0,96	0,96	0,96
Gross liquidity ratio (current ratio)	7,21	12,28	8,09
Market value ratios			
Share price to earnings per share ratio (P/E), times	12	10	24
Net profit per share (EPS), LTL	0,11	0,13	0,08

EBITDA = earnings before interest, taxation, depreciation and amortization.

EBIT = earnings before interest and taxation.

Return on equity (ROE) = net profit for the period / total average equity for the period.

Return on assets (ROA) = net profit for the period / total average assets for the period.

Debt ratio = total current and non-current liabilities at the end of the period / total assets at the end of the period.

Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

INVESTMENTS

The Company is seeking to be an active player on the market of oil products; therefore, it is implementing technically and economically sound investment policy. The Company also ensures compliance with environmental requirements by emitting low amounts of hydrocarbon vapors into the environment. For this purpose, modernization of the oil products storage tank park and the system of utilization of hydrocarbon vapor is being carried out.

A great challenge for the Company is the implementation of LNGT Project.

The main areas of investments:

- To increase the oil terminal's flexibility in accepting different types of oil products;
- To ensure the compliance with environmental and fire safety requirements for the Company and the general public;
- The implementation of the LNGT Project.

The Company invested LTL 17,754 thousand into the modernization of the oil terminal in 2012:

- Purchase of vapor recuperation unit that will be installed in 2013;
- Modernization of the old storage tank of 5.000 m³, the final works were completed in January 2013;
- Modernization of the system for transshipment of oil products;

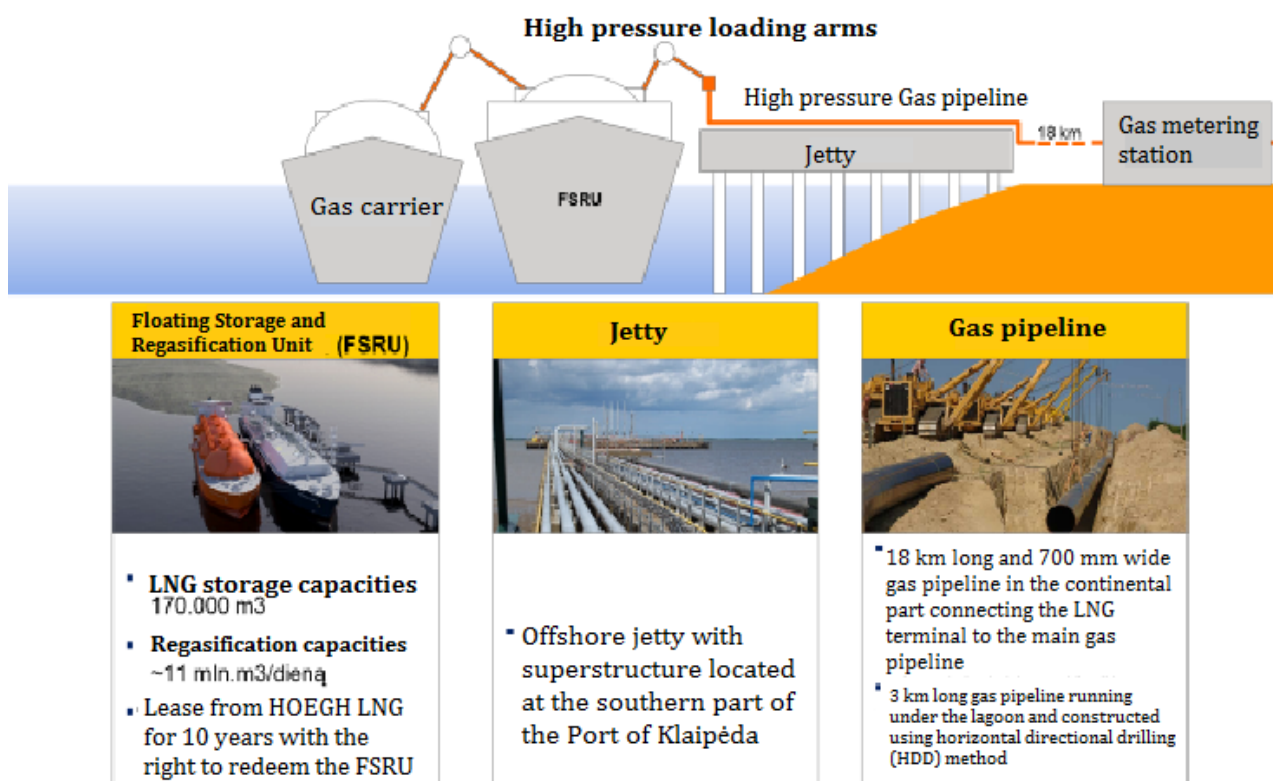
- Modernization of the vapor separation technology in one boiler.

In addition to the investments mentioned above, in 2012 the Company invested into the following objects that are planned to be finished in 2013-2014:

- The development of the park of universal storage tanks by building 2 universal storages of 32.25 thousand m³ (construction works were finished, the contractors for the installation and automation were selected);
- The modernization of the unloading system on one rail pier (the final works are being carried out);
- The project for the modernization of the fire safety system (renovation of firefighting pipelines and equipment on rail pier).

IMPLEMENTATION OF THE LNGT PROJECT IN 2012

The LNGT Project is being successfully developed according to the implementation plans and objectives, all works are carried out in accordance with the set deadlines.



The main works related to the implementation of LNGT Project in 2012:

Date	Works implemented
26 April 2012	Completion of Marine and Pipeline FEED.
May and September 2012	Navigational analysis of LNG ships was completed and navigational parameters of LNG ships in Klaipėda Port were determined, on the basis of which Klaipėda State Seaport Authority shall execute amendments of Navigation rules.
May 2012	Presentation of the LNGT project business plan.
12 June 2012	Law on Liquefied Natural Gas Terminal (State Gazette 2012, No. 68-3467)
June and August 2012	Geological investigation for construction of LNG jetty and pipeline in the Port.

Date	Works implemented
3 July 2012	Procurement for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) works was announced.
5 July 2012	Signed a General Bilateral Cooperation agreement with Klaipėda State Seaport Authority on construction of jetty of LNGT and dredging works of Port water area.
14 August 2012	AB Klaipėdos nafta and Klaipėda State Seaport Authority signed an additional agreement to General Bilateral Agreement on rules and conditions of investment and compensation of investment.
24 August 2012	Procurement of LNGT project port Infrastructure (jetty) with suprastructure (equipment) engineering and construction works was announced. On 10 December 2012 initial tender offers were received and negotiations with tender participants started.
12 September 2012	A request was submitted to the Ministry of Energy of the Republic of Lithuania to address the Ministry of Finances of the Republic of Lithuania to include a State guarantee limit of LTL 200 million, intended for security of loans for investment into LNGT infrastructure, into the State budget of 2013. On 20 December 2012 the Law of Approval of Financial Indicators of State Budget and Municipalities' Budget was adopted which included the State guarantee limit.
September 2012	Land property for construction of gas metering station (GMS) was purchased.
October 2012	LNGT Safety Report, version 1, was prepared which will be supplemented with solutions of basic design and will be submitted to authorities for approval.
12 October 2012	Klaipėda State Seaport Authority announced procurement of port dredging works. On 21 December 2012 final tender offers were received.
22 October 2012	Regional Environmental Protection Department of Klaipėda by the Ministry of Environment of the Republic of Lithuania has granted development consent on construction and activities of LNGT and Related Objects of Infrastructure in the southern part of Klaipėda State Seaport nearby Pig's back Island. The consent finalized the procedure of environmental impact assessment on LNGT project.
October 2012	AB "Klaipėdos nafta" and AB „Lietuvos dujos" signed an agreement on installation of tie-in point for connection of LNGT to transmission grid.
November 2012	Main terms and conditions for connection of LNGT to transmission grid of AB "Lietuvos dujos" were approved.
9 November 2012	Procurement tender of Overdraft facilities was announced.
9 November 2012	Procurement of financial services (long term loan and performance guarantee) was announced. On 13 December 2012 applications of the suppliers were received.
23 November	Following the order of the European Commission, analysis of LNG supply to the Baltic region was prepared. It indicated that Lithuania selected the best technological solution which corresponds to regional LNGT parameters with the lowest costs of the terminal construction and operation, in comparison to potential terminals of Latvia, Estonia and Finland.
December 2012	Concept of special plan of LNGT construction and SEIA was approved.
December 2012	Process of detailed planning regarding land property for GMS was started.
December 2012	A feasibility study was completed titled: <i>Analysis of quality changes of natural gas and estimation of suitable parameters for consumers in transmission system operated by AB Lietuvos Dujos.</i>
17 December 2012	Established and registered a new subsidiary LITGAS UAB, which will engage in trade of LNG and supply of natural gas.
19 December 2012	Comfort letter regarding LNGT project was signed by the Minister of Energy.

List of adopted legal acts required for the implementation of the LNGT project:

Date	Legal Act	Effect on the LNGT project
15 February 2012	Resolution by the Government of the Republic of Lithuania "On Construction of Liquefied Natural Gas Terminal" (State Gazette, 2012, No 25-1166, No 83-4387)	The Government approved that Klaipėdos Nafta would continue the implementation of the LNGT project in the Republic of Lithuania.
29 February 2012	Resolution by the Government of the Republic of Lithuania "On Ensurance of Obligatory Activity of Liquefied Natural Gas Terminal" (State Gazette, 2012, No 29-1297).	The Government approved minimal import quota through LNGT of 25 percent from volume of annual domestic natural gas consumption for natural gas suppliers in Lithuania.
26 June 2012	Resolution by the Parliament of the Republic of Lithuania "On Adoption of the National Energy Independence Strategy" (State Gazette, 2012, No 80-4149).	LNGT project is the strategic priority project intended to ensure stability and diversification of natural gas supply, to reduce natural gas prices, and to create natural gas market.
12 June 2012	Law on Liquefied Natural Gas Terminal (State Gazette, 2012, No 68-3467).	General principles and requirements for construction of LNGT in the territory of the Republic of Lithuania, its activities and operation are set forth at the highest legal level, as well as legal, financial and organizational conditions for implementation of LNGT project have been created.
16 October 2012	Resolution by the Government of the Republic of Lithuania "On Adoption of the Procedure for Procurement of Liquefied Natural Gas Delivered to the Liquefied Natural Gas Terminal" (State Gazette, 2012, No 122-6151).	Obligatory requirements applied to procurement of LNG which is delivered to LNGT. General requirements of public procurement are not applied to LNG procurement.
22 October 2012	Resolution by Klaipėda Region Environmental Protection Department of the Ministry of Environment of the Republic of Lithuania No (4)-LV4-3270.	Resolution granted consent on construction and activities of LNG Import Terminal and related infrastructure.
7 November 2012	Resolution by the Government of the Republic of Lithuania "On Approval of the Rules of Diversification of the Natural Gas Supply" (State Gazette, 2012, No 132-6708).	Procedures were set on implementation of rules of diversification of supply of natural gas imported and consumed in internal market of the Republic of Lithuania, including requirements for practical implementation of 25 percent rule (obligatory requirement for natural gas suppliers to ensure import of natural gas through LNGT).
6 November	Amendments by the Parliament of the Republic of Lithuania on Forest Law No I-671	Amendments allow changing land use purpose from forest land into land of other usage, when it is set forth in special plans of projects of extraordinary state importance.

Changes in regulatory environment:

Date	Legal Act	Effect on the LNGT project
28 September 2012	Resolution by The National Control Commission for Prices and Energy (NCC) on "Amendment of methodology for calculation of cap prices for transmission and distribution of natural gas" (State Gazette, 2012, No 115-5856).	NCC approved calculation methodology and inclusion of costs of construction of LNGT into the price (tariff) of transmission of natural gas in the form of LNGT premium.
9 October 2012	Resolution by the NCC "On Adoption of Rules on Administration of the Funds Allocated for Full or Partial Compensation of Costs of Construction and	NCC determined rules of administration of the funds collected through natural gas transmission tariff and required for

Date	Legal Act	Effect on the LNGT project
	Operation of the Liquefied Natural Gas Terminal” (State Gazette, 2012, No 118-5973).	compensation of costs of construction and operation of the LNGT.
19 October 2012	Resolution by the NCC “On Approval of the Funds for the Year 2013 for Full or Partial Compensation of Costs of Construction and Operation of the LNGT” (State Gazette, 2012, No 123-6229).	NCC decided to compensate part of costs of construction of LNGT for 2013 equal to LTL 113,798. This amount will be included into price of natural gas transmission service as LNGT premium.
26 October 2012	Resolution by the NCC “On Correction of the Cap Prices for Transmission and Distribution of Natural Gas by AB Lietuvos Dujos and Approval of the Supplementary and Integral Constituent (Costs for the LNGT) in the Cap Price for Transmission of Natural Gas for the Year 2013” (State Gazette, 2012, No 126-6375).	NCC approved LNGT premium – supplementary and integral constituent in the cap price of transmission of natural gas, for compensation of costs of LNGT construction in 2013 which amounts to LTL 37.53 for 1000 m3 (excl. VAT).
21 December 2012	Resolution by the NCC “On Approval of Requirements for Rules of Use of the LNGT” (State Gazette, 2012, No 154-7972).	NCC approved requirements for rules of use of LNGT. Klaipėdos Nafta has prepared and approved these rules on 31 January 2013.

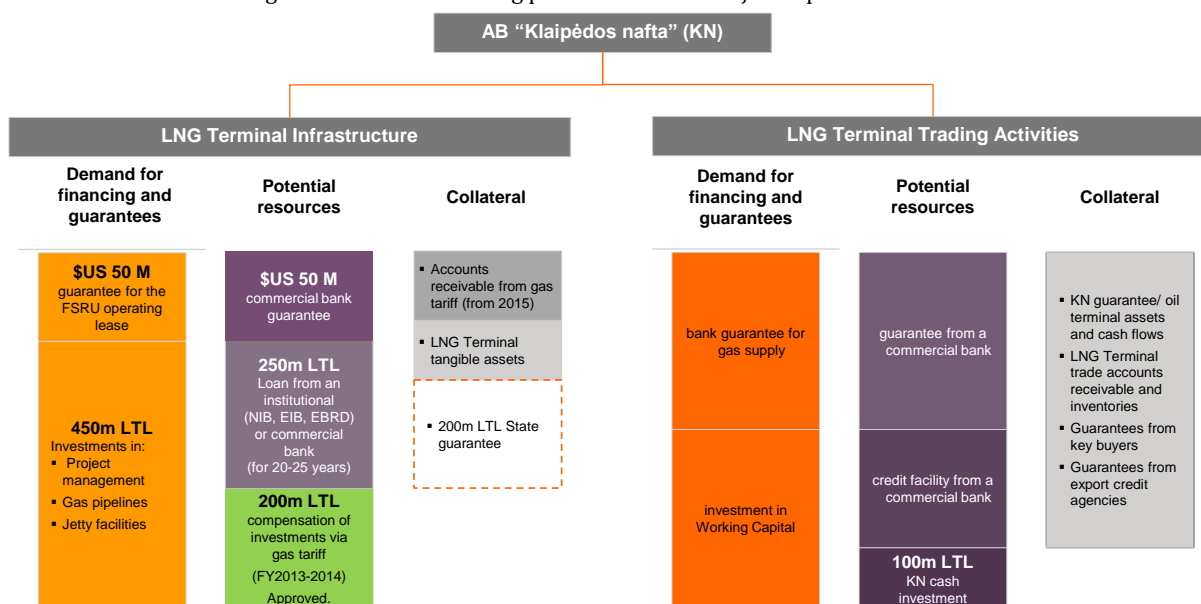
ACTIVITY PLANS AND FORECASTS

The Company’s operational objectives for 2012 are associated with the Company’s strategy for 2012-2016. The plan provides:

- to maintain high level of oil transshipment and profitability;
- to increase competitiveness of the oil terminal by attending to increasing flows of light oil products, by investing in construction of new storage tanks and reconstruction of the old ones;
- to increase compliance with environmental requirements set for the oil terminal;
- to increase flexibility by investing in the new pipeline systems of oil products;
- to implement the project of LNGT by the end of 2014.

In 2012 the Company transhipped 6.9 million tons of oil products. In 2013 it is planned to transship similar amount of oil products.

The planned investments of the Company for 2013 amount to LTL 306.8 million, out of which LTL 257.7 million will be invested in the implementation of the LNGT Project (according to Fluor estimates), and LTL 46.6 million in modernization of the oil terminal and Subačius fuel storage facility. Investments into LNGT in 2013 will depend on the final proposals from the contractors and their invoicing schedule. The financing plan of the LNGT Project is provided below.



Investments into the oil terminal

Investments into the oil terminal aim to increase the oil terminal’s flexibility for accepting more types of different oil products in order to maintain a high level of profitability from the Company’s primary activity – transshipment of oil products.

Development of the storage tank park

Currently, the Company accumulates different batches of oil products in the shore storage tanks with an overall volume of 405 thousand m³.

In 2012 the Company continued construction of the two universal storage tanks (2 x 32.25 thousand m³) which will replace old storage tanks (4 x 5 thousand m³) which no longer comply with environmental and safety requirements due to their depreciation. Upon realization of this investment, the storage tank park will increase by 45 thousand tons, VOC (volatile organic compounds) emissions from the newly installed storage tanks will be 10 times lower. The investment will increase the Company's flexibility in transshipment of oil products and will enable to tranship additional LOP flows as well as will increase the terminal's attractiveness – customers will be able to accumulate larger batches of oil products (up to 90 thousand tons). The value of the investment amounts to LTL 29 million. The Company is planning to finish the construction by the end of 2013.

Besides construction of the new universal storage tanks, the Company is planning to carry out modernization of the existing storage tank pipeline network that will create a technical possibility to use part of HOP storages for the transshipment of LOP.

Environmental projects

In 2013, the Company will complete the installation of the system for utilization of hydrocarbon vapor from the rail piers. The purpose of this investment is to modernize the facilities used for collection and utilization of vapors during transshipment of oil products from/to rail tank cars. The mentioned investment amounts to LTL 7 million.

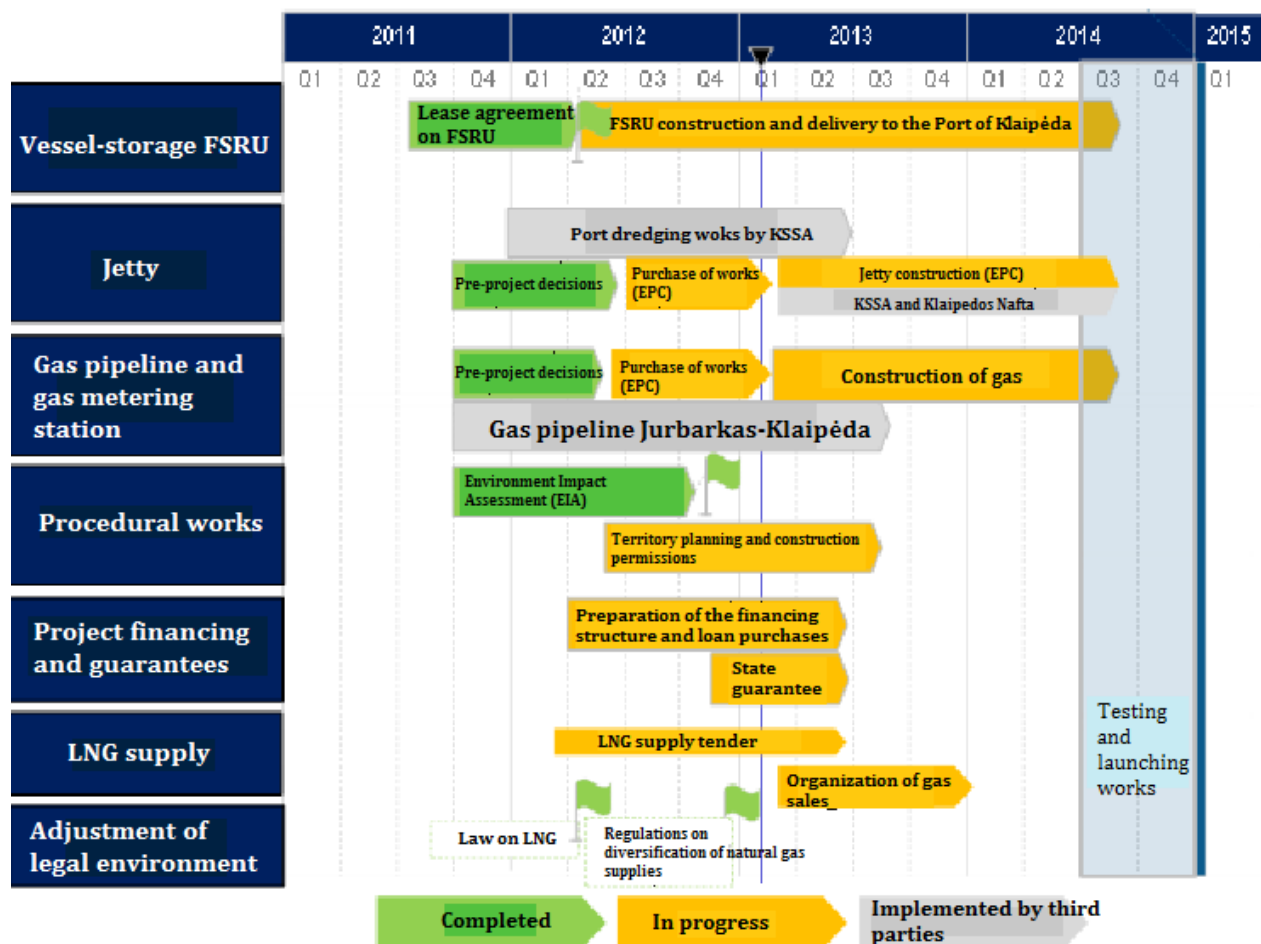
The Company is planning to invest up to LTL 1 million in modernization of water treatment facilities in order that the treated water that is discharged to the Baltic Sea would comply with the maximum requirements set by environment control inspections.

Other projects to support the technological processes of the Company

Reconstruction of the automated part of the fire protection system, modernization of the unloading system for the rail tank cars, boiler steam separation system, adjustment of the Company's detailed plan of reconstruction and other.

Works planned for the implementation of the LNGT project in 2013-2014:

- To complete process of territory planning for LNGT infrastructure (special plan, detailed plan and land servitudes) – 3rd quarter 2013;
- To finalize negotiations with LNG suppliers and to sign long-term LNG supply agreement - 1st quarter 2013;
- To sign LNG sale agreements and to ensure sales of purchased LNG, in compliance with Rules for Diversification of the Natural Gas Supply – 1st and 2nd quarters 2013;
- Permission for construction works and approval for basic and detail designs of LNGT pipeline and jetty – 3rd quarter 2013;
- To start preparatory construction works and to start construction of LNGT jetty and pipeline – 3rd quarter 2013;
- To complete construction of LNGT infrastructure – 3rd quarter 2014;
- Arrival of FSRU, connection to gas pipeline and preparation for operation – 4th quarter 2014;
- Commissioning and start-up works in Klaipėda Seaport – 3rd quarter 2014;
- To start LNGT operation in December 2014.



INCREASE OF THE COMPANY'S AUTHORISED CAPITAL

On 15 February 2012 the Lithuanian Government, according to the adopted resolution No.204 "On investment of the state property and increase of the authorized capital of AB Klaipėdos Nafta", approved the investment of assets amounting to LTL 45.49 million in increasing the authorized capital of the Company.

The Republic of Lithuania, holding 72.32% ordinary shares of the Company, transferred ownership to AB Klaipėdos Nafta of the property managed by the Lithuanian Oil Agency on the trust rights basis - Subačiaus fuel storage facility (hereinafter referred to as SFSF). Thus the authorized capital of the Company was increased by an additional contribution, provided that the Company undertakes to lease to the Lithuanian Oil Agency part of the assets necessary for accumulation and storage of the state oil and oil products reserves according to Lithuanian legislation for a period not shorter than 10 years. The shareholders of the Company, which owned shares on the transaction date of 14 May 2012, were entitled to amount of new shares proportional to the amount of owned ones. During the period of share distribution (from 29 May 2012 to 11 June 2012), 38,606,184 new ordinary nominal shares were signed with a par value of 1 LTL.

The acquisition of the Subačiaus fuel storage facility and the long-term (10 years) agreement with Lithuanian Oil Agency on storage of oil products allows the Company to diversify risk of activities, because the Company's results depend on several participants of the oil market: AB Orlen Lietuva and the Mozyr and Novopolock oil refineries in Belarus. By starting the new activity the Company guarantees extra income for a long period of time.

MANAGEMENT OF THE COMPANY

Information on adherence to the Governance Code

The Company, in general, follows the Governance Code of AB NASDAQ OMX Vilnius for the companies listed on the regulated market. New edition of the Governance Code was approved in the board meeting of AB NASDAQ OMX on 14 December 2009 (record No. 09-106) (Appendix to the Annual Report for 2012).

Shareholders and shares

The Company's shares are traded on the regulated market; they are listed in the Baltic Secondary list of the Stock Exchange of AB NASDAQ OMX Vilnius.

The main data about the Company's shares:	
ISIN code	LT0000111650
Abbreviation	KNF1L
Share emission (pcs.)	380,606,184

As at 31 December 2012 the shares of the Company were owned by 1,858 shareholders (31 December 2011 – 1,679). 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 economic 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 case of 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 bonds 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 bonds for all the shareholders;
6. to lend to the Company in the manner provided 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 rate may not be higher than the average interest rate offered by commercial banks of the location where the Lender has his place of residence or business, which was in effect on the day of conclusion of the Loan Agreement. In such a case the Company and its shareholders shall be prohibited from negotiating a higher interest rate;
7. other economic rights established by the laws.

An ordinary registered share of the Company shall grant the following non-economic 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 misconduct by the Manager of the Company and Board members or noncompliance with 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-economic rights established by the laws and the Articles of Association of the Company.

The shareholders which have more than 5% of the authorized capital of the Company as at 31 December 2012:

Shareholder's name (company's name, address, company code of registration)	Number of shares owned by proprietary right	Part (%) of authorized capital
The Republic of Lithuania, represented by Ministry of Energy of the Republic of Lithuania (Gedimino aven. 38/2, Vilnius, 302308327)	275.241.290	72,32
UAB Concern ACHEMA GROUP, (Jonalaukio km., Jonava district, 156673480)	38.975.150	10,24

The remaining 66,389,744 shares of the Company (17.44% of the authorized capital) are owned by 1.856 minority shareholders.

Development of the share price at NASDAQ OMX Vilnius during 2010– 2012

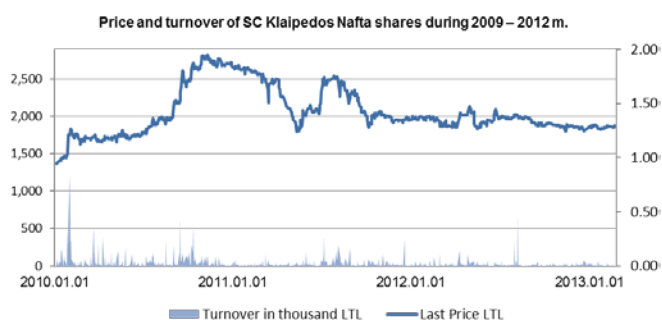
	2010	2011	2012
Highest share price in LTL	1,95	1,85	1,47
Lowest share price in LTL	0,94	1,24	1,24
Share price at the end of period in LTL	1,84	1,35	1,33
Average share price in LTL	1,40	1,55	1,27

As at 31 December 2012 the Company's market capitalization was LTL 483 million, compared to LTL 462 million as at 31 December 2011, which is an increase by 4.5%.

Authorised capital of the Company

The Company's authorized capital amounted to LTL 380.6 million as at 31 December 2012. All the shares of the Company are fully paid and no restrictions on the transfer of securities are applied to them. The authorized capital is divided into 380,606,184 (three hundred eighty million six hundred six thousand hundred and eighty-four) ordinary shares with a par value of 1 LTL.

According to the shareholders' decision, the Company issued 38,606,184 (thirty-eight million six hundred six thousand hundred and eighty-four) ordinary shares with a par value of 1 LTL in 2012.

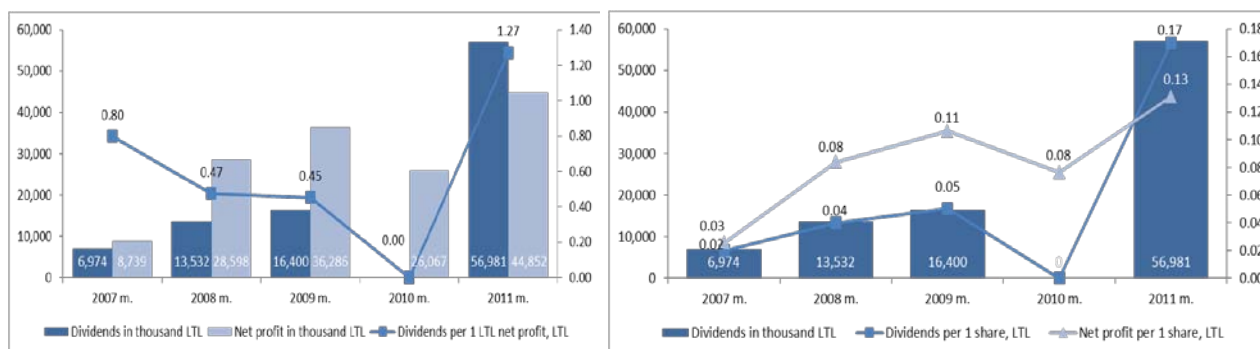


Information on the Company's own shares

The Company did not acquire own shares in 2012.

Dividends

On 27 April 2012, the ordinary general meeting of shareholders was held which approved the financial reports and profit distribution project. The Company declared LTL 56,981 thousand in dividends for 2011.



Agreements with intermediaries of public securities trading

The Company has an agreement with Financial Markets Department of AB SEB Bankas for accounting of the Company's securities and related services.

AB SEB bank Financial Markets Department:

Company code	112021238
Address	Gedimino 12, 01103 Vilnius
Telephone	+370 5 2681190
E-mail	info@seb.lt
Website	www.seb.lt

Management structure

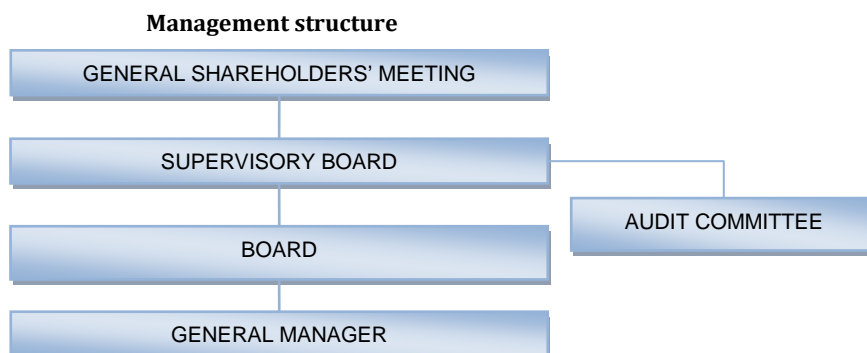
In its activities the Company follows the Law on Stock Companies, the Law on Securities, Articles of Association of the Company and other legal acts of the Republic of Lithuania. The competences of the general shareholders' meeting, rights of the shareholders and their realization are defined in the Law on Stock Companies and the Articles of Association of the Company.

The Company's Articles of Association are registered in the Register of Legal Entities and indicate the following management bodies:

- the general shareholders' meeting,
- the Supervisory Board,
- the Board,
- the CEO – general manager.

The Supervisory Board is a body supervising the activities of the Company. It is formed of three members, elected for the period of four years according to the procedure established by the Law on Stock Companies. The number of the terms of office a member may serve on the Supervisory Board is not limited. The General Manager of the Company, a member of the Board of the Company and a person, who under the legal acts is not entitled to serve in this office, shall not serve on the Supervisory Board. The Supervisory Board is a collegial body supervising the activities of the Company, its status, competence and functions have been defined by the Law on Stock Companies and the Articles of Association of the Company. The Supervisory Board has established an Audit Committee as an advisory body. The Audit Committee is comprised of three members elected for the office term of the Supervisory Board. "The rules of formation and conduct of the Audit Committee of AB Klaipėdos Nafta, approved by the Company's Supervisory Board, regulate functions, rights and duties of the Audit Committee. The key functions of this committee are: observe preparation process of the Company's Financial Statements, observe the process of audit performance, analyse efficiency of the systems of internal audit and risk management.

The Board is a management body of the Company consisting of five members, who are elected by the Supervisory Board for the period of four years. The Board members elect the Chairman of the Board. The number of the terms of office a member may serve on the Board is not limited. A person who is a member of the Supervisory Board of the Company, who under the legal acts may not serve in this office shall not be elected or serve as member of the Board. The powers of the members of the Board and activities of the General Manager have been determined by the Law on Stock Companies and the Articles of Association of the Company.



Supervisory Board as at 31 December 2012

Name, surname	Position	Term of office
Valentinas Milaknis	Chairman	April 2010 – April 2014
<i>Public consultant of the Prime Minister of the Republic of Lithuania. No Company shares owned.</i>		
Kęstutis Škiudas	Member	April 2010 – April 2014
<i>Adviser to the Prime Minister of the Republic of Lithuania. Member of the board of UAB Visagino Atominė Elektrinė, Board member of social organization Konservatyvioji ateitis. No Company shares owned.</i>		
Eimantas Kiudulas	Member	April 2010 – April 2014
<i>Director of UAB Klaipėda Free Economic Zone Management Company. No Company shares owned.</i>		

The members of the Supervisory Board were elected on 27 April 2010 by the General Shareholders' Meeting. New members, Romas Švedas, Agnė Amelija Kairyte and Eimantas Kiudulas, were elected during the Special General Shareholders' Meeting on 11 February 2013. During 2012 the members of the Company's Supervisory Board did not receive any remuneration, loans, guarantees, no property transfers to them were made. During the first meeting of the Supervisory Board on 18 March 2013, Agnė Amelija Kairyte was elected as a chairman of the Supervisory Board.

Audit Committee as at 31 December 2012

Name, surname	Position	Term of office
Eimantas Kiudulas	Member	The term of office of the Supervisory Board
<i>Director of UAB Klaipėda Free Economic Zone Management Company. No Company shares owned.</i>		
Simonas Rimašauskas	Member	The term of office of the Supervisory Board
<i>Director of UAB "ERPRO". No Company shares owned.</i>		
Linas Sasnauskas	Member	The term of office of the Supervisory Board
<i>Independent consultant. No Company shares owned.</i>		

In 2012, the following remunerations were calculated: for S. Rimašauskas – LTL 25 thousand, for L. Sasnauskas – LTL 25 thousand. Members of the Audit Committee did not receive any loans, guarantees or assets. During the first meeting on 18 March 2013, the Supervisory Board has recalled the Audit Committee of the Company *in corpore* and elected a new Audit Committee for the term of office of 4 years. Linas Sasnauskas, Simonas Rimašauskas and Eimantas Kiudulas were elected as independent members of the Audit Committee for the new term of office.

Board as at 31 December 2012

Name, surname	Position	Term of office
Arvydas Darulis	Chairman (resigned from the office on 20 March 2013)	February 2010– April 2014
<i>Chairman of the board of AB Litgrid (resigned in January 2013), Chairman of the board of UAB Visagino atominė elektrinė (until January 2013), Chairman of the board of VĮ Ignalinos atominė elektrinė (until March 2013). Member of the board of UAB LITGAS. No Company shares owned.</i>		
Inga Černiuk	Member	October 2011– April 2014
<i>Head of the legal department of the Ministry of Energy of the Republic of Lithuania (until March 2013). Member of the board of UAB LITGAS. No Company shares owned.</i>		
Rytis Ambrazevičius	Member	October 2011– April 2014
<i>Independents expert. Member of the board of UAB LITGAS. No Company shares owned.</i>		
Mindaugas Jusius	Member	October 2011– April 2014
<i>Member of the board of Swedbank Life Insurance SE. Member of the board of UAB LITGAS. No Company shares owned.</i>		
Rokas Masiulis	Member	September 2010– April 2014
<i>General Manager of AB Klaipėdos Nafta. Member of the board of UAB LITGAS. No Company shares owned.</i>		

In 2012, the calculated remuneration for Rokas Masiulis, member of the board and the general manager of the Company, amounts to LTL 270 thousand. In 2012 board members M. Jusius and R. Ambrazevičius each received remuneration of LTL 6 thousand. No remuneration has been calculated for other members of the board. Members of the Board did not receive any loans, guarantees or assets.

The Company is managed by the general manager which is a single-person managing body of the Company. The general manager is the main person managing and representing the Company.

The Company's management as at 31 December 2012

Name, surname	Position	Works since
Rokas Masiulis	General Director	May 2010
<i>Member of the Company's board, Member of the board of UAB LITGAS. No Company shares owned.</i>		
Vytautas Kazimieras Aranauskas	Deputy general director	May 2010
<i>Acting General Director of VĮ Naftos Produktų Agentūra. No Company shares owned.</i>		

Name, surname	Position	Works since
Mantas Bartuška	Finance Director	May 2010
<i>Chairman of the board of UAB Baltpool. No Company shares owned.</i>		
Gediminas Vitkauskas	Production Director	October 1995
<i>Holds 0,00001 % of authorised capital. Does not participate in the management of other companies.</i>		
Sigitas Zakalskis	Commerce Director	August 2010
<i>No Company shares owned. Does not participate in the management of other companies.</i>		
Rolandas Zukas	Director of the LNGT	December 2010
<i>No Company shares owned. Does not participate in the management of other companies.</i>		

PERSONNEL

The average number of employees in 2012 was 327 (2011 – 315).

In 2012 blue-collar workers made up 66% of the total Company's employees (2011 – 68%). The staff consisted of 74% of men and 26% of women. The average age of employees was 45 years (2011 – 45 years). Detailed information on age of employees, work record and education is presented in the charts below.

The Company continuously instructs and trains its employees on the principles of safe work. Employees who perform hazardous works and work with potentially hazardous equipment undergo training at licensed centers, re-testing takes place every 5 years. Training drills and exercises are periodically arranged to train practical skills for emergency response. Personnel of other companies performing contractual works on the territory of the oil terminal receive instructions regarding work safety and fire safety requirements (723 employees from other companies underwent instructions in 2012).

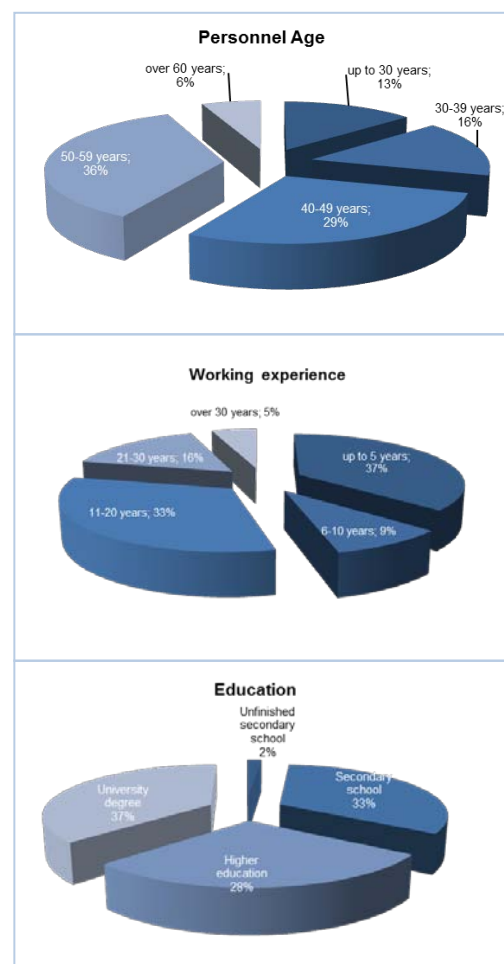
In 2012 there were 3 light accidents related to work (the employees were unable to work for 55 days in total) and 1 incident at work.

On 31 December 2012 the Company's management consisted of General Director, Deputy General Director, Production Director, Finance Director, Commerce Director and Director of the LNGT. The management remuneration procedure is approved by the board which determines the fixed part (coefficient) and variable parts of monthly remuneration.

No members of the Company's management have been convicted of crimes against property, business or finances.

The Company has a Collective Agreement providing the following additional social benefits:

- The salary of an employee consists of two parts: the constant part – piece-rate pay or monthly salary paid taking into account the employee's position, competence, job complexity, level of responsibility; the variable part – monthly salary's or piece-rate pay's bonus, which is of two types: bonus for operating results of a quarter and bonus for operating results of a month.
- An allowance in the amount of 2.5 MAW (minimum annual wage) is paid once per year to employees who have three or more children up to 18 years of age.
- An allowance in the amount of 1.5 MAW is paid to employees in case of death of a family member (a spouse, parents, a child, a foster child).
- In case of death of an employee his family is granted a funeral compensation.
- On birth of a baby an employee is given an allowance in the amount of 2 MAW which is valid on the date of birth of the baby.
- Christmas celebrations are organized together with the Labor Union for the employees and the retired employees.
- On personal jubilee (50th, 60th, 70th anniversaries) employees are granted allowances in the amount of 1MMW.



- Based on the Management's decision, employees are granted other benefits in case of a difficult material situation of an employee, heavy losses suffered because of natural disasters, fire, flood, etc.

Average number of employees and average monthly gross salary according to employee groups

Employee group	Average number of employees		Average gross salary per month in LTL	
	2012	2011	2012	2011
Managers	6	6	20.909	18.980
Specialists	108	96	5.598	5.511
Workers	213	213	3.576	3.583
Total	327	315	4.254	4.182

SOCIAL RESPONSIBILITY OF THE COMPANY

In its business, the Company follows the principles of business ethics and social responsibility. The Company strives to become a reliable social partner and contribute to solving of important social problems. The funds allocated for support first of all are diverted to support environmental, infrastructural, health and social security projects associated with the region, where the oil terminal functions. In 2012 the Company allocated LTL 596 thousand for the support purposes (2011 – LTL 360 thousand).

The Company sponsors significant cultural centers of the Lithuania region – libraries, Drama and Musical theatres. It has always been the primary sponsor of the main events of the city of Klaipėda, such as the Sea Festival, Klaipėda jazz festival. Special attention is paid to the organizations that are located near the Company's territory: kindergarten "Giliukas", baby care home for kids with special needs, Klaipėda children's activity center, Klaipėda Children Hospital. The Company also supports the local sportsmen; therefore, it has been a part of the basketball club "Nafta-Universitetas" for eleven seasons. The Company supports and encourages members and managers of the World and European sport dance club "Žuvėdra", supports the activities of disabled sportsmen, the organization of championships.

Environment protection has always been one of the Company's priorities. The Company allocates significant funds for implementation of environmental protection measures, closely cooperates with the Lithuanian and international companies in fulfilling all the environmental protection requirements set for the oil terminal.

The Company gives significant importance to occupational safety. The work places are being modernized and additional funds are allocated for individual safety means which are provided for in the Collective Agreement. Safety training sessions are organised, accident prevention and work supervision is constantly performed. The Company puts efforts to create a safe and healthy work environment.

The Company is one of few Lithuanian companies which has a certified medical aid centre. The first medical aid and the first preventive practical and theoretical aid of health are rendered there. Different physiotherapeutic treatments are performed according to doctor's referral letter. Physical medicine and rehabilitation cabinet with the up-to-date equipment was established in the centre. The employees are vaccinated free of charge against tick encephalitis, typhoid fever, influenza and other diseases. The Company at its own expense arranges for a preventive – rehabilitation treatment at a rehabilitation centre "Tulpe" in Birštonas for its employees working under conditions of increased pollution.

REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT FINANCIAL STATEMENTS

All the financial data in this Annual Report have been audited and accounted for according to the International Financial Reporting Standards.

OTHER INFORMATION

Procedure of changing Articles of Association

The activity of the Company is based on the Articles of Association, Civil Code and other laws and sub legislative acts of the Republic of Lithuania. Changes in the Articles of Association can be made by the General Shareholders' Meeting.

Transactions with related parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is presented in the Notes to the Financial Statements for 2012.

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, Rokas Masiulis, General Manager of AB Klaipėdos Nafta, Mantas Bartuska, Finance Director of AB Klaipėdos Nafta, and Rasa Gudė, Accounting Group Manager of AB Klaipėdos Nafta, hereby confirm that to the best of our knowledge the above-presented Annual Report of AB Klaipėdos Nafta for 2012 gives a true and fair view of the business development and performance, description of the Company.

General Manager

Rokas Masiulis

Finance Director

Mantas Bartuška

Accounting Group Manager

Rasa Gudė

Stock company Klaipėdos Nafta
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Annex to the annual report**DISCLOSURE CONCERNING THE COMPLIANCE OF AB KLAIPĖDOS NAFTA, LISTED ON REGULATED MARKET, WITH THE GOVERNANCE CODE**

AB 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 AB NASDAQ OMX Vilnius 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. The 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	<p>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 AB NASDAQ OMX Vilnius) 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.</p> <p>In accordance with requirements of the resolution by the Government No. 655 of 06 06 2012, the company's articles were supplement, providing which the company's objectives are long-term (strategic) and short-term (tactical), and establishing that one of the main objectives of the company is the adequate return of the invested capital of the shareholders. The Articles of Association of the Company are publically announced on NASDAQ OMX Vilnius Stock Exchange's website, according to the procedures defined for the companies listed on the regulated market.</p>
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	<p>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). In 2012, the Company's Board adopted a number of decisions ensuring the adequate implementation of the primary strategic objective of the company – the construction and preparation for operation of the liquefied natural gas (LNG) terminal. This project is also focused on the creation of additional value for shareholders' property.</p>
1.3. The 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	<p>The Supervisory Board, the Board of the Company and the Chief Executive Officer implement this recommendation. The documents regulating the activities of the management and supervisory bodies were approved providing the principles and procedures for the cooperation between the company's management and supervisory bodies and ensuring the proper functioning of the governing bodies in order to maximize the benefit for the company and its shareholders.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>1.4. The 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.</p>	Yes	<p>The Company's bodies respect the rights and interests of the persons participating in or connected with the Company's operation:</p> <ol style="list-style-type: none"> 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 fulfills its financial and other obligations in accordance with the borrowing program approved by the Board of the Company. 3. suppliers – The Company's Boards adopts the decisions on the conclusion of the contracts with the suppliers in the cases defined in the Articles of Association; 4. clients –The Company's Boards adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil products in the cases defined in the Articles of Association; 5. 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.). <p>The Company's Board adopts the decisions on the support exceeding LTL 50 thousand according to the principle of the prioritized support for Klaipeda region.</p>
<p>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.</p>		
<p>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.</p>	Yes	<p>The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company. According to the decision of the Supervisory Board, the Audit Committee was created.</p>
<p>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.</p>	Yes	<p>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).</p> <p>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</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
		<p>corporate governance framework, transactions, different commitments, etc.).</p> <p>The Company's Audit Committee performs the assigned separate supervisory functions (monitors the preparation of company's financial reports and the processes of the audit, carries the analysis of the systems for the internal control and risk management, ensures the existing system for internal control and risk management).</p>
<p>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.</p>	Not applicable	<p>The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.</p>
<p>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.</p>	Yes	<p>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.</p> <p>The Company has an Audit Committee created according to the decision of the Supervisory Board, with the assigned separate supervisory functions - refer to the comment in item 2.2 above. The Company does not have specialized designation and remuneration committees.</p>
<p>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.</p>	Yes	<p>The Board of the Company is comprised of five members. The Supervisory Board is comprised of three members. The Audit Committee is comprised of three members.</p>
<p>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.</p>	Yes	<p>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; however, the restrictions on the candidates to the Supervisory Board are applied according to the applicable legal acts. The documents regulating the activities of the management and supervisory bodies, and the Company's Articles of Association provide the possibility to withdraw both, the individual members of the collegial bodies and the collegial body, <i>in corpore</i>, before the expiry of the term of office of such body. The Supervisory Board has a right to withdraw the members of the Board (individual or all together), while the general shareholders' meeting has a right to withdraw the members of the Supervisory Board (individual or all together). Audit Committee corresponds to the term of office of the Supervisory Board by which it was elected.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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 depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	Yes	<p>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. The Chairman and members of the Supervisory Board have never been members of the Board or managers of the company.</p> <p>The Chairman of the Company's Audit Committee is also the member of the Company's Supervisory Board.</p>
<p>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.</p>		
<p>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.</p>	Yes	<p>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. Additional candidates for the members of the collegial body elected by the general shareholders' meeting, according to the procedures defined, can be delegated by all shareholders holding the amount of shares giving them not less than 1/20 of the total votes.</p>
<p>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.</p> <p>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.</p>	Yes	<p>Information about the candidates to become members of a collegial body is presented before or during the general shareholders' meeting, if the shareholders holding the amount of shares giving them not less than 1/20 of the total votes delegate the additional candidate for the members of Company's Bodies during the meeting. All members of the collegial bodies must immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest.</p>
<p>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.</p>	Yes	<p>All applicants for the Company's collegial body members shall in advance submit their CVs and declarations of interests. The objective is that the skills of a particular candidate were related directly to the work in the correspondent collegial body.</p> <p>The information about the composition of the Company's collegial bodies and the specific directly related competences of their members was publicly disclosed to the shareholders on 24 05 2012 on NASDAQ OMX Vilnius Stock Exchange website by distributing the circular about the additional shares of AB Klaipedos Nafta providing the information indicated above. The company anticipates the improvements of the means of information distribution to the investors additionally.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.	Yes	The collegial body ensures that its members are competent however periodic evaluation is not performed. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit were appointed focusing on that as a whole, the Audit Committee should have recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market.
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.	Not applicable	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 and to organize annual examinations.
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.	Yes	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. The Company's Articles of Association provide that, whenever possible, during the elections of the Supervisory Board, at least 1/3 of the Supervisory Board members shall be independent, as well as that at least one member of the Audit Committee shall be independent. In 2012, the Company's Board had 2 independent members (out of 5), Audit Committee had 2 independent members (out of 3), and the Supervisory Board had 1 independent member (out of 3).
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 dependent 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 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	Yes	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, the appointment of the independent members for collegial bodies is governed by the applicable requirements of legal act, including the requirements of the Governance Code of the companies listed on the regulated market by NASDAQ OMX Vilnius. In determining whether an audit committee member may be independent, the main criteria are applied that were established by the Independency Criteria defined by the Requirements for Audit Committees (with later amendments and supplements) that were approved by the Resolution No. 1K-18 of the Lithuanian Securities Commission on 21 August 2008. The independent members of the collegial bodies are, too, appointed (elected) in compliance with the provisions of the paragraph 64 of the Procedure description of the Implementation of the State Proprietary and Non-proprietary Rights in State-owned

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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;</p> <p>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;</p> <p>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);</p> <p>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);</p> <p>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, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>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;</p> <p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>1) 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),</p>		<p>Companies (approved by the Government decision No. 665 of 06 06 2012).</p> <p>In order to assure the independence of the candidates for the company's collegial bodies, all candidates shall submit their declarations of interest to the appointing (electing) body and shall immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest.</p> <p>The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.	Yes	Refer to the comment in item 3.7 above. In addition, the concept of the independence of the member of the Company's collegial body is defined in the documents governing the activities of the Company's collegial bodies.
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.	Not applicable	The Company has not yet applied in practice disclosure of the criteria of independence of the members of collegial bodies 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.	Not applicable	There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information. The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.
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.	Yes	Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings. A fixed monthly salary is paid, which depends on the actual time spent, but is limited to a maximum amount. The size and procedures of the reward for the independent members of the Board and Audit Committee is regulated by the corresponding decisions of the Supervisory Board. The general shareholders' meeting has a right to reward (pay tantems) the work of independent members of the Supervisory board members for their work participation in the meetings of the Supervisory but only using the net profit and in compliance with applicable legal acts and the Company's Articles of Association.
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>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</p>		

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p>	Yes	<p>The Company's Board approves the business strategy of Company's activities, annual budget and business plan, annual report, the order of investments of the Company's funds and order and the amendments to the documents listed. The Company's Board, too, analyzes and evaluates the implementation of the Company's strategy, organization of activities, the company's financial condition, results of business activities, estimates of income and expenditure.</p> <p>In addition, the Board analyses and evaluates the company's financial statements and the profit (loss) of the draft report and, after the Board approval, takes decisions on these projects and the submission of the Company's annual report to the Supervisory Board and the general meeting of shareholders.</p> <p>The Board regularly submits recommendations on the appropriate management of the Company to the Company's managing bodies.</p>
<p>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.</p> <p>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).</p>	Yes	<p>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.</p>
<p>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.</p>	Yes	<p>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.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p>	Yes	<p>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 Company's Articles of Association obliges the Company's collegial bodies, and each of their members to operate beneficially for the Company's shareholders. The Board is accountable to the Supervisory Board and the general shareholders' meeting. According to the Company's Articles of Association, in certain cases the most important decisions of the company shall be taken only after they are approved by the general shareholders' meeting.</p>
<p>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.</p>	Yes	<p>The contracts on the activities in the Supervisory Board are concluded with the members of the Supervisory Board in compliance with the decision of the general shareholders' meeting; the member of the Supervisory Board can conclude other transactions with the company mandatorily informing about them the Supervisory Board and other bodies of the company. The conditions of the contracts on the activities in the Board concluded with members and the chairman of the Board are determined by the Supervisory Board. The contracts on the activities in the Audit Committee are concluded with the members of the Audit Committee according to the decision of the Supervisory Board. The Board defines the conditions of the employment contract concluded with the Company's manager. According to the general practice of the Company, the majority of the independent members of the collegial bodies vote for the conclusion of corresponding contracts.</p>
<p>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.</p>	Yes	<p>The Company's collegial bodies are independent from the Company's managing bodies and, according to the Company's data, remain independent while adopting the decisions affecting the Company's activity and strategies.</p> <p>The Company's collegial bodies are provided with all the necessary resources including the right to approach and receive consultations by third parties.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p>	No	<p>The committees are not established, except for audit committee, 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.</p>
<p>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.</p>	No	<p>The committees are not established, except for audit committee, 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.</p>
<p>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.</p>	No	<p>The committees are not established, except for audit committee, 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.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p>	No	<p>The committees are not established, except for audit committee, 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.</p>
<p>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.</p>	No	<p>The committees are not established, except for audit committee, 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.</p>
<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> 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. <p>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</p>	No	<p>The committees are not established, except for audit committee, 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.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 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. <p>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:</p> <ol style="list-style-type: none"> 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; 	No	The committees are not established, except for audit committee, 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.

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p> <p>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.</p>		
<p>4.14.1. Key functions of the audit committee should be the following:</p> <p>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);</p> <p>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;</p> <p>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and 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;</p> <p>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;</p> <p>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 <i>inter alia</i> 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</p>	Yes	The new Supervisory Board that was elected during the general shareholders' meeting created the Audit Committee.

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>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 centers and/or activities carried out through special purpose vehicles (organisations) and justification of such operations.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.
<p>Principle V: The working procedure of the company's collegial bodies</p> <p>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.</p>		
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 ordinary 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.

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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-ordinating 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.	Yes	The Company observes provisions stated in this recommendation.
<p>Principle VI: The equitable treatment of shareholders and shareholder rights</p> <p>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.</p>		
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.	Yes	According to the Law on Companies of the Republic of Lithuania and Articles of Association important transactions are approved by the Board, and also in cases prescribed by the law an approval of the general shareholders meeting is received.
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.

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.	Yes	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 NASDAQ 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.
<p>Principle VII: The avoidance of conflicts of interest and their disclosure</p> <p>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</p>		
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	<p>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.</p> <p>The provision regarding notification will be implemented in a more detailed manner by specifying it in the local acts of the Company.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.
<p>Principle VIII: Company's remuneration policy</p> <p>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 to secure the publicity and transparency of the remuneration policy of the company and managers</p>		
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. The information about the Company's remuneration is published on the website www.oi.lt.
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	No	Refer to the comment in item 8.1 above.

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.		
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, <i>inter alia</i> , 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	No	Refer to the comment in item 8.1 above.

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</p> <p>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;</p> <p>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;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the 1-5 points.</p> <p>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:</p> <ul style="list-style-type: none"> • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; <p>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;</p> <ul style="list-style-type: none"> • 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. <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>		

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p>	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.
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 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.
<p>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.</p>		
<p>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.</p>		

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>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.</p>		
<p>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.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	Yes	<p>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.</p>
<p>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.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		
<p>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.</p>		
<p>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;</p>	Yes	<p>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 NASDAQ Vilnius Stock Exchange. The Company prepares financial statements according to</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
<p>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</p> <p>5) Material foreseeable risk factors;</p> <p>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</p> <p>7) Material issues regarding employees and other stakeholders;</p> <p>8) Governance structures and strategy.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		the International Financial Accounting standards.
<p>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.</p>	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of NASDAQ Vilnius Stock Exchange so that the submitted information could simultaneously be announced thus guaranteeing its simultaneous dissemination to everybody.
<p>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</p>	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

PRINCIPLES / RECOMMENDATIONS	Yes / No not applicable	COMMENTARY
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.		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.	Yes	The Company takes into account this recommendation and places the information on the Company's website.
<p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p>		
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.