

*Translation from Lithuanian into English*

**SC KLAIPĖDOS NAFTA**

**ANNUAL REPORT 2007**

**KLAIPĖDA**

September, 2008

## CONFIRMATION OF RESPONSIBLE PERSONS

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

Director General

Chief Financier



Jurgis Aušra

Johana Bučienė

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

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

## 2. Details about the Company

Name of the Issuer:	SC Klaipėdos Nafta
Legal status:	Stock company
Authorised capital:	LTL 342 000 000
Date and place of registration:	27 September 1994, State Enterprise Register Centre
Company code:	1106 48893
Address:	Burių g. 19, 91003 Klaipėda
Issuer's register	State Enterprise Register Centre
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail addresses:	<a href="mailto:info@oil.lt">info@oil.lt</a>
Internet site:	<a href="http://www.oil.lt">www.oil.lt</a>

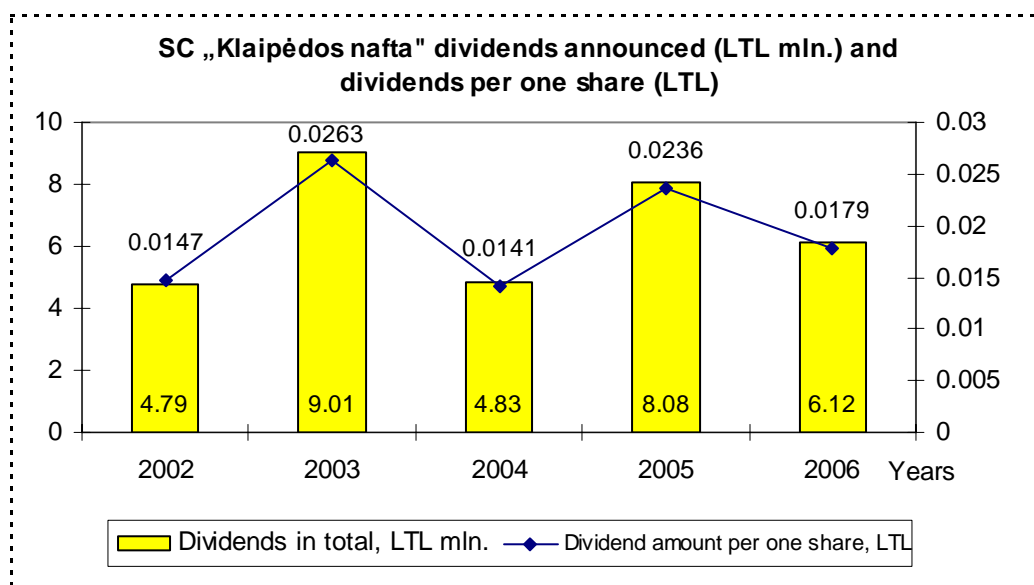
## 3. Information about Agreements with the Securities Public Turnover brokers

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

## 4. Activity of the Company

### 4.1. Significant events of the accounting period

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



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

## 4.2. The core activity of the Company

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

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

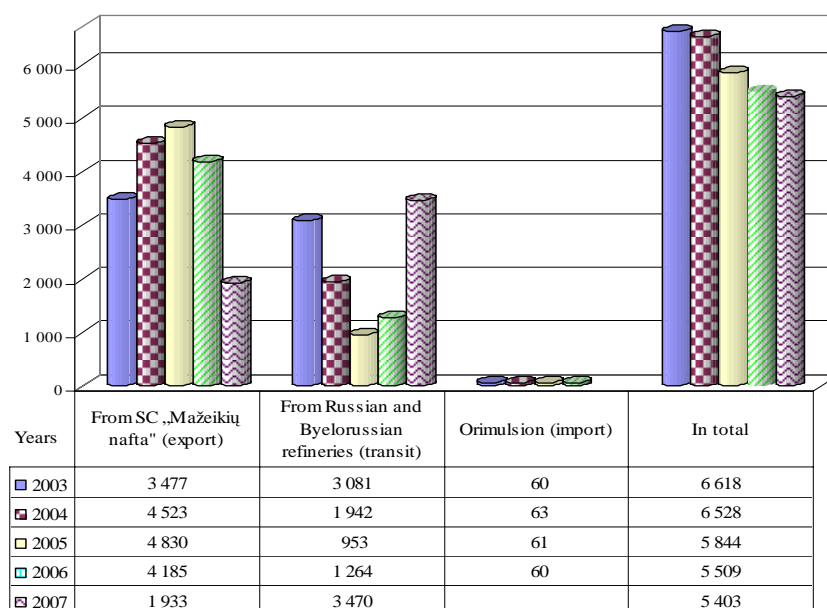
In 2007 the Company transshipped **5 402,5 thousand tons** of oil products:

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

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

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

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



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

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

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

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

### **4.4. Environment protection**

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

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

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

### **4.5. Description of the main risks incurred by the Company**

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

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

#### 4.6. Analysis of the results of the performance

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

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

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

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

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

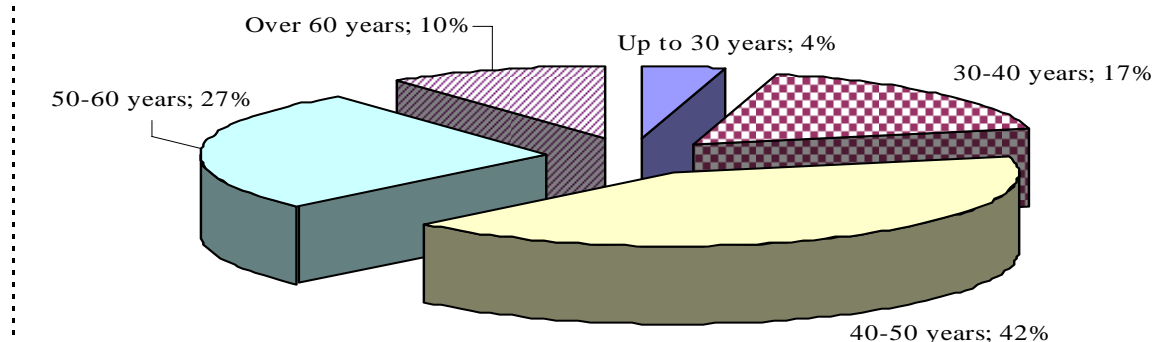
#### 4.7. Employees

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

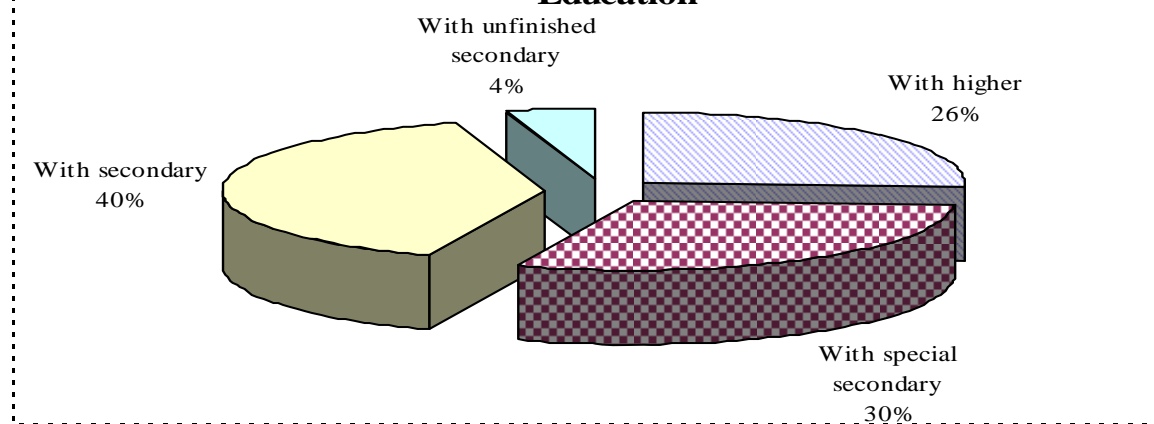


Number of employees as on 31 December 2007: 301 (28 administration staff and 273 production staff). 31 % of women and 69 % of men worked at the Company on December 31 2007 as in the year 2006. There was no change in the average age of employees (46-47 years) as well as in the education acquired.

### Age of employees



### Education



Salaries of respective personnel groups of SC Klaipėdos Nafta:

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

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

The Company constantly pays great attention to improvement of qualifications of employees, performs certification of those who work with potentially dangerous equipment and perform dangerous work. The Company organizes training courses on a regular basis, helping the specialists to obtain practical skills in case of a fire, a spillage of oil products at the Terminal's jetties and on the port territory. Personnel of other companies performing contractual works on the Terminal's territory receive instructions regarding labour safety, fire-fighting requirements set at the Oil Terminal (378 persons received such instructions during 2007).

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

#### **4.8. Information on purchased and disposed own shares**

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

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

The Company has no branches or representative offices.

#### **4.10. Significant events after the year end**

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

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

#### **4.11. Activity plans and forecasts of the Company**

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

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

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

#### **4.12. Financial assets, risk management of the Company**

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

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

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

### **5. Other information about the Issuer**

#### **5.1. Procedure of changing Articles of Association**

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

#### **5.2. The structure of the Issuer's authorized capital**

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



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

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

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

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

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

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

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

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

### **5.3. Restrictions regarding transfer of securities**

None

### **5.4. Shareholders**

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

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

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

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

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

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

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

None.

#### 5.6. Full restrictions of voting rights.

None.

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

None.

#### 5.8. Company's Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**JURGIS AUŠRA** – Director General, appointed on February 11 2002. Higher education. He graduated from Kaunas Polytechnical Institute and acquired speciality of power engineer. On December 31 2007 he owned 111 100 shares of the Company. He does not participate in the

management of any other enterprise. He owns shares of AB “Klaipėdos mediena”, comprising less than 1 % of authorized capital of the said company.

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

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

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

## **5.9. Transactions with related Parties**

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

## **6. Information on adherence to the Governance Code**

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

## **7. Details on public information**

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

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

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

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