



**FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR 2010  
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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## **Nepriklausomo auditoriaus išvada AB „Klaipėdos nafta“ akcininkams**

Mes atlikome AB „Klaipėdos nafta“ („Bendrovė“) pridedamų finansinių ataskaitų rinkinio (toliau – finansinės ataskaitos) auditą. Finansines ataskaitas sudaro finansinės būklės 2010 m. gruodžio 31 d. ataskaita, bendrųjų pajamų ataskaita, nuosavo kapitalo pokyčių ir pinigų srautų ataskaitos už tada pasibaigusį laikotarpį bei pastabos, kurias sudaro reikšmingų apskaitos principų santrauka ir kita aiškinamoji informacija.

### **Vadovybės atsakomybė už finansines ataskaitas**

Vadovybė yra atsakinga už šių finansinių ataskaitų parengimą ir teisingą pateikimą pagal Tarptautinius finansinės atskaitomybės standartus, priimtus taikyti Europos Sajungoje ir už tokios vidaus kontrolės sistemos sukūrimą, kokiai vadovybė mano esant reikalinga tam, kad užtikrinti finansinių ataskaitų be reikšmingų iškraipymų dėl klaidų ar apgaulės parengimą.

### **Auditoriaus atsakomybė**

Mūsų pareiga, remiantis atliktu auditu, pareikšti savo nuomonę apie šias finansines ataskaitas. Auditą atlikome pagal Tarptautinius audito standartus. Šie Standartai reikalauja nustatyti etikos reikalavimų laikymosi bei tokio audito planavimo ir atlikimo, kuris suteiktų pakankamą pagrindą tvirtinti, jog finansinėse ataskaitose nėra reikšmingų informacijos netikslumų.

Auditas apima tam tikrų procedūrų atlikimą, siekiant gauti audito įrodymų dėl finansinių ataskaitų sumų ir atskleistos informacijos teisingumo. Konkrečių audito procedūrų parinkimas priklauso nuo mūsų padarytų įvertinimų, tame tarpe mūsų įvertintos rizikos dėl reikšmingų netikslumų finansinėse ataskaitose buvimo dėl apgaulės ar klaidų. Šios rizikos įvertinimui, mes nagrinėjame įmonės vidaus kontroles, skirtas užtikrinti teisingą finansinių ataskaitų parengimą ir informacijos jose atskleidimą. Tačiau, tokio vidaus kontrolės sistemos nagrinėjimo tikslas yra tinkamų audito procedūrų parinkimas, o ne nuomonės dėl įmonės vidaus kontrolės efektyvumo pareiškimas. Auditas taip pat apima šiuos įvertinimus: ar taikyti apskaitos principai yra tinkami; ar vadovybės atliki apskaitos įvertinimai yra pagrįsti; ar bendras informacijos pateikimas finansinėse ataskaitose yra tinkamas.

Mes manome, kad gauti audito įrodymai suteikia pakankamą ir tinkamą pagrindą mūsų nuomonei.

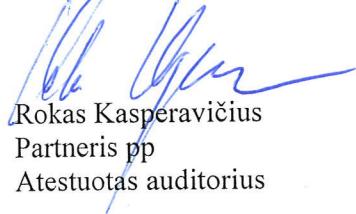
**Nuomonė**

Mūsų nuomone, finansinės ataskaitos visais reikšmingais atžvilgiais teisingai atspindi Bendrovės finansinę būklę 2010 m. gruodžio 31 d. ir jos veiklos rezultatus bei pinigų srautus už metus tuomet pasibaigusius pagal Tarptautinius finansinės atskaitomybės standartus, priimtus taikyti Europos Sajungoje.

**Išvada apie kitą įstatymų reikalaujamą informaciją**

Be to, mes perskaitėme 2010 m. metinį pranešimą, pateiktą finansinių ataskaitų 42-57 puslapiuose, ir nepastebėjome jokių reikšmingų į jį įtrauktos finansinės informacijos neatitinkimų finansinėms ataskaitoms už laikotarpį, pasibaigusį 2010 m. gruodžio 31 d.

“KPMG Baltics”, UAB vardu



Rokas Kasperavičius  
Partneris pp  
Atestuotas auditorius



Mindaugas Bartkus  
Atestuotas auditorius

Klaipėda, Lietuvos Respublika  
2011 m. kovo 24 d.



## Statement of financial position

	Notes	31 December 2010	31 December 2009
			(restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	4	395	103
Property, plant and equipment	5	387.590	410.113
Other financial assets	10	8.124	-
Investment into associates	6	41	75
<b>Total non-current assets</b>		<b>396.150</b>	<b>410.291</b>
<b>Current assets</b>			
Inventories	7	4.098	3.397
Prepayments		192	495
Trade receivables	8	4.711	4.955
Other receivables	9	821	2.168
Other financial assets	10	38.433	4.744
Cash and cash equivalents	11	29.501	41.188
<b>Total current assets</b>		<b>77.756</b>	<b>56.947</b>
<b>Total assets</b>		<b>473.906</b>	<b>467.238</b>

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The accompanying notes, set out on pages 11-41, are an integral part of these financial statements.

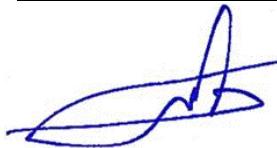


**Statement of financial position (cont'd)**

	Notes	31 December 2010	31 December 2009
(restated)			
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	1	342.000	342.000
Legal reserve	12	19.000	15.670
Other reserves	12	68.043	50.170
Retained earnings		26.993	38.679
<b>Total equity</b>		<b>456.036</b>	<b>446.519</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	8.345	10.783
Non-current employee benefits	13	926	-
<b>Total non-current liabilities</b>		<b>9.271</b>	<b>10.783</b>
<b>Current liabilities</b>			
Trade payables	14	4.569	6.140
Payroll related liabilities	15	1.358	1.218
Provision	16	1.279	-
Income tax payable		399	1.602
Prepayments received		84	59
Dividends payable		48	103
Other payable and current liabilities	17	862	814
<b>Total current liabilities</b>		<b>8.599</b>	<b>9.936</b>
<b>Total equity and liabilities</b>		<b>473.906</b>	<b>467.238</b>

The accompanying notes, set out on pages 11-41, are an integral part of these financial statements.

\_\_\_\_\_  
 General Manager \_\_\_\_\_ Rokas Masiulis \_\_\_\_\_ RMail  
 \_\_\_\_\_ 24 March 2011

\_\_\_\_\_  
 Finance Director \_\_\_\_\_ Mantas Bartuska \_\_\_\_\_   
 \_\_\_\_\_ 24 March 2011



**Statement of comprehensive income**

	Notes	2010	2009
		(restated)	
Sales	18	123.032	116.211
Cost of sales	19	( 77.678)	(69.934)
<b>Gross profit</b>		<b>45.354</b>	<b>46.277</b>
Operating expenses	20	(17.089)	(5.502)
Other operating income (expenses) – net result		39	20
<b>Profit from operating activities</b>		<b>28.304</b>	<b>40.795</b>
Income from financial activities	21	1.562	1.783
Expenses from financial activities	21	(34)	(87)
Share of the associate's comprehensive income	6	(81)	-
<b>Profit (loss) before income tax</b>		<b>29.751</b>	<b>42.491</b>
Income tax expense	22	(3.834)	(5.005)
<b>Net profit (loss)</b>		<b>25.917</b>	<b>37.486</b>
Other comprehensive income (expenses)		-	-
<b>Total comprehensive income (expenses) of the period</b>	23	<b>25.917</b>	<b>37.486</b>
Basic and diluted earnings (losses) per share, in LTL	23	0,08	0,11

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General Manager

Rokas Masiulis

24 March 2011

Finance Director

Mantas Bartuska

24 March 2011



### Statement of changes in equity

	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
<b>Balance as of 31 December 2008</b>		<b>342.000</b>	<b>14.240</b>	<b>36.534</b>	<b>28.600</b>	<b>421.374</b>
Change in accounting policy	3	-	-	-	1.193	1.193
<b>Balance as of 31 December 2008 (after change in accounting policies)</b>		<b>342.000</b>	<b>14.240</b>	<b>36.534</b>	<b>29.793</b>	<b>422.567</b>
Net profit for the year (restated)		-	-	-	37.486	37.486
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	37.486	37.486
Dividends declared	24	-	-	-	(13.534)	(13.534)
Transfers between reserves		-	1.430	13.636	(15.066)	-
<b>Balance as of 31 December 2009 (restated)</b>		<b>342.000</b>	<b>15.670</b>	<b>50.170</b>	<b>38.679</b>	<b>446.519</b>
Net profit for the year		-	-	-	25.917	25.917
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	25.917	25.917
Dividends declared	24	-	-	-	(16.400)	(16.400)
Transfers between reserves		-	3.330	17.873	(21.203)	-
<b>Balance as of 31 December 2010</b>		<b>342.000</b>	<b>19.000</b>	<b>68.043</b>	<b>26.993</b>	<b>456.036</b>

The accompanying notes, set out on pages 11-41, are an integral part of these financial statements.

General Manager

Rokas Masiulis

*R.Mai*

24 March 2011

Finance Director

Mantas Bartuska

24 March 2011



## Cash flow statement

	Notes	2010	2009
			(restated)
<b>Cash flows from operating activities</b>			
Net profit		29.751	42.491
<b>Adjustments for non cash items:</b>			
Depreciation and amortisation	18,20	22.618	20.247
Impairment and write-off of property, plant and equipment	20	8.601	62
Accrued emission rights	18	1.205	-
Change in employee benefit liabilities		926	-
Accrued income	18	634	138
Reserve of restructuring		546	-
Change in vacation reserve		111	-
Investment into associate accounted for equity method		81	-
Change in allowance for doubtful receivables	10	(3)	(393)
Other non-cash adjustments of expense (income)		(51)	-
Interest income		(1.498)	(1.687)
		<b>62.921</b>	<b>60.858</b>
<b>Changes in working capital:</b>			
(Increase) decrease in inventories		(1.174)	144
Decrease (increase) in prepayments		303	37
Decrease (increase) in trade and other accounts receivable		957	(708)
Decrease (increase) in other current assets		(734)	348
Increase (decrease) in trade and other payables		2.243	(1.477)
Decrease (increase) in prepayments received		25	-
Increase (decrease) in other current liabilities and payroll related liabilities		23	1.962
		<b>64.564</b>	<b>61.164</b>
Income tax (paid)		(6.686)	(3.577)
Interest received		1.498	1.766
<b>Net cash flows from operating activities</b>		<b>59.376</b>	<b>59.353</b>
<b>Cash flows from investing activities</b>			
Acquisition of non-current assets	5	(12.803)	(12.679)
Acquisition of Investments held-to-maturity		(46.557)	-
Sales of investments held-to-maturity		4.744	15.103
Acquisition of other investments		(47)	-
<b>Net cash flows from investing activities</b>		<b>(54.663)</b>	<b>2.424</b>

(cont'd on the next page)

The accompanying notes, set out on pages 11-41, are an integral part of these financial statements.



**Cash flow statement (cont'd)**

	Notes	2010	2009
<b>Cash flows from financing activities</b>			
Dividends payment	24	(16.400)	(13.499)
Loans repayment		-	(15.605)
Interest paid		-	(79)
<b>Net cash flows from financing activities</b>		<b>(16.400)</b>	<b>(29.183)</b>
<b>Net increase (decrease) in cash flows</b>		<b>(11.687)</b>	<b>32.594</b>
<b>Cash and cash equivalents on 1 January</b>		<b>41.188</b>	<b>8.594</b>
<b>Cash and cash equivalents on 31 December</b>		<b>29.501</b>	<b>41.188</b>

The accompanying notes, set out on pages 11-41, are an integral part of these financial statements.

General Manager

Rokas Masiulis

*R.Mai*

24 March 2011

Finance Director

Mantas Bartuska

24 March 2011



## Notes to the 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 – oil products transhipment services and other services related.

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

As of 31 December 2010 all the shares were owned by 1.569 shareholders. The Company's share capital – LTL 342.000.000 (three hundred forty two million) is fully paid. It is divided into 342.000.000 (three hundred forty two million) ordinary shares with a par value of LTL 1. 70,63 % of the shares (241.544.426 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 2010. The Company's shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange.

As of 31 December 2010 and 31 December 2009 the shareholders of the Company were:

	31 December 2010	31 December 2009		
	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	241.544	70.63	241.544	70.63
Achema AB	-	-	31.265	9.14
UAB Concern Achema Group	32.766	9.58	-	-
Skandinaviska Enskilda Banken funds	14.254	4.17	10.539	3.08
Swedbank funds	10.817	3.16	8.720	2.55
Other (less than 5 per cent each)	42.619	12.46	49.932	14.60
<b>Total</b>	<b>342.000</b>	<b>100.00</b>	<b>342.000</b>	<b>100.00</b>

On 27 April 2010 the General Shareholders' Meeting approved appropriation of profit for 2009 and allocated 16.400.000 of dividends for the year 2009. According to an agreement signed with AB SEB Bankas the Company transferred the dividends for 2009 to the bank which paid out the dividends to the shareholders. The dividends for 2009 paid out to the shareholders in 2010 amounted to LTL 16.273.893 (the major shareholder – the Lithuanian State received LTL 11.582.832 of dividends for 2009).

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 2010.

As of 31 December 2010 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 48.421 thousand (as of 31 December 2009: LTL 102.990 thousand).

The average number of employees in the year 2010 was 306 (301 - in 2009).

The Management of the Company approved these Financial Statements on 24 March 2011.

### 2 Significant accounting policies

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

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

## 2.1. Basis for preparation of the financial statements

### *Statement of compliance*

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

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

The applied accounting principles coincide with the accounting principles of earlier years 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 2010 and which are relevant to the Company's activities:

- *Amendment to IFRS 3 "Business combinations*

The amendment to IFRS 3 is effective for annual periods beginning on or after 1 July 2009. The Standard's scope of application was amended and the description of the purpose was expanded. The amendment to IFRS 3 is not relevant to the Company's financial statements as it does not have any interests in the companies, operations of which will be affected by the amendment to the standard.

- *Amended IAS 27 "Consolidated and separate Financial Statements"*

Amendment to IAS 27 is effective for annual periods beginning on or after 1 July 2009. In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Company's financial statements as the Company does not have any interests in subsidiaries and does not prepare consolidated financial statements.

- *Amended IAS 32 "Financial Instruments: Presentation – Classification of Rights issues"*

Amendment to IAS 32 is effective for annual periods beginning on or after 1 July 2009. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

- *Amendment to IAS 39 Financial Instruments: recognition and measurement*

The amended Standards explains application of existing principles which determine whether certain risks or parts of cash flows are appropriate for hedging from risks in relationships. When indicating hedging relationships, risks or parts must be separately identified and reliably estimated, without designation of inflation (only in limited circumstances). The amendment to IAS 39 is effective for annual periods beginning on or after 1 July 2009. The amendment of IAS 39 has no effect on the Company's agreements regarding hedging from risks.

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

Several new and revised International Financial Reporting Standards and interpretations have been issued, which shall be subject to application in financial reporting starting from 1 January 2011 and subsequent years. The Company has decided not to apply earlier the new standards and interpretations. 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.

- *Amendment to IAS 24 Related Party Disclosure*

Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011)

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.



The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

When applied, it is expected that the new Standard will reduce the current level of disclosure of related parties and of the balances and transactions with other government-controlled entities.

■ *Amendment to IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011).

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.

■ *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010)

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods beginning on or after 1 July 2010. The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Company did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Company's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

■ *Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)

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The amendments to IFRIC 14 is not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.

## 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 is pegged to the Euro at the rate of LTL 3.4528 = EUR 1.

#### Transactions and balances

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

#### **2.3. Segment reporting**

A business segment is comprised of a group of property and operations performed while rendering a service having different risks and profitability in comparison with other business segments. Geographical segment of the services rendered consists of a certain economic environment where different risks and profitability are met if compared with other geographical segments. The Company operates in one business and geographical segment.

#### **2.4. Investments into associates**

The company accounts for investments into associates by the equity method. An associate is an entity in which the Company has significant influence.

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 profit after tax and 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. Upon loss of significant influence over the associate the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of retaining investment and proceeds from disposal is recognised in the Statement of Comprehensive income.

#### **2.5. 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.

#### **2.6. Property, plant and equipment**

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

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

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



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

<b>Buildings and structures, specifically:</b>	7 - 70
Fire-fighting station	40 - 51
Storage tanks 5.000 m3	15 - 21
Storage tanks 20.000 m3	43
Waste Water Treatment building	51
Reinforced concrete bridges	70
Rail gantry	55 - 65
<b>Machinery and equipment, specifically:</b>	3 - 40
Vapour combustion units; heat-exchangers	11 - 39
Marine loading arms	12
<b>Other property plant and equipment, specifically</b>	3 - 40
Technological pipelines	40 - 41
Control cables	12

#### **Property, plant and equipment (cont'd)**

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

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

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the 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 assets disposed.

#### **2.7. Financial assets**

##### Initial recognition and assessment

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through the Statement of Comprehensive income, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. The Company establishes classification of financial assets at its 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 the Statement of Comprehensive income) 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.

##### Later assessment

Classification of financial assets according to later assessment depends upon:

*Financial assets or financial liabilities at fair value through the Statement of Comprehensive income*

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 the Statement of Comprehensive income are recorded in the statement of financial position at fair value. Related profit or loss on revaluation is charged directly to 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.



Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

**2.8. Derecognition of financial assets and liabilities**

Financial assets

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

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

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

Financial liabilities

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

**2.9. Employee benefits**

Social security contributions

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



### **Significant accounting policies (cont'd)**

#### Termination benefits

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

Non-current benefit obligation is recognised at the present value of the benefits defined in the Statement of Financial position on its compilation date. The present value of defined benefit obligation is determined by discounting recognised future cash flows based on the interest rate of the Government's securities, 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 Comprehensive Income.

#### **2.10. Inventories**

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

#### **2.11. Cash and cash equivalents**

Cash includes cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

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

#### **2.12. 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.

#### **2.13. Financial and operating leases**

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

#### The Company as a lessee

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

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

Operating lease payments are recognised as expenses in the Statement of Comprehensive income on a straight line basis over the lease term



The Company as a lessor

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

Operating lease – the Company as a lessor

Assets leased under operating lease in the statement of financial position of the Company are accounted for depending on their nature. 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.

**2.14. Income tax**

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

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

The effective income tax rate applicable for the companies of the Republic of Lithuania in 2010 was 15 % (20 % - in 2009).

Tax losses can be carried forward for unlimited time, 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 taxes are calculated using the Statement of Financial position liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the date of the Statement of Financial position.

Deferred tax asset has been 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.

**2.15. Dividends**

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



## 2.16. Basic and diluted earnings per share

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

## 2.17. 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 initiative of 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 tone of carbon dioxide (CO<sub>2</sub>)). There is an active market for trading in emission rights (so called climate exchanges).

The emission rights are allocated free of charge in advance for periods covering several coming years. The first period is 2005 - 2007 and the next period is 2008 - 2012.

Companies participating in the scheme are obliged to report their actual pollution for each calendar year starting from 2005. When available allowances are not sufficient to cover actual pollution, then a penalty of EUR 100 per tone 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 amount, as permitted by IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. 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.

## 2.18. 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 transshipment

The Company recognises revenues from oil transshipment taking into account the stage of services provided. The level of service provided is measured as percentage of transshipment 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.

**2.19. 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.

**2.20. Impairment of assets**

Financial assets

Financial assets are reviewed for impairment at each statement of financial position date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the 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.

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

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.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the 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.

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

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 the Statement of Comprehensive income. 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.

## 2.21. Use of estimates in preparation of financial statements

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.

The Company prepares estimations and assumptions associated with the future. Therefore accounting assessments in relation to the determination rarely are adequate to the related actual results. The estimations and assumptions that can raise risks of material adjustment of carrying amounts of assets and liabilities in the next financial year are presented below.

### Impairment losses of property, plant and equipment

The Company assesses at each reporting date the carrying amounts of non-current assets 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's groups generating cash flows (cash generating unit or CGU), is grouped into the smallest group. 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 revises receivables. For determination of necessity to report impairment in the Statement of Comprehensive income the Company assesses whether there is any indication of substantial 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 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.

## 2.22. Contingencies

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

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



### **2.23. Subsequent events**

Post-balance 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. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

### **2.24. Offsetting and comparative figures**

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

## **3. Change in accounting policy**

As of 31 December 2010 the Company changed accounting policy for income recognition by measuring the accrued income according to the percentage of completion of the long-term oil transshipment agreements assessing the level of the expenditures incurred.

### Statement of financial position

	<b>As of 31 December 2009</b>	<b>Change of accounting policy</b>	<b>As of 31 December 2009</b>
(restated)			
<b>ASSETS</b>			
Other accounts receivable	902	1.266	2.168
Other captions of assets	465.070	-	465.070
<b>Total assets</b>	<b>465.972</b>	<b>1.266</b>	<b>467.238</b>
<b>EQUITY AND LIABILITIES</b>			
Retained earnings	37.603	1.076	38.879
Income tax liabilities	1.412	190	1.602
Other captions of liabilities and equity	426.957	-	426.957
<b>Total equity and liabilities</b>	<b>465.972</b>	<b>1.266</b>	<b>467.238</b>

### Statement of comprehensive income

	<b>As of 31 December 2009</b>	<b>Change of accounting policy</b>	<b>As of 31 December 2009</b>
(restated)			
Sales	116.349	(138)	116.211
Other captions of the statement of comprehensive income	(73.720)	-	(73.720)
Income tax	(5.026)	21	(5.005)
<b>Net profit</b>	<b>37.603</b>	<b>(117)</b>	<b>37.486</b>

**4. Intangible assets**

	<b>Software</b>
<b>Acquisition cost:</b>	
Balance as of 31 December 2008	1.113
Additions	90
Retirements and disposals	(78)
Balance as of 31 December 2009	1.125
Additions	457
Retirements and disposals	(174)
Balance as of 31 December 2010	<u>1.408</u>
<b>Accumulated depreciation and impairment:</b>	
Balance as of 31 December 2008	1.048
Charge for the year	52
Retirements and disposals	(78)
Balance as of 31 December 2009	1.022
Charge for the year	165
Retirements and disposals	(174)
Balance as of 31 December 2010	<u>1.013</u>
<b>Net book value as of 31 December 2010</b>	<b>395</b>
<b>Net book value as of 31 December 2009</b>	<b>103</b>
<b>Net book value as of 31 December 2008</b>	<b>65</b>

The depreciation charge of the Company's intangible assets for the year 2010 amounts to LTL 165 thousand (LTL 52 thousand – in 2009). LTL 164 thousand of depreciation charge have been included into cost of sales (LTL 49 thousand - in 2009) in the Company's Statement of Comprehensive income, the remaining amount has been included into operating expenses.



**5. Property, plant and equipment**

	<b>Buildings and structures</b>	<b>Machinery and equipment, plant and equipment</b>	<b>Other non- current assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Acquisition cost:</b>					
Balance as of 31 December 2008	401.697	318.048	11.899	4.777	736.421
Additions	66	336	215	16.080	16.697
Retirements and disposals	(184)	(658)	(169)	-	(1.011)
Reclassification	(197)	(4)	-	201	-
Transfers from construction in progress	117	2.519	69	(2.705)	-
Balance as of 31 December 2009	401.499	320.241	12.014	18.353	752.107
Additions	-	161	327	7.951	8.439
Retirements and disposals	(3.129)	(1.111)	(360)	-	(4.600)
Reclassification from inventories	-	7	85	-	92
Transfers from construction in progress	7.299	12.843	1.218	(21.360)	-
Balance as of 31 December 2010	405.669	332.141	13.284	4.944	756.038
<b>Accumulated depreciation and impairment:</b>					
Balance as of 31 December 2008	135.946	177.531	9.271	-	322.748
Charge for the year	10.542	9.047	606	-	20.195
Retirements and disposals	(172)	(828)	-	-	(1.000)
Impairment for the year	-	51	-	-	51
Balance as of 31 December 2009	146.316	185.801	9.877	-	341.994
Charge for the year	10.854	10.898	701	-	22.453
Retirements and disposals	(3.129)	(1.109)	(346)	-	(4.584)
Impairment for the year	4.209	3.578	539	259	8.585
Reclassification	-	(85)	85	-	-
Balance as of 31 December 2010	158.250	199.083	10.856	259	368.448
<b>Net book value as of 31 December 2010</b>	<b>247.419</b>	<b>133.058</b>	<b>2.428</b>	<b>4.685</b>	<b>387.590</b>
<b>Net book value as of 31 December 2009</b>	<b>255.183</b>	<b>134.440</b>	<b>2.137</b>	<b>18.353</b>	<b>410.113</b>
<b>Net book value as of 31 December 2008</b>	<b>265.751</b>	<b>140.517</b>	<b>2.628</b>	<b>4.777</b>	<b>413.673</b>



## 5. Property, plant and equipment (cont'd)

The depreciation charge of the Company's property, plant and equipment for the year 2010 amounts to LTL 22.453 thousand (LTL 20.195 thousand – in 2009). LTL 22.317 thousand of depreciation charge have been included into cost of sales (LTL 20.082 thousand – in 2009) in the Company's Statement of Comprehensive income, the remaining amount has been included into operating expenses.

On 18 February 2010 the Company put into operation the updated system for loading light oil products into road tankers (the total value of the object - LTL 10.940 thousand) and completed updating of fuel oil unloading system of rail gantry track No.1 (total value of the object - LTL 3.813 thousand). On 15 July 2010 the Company finished reconstructing of storage tank T-34-7101 and process lines of Waste Water Treatment Facilities, the value of the object – LTL 3.427 thousand).

In 2010 the Company made investments into the following objects: LTL 4.743 thousand - into updating of fuel oil unloading system of rail gantry track 2; LTL 1.929 thousand – into updating of automatic part of fire-fighting system; LTL 818 thousand – into updating of LFO storage tanks; LTL 335 thousand – into updating of storage tank T-34-7101 and process lines of Waste Water Treatment Facilities; LTL 216 thousand – into updating of metering system. It is planned to complete all these projects in 2011.

The Government of the Republic of Lithuania by its decision No. 1097 "Regarding development of LNG terminal", dated 21 July, 2010, enabled the Company to commence development of the project of LNG terminal. On the approval of the General Shareholders' Meeting of the Company the Board of the Company on 23 July 2010 decided to perform preparatory works and realize investment project regarding LNG Terminal's construction. The General Shareholders' Meeting of the Company on 26 August 2010 approved the Board's decision to commence preparation of LNG project. According to the report and its conclusions, dated 2 November 2010, of the Joint Committee, formed by the order of the Minister of Energy regarding construction of LNG terminal in Lithuania, the following objectives and essential implementation conditions were determined for the project:

- develop an alternative supply source of natural gas, eliminating Lithuania's dependence on the only outer supplier of gas; establish preconditions for Lithuania of independent provision of natural gas necessary to satisfy demand of the first necessity; establish preconditions for development of national and regional gas markets with a possibility of supplying the neighbouring countries with natural gas in future; to develop a possibility for Lithuania to enter the international gas markets;
- commence operation of the LNG terminal as soon as possible but in no event later than 2014;
- taking into account the requirements of quality, safety, skilled development applied to such projects, the Project shall be implemented with minimum possible costs of development, construction and operation, using minimum amount of the funds of the Company and its shareholders as well as borrowed means.
- If appropriate, develop possibilities for expansion of the capacities of the LNG terminal without inadequately high additional costs so as the Terminal for commercial purposes could perform functions of the regional terminal.

On 29 December 2010 the Company announced International Public Tender for procurement of services of the lead advisor for the preparation and implementation of the project of a liquefied natural gas terminal" competition.

LTL 364 thousand were invested into LNG project as on 31 December 2010 – the major part of the expenses are comprised of consulting services.

Part of the property, plant and equipment with the acquisition cost of LTL 52.118 thousand as on 31 December 2010 was completely depreciated (LTL 54.120 thousand on 31 December 2009) however it was still in operation.

On 31 December 2010 and 2009 the Company had no liabilities to purchase property, plant and equipment.

In 2010 the Company revised its property, plant and equipment and accounted for the impairment of LTL 8.587 thousand for the assets that is no longer used due to the changed technological conditions.

## 6. Investments into associates

On 19 December 2007 the Company acquired one (1) per cent shares in the international pipeline company SARMATIA and purchased 180 shares at a nominal value of PLZ 500 each. In 2010 during the increasing of the authorized capital of SARMATIA the Company additionally purchased 100 shares with the par value of PLZ 500 each. The Company is entitled to appoint one member to the management of SARMATIA, thus it can make a significant influence. Therefore this investment was recorded using the equity method.

SARMATIA is a private company not listed on the market. Financial information regarding the Company's investment into SARMATIA is presented in the table below:



**6. Investments into associates (cont'd)**

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
Share of the associate's financial position:			
Current assets	41	12	63
Current liabilities	-	8	9
<b>Capital</b>	<b>41</b>	<b>4</b>	<b>54</b>
Share of the associate's comprehensive income:			
Income	2	2	2
(Losses)	(9)	(43)	(9)
<b>Balance value of investment</b>	<b>41</b>	<b>4</b>	<b>54</b>

**7. Inventories**

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
Spare parts, construction materials and other inventories	6.288	6.600	7.796
Oil products for sale	3.782	2.470	2.056
	10.070	9.070	9.852
Less: allowance for inventories	(5.972)	(5.673)	(6.311)
	<b>4.098</b>	<b>3.397</b>	<b>3.541</b>

As of 31 December 2010 the Company had inventories for the amount of LTL 5.972 thousand (LTL 5.673 thousand in 2009), that have been written off down to the net sales value. The Company makes allowance for the inventories to the net realisable value if they are not used for more than 6 months.

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

Oil products are energy products collected in the Waste Water Treatment Facilities. During the year 2010 the oil products increased because the Company did not sell any collected heavy oil products during the years 2007 – 2010. As of 31 December the Company stored 4,3 thousand tons of oil products collected in its Waste Water Treatment Facilities (3,3 thousand tons on 31 December 2009).

As of 31 December 2010 the Company stored 79,1 thousand tons of oil products delivered for transshipment in its storage tanks (143,1 thousand tons as on 31 December 2009). 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.

Change in the allowance of inventories as of 31 December 2010 and 2009 is included under operating costs in the Statement of comprehensive income.



## 8 Trade receivables

	As of 31 December 2010	As of 31 December 2009	As of January 1 2009
	(restated)		
Receivables for reloading of oil products and other related services (net realizable value)	4.711	4.955	4.872
	<b>4.711</b>	<b>4.955</b>	<b>4.872</b>

Trade and other receivables are non-interest bearing and are generally on 6 - 15 days terms. On 31 December 2010 trade debts to the Company in the amount of LTL 9 thousand were denominated into EURO (none - in 2009).

Movements in allowance for trade receivables were as follows:

	Individually impaired
Balance as of 31 December 2007	299
Charge for the year	94
Balance as of 31 December 2008	393
Charge for the year	(393)
Balance as of 31 December 2009	-
Balance as of 31 December 2010	-

No individual allowance was made in 2010 and in 2009.

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 and other receivables as of 31 December 2010 and 2009 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	
<b>2010</b>	4.710	-	1	-	-	-	4.711
<b>2009</b>	4.920	-	-	6	29	-	4.955
<b>As of 1 January 2009</b>	4.142	185	129	243	173	-	4.872

### 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.



## 9 Other receivables

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
	(restated)	(restated)	
Accrued income	633	1.266	1.404
VAT receivable	76	737	82
Real estate tax receivable	-	-	768
Other taxes receivable	54	105	443
Other receivables	71	73	91
	834	2.181	2.788
Less: allowance for receivables	(13)	(13)	(13)
	<b>821</b>	<b>2.168</b>	<b>2.775</b>

Change in allowance for receivables for the years 2010 and 2009 has been included into operating expenses in the Statement of Comprehensive income.

## 10 Other financial assets

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
	(restated)	(restated)	
<b>Loans and receivables</b>			
Transferred obligation in Vnesekonom bank	100	100	100
Loan to UAB „Žavesys“	365	368	372
Less: allowance for receivables	(465)	(468)	(472)
<b>Total loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investments held- to-maturity</b>			
Short-term deposits	21.872	4.744	19.847
Investments into the state securities of Lithuania	17.391	-	-
Investments into the securities of foreign countries	1.870	-	-
Investments into the of Lithuanian banks	5.424	-	-
<b>Total investments held- to-maturity</b>	<b>46.557</b>	<b>4.744</b>	<b>19.847</b>
<b>Total other financial assets</b>	<b>46.557</b>	<b>4.744</b>	<b>19.847</b>
<b>Current part</b>	<b>38.433</b>	<b>4.744</b>	<b>19.847</b>
<b>Non-current part</b>	<b>8.124</b>	<b>-</b>	<b>-</b>

Calculated values of other financial assets denominated in the following currencies:

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
	(restated)	(restated)	
Currency			
EUR	6.628	-	4.300
LTL	39.929	4.744	15.547
	<b>46.557</b>	<b>4.744</b>	<b>19.847</b>

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 „Žavesys“. Cost of sales of the right in the liquidated



Vneseconom 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 % of allowance. Change in allowance for receivables for the years 2010 and 2009 has been included into operating expenses in the Statement of Comprehensive income.

On 23 July 2010 the Board of the Company approved new policies of free funds investments of the Company aimed at investment transactions with reliable (long-term borrowing rating according to Fitch A-) 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. Following its investment policies the Company has acquired the securities of the Lithuanian Government for the amount of LTL 4.420 thousand, the securities of Lithuanian banks for LTL 1.834 thousand and the securities of foreign countries – for LTL 1.870 thousand, the payoff maturity term of which is longer than one financial year, therefore the securities were attributed to the non-current financial assets.

As of 31 December 2010 the Company had term deposits of LTL 21.872 thousand (LTL 4.744 thousand – in 2009) with the average maturity of 198 days (121days – in 2009) and an annual average interest rate of 1,8 % (6,7 % - in 2009). On 31 December 2009 the Company had securities of the state of Lithuanian and foreign countries in the amount of LTL 19.261 thousand with the average maturity of 181 days and an average interest rate of 2 %. The Company had the bank bond in the amount of LTL 5.424 thousand with the average redemption term of 219 days and average interest rate of 1,3 %.

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

## 11. Cash and cash equivalents

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
Cash at bank	4.067	8.142	3.672
Sort-term deposits	14.453	32.922	4.726
Securities of foreign countries	7.277	-	-
Securities of Lithuanian banks	2.149	-	-
Investment units of money market	1.555	-	-
Cash in hand	-	124	196
	<b>29.501</b>	<b>41.188</b>	<b>8.594</b>

Cash in bank earns variable interest depending on the closing balance of every day.

As of 31 December 2010 the Company had term deposits of LTL 14.453 thousand (LTL 32.922 thousand – in 2009) with the average maturity of 90 days (90 days – in 2009) and an average interest rate of 1,35 % (6,6 % - in 2009).

The Company had investments in the amount of LTL 12.536 thousand into the securities of the banks and foreign countries as well as into investment units of money market with the average maturity of 54 days and average interest rate of 3,9 %.

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

Currency	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
EUR	1.774	3.302	710
LTL	27.727	37.886	7.884
	<b>29.501</b>	<b>41.188</b>	<b>8.594</b>



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

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
AA -	13.872	-	-
A +	14.424	-	-
A	21.210	2.192	8.972
A -	9.147	-	-
BBB	17.391	-	-
BB	3	22.403	19.273
B	11	21.213	-
Other	-	124	196
	<b>76.058</b>	<b>45.932</b>	<b>28.441</b>

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

## 12. Reserves

### 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. The General Shareholders' Meeting, held on 27 April 2010, approved profit distribution plan for the year 2009 and allocated LTL 3.330 thousand to the legal reserve.

### 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.

## 13. Employee benefit liabilities

On 31 December 2010 the expenses related to the payment of termination benefits to the employees terminating the employment on the normal retirement date made LTL 926 thousand.

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

	As of 31 December 2010
Discount rate	5,15 %
Staff turnover rate	5 %
Annual increase in salaries	3 %

## 14. Trade and other payables

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
Payable for railway services	1.425	539	575
Payable to contractors	2.556	4.237	128
Other trade payables	588	1.364	1.393
	<b>4.569</b>	<b>6.140</b>	<b>2.096</b>



Trade payables are non-interest bearing and are normally settled on 30-day terms. On 31 December 2010 trade payables to the Company in the amount of LTL 5 thousand were denominated into euro (none - in 2009).

As of 31 December 2010 there was a significant rise in trade payables to the provider of railway services due to increased expenses of railway services at the end of year influenced by unfavourable ambient conditions for transshipment.

#### 15. Liabilities related to labour relations

As of 31 December 2010 the Company's liabilities, related to labour relations, were basically comprised of vacation reserve of LTL 1.311 thousand (LTL 1.200 thousand – on 31 December 2009)

#### 16. Provisions

	Emission rights provision	Restructuring provision	In total
<b>As of 1 January 2010.</b>			
Calculated per year	-	-	-
Offsetting emission rights purchased	1.205	547	1.752
<b>As of 31 December 2010</b>			
<b>Long-term part</b>	<b>(473)</b>	<b>-</b>	<b>(473)</b>
<b>Short-term part</b>	<b>732</b>	<b>547</b>	<b>1.279</b>

##### *Emission rights*

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	In total
Allocated	19.691	19.692	19.692	19.691	19.691	98.457
Used	(29.241)	(25.619)	(28.325)	-	-	(83.185)
Planned to be used	-	-	-	(28.300)	(28.300)	(56.600)
Purchased	-	-	10.000	-	-	10.000

\* Emission allowances allocated by the national allocation plan.

##### *Restructuring provision*

A restructuring provision has been included regarding the revision of the Company personnel structure. The plan of restructuring was prepared in 2010 and presented to the personnel. Therefore the restructuring provision was recognised in the Statement of Comprehensive income. The restructuring is likely to be carried out during 2011.

#### 17. Other current liabilities

	As of 31 December 2010	As of 31 December 2009	As of 1 January 2009
Tax on real estate payable	649	638	-
Accrued expenses	181	162	150
Other	32	14	63
	<b>862</b>	<b>814</b>	<b>213</b>

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



**18. Sales income**

	<b>2010</b>	<b>2009</b>
	(restated)	
Sales of oil transshipment services	118.975	110.118
Revenues for storage of oil products	-	3.200
Other sales related to transshipment	4.057	3.031
	<b>123.032</b>	<b>116.211</b>

The Company's successful performance of cooperation with its customers without intermediaries was the main cause of the increase in sales income of oil reloading services during 2010.

In 2009 an exceptional compensation was received from AB "ORLEN Lietuva" for storage of remains of oil products in the amount of LTL 3.200 thousand. There was no such a precedent in 2010.

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

**19. Cost of sales**

	<b>2010</b>	<b>2009</b>
	(restated)	
Depreciation and amortisation	22.481	20.131
Wages, salaries and social security	16.538	16.043
Gas	15.502	13.116
Railway services	7.495	5.172
Electricity	5.143	3.749
Tax on real estate	2.564	2.608
Rent of land and quays	2.350	2.350
Repair and maintenance of non-current assets	1.410	3.731
Emission rights expenses	1.205	-
Insurance of assets	779	1.006
Other	2.211	2.028
	<b>77.678</b>	<b>69.934</b>

Constant increase in price of energy resources – electricity, gas and steam – raised cost of sales. Unfavourable ambient conditions for transshipment at the end of the year increased expenses of railway services.



## 20. Operating expenses

	<b>2010</b>	<b>2009</b>
	(restated)	
Salaries, bonuses and social security	4.198	3.149
Impairment of assets, provisions	10.467	(401)
Consulting and legal costs	728	392
Charity	319	262
Depreciation and amortisation	136	117
Advertising services	130	209
Other	1.111	1.774
	<b>17.089</b>	<b>5.502</b>

In 2010 the Company revised the available non-current assets and recorded impairment for the amount of LTL 8.585 thousand of the assets. These are unjustified and carrying no value investments of previous years. In 2010 employee termination benefit provisions in the amount of LTL 926 thousand were accounted for the first time.

The remuneration expenses increased due to the bonuses of LTL 1.200 thousand allocated by the decision of the General Shareholders' Meeting for the operating results in 2009 as well as additional compensations paid to the Management due to the Management changes.

## 21. Income (expenses) from financial and investment activities, net

	<b>2010</b>	<b>2009</b>
Interest income	1.498	1.766
Fines received	64	17
Financial income, total	<b>1.562</b>	<b>1.783</b>
Interest (expenses)	-	(79)
Losses from currency exchange	(12)	(6)
Other financial expenses	(22)	(2)
Financial expenses, total	<b>(34)</b>	<b>(87)</b>
	<b>1.528</b>	<b>1.696</b>

## 22. Income tax

Income of the year 2009 was taxed by income tax rate of 20 % according to the tax laws of the Republic of Lithuania. As of 1 January 2010 income tax rate is 15 %.

	<b>2010</b>	<b>2009</b>
<b>Components of the income tax expense (income)</b>		
Income tax of the year	6.568	9.142
Income tax adjustment of the previous year	(296)	(91)
Current year income tax expense	6.272	9.051
Deferred tax expense	(2.438)	(4.046)
Income tax expense charged to the Statement of Comprehensive income	<b>3.834</b>	<b>5.005</b>



A 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 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009</b>
Accounting profit before tax	29.751	42.491
Applying 15 % profit tax rate of the Company (20 % - in 2009)	4.463	8.498
Income tax adjustment of the previous year	(296)	(91)
Non-deductible expenses of income tax		
Support	(48)	(105)
Other non-deductible expenses	33	297
Deferred income tax assets of previous year	(318)	-
Influence of the changed income tax rate	-	(3.594)
Applying 13% effective income tax (12 % - in 2009)	<b>3.834</b>	<b>5.005</b>

Deferred income tax depends on:

	Statement of Financial position			Statement of Comprehensive income	
	<b>2010</b>	<b>2009</b>	<b>As of 1 January 2009</b>	<b>2010</b>	<b>2009</b>
Accelerated depreciation for tax purposes	1.090	1.072	1.483	(18)	(10)
Impairment of non-current assets	1.086	198	254	(796)	53
Impairment of inventories	896	257	367	(45)	24
Temporary differences in receivables for tax purposes	232	-	-	(232)	-
Accrued emission rights	181	-	-	(181)	-
Long-term employee benefit liability	139	-	-	(139)	-
Restructuring reserve	82	-	-	(82)	-
Vacation reserve	47	180	248	133	8
Associates' equity method	12	-	-	(12)	-
Other temporary differences	3	-	-	(3)	-
Oil products	(566)	-	158	198	158
Investment incentive property, plant and equipment	(11.547)	(12.490)	(17.339)	(943)	(685)
<b>Deferred income tax expenses/ (income)</b>				<b>(2.120)</b>	<b>(452)</b>
<b>Deferred income tax assets/ (liabilities), net</b>	<b>(8.345)</b>	<b>(10.783)</b>	<b>(14.829)</b>		
Charged to the Statement of financial position as follows:					
Deferred income tax assets	3.768	1.707	2.352		
Deferred income tax liability	(12.113)	(12.490)	(17.181)		
<b>Deferred income tax liability, net</b>	<b>(8.345)</b>	<b>(10.783)</b>	<b>(14.829)</b>		

Reconciliation of deferred income tax liability, net:

<b>At the beginning of the period on 1 January</b>	<b>(10.783)</b>	<b>(14.829)</b>
Income tax income /(expenses) during the period accounted for in the net profit (loss)	2.120	452
Deferred income tax adjustment of the previous year	318	-
Influence of the changed income tax rate	-	3.594
<b>At the end of the period on 31 December</b>	<b>(8.345)</b>	<b>(10.783)</b>



As of 31 December 2010 the Company did not recognise LTL 70 thousand (LTL 71 thousand – in 2009) 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 2010 and 2009 the Company has used the income tax rate of 15 %.

### **23. Earnings per share, basic and diluted**

Basic earnings per share amounts 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 shares issued. Basic and diluted earnings per share are as follows:

	<b>2010</b>	<b>2009</b>
Net profit attributable to shareholders	25.917	37.486
Weighted average number of ordinary shares (thousand)	<u>342.000</u>	<u>342.000</u>
Earnings per share (in LTL)	<u>0,08</u>	<u>0,11</u>

### **24. Dividends**

	<b>2010</b>	<b>2009</b>
Dividends declared	16.400	13.534
Weighted average number of shares (thousand)	<u>342.000</u>	<u>342.000</u>
Dividends declared per share (expressed in LTL per share)	<u>0,048</u>	<u>0,040</u>

On 27 April 2010 the Company's shareholders announced dividends amounting to LTL 16.400 thousand for 2009 (LTL 13.532 thousand for 2008 on 23 April 2009).

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 2010 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 48 thousand (as of 31 December 2009: LTL 103 thousand).

### **25. 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 2010 accounted for approximately 97% (about 74% as of 31 December 2009) of the total Company's receivables from all its customers. The average payment terms for this customer are 6 - 15 days whereas the usual payment terms for all other customers are 6 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 bears 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 2010 were 9,04 and 8,57, respectively (5,73 and 5,39 as at 31 December 2009).

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 2010 and 2009 the Company's liquidity is high because the Company has no financial commitments and accumulates cash flows for the performance of its strategic objectives.

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2010, 2009 and 2008 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	-	4.569	-	-	-	4.569
Balance as of 31 December 2010	-	4.569	-	-	-	4.569
Trade and other payables	-	6.140	-	-	-	6.140
Balance as of 31 December 2009	-	6.140	-	-	-	6.140
Interest bearing loans and borrowings	-	7.803	7.802	-	-	15.605
Trade and other payables	-	2.035	61	-	-	2.096
Balance as of 31 December 2008	-	9.838	7.863	-	-	17.701

Fair value of financial instruments

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

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



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

	Carrying amount			Fair value		
	2010	2009	2008	2010	2009	2008
<b>Financial assets</b>						
Cash	29.501	41.188	8.594	29.501	41.188	8.594
Trade and other receivables	4.711	4.955	4.872	4.711	4.955	4.872
Other financial assets	46.557	4.744	19.847	46.557	4.744	19.847
<b>Financial liabilities</b>						
Bank loans	-	-	15.605	-	-	15.605
Trade and other payables	4.569	6.140	2.096	4.569	6.140	2.096

Other financial assets are substantially comprised of investments held-to-maturity (Note 10).

A market price of the investment in international pipeline company SARMATIA cannot be reliably estimated, therefore the investment is accounted for at carrying value (Note 6). 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:

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

#### 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.

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. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

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

The Company's activities are financed using only its share capital. The Company had no loans in 2010 and 2009.

#### Risks of performance

Risks of performance are risks related to direct and indirect losses suffered due to different reasons associated with processes of the Company's activities, personnel, technology and infrastructure as well as with outer factors (excluding credit, market and liquidity risks) such as legal and law requirements and conventionally accepted functional standards of enterprises. Risks of performance arise out of the aggregate activities of the Company.

The Company's objective is to control risks of performance in order to prevent financial losses and preserve the Company's goodwill by applying comprehensive efficiency of expenses and to escape control procedures limiting initiative and creativeness.



The highest management of the Company is first of all responsible for the development and implementation of the performance risks control. This responsibility is based on the management standards of performance risks in the following spheres:

- requirements for adequate distribution of posts including independent approval of transactions
- requirements for verifying and control of transactions
- fulfilment of legal and other law requirements
- documentation of control and procedures
- requirements for systematic assessment of performance risks experienced by the Company and adequacy of control and procedures for monitoring the determined risks of performance
- requirements for accountability of performance losses and proposed actions for their elimination
- action plans for controlling contingencies
- training and professional improvement
- standards of ethics and performance
- risks reduction including insurance if it is effective.

## 26. Commitments and contingencies

### Operating lease commitments

The Company has concluded a land rent contract with Klaipeda State Port Authorities till 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 2010 the Company's land rent expenses amounted to LTL 2.350 thousand (Note 18).

Total amount of future minimum payments of land rent:

	31 December 2010	31 December 2009
Within one year	2.106	2.350
From one to five years	8.424	9.400
After five years	82.485	92.042
	<b>93.015</b>	<b>103.792</b>

### Legal claims

In 2010 the Supreme Administrative Court of Lithuania decided administrative case No. A<sup>502</sup> – 929/2010 according to the Company's complaint lodged against the defendants – State Enterprise Register Centre and Klaipeda Branch of State Enterprise Register Centre in respect of annulment of decisions. In this case the Company addressed the Court claiming to reverse decision No. 2050/01-S1-53, dated 9 February 2009, of Klaipeda Branch of State Enterprise Register Centre to reject a request, dated 8 January 2009, of SC Klaipedos Nafta regarding correction of a mistake in the data of the Real Estate Register – amend the data regarding values of the structures owned by the Company, and to reverse decision No. 113, dated 31 March 2009, of the Committee on claims of the Central administrator of State Enterprise Register Centre. The Supreme Administrative Court of Lithuania by its ruling of 26 August 2010 rejected the Company's complaint and affirmed claimable decisions of State Enterprise Register Centre and Klaipeda Branch of State Enterprise Register Centre.

On 4 October 2010 the Company received a letter from UAB Naftos Grupe regarding delays of rail tank cars and settlement of an invoice in the amount of LTL 849.811,07 for allegedly incurred expenses. The Company asserts its position that the claim is directly linked with the mutual relations of the Company and SOMITEKNO LTD and fulfilment of obligations. Therefore both the Parties shall negotiate validity of the specific demands. The Company disagrees with the demands put forward by UAB Naftos Grupe because has no evidence about the losses incurred by SOMITEKNO LTD as well as no evidence, that these losses were suffered due to the faulty actions of the Company, that there is causal relationship between the losses and illegal actions.



SC Klaipedos Nafta has submitted a claim against AB ORLEN Lietuva charging it with a material breach of the Terminal's Agreement of 2002. In its turn, AB ORLEN Lietuva has filed a counter claim against AB Klaipédos Nafta regarding an alleged breach of this Agreement committed by the Company. At present both of the Parties seek to settle the mutual dispute by means of negotiations. In case of failure to settle the disputable matters peacefully the claim of SC Klaipedos Nafta and counter claim of AB ORLEN Lietuva would be settled ad hoc by arbitration in London.

**Guarantees**

The Company as the owner of excise warehouse in order to secure due fulfillment 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 Klaipédą district. The Letter of Guarantee validity term – from 12 November 2010 to 11 November 2011.

According to the requirements of "The procedure of preparation, approval and implementation of the closure plan of wastes managing activities", approved by order No. 469 of the Minister of Environment of Lithuania the Company has received a guarantee from AB SEB Bank to Environmental protection department of Klaipeda region of the Ministry of Environment of Lithuania. The guarantee was issued only to ensure realisation of the measures provided for by the closure plan of Company's wastes managing activities. The amount of the guarantee – LTL 1.720 thousand. The guarantee expires on 12 January 2012.

The Tax Inspectorate has not performed full tax revision for the period from 1 January 2005 until 31 December 2010. According to the effective laws the Tax Inspectorate is entitled at any time to revise the Company's accounting registers and inscriptions during 5 years before the reporting tax period and can impose extra taxes and sanctions. The Company's Management is not aware of any circumstances in view of which significant extra tax obligations could be imposed on the Company



## 27. 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 2010, 2009 and 2008 were as follows:

### Transactions with Lithuanian State controlled enterprises and institutions

		<b>Purchases from related parties</b>	<b>Sales to related parties</b>	<b>Receivables from related parties</b>	<b>Payables to related parties</b>
State Tax Inspectorate at the Finance Ministry of the Republic of Lithuania	2010	8.908	-	130	1.080
	2009	9.072	-	842	2.259
	2008	8.007	-	1.293	85
	As of 1 January				
State Social Insurance Fund Board under the Ministry of Social Security and Labour	2010	5.334	-	-	-
	2009	4.937	-	-	-
	2008	5.057	-	-	-
	As of 1 January				
State Enterprise Klaipeda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	2010	2.350	-	-	587
	2009	2.350	-	-	-
	2008	2.368	-	-	-
	As of 1 January				
AB Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation	2010	7.845	-	-	1.425
	2009	5.382	-	-	539
	2008	5.220	-	-	575
	As of 1 January				
AB VST, UAB Energy supply centre, with the main shareholder being the State of Lithuania represented by the Ministry of Energy	2010	3.928	-	-	343
	2009	3.773	-	-	-
	2008	3.742	-	-	453
	As of 1 January				
Other related parties	2010	147	5	35	-
	2009	106	10	47	-
	2008	85	9	41	-
	As of 1 January				
<b>Transactions with related parties, in total:</b>	<b>2010</b>	<b>28.512</b>	<b>5</b>	<b>165</b>	<b>3.435</b>
	<b>2009</b>	<b>25.620</b>	<b>10</b>	<b>889</b>	<b>2.798</b>
	<b>2008</b>	<b>24.479</b>	<b>9</b>	<b>1.334</b>	<b>1.113</b>
	<b>As of 1 January</b>				



Remuneration to the Management and other payments

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

	31 December 2010	31 December 2009
Labour related disbursements	1.360	1.134
Termination benefits	545	-
Other disbursements, not labour related	23	9
	<u>1.928</u>	<u>1.143</u>
Number of managers	7	5

During twelve months of 2010 and 2009 the Management of the Company did not receive any loans, guarantees, no any other payments or property transfers were made or accrued.

**28. Subsequent events**

On 4 March 2011 the Board of the Company at its meeting decided to address the operator AB LITGRID of Lithuanian transfer system, that owns 100 per cent of shares of UAB BALTPPOOL, the operator of Lithuanian power market, with a request to allow to acquire 33 percent of shares of UAB BALTPPOOL that intends to develop also secondary gas market in 2011. By the decision of the Board it would be expedient for the Company, implementing LNG Terminal's project, to participate in the development processes of the Lithuanian natural gas market.

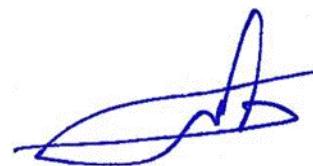
**Confirmation of responsible persons**

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 Klaipédos Nafta, and Mantas Bartuska, Finance Director of SC Klaipédos Nafta, hereby confirm that to the best of our knowledge the above-presented Financial Statements of SC Klaipédos Nafta for the year 2010, 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 (loss) of SC Klaipédos Nafta.



Rokas Masiulis

General Manager



Mantas Bartuška

Finance Director

# **ANNUAL REPORT**

## **for 2010**

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Klaipėda  
March 2011

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## FOREWORD BY GENERAL MANAGER OF SC KLAIPEDOS NAFTA

The year 2010 was of great importance to SC Klaipedos Nafta. On one hand, notwithstanding economic crisis, the transhipment volumes of oil products have not only been maintained but the reloading has even increased. Besides, transition to conclusion of direct contracts with the suppliers increased profitability of the Company and provided new delivery guarantees. It is significant to note the fact that in 2010 for the first time in the history of the Company crude oil delivered from Venezuela was reloaded here – it has demonstrated the Company's ability to handle also this product.

On the other hand the Company finished implementation of reloading system of light oil products into road tankers and commenced preparation of LNG terminal's project – of strategic importance to the whole country.

At the start of 2010 SC Klaipedos Nafta successfully completed and started operation of the reloading system of light oil products into road tankers, i.e. the Terminal had been technically prepared for reloading of imported gasoline and diesel oil into road tankers. Thus the Company contributed the development of free fuel market in Lithuania and, in our opinion, it has slowed the growth of fuel prices to Lithuanian consumers.

In 2010 under the obligation placed by the Government of the Republic of Lithuania the Company started realisation of a highly strategically important object – the project of LNG Terminal. The expressed confidence of the Government of the Republic of Lithuania and the Ministry of Energy in SC Klaipedos Nafta and a possibility provided to perform this project is very important and a great challenge to us – to complete construction of LNG Terminal by the end of 2014.

I could refer to the year 2010 not only as exceptional for the Company but also as a year of changes. With the change of the members of governing bodies the Company started accomplishing a number of significant restructuring projects such as: improvement of management quality, structural revision, efficiency of performance as well as diversification and transparency of commercial portfolio of contracts. Just started to be implemented the targeted results partly have already been achieved in 2010 – the Company gained the record level of income. During the year 2011 part of the investments will be made into oil products transhipment business. Due to successful implementation of investments the storage-tank farm would be expanded in the future thus creating favourable conditions for the Company to gain appreciable economic benefit. We may confidently state that all these steps demonstrate truthfulness of the path we have chosen for business and confidence, show our potential of growing not only of balancing on the achieved level.

I strongly believe that the Company's professional and hard-working team will successfully overcome all the challenges of 2011 by increasing efficiency of performance, strengthening competitive positions and achieving strategic objectives of Lithuanian energy.

Rokas Masiulis  
General Manager SC Klaipedos Nafta



**ACCOUNTING PERIOD IN RESPECT OF WHICH THE ANNUAL REPORT WAS PREPARED**

The Annual Report is prepared for the period from 1 January 2010 until 31 December 2010. In this Annual Report SC Klaipédos Nafta is referred to as the Company.

**DETAILS ABOUT THE COMPANY**

Name of the Company:	SC Klaipédos 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
Register of the Company:	State Enterprise Register Centre
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail address:	<a href="mailto:info@oil.lt">info@oil.lt</a>
Internet site:	<a href="http://www.oil.lt">www.oil.lt</a>

The Company is famous as one of the largest Lithuanian oil terminals on the Baltic States market of petroleum cargoes transit services. The Terminal's core activity is to transship from rail tank-cars into tankers exported oil products delivered from Lithuania, Russia, Byelorussia and other countries. It can also provide Lithuania with imported oil products which are shipped to Klaipėda port by tankers.

SC KLAIPÉDOS NAFTA renders 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.
- Temporary storage (accumulation) of crude oil and oil products.
- Collection of oily waters from vessels.
- Mooring of vessels.
- Determination of quality parameters of oil products.
- Injection of chemical additives into oil products.
- Supply of vessels with fuel and water.

The mission of the Company is to be a reliable import and export "window" of petroleum products for Lithuania and neighbouring countries, generate constant return to its investors.

The vision of the Company is to adapt to market changes and remain vital terminal for handling oil products.

**SIGNIFICANT EVENTS OF THE ACCOUNTING PERIOD**

The most important notifications of regulated information excluding annual and intermediate statements about the results:

- On 18 February the Company started operating the reloading system of light oil products (LFO) into road tankers (total value of the object amounts to LTL 10,9 million). The Terminal is technically ready for reloading of gasoline and diesel oil into road tankers.
- On 19 February the Supervisory Board recalled the Board of the Company and elected a new Board: Romas Svedas, Arnoldas Burkovskis, Vytautas Vazalinskas, Arvydas Darulis and Virgilijus Poderys.
- On 8 March at the Board's meeting Romas Svedas, Vice-minister of the Ministry of Energy, was elected the Chairman of the Board.
- On 27 April the General Shareholders' meeting resolved to pay LTL 16,4 million (i.e. 4,8 cents per share) dividends for the results achieved during 2009.
- On 27 April the General Shareholders' meeting recalled the Supervisory Board and elected a new Supervisory Board: Valentinas Milaknis, Kestutis Skiudas and Eimantas Kiudulas.
- On 5 May the Board accepted resignation of Jurgis Ausra, Director General, and recalled him from office.
- On 6 May the Board appointed Rokas Masiulis to hold office of the General Manager of the Company.
- On 18 May at the Supervisory Board's meeting Valentinas Milaknis was elected the Chairman.
- On 21 July the Government of the Republic of Lithuania by its resolution enabled the Company to commence development of the project of LNG terminal.
- On 23 July the Board of the Company approved new policies of free funds investments of the Company aimed at investment transactions with reliable (long-term borrowing ratings – A) banking instruments not only in Lithuania but also abroad.
- On 26 August the Extraordinary General Shareholders' Meeting of the Company approved the Board's decision to commence preparation of LNG project.
- On 29 August tanker "MINERVA HELEN" was moored at the Company's jetty delivering crude oil from Venezuela for Byelorussia. The Company reloaded crude oil for the first time in its history.

- On 14 September the Company signed services agreement with SOMITEKNO Ltd. regarding reloading of crude oil and oil products. The agreement was concluded directly with the owner of oil products without any intermediary.
- On 25 November the Company signed a long-term services agreement with GAZPROM NEFT TRADING GMBH regarding reloading of fuel oil. This agreement guarantees transshipment not only in winter when the transit flow of oil products is very intensive but also during summer when the volumes of reloaded fuel oil are very low. The agreement was concluded directly with the owner of oil products without any intermediary.
- On 7 December the Company signed services agreement with TNK – BP regarding reloading of fuel oil. At the end of 2010 the Company diversified the order portfolio and reduced the weight of big clients in this portfolio by signing transshipment services agreements with subsidiary company LITASCO S.A. of Russian concern LUKOIL; with ARKHAM SA of VITOL from Switzerland; with BALTIC FUEL Inc of Singapore's CHEMOIL and MERCURIA ENERGY TRADING S.A. from Switzerland.
- On 15 December the Company signed services agreement with subsidiary company UAB TRANSCHEMA of Byelorussian oil company BNK, regarding reloading of crude oil from Venezuela.

Significant events after the end of financial year:

- On 28 January 2011 the General Manager of the Company signed performance contracts in the Audit Committee with Eimantas Kiudulas, Director of UAB Klaipeda Free Economic Zone Management Company, Simonas Rimasauskas, Project Manager of UAB Deloitte Lietuva, Mindaugas Jusius, Member of the Board and Chairman of SWEDBANK LIFE INSURANCE SE. The members of the Audit Committee were elected by the Supervisory Board of the Company.
- On 31 January 2011 the Company received 12 quotations for participation in evaluation of qualification and qualitative selection procedure of the announced tender "Procurement of Lead Advisor's services for LNG terminal's project preparation and implementation" executed according to the procedure of declared negotiations.
- On 4 March 2011 the Board of the Company at its meeting decided to address the operator AB LITGRID of Lithuanian transfer system, that owns 100 per cent of shares of UAB BALTPPOOL, the operator of Lithuanian power market, with a request to allow to acquire 33 percent of shares of UAB BALTPPOOL that intends to develop also secondary gas market in 2011. By the decision of the Board it would be expedient for the Company, implementing LNG Terminal's project, to participate in the development processes of the Lithuanian natural gas market.

Pursuant to the Lithuanian legislation, all material events related to the Company's activity and information on time and place of the General Shareholders' Meetings are announced on the Company's internet site [www.oil.lt](http://www.oil.lt), are presented to the Stock Exchange AB NASDAQ OMX Vilnius and Securities Commission of the Republic of Lithuania.

During the year 2010 the Company made 35 official announcements on material events and presented other regulated information on the internet site of AB NASDAQ OMX Vilnius [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com).

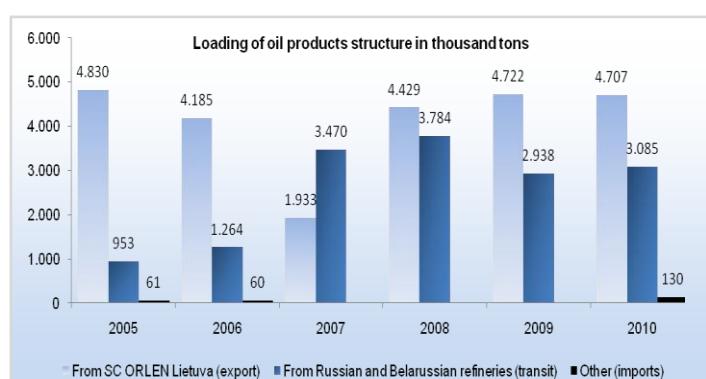
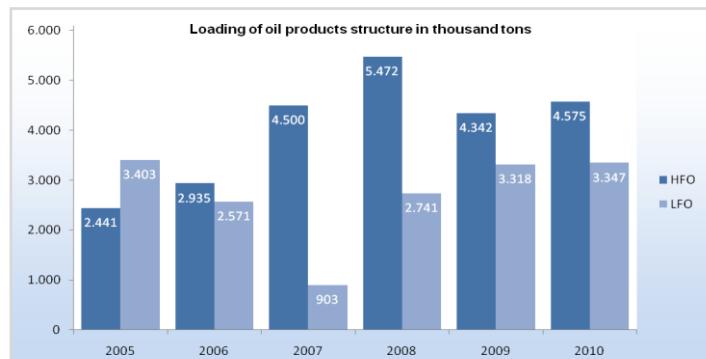
## BUSINESS ENVIRONMENT

The Company's core activity is reloading of oil products and other related services.

During 2010 the Company transshipped 7.922 thousand tons of oil products. 58 % of the total transshipment were comprised of heavy oil products (HFO) the flow of which depends on the temperature of the product and is influenced by ambient temperatures. Therefore their handling requires greater energy consumption. The following products are prescribed to HFO: fuel oils, vacuum gasoil, orimulsion, etc. Light oil products (LFO) are the products the flow of which is affected neither by the temperature of the product itself nor by ambient temperature. The following are light oil products: gasolines, diesel oil, jet fuel, etc.

During the year 2010 the Company reloaded oil products by 3 % more than during 2009 (7.660 thousand tons). Transshipment of cargoes from SC ORLEN Lietuva in 2010 (4.707 thousand tons) if compared to that of 2009 (4.722 thousand tones) actually remained at the same level.

The Company's transshipment dynamics significantly depends on the flow of petroleum products exported by SC ORLEN Lietuva – during 2010 the main Client operated evenly therefore the Company worked successfully and managed to reload by 5 per cent more transit oil products cargoes from Russia and Byelorussia.



The Company has been intensely negotiating with SC ORLEN Lietuva regarding a new agreement in order to guarantee main constant transhipment flows and conclude an agreement on economic basis.

In 2010 the Company reloaded a trial part of 80 thousand tones of imported crude oil from Venezuela to Byelorussia thus demonstrating its readiness to accept crude oil. At the end of 2011 – at the beginning of 2012 after installation of hydrocarbon vapour recovery unit the Company will be fully ready to accept large flows of imported crude oil – thus will have more flexibility to form annual transhipment portfolio, will gain additional competitive advantage over part of its competitors.

## RISK FACTORS

### Competitive environment factors

The main competitors of the Company are the following terminals of Klaipeda and the other Baltic Sea ports, reloading heavy and light oil products exported from Russia, Byelorussia, Lithuania: Krovinu Terminalas (Lithuania), Ventspils Nafta (Latvia), Ventbunkers (Latvia), BLB (Latvia), Alexela (Estonia), Vopak EOS (Estonia), Vesta (Estonia), Peterburg Oil Terminal (Russia) and new Ust-Luga terminal (Russia) under construction. The most significant factors influencing the competitiveness of the Company on the market are as follows: loading and storing (accumulating) capacity of the terminal, technical parameters of the logistics chain starting with railway lines and ending with depth and number of quays, possibility to apply a flexible prices policy, long-term supply contracts as well as good relationship with suppliers.

### Economic, market factors

The Company is a part of the logistic chain that starts mostly in the oil-fields and oil refineries of Russia and Byelorussia and ends in the Western countries. Workload 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 oil refining, i.e. produce less oil products that could be exported via the Company or other competitive terminals. Therefore due to the less profitable oil refining and the relatively reduced flows of exported oil products the competition becomes keen with regard to transhipment of these flows and it affects transhipment volumes of the Company as well as the tariffs. If the oil refining margins are high the reverse processes are going on.

### Political factors

Historically the Russian and Byelorussian Governments strictly regulated export of crude oil and oil products by establishing strict export quota and transportation tariffs for oil products shipped by railway, extending preferences to one or another port. Decisions regarding quota issue and exportation via specific state ports as well as application of preferential railway tariffs are often taken based on political motives. It is important that favourable geographic position of the Company to the major part assists in reducing this risks.

### Commercial factors

The Company has an Agreement with AB ORLEN Lietuva (signed on 29 December 1999) the transhipment volumes of which via the Company amount to more than 50 per cent of the total transhipment volume. The future perspectives of the Company greatly depend on the production output of AB ORLEN Lietuva. Stable functioning of the Mazeikiai Refinery as well as close cooperation guarantee constant production and transhipment flow to the Company.

Cargo volumes from Byelorussian oil refineries make over 15 per cent of the total transhipment volume of the Company's Terminal. As Byelorussia has no direct exit to the sea, so in order to transport its oil products to the West it must use transit routes via neighbouring countries and their ports. Therefore cooperation with Byelorussian companies and institutions is of great importance in order to divert their transhipment through Klaipeda port.

The Russian Government strives to export all the volumes of oil products produced in Russian oil refineries through Russian ports. This country creates more favourable transportation conditions for the clients delivering their cargoes to the Russian ports thus stimulating and trying to guarantee cooperation. With increasing transhipment of oil products via Russian ports by the Russian companies, competitiveness between the terminals of the Baltic States becomes severe with regard to the declining flows of oil products. The part of the Russian cargoes transported via Klaipeda port demonstrates incapability of the Russian ports to reload all the exported oil products as well as attempts of the Russian companies to divert part of their cargoes also to the ports of the Baltic States in order to guarantee constant delivery of their products to foreign countries. Taking into account good reputation of the Company, powerful and efficiently operating terminal, ice-free port it is possible to expect product flow from Russian companies in winter season even in the long-run perspective. The Company attempts to maintain constant Russian cargo flows by concluding guaranteed agreements with cargo owners (Gazprom Neft Trading GmbH, Somitekno Ltd.).

### Tariffs

During the year 2010 the Company changed the scheme of cooperation with the clients. The Company refused intermediation contracts (repurchase of Terminal's services through forwarders). Negotiations are going on with the owners of oil products and traders operating on the international market regarding long-term contracts, aiming at achieving

the best conditions for cooperation taking into account the competitive situation on the market. As the experience had shown the Company managed to raise transhipment tariffs of some of the oil products up to 50 per cent in 2010.

### Technological factors

Technological characteristics of the Terminal are of major importance for quick and effective satisfaction of potential customers' needs and at the same time for generation of additional income. The existing plans of Klaipeda Sea port to increase the allowable draught at the Company's jetties and investment plans regarding expansion of the storage-tank farm by 10 per cent by creating conditions of transhipment both light and heavy oil products through them will allow to service vessels of greater tonnage and expand range of products to be reloaded.

The facilities of the Terminal's complex, located on 35,7 ha area, allow handling of up to 9 million tones of exported /imported oil products and crude oil per year. Total capacity of crude oil and oil products storage tanks amounts to 404.500 m<sup>3</sup>. Each cargo batch delivered from different Oil Refinery is stored separately, i.e. is not mixed with others. This allows to preserve the initial quantity and quality of the delivered products. Modern laboratory of the Terminal controls the quality parameters. Tankers of up to 100.000 t capacity with allowable draught of 12,5 m are being handled at two jetties, the port entrance channel at which was dredged down to 14 metres. The Terminal operates a facility for road tanker loading. Four road tankers can be loaded at a time. The 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 Facilities - 160 m<sup>3</sup>/hour. Up to 400.000 m<sup>3</sup> of water is being collected and treated annually.

The equipment produced by the following Western and USA companies has been installed at the Terminal: KANON, BORNEMANN, INGERSOLL DRESSER, ROTORK, ENRAF, ROSSMARK, AEG, etc. AJAX-HEKATRON automatic fire detection and extinguishing system, HONEYWELL shutdown system, BAILEY computerized control system of the transhipment process have been introduced.

### Social factors

The Company and the functioning Trade union committee have concluded a Collective Agreement. The agreement has been reached regarding work, work payment, working and rest time, qualification improvement, safety and health protection, other social and economic conditions valid for all the personnel of the Company.

### Ecological factors

Automated management systems for fire detection and extinguishing as well as a computerised management system of the loading process, technologies against pollution of air, earth and underground waters conforming to the European Standards were established in the Company. Management of emergency situations, fire protection and security systems meet the requirements of Firefighting, Labour Safety, Civil Safety, Environment Protection, Port Authority institutions of the Republic of Lithuania. The Terminal's safety has been positively evaluated according HSSE analysis and assessment carried out by British Petroleum and Shell.

In 2010 the Company started construction project of hydrocarbon vapour recovery unit for utilisation vapours of light oil products and crude oil. After construction this unit will substantially decrease environment pollution with hydrocarbon vapours.

## ENVIRONMENT PROTECTION

During 2010 the Company did not experience any accidents or malfunctioning that could affect environment. The Company performs constant environmental monitoring of:

- underground 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 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 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 arising from gasoline loading tankers collected and burned 894 tons of hydrocarbon vapours during the year);
- stationary sources of air pollution (the amount of pollutants defined in the Environment Protection Permit was not exceeded).

During 2010 the Company utilized 10.750 tons of bilge waters and biologically treated mud; handed over to other companies 227 tons of sorted wastes; collected 1.120 tons of secondary raw materials (metal scrap, oil products, paper).

During 2010 running intramural expenditures for environment protection totaled to LTL 2.574 thousand (LTL 2.549 thousand in 2009). Additionally LTL 60 thousand were allotted for different environmental analyses (analysis of pollutant materials, etc.) (LTL 124 thousand – in 2009). LTL 33 thousand of pollution tax were paid (LTL 61 thousand – in 2009).

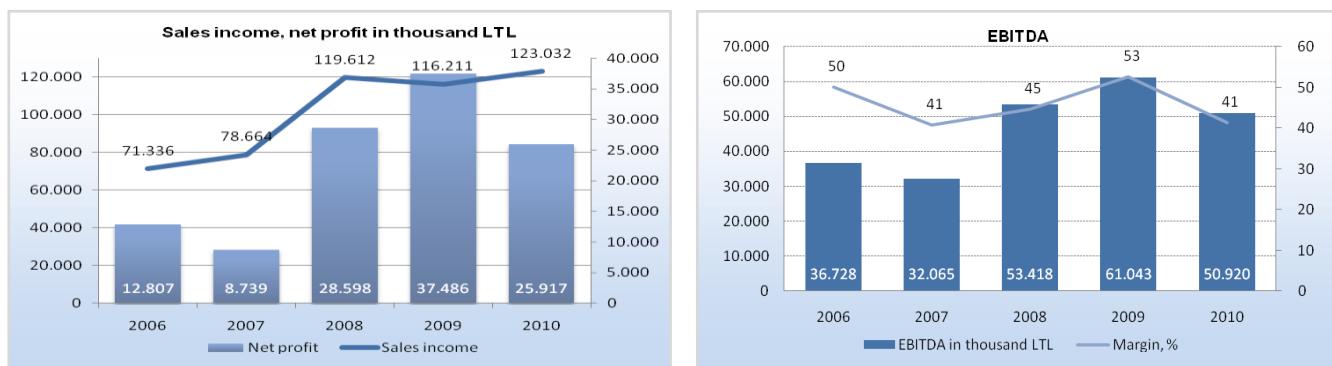
## RESULTS OF FINANCIAL ACTIVITIES

### Operating results

2010 was one of the most successful for the Company – it reloaded 7.922 thousand tones of oil products, i.e. by 3 per cent more if compared to 2009. According to transhipment volumes one of the up-to-date terminals in Europe has been employing almost 100 per cent of its capacities. The Company expands its assortment of the oil products delivered for reloading. In 2010 it reloaded a trial part of crude oil – 80.000 tones, delivered from Venezuela. Up to 2010 the Company has never handled crude oil.

During the year 2010 the Company earned LTL 25.9170 thousand of net profit, that is by 31 % less if compared to 2009 (LTL 37.486 thousand).

The decrease in net profit was influenced by the written-off unused property in the amount of LTL 8.585 thousand, the increased expenses (the causes of such growth are mentioned in item "EXPENSES" of the Annual Report). Due to the above stated causes the profit of the year 2010 before tax, interest, depreciation and amortisation (EBITDA) decreased by 17 % and amounted to LTL 50.920 thousand.



### Key financial figures

Operating figures	2010	2009	2008
Transshipment of oil products (net thousand tons)	7.922	7.660	8.213
Investments (acquisitions), LTL thousand	12.803	12.679	7.146
Financial figures, LTL thousand			
Sales income	123.032	116.211	119.612
Gross profit	45.354	46.277	52.592
Operational profit	28.304	40.795	33.550
EBITDA	50.869	61.051	53.372
EBIT	28.304	40.795	33.550
Profit before taxation	29.751	42.491	33.040
Net profit	25.917	37.486	28.598
Non-current assets	396.150	410.291	413.812
Current assets	77.756	56.947	41.700
Total assets	473.906	467.238	455.512
Equity capital	456.036	446.519	421.374
Profitability			
Return on equity ratio (ROE)	5,7%	8,6%	7,0%
Return on assets (ROA)	6,0%	8,8%	7,4%
Gross profit margin	37%	40%	44%
Operational profit margin	23%	35%	28%
EBITDA margin	41%	53%	45%

Operating figures	2010	2009	2008
EBIT margin	23%	35%	28%
Net profit margin	21%	32%	24%
<b>Turnover</b>			
Receivables, days	16	22	15
Amounts payable, days	14	19	6
<b>Financial structure</b>			
Debt to equity ratio	0,04	0,05	0,08
Capital to assets ratio	0,96	0,96	0,93
Gross liquidity ratio	9,04	5,73	2,16
<b>Market value ratios</b>			
Share price and earnings per share ratio (P/E), times	24	9	10
Net profit per share, LTL	0,08	0,11	0,08

### Income

Sales income of the Company, received during 2010, amounts to LTL 123.032 thousand or is by 6 % greater, if compared to 2009 (LTL 116.211 thousand). Income generated from reloading of oil products in the amount of LTL 8.995 thousand or by 8 % more influenced the increase in the income. The Company's 97 % of operating income consist of the income from the main operating activities. The positive change in the sales income was influenced by the increased reloading of oil products by 3 % and the portfolio of reloading services, profitably formed, by rejecting intermediation contracts.

### Expenses

The expenses increased by 26 %, if compared to the year 2009, and amounted to LTL 94.883 thousand. The major part of the expenses was comprised of: depreciation and amortisation (24 %), expenses related to purchase of natural gas and electricity (22 %), remuneration expenses (22 %). Mostly the increase in expenses was impacted by the impairment of the assets (unjustified and valueless investments from previous years) amounting to LTL 8.587 thousand; rising prices of energy resources (electricity, natural gas) all the year round had been increasing cost of sales LTL 6.103 thousand as well as at the end of the year the railway transportation costs had increased due to difficult ambient conditions. Deferred payments associated with remuneration, accrued vacations and emissions rights were accounted for LTL 1.815 thousand. Depreciation charge, related to the non-current assets put into operation in 2010, in the amount of LTL 2.369 thousand was recorded.

### ACTIVITY PLANS AND FORECASTS

The Company's main objectives for 2011 will be maintaining profitability of the Company at the same level as in 2009 – 2010 and accumulation of the funds for construction of the main object – LNG Terminal, that is expected to be constructed by the end of 2014. In case of free funds the Company will continue its anticipated investment policy – free funds it will invest 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. Dividend policy will depend on the generated profit and development of LNG Terminal construction - the Company will seek not to change the existing dividend payment policies – to allocate part of the earned profit for dividend payment. In 2011 the Company will aim at optimization of its activities by increasing efficiency of transhipment and by concluding Transhipment agreements without intermediaries thus maximizing Company's income. The Company set a goal to revise the organisational structure and motivation system of employees.

In 2011 it is planned to finish reconstruction of the following objects started in 2010: updating of fuel oil unloading system of rail gantry track 2; updating of automatic part of fire-fighting system; reconstruction of LFO storage tanks; updating of metering system.

New investments of the Company are diverted to increase Terminal's technical flexibility, by creating surplus value to its clients as well a possibility of client diversification. In 2011 the following new investments are being planned:

**1. Construction of universal storage tanks for oil products.** LTL 15-23 million will be allocated for construction of these storage tanks. It is planned to complete the project at the end of 2012. During its implementation 2 x 32.250 m<sup>3</sup> storage tanks will replace the 4 x 5.000 m<sup>3</sup> existing old tanks. Emissions of volatile organic compounds (VOC) from the new tanks will be by 10 times less than from the existing ones. New above-ground process pipelines will be installed and connected with the existing process lines. The new storage tanks will be accommodated for storage of vacuum gasoil, fuel oil, diesel oil and crude oil.

**2. Utilization of hydrocarbon vapours from rail gantry.** On 21 January 2011 a public tender was announced for implementation of this investment project. Investments into the project will amount to LTL 5-7 million. The project will

be completed at the end of 2011 – at the beginning of 2012. In the course of implementation of the project it is planned to update collection and utilization technology of hydrocarbon vapours released during loading/unloading of oil products into/out of rail tank cars; to dismantle the existing vapour combustion unit and replace it with a new hydrocarbon vapour recovery unit that complies with all valid environmental protection and fire safety regulations of the EU and LR.

3. Performing construction of LNG Terminal. It is planned to realise this project by the end of 2014, however the scope of the project and financing structure at the initial stage is not clear.

## MANAGEMENT OF THE COMPANY

### Information on adherence to the Governance code

As a matter of fact in the year 2010 the Company had followed its adherence to the Governance Code of recommended character approved in August 2006 by AB NASDAQ OMX Vilnius for the companies listed on the regulated market (Appendix to the Annual Report of 2010).

### 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
Amount of issue (pcs.)	342.000.000

As on 31 December 2010 the shares of the Company were owned by 1.569 shareholders.

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

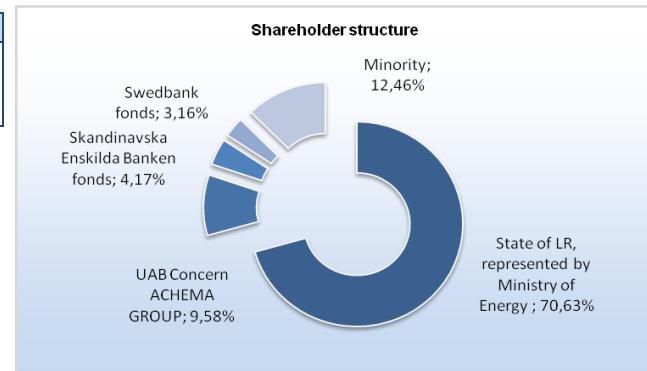
An ordinary registered share of the Company shall grant the following property rights to its owner (shareholder):

- 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 the Articles of Association of the Company.

The shareholders who have owned more than 5 % of the authorised capital of the Company:



Shareholder's name (Company's name, address, Company Register Code)	Number of shares (ps.) owned by proprietary right	Part (%) of authorised capital
State of LR, represented by Ministry of Energy (Gedimino aven.38/2, Vilnius, 302308327)	241.544.426	70,63
UAB Concern ACHEMA GROUP, (Jonalaukio km., Jonava district, 156667399)	32.766.115	9,58

The rest – 67.689.459 shares (19,79 % of the authorised capital) belong to 1.567 minority shareholders.

#### Development of the share price at NASDAQ OMX Vilnius during 2008 – 2010

	2008	2009	2010
Highest price per 1 share in LTL	1,10	1,09	1,97
Lowest price per 1 share in LTL	0,64	0,76	0,94
Price per 1 share at the end of the period in LTL	0,87	0,94	1,84
Average price per 1 share in LTL	0,92	0,95	1,40

On 31 December 2010 the Company's market capitalisation – LTL 629 million – is by double greater if compared to market capitalisation of 31 December 2009 – LTL 321 million.

#### Authorised capital of the Company

The Company's authorised capital amounted to LTL 342.000.000 as of 31 December 2010. All the shares of the Company have been fully paid and no restrictions on the transfer of securities are applied to them. The authorised capital is divided into 342.000.000 (three hundred forty two million) ordinary shares with a par value of LTL 1.

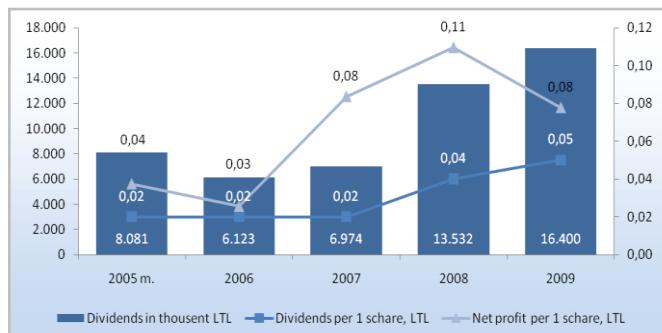
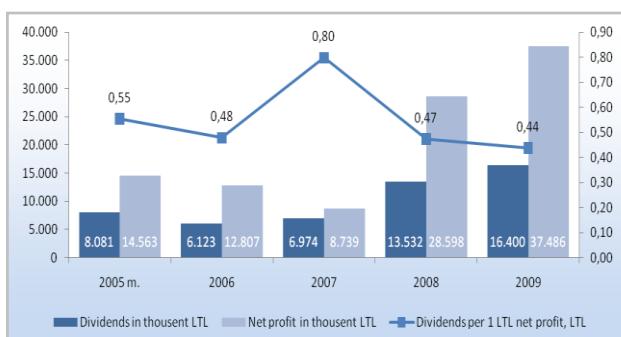


#### Information on the Company's own shares

The Company did not hold any own shares.

#### Dividends

The Company pursues consistent policy of dividend payment and every year allocates part of the profit to their payment. The General Shareholders' Meeting, held on 27 April 2010, approved the financial statements and profit appropriation for the year 2009. Dividends in the amount of LTL 16.400 thousand were allotted to the shareholders for the year 2009.



#### Agreements with securities public turnover mediators

The Company has signed an agreement with Financial Markets Department of AB SEB Bankas for servicing securities public turnover and related services.

**AB SEB bank Financial Markets Department:**

Company code	112021238
Office address	Gedimino 12, 01103 Vilnius
Telephone	+370 5 2681190
E-mail	info@seb.lt
Web site	www.seb.lt

**Management structure**

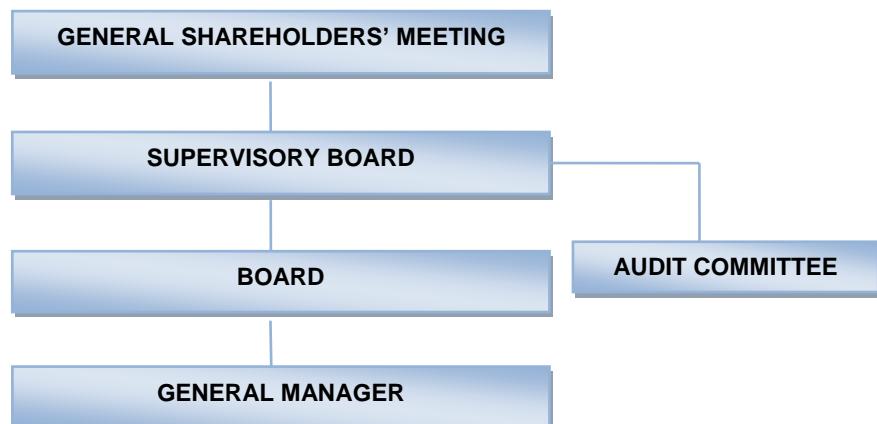
In its activities the Company follows the Law on Companies, Law on Securities, Articles of Association of the Company and other legal acts of LR. The Law on Companies and Articles of Association of the Company define the competence of the General Shareholders' meeting, the rights of shareholders and their realization.

The Articles of Association of the Company, registered on 19 May 2010, with the Register of Legal Persons, indicate the following management bodies:

- The General Shareholders' Meeting;
- the Supervisory Board;
- the Board;
- Manager of the Company – 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 Companies. The number of the terms of office a member may serve on the Supervisory Board is not limited. Director General 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 Companies and the Articles of Association of the Company. The Supervisory Board has established 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 performance of the Audit Committee of SC Klaipedos 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 comprised 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 members of the Board. The powers of the members of the Board and activities of the Manager have been determined by the Law on Companies and the Articles of Association of the Company.

**Management structure**

**SUPERVISORY BOARD AS ON 31 DECEMBER 2010**

Name, surname	Position	Term of office
Valentinas Milaknis <i>Public consultant of the Prime Minister of the Republic of Lithuania. No shares owned of the Company.</i>	Chairman of the Supervisory Board	April 2010 – April 2014
Kęstutis Škiudas <i>Adviser to the Prime Minister of the Republic of Lithuania. Chairman of the Supervisory Board of AB "Lietuvos elektrinė"; Board member of UAB „Visagino atominė elektrinė“; Board member of social organization „Konservatyvoji ateitis“. No shares owned of the Company.</i>	A member of the Supervisory Board	April 2010 – April 2014
Eimantas Kiudulas <i>Director of UAB Klaipėda Free Economic Zone Management Company. No shares owned of the Company.</i>	A member of the Supervisory Board	April 2010 – April 2014

The members of the Supervisory Board were elected on 27 April 2010 by the General Shareholders' Meeting. During the year 2010 the members of the Company's Supervisory Board did not receive any loans, guarantees; no any other payments or property transfers were made or accrued.

**AUDIT COMMITTEE AS ON 31 DECEMBER 2010**

Name, surname	Position	Term of office
Eimantas Kiudulas <i>Director of UAB Klaipėda Free Economic Zone Management Company. No shares owned of the Company.</i>	A member of the Audit Committee	For the term of office of the Supervisory Board
Simonas Rimašauskas <i>Project Manager of UAB „Deloitte Lietuva“.</i>	A member of the Audit Committee	For the term of office of the Supervisory Board
Mindaugas Jusius <i>The Chairman and a member of the Board of Swedbank Life Insurance SE.</i>	A member of the Audit Committee	For the term of office of the Supervisory Board

During the year 2010 the members of the Audit Committee did not receive any loans, guarantees, no any other payments or property transfers were made or accrued.

**BOARD OF THE COMPANY AS ON 31 DECEMBER 2010**

Name, surname	Position	Term of office
Romas Švedas <i>Vice-minister of the Ministry of Energy. Member of the Boards of AB „Lietuvos dujos“ and AB „LITGRID“; liquidator of AB LEO LT; Chairman of the Board of PI Ignalinos atomine elektrine.</i>	Chairman of the Board	March 2010 – March 2014
Arvydas Darulis <i>Vice-minister of the Ministry of Energy. The Chairman of the Boards of: AB „LESTO“, AB „Lietuvos energija; AB „Lietuvos elektrinė“, UAB „Visagino atomine elektrinė“.</i>	A member of the Board	February 2010 – February 2014
Kęstutis Žilėnas <i>Head of the Division of Energy Resources, Electricity and Heat of the Ministry of Energy. Member of the Boards of: AB „LESTO“; AB „Lietuvos energija“; UAB „Elektros tinklo paslaugos“; UAB „Tetas“.</i>	A member of the Board	April 2010 – April 2014
Virgilijus Poderys <i>General Manager of „LITGRID“ AB; Member of the Board of „LITGRID“ AB; member of the Board of UAB „Technologijų ir inovacijų centras“.</i>	A member of the Board	February 2010 – February 2014
Rokas Masiulis <i>General Manager of SC Klaipedos Nafta.</i>	A member of the Board	September 2010 - September 2014

During the year 2010 the members of the Board did not receive any loans, guarantees, no any other payments or property transfers were made or accrued.

The Company is managed by General Manager. The General Manager is a single-person management body of the Company. The General Manager is the main person managing and representing the Company.

### MANAGEMENT OF THE COMPANY AS ON 31 DECEMBER 2010

Name, surname	Position	Works from
Rokas Masiulis <i>A member of the Board of the Company. Not participates in the management of other companies. No shares owned of the Company.</i>	General Manager	May 2010
Vytautas Kazimieras Aranauskas <i>Pl „Naftos produktų agentūra“ Acting General Manager (the year 2011). No shares owned of the Company.</i>	Deputy General Manager	May 2010
Mantas Bartuška <i>No shares owned of the Company. Not participates in the management of other companies.</i>	Finance Director	May 2010
Gediminas Vitkauskas <i>Owns 0,00003 % of the authorised capital. Not participates in the management of other companies.</i>	Production Director	October 1995
Algimantas Petras Žičkus <i>No shares owned of the Company. Not participates in the management of other companies.</i>	Technical Director	July 2001
Sigitas Zakalskis <i>No shares owned of the Company. Not participates in the management of other companies.</i>	Commercial Director	August 2010
Rolandas Zukas <i>No shares owned of the Company. Not participates in the management of other companies.</i>	LNG Terminal Director	December 2010

### PERSONNEL

The average number of personnel in 2010 - 306 employees (301 in 2009).

Blue-collar workers made 69 % of all employees (70% in 2009). The Company's personnel consisted of 71 % of men and 29 % of women. The average age of employees was 47 years.

Detailed information on personnel's age, work record and education is presented in the schemes below.



SC Klaipėdos Nafta regularly instructs and trains all its employees methods of safe labour. Employees who perform hazardous works and work with potentially hazardous equipment undergo training at specialist licenced centres, re-testing takes place every 5 years. Training drills and exercises are periodically arranged to train practical skills of personnel for emergency response. 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 (618 persons from other companies underwent instructions in 2010).

During 2010 one trivial accident occurred on the way home.

On 31 December 2010 the Company's Management consisted of General Manager, Deputy General Manager, Production Director, Technical Director, Finance Director, Director of Commerce and LNG Terminal Director. The Board of the Company approves the remuneration procedure of the Directors by establishing coefficients of the official salary as well as extra pay procedure to the officers in the mentioned positions.

None of the members of the governing bodies of the Company have ever been convicted for crimes regarding property, management and finances.

Collective Agreement has been functioning in the Company. The following additional social benefits have been provided for by the Agreement:

- The salary of a employee is comprised of two parts: the constant part – piece-rate pay and monthly salary paid taking into account the employee's position, competence, job complexity, level of responsibility; the variable part – monthly salary's and piece-rate pay's bonus, which is of two kinds: bonus for operating results of a quarter and bonus for operating results of a month.
- Material allowance in the amount of 2,5 MMA (minimum annual wage) is paid once per year to the employee who is bringing up three or more children up to 18 years of age.
- Funeral benefit in the amount of 1,5 MMA is paid to the employees in case of the death of one of his family members (a spouse, parents, a child, a foster child).
- In case of death of the employee his family is granted a pecuniary funeral compensation.
- On birth of a baby the employee is given a material allowance in the amount of 2 MMA, valid on the date of birth of such baby.
- Christmas holidays celebrations are being organised together with the Trade Union for the employees and the retired employees.
- On the occasion of personal jubilee data (50<sup>th</sup>, 60<sup>th</sup>, 70<sup>th</sup> anniversaries) the employees are granted benefits in the amount of 1MMA.
- By resolution of the Management the employees are granted with other benefits in case of a difficult material situation of an employee, in case of heavy losses suffered because of natural disasters, fire, flood, etc.

#### Average listed number of personnel and average salary per month according to personnel group

Personnel group	Average listed number of personnel		Average salary per month in LTL	
	2010	2009	2010	2009*
Managers	6	5	17.704	20.957
Specialists	88	86	4.908	5.386
Workers	212	210	3.457	3.687
<b>In total:</b>	<b>306</b>	<b>301</b>	<b>3.883</b>	<b>4.183</b>

\*NOTE: annual bonus allotted by the Shareholders for the operating results of 2009 has been added to the average salary per month of 2009.

#### 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 of the part of the profit allotted for support by the Shareholders first of all are diverted to support environmental, infrastructural, health and social security projects associated with the region, where the Terminal functions.

Traditionally the Company makes its contribution to the development of Klaipeda city. The Company sponsors significant cultural centres of Western Lithuania – libraries, Drama and Musical theatres. It has always been the primary sponsor of the key holiday of Klaipeda city – the Sea Festival. Using its earned means the Company sponsors institutions of Klaipeda, taking care of orphans and children with specific needs. The charity is assigned to the societies of the disabled of Klaipeda, to the churches of main confessions. The Company contributes to sponsoring of one of the most popular sports - basket-ball.

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 Oil Terminal.

The Company attaches significant importance to occupational safety. The work places are being modernised, additional funds are allocated for individual safety means, 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 having a certified medical aid center. 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 having the up-to-date equipment was established in the center. The employees are vaccinated free of charge against tick encephalitis, typhoid fever, influenza

and other diseases. The Company has been arranging for three years at its own account preventive – rehabilitation treatment at rehabilitation center “Pusynas” of Palanga 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 shall 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 the year 2010”.

## 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, and Mantas Bartuska, Finance Director of SC Klaipėdos Nafta, hereby confirm that to the best of our knowledge the above-presented Annual Report of SC Klaipėdos Nafta for the year 2010 gives a true and fair view of the business development and performance, description of the Company.

General Manager

R.Mai

Rokas Masiulis

Finance Director



Mantas Bartuška

**APPENDIX to the Annual Report of SC KLAIPĖDOS NAFTA for 2010**

***DISCLOSURE CONCERNING THE COMPLIANCE OF SC KLAIPĖDOS NAFTA, LISTED ON THE REGULATED MARKET, WITH THE GOVERNANCE CODE***

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

Principles/Recommendations	Yes/No/Not applicable	Commentary
<b>Principle I: Basic Provisions</b> <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.		
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The development strategy and objectives of SC KLAIPĖDOS NAFTA have been set up in its internal documents (Annual Report placed publicly on the website of Vilnius Stock Exchange) according to the separate directions and objectives of its activities. The Company updates its development plans subject to the situation on the market as well as to the changes in the regulatory environment.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Board of the Company adopts the main strategic resolutions, influencing optimization of the shareholder value (separation of the functions of Company's operation, establishment of subsidiaries, other actions optimizing effectiveness of the Company's operation and its profit).
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Supervisory Board, the Board of the Company and the Chief Executive Officer implement this recommendation.  The Company's bodies respect the rights and interests of the persons participating in or connected with the Company's operation: 1. employees – since its establishment the Company has been cooperating and performing social partnership with the representatives of its employees (the Board of the Company by its resolutions assigns additional means for the execution of the Collective Agreement and extra stimulation of the employees, etc.). 2. creditors - the Company takes on and fulfills its financial and other obligations in accordance with the borrowing program approved by the Board of the Company. 3. other persons – by the resolution of the shareholders' meeting part of the Company's profit is dedicated to support (social, art, cultural, sports activities, etc.).
<b>Principle II: The corporate governance framework</b> <b>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.</b>		

Principles/Recommendations	Yes/No/Not applicable	Commentary
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Supervisory Board of the Company is responsible for the effective supervision of the activities of the Company's management bodies (it elects and recalls members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and the Chief Executive Officer; submits proposals and comments to the general shareholders' meeting regarding the strategy of the Company's operation, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts). The Board of the Company is responsible for the effective strategic management of the Company (approves the strategy of its operation; adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, transactions, different commitments, etc.).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. <sup>1</sup>	Yes	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. The Company does not follow the provisions set up in Principle III, IV regarding formation of committees.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Board of the Company is comprised of five members. The Supervisory Board is elected of three members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary	Yes	The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for reelection of the members.

Principles/Recommendations	Yes/No/Not applicable	Commentary
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.		
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chief Executive Officer of the Company is a member of its Board. The Chairman of the Supervisory Board and the members have neither been the members of the Board of the Company nor the Chief Executive Officer.
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>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.</b></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.	Yes	The collegial body of the Company is elected following the order established by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about the candidates to become members of a collegial body is presented before the general shareholders' meeting except the data about their independence.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	No	We will seek to realize it in future.

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.	No	The collegial body ensures that its members are competent however periodic evaluation is not performed.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation. Up to now there has been neither need nor practice in the Company to offer a tailored program focused on introducing all new members of the Supervisory Board with their duties, corporate organization and activities.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	Up to now the independence of the elective members of the collegial body has not been evaluated and the content of the notion sufficiency of independent members has not been discussed. Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Energy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the general shareholders' meeting taking into account interests of the controlling shareholder in one or another way.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become defendant 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 member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2)He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a	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 taking into consideration the presented criteria it is possible to state that the members of the Company's Supervisory Board meet all the criteria of independence evaluation except item 4.

Principles/Recommendations	Yes/No/Not applicable	Commentary
<p>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>9)He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>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.</p>	Not applicable	

Principles/Recommendations	Yes/No/Not applicable	Commentary
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The Company has not yet applied in practice disclosure of the criteria of independence set out in the Code (See item 3.6).
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Up to now the Company has not applied practice of evaluation and disclosure of independence of the members of the collegial body.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. <sup>2</sup> . The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the collegial body are not remunerated from the Company's funds for their participation in the meetings.
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>  <b>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.</b></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. <sup>3</sup>	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making.

Principles/Recommendations	Yes/No/Not applicable	Commentary
should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).		
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 half4 of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	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.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company follows the stated recommendations. The members of the collegial body before making decisions, the criteria of which have been determined in the Articles of Association of the Company, discuss their possible effect on the shareholders. The information of the shareholders is only in accordance with the legal acts.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	No	The Company's Articles of Association as well as the Rules and Regulations of the Company's Board do not provide for the approval of such transactions by the Supervisory Board. Following the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company major transactions shall be approved by the Company's Board.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies <sup>5</sup> . Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	The Company's collegial bodies are provided with all the necessary financial conditions for their work and are independent of the Company's Management.

Principles/Recommendations	Yes/No/Not applicable	Commentary
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	The committees are not established, except 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.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	The committees are not established, except 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.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed	No	The committees are not established, except 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
and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The committees are not established, except 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.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The committees are not established, except 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>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <p>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;</p> <p>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;</p> <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <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 collegial body elected by the general</p>	No	The committees are not established, except 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
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> <p>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;</p> <p>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;</p> <p>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>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);</p> <p>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> <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> <p>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;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <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</p>	No	The committees are not established, except 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>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. Audit Committee.</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 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</p>	Yes	<p>The General Shareholders' meeting elected a new Supervisory Board. Then the Supervisory Board elected the audit committee.</p>

Principles/Recommendations	Yes/No/Not applicable	Commentary
<p>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 (organizations) 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>		
<p>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 organization 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</p>	No	<p>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>

Principles/Recommendations	Yes/No/Not applicable	Commentary
discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.		
<p><b>Principle V: The working procedure of the company's collegial bodies</b>  <b>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.</b></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 <sup>6</sup> .	Yes	The meetings of the Company's Supervisory Board are convened at least once in a quarter and the meetings of the Company's Board shall be carried out according to the schedule approved by the Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company observes provisions stated in this recommendation.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-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	Yes	The Company observes provisions stated in this recommendation.

Principles/Recommendations	Yes/No/Not applicable	Commentary
concerning removal of the board members, their liability or remuneration are discussed.		
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b> The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's capital consists of ordinary registered shares that grant the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company observes provisions stated in this recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. <sup>7</sup> All shareholders should be furnished with equal opportunity to familiarize 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 as well as the approval of the general shareholders' meeting shall be received in the cases determined by this Law.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	All the shareholders of the Company are informed about the venue, date and time of the general shareholders' meeting. Prior to the general shareholders' meeting all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the general shareholders' meeting.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance <sup>8</sup> . 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 familiarize 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 the Nasdaq OMX Vilnius Stock Exchange and places them 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	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 authorized. The Company also furnishes

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advance by completing the general voting ballot.		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 organization of the shareholders' meeting there is no necessity to additionally install costly system of IT.
<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b> <b>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.</b>		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's supervisory and management bodies have been acting in such a manner so as to avoid conflict of interests. Therefore such conflicts have never occurred in practice. The provision regarding notification will be implemented in a more detailed manner by specifying it in the local acts of the Company.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized 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 familiarized with these provisions and they must observe these recommendations.

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<b>Principle VIII: Company's remuneration policy</b> <b>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</b>		
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 being determined by analyzing situation on Lithuanian labour market.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Refer to the comment in item 8.1 above.
8.3. Remuneration statement should leastwise include the following information: 1)Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2)Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3)Sufficient information on the linkage between the remuneration and performance; 4)The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5)A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	Refer to the comment in item 8.1 above.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Refer to the comment in item 8.1 above.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	Refer to the comment in item 8.1 above.
8.6. Without prejudice to the role and organization 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.	No	Refer to the comment in item 8.1 above.

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Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.		
<p>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.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>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;</p> <p>2)The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>3)The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</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 above 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> <p>1)The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2)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> <p>3)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;</p> <p>4)All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1)When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2)When the pension scheme is defined-</p>	<p>No</p> <p>No</p>	<p>Refer to the comment in item 8.1 above.</p> <p>Refer to the comment in item 8.1 above.</p>

Principles/Recommendations	Yes/No/Not applicable	Commentary
<p>contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <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>		
<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	<p>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>
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>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.</li> </ol>	Not applicable	<p>Refer to the comment in item 8.8 above.</p>
<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>		

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8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8. the shareholders must be provided an opportunity to familiarize 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.		
<b>Principle IX: The role of stakeholders in corporate governance</b> The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The execution of this recommendation is ensured by the accurate supervision and control of the state institutions and organizations regulating the Company's activities.
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.		The publicity of the Company's activities creates conditions for the stakeholders to participate in corporate governance in the manner prescribed by law, by the Articles of Association and the Collective Agreement. The management bodies consult with the employees on corporate governance and other important issues, employee participation in the Company's share capital is not limited.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
<b>Principle X: Information disclosure and transparency</b> The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: 1)The financial and operating results of the	Yes	The information regarding the Company's financial situation, performance and corporate governance is

Principles/Recommendations	Yes/No/Not applicable	Commentary
<p>company;</p> <p>2) Company objectives;</p> <p>3) Persons holding by the right of ownership or in control of a block of shares in the company;</p> <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>		<p>regularly disclosed by distributing press releases and notifying about material events, in presentations.</p> <p>The documents are published in Lithuanian and English on the publicly accessible website of the Vilnius Stock Exchange.</p> <p>The Company prepares financial statements according to 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.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of the Vilnius Stock Exchange so that the submitted information could simultaneously be announced thus guaranteeing its simultaneous dissemination to everybody.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should	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

Principles/Recommendations	Yes/No/Not applicable	Commentary
be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.		be announced thus guaranteeing its simultaneous dissemination to everybody and it is planned to constantly place the information on the Company's website.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company takes into account this recommendation and places the information on the Company's website.
<b>Principle XI: The selection of the company's auditor</b> <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
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.