



**FINANCIAL STATEMENTS OF SC KLAIPEDOS NAFTA  
FOR THE YEAR 2011 PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY THE EUROPEAN UNION  
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the financial statements**

We have audited the accompanying financial statements of AB Klaipėdos nafta ("the Company"), which comprise the statement of financial position as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 5-42.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

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

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

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

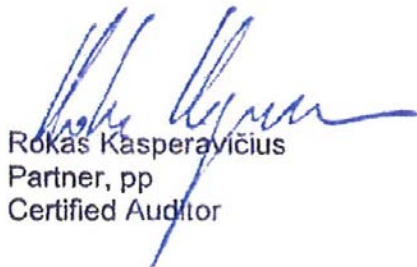
## Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.


## Report on legal and other regulatory requirements

Furthermore, we have read the Annual Report for the year 2011 set out on pages 43 - 61 of the financial statements and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

On behalf of KPMG Baltics, UAB



Rokas Kasperavičius  
Partner, pp  
Certified Auditor



Mindaugas Bartkus  
Certified Auditor

Klaipėda, the Republic of Lithuania  
03 April 2012

## Statement of financial position

	Notes	31 December 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	3	465	395
Property, plant and equipment	4	383.907	387.590
Other financial assets	9	5.352	8.124
Investment in associates	5	427	41
<b>Total non-current assets</b>		<b>390.151</b>	<b>396.150</b>
<b>Current assets</b>			
Inventories	6	1.674	4.098
Prepayments		223	192
Trade receivables	7	4.335	4.711
Other receivables	8	2.565	821
Other financial assets	9	110.427	38.433
Cash and cash equivalents	10	9.983	29.501
<b>Total current assets</b>		<b>129.207</b>	<b>77.756</b>
<b>Total assets</b>		<b>519.358</b>	<b>473.906</b>



*(cont'd on the next page)*

The accompanying notes, set out on pages 11-42, are an integral part of these financial statements.

## Statement of financial position (cont'd)

	Notes	31 December 2011	31 December 2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	1	342.000	342.000
Legal reserve	11	19.000	19.000
Other reserves	11	68.043	68.043
Retained earnings		71.226	25.973
<b>Total equity</b>		<b>500.269</b>	<b>455.016</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	21	7.709	8.345
Non-current employee benefits	12	785	926
<b>Total non-current liabilities</b>		<b>8.494</b>	<b>9.271</b>
<b>Current liabilities</b>			
Trade payables	13	4.671	4.569
Payroll related liabilities	14	2.559	2.558
Provision	15	493	1.279
Income tax payable		1.838	219
Prepayments received		49	84
Dividends payable		39	48
Other payable and current liabilities	16	946	862
<b>Total current liabilities</b>		<b>10.595</b>	<b>9.619</b>
<b>Total equity and liabilities</b>		<b>519.358</b>	<b>473.906</b>



The accompanying notes, set out on pages 11-42, are an integral part of these financial statements.

General Manager	Rokas Masiulis		30 March 2012
Finance Director	Mantas Bartuška		30 March 2012

## Statement of comprehensive income

	Notes	2011	2010 (restated)
Sales	17	141.276	121.720
Cost of sales	18	(82.890)	( 76.453)
<b>Gross profit</b>		<b>58.386</b>	<b>45.267</b>
Operating expenses	19	(7.270)	(17.002)
Other operating income (expenses) – net result		42	39
<b>Profit from operating activities</b>		<b>51.158</b>	<b>28.304</b>
Income from financial activities	20	1.981	1.562
Expenses from financial activities	20	(33)	(34)
Share of profit of equity accounted investees		138	(81)
<b>Profit before income tax</b>		<b>53.244</b>	<b>29.751</b>
Income tax expense	21	(7.991)	(3.654)
<b>Net profit</b>		<b>45.253</b>	<b>26.097</b>
Other comprehensive income (expenses)		-	-
<b>Total comprehensive income</b>		<b>45.253</b>	<b>26.097</b>
Basic and diluted earnings (losses) per share, in LTL	22	0,13	0,08



The accompanying notes, set out on pages 11-42, are an integral part of these financial statements.

General Manager	Rokas Masiulis		30 March 2012
Finance Director	Mantas Bartuška		30 March 2012

## Statement of changes in equity

	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
<b>Balance as of 31 December 2009 (restated)</b>		<b>342.000</b>	<b>15.670</b>	<b>50.170</b>	<b>37.479</b>	<b>445.319</b>
Net profit for the year		-	-	-	26.097	26.097
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	26.097	26.097
Dividends declared	23	-	-	-	(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>25.973</b>	<b>455.016</b>
Net profit for the year		-	-	-	45.253	45.253
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	45.253	45.253
<b>Balance as of 31 December 2011</b>		<b>342.000</b>	<b>19.000</b>	<b>68.043</b>	<b>71.226</b>	<b>500.269</b>

The accompanying notes, set out on pages 11-42, are an integral part of these financial statements.

General Manager	Rokas Masiulis		30 March 2012
Finance Director	Mantas Bartuška		30 March 2012



## Cash flow statement

	Notes	2011	2010 (restated)
<b>Cash flows from operating activities</b>			
Net profit	22	45.253	26.097
<b>Adjustments for non cash items:</b>			
Depreciation and amortisation	18,19	22.782	22.618
Impairment and write-off of property, plant and equipment		66	8.601
Accrued emission rights		(376)	1.205
Accrued income		(756)	634
Reserve of restructuring		(547)	546
Change in employee benefit liabilities		(141)	926
Change in allowance for doubtful receivables	9	(4)	(3)
Change in vacation reserve		6	111
Investment into associate accounted for equity method		(138)	81
Profit on sale of non-current assets		(26)	-
Other non-cash adjustments of expense (income)		12	(51)
Income tax expenses		7.991	3.654
Interest income	20	(1.886)	(1.498)
		<b>72.236</b>	<b>62.921</b>
<b>Changes in working capital:</b>			
(Increase) decrease in inventories		2.424	( 1.174)
Decrease (increase) in prepayments		( 31)	303
Decrease (increase) in trade and other accounts receivable		376	957
Decrease (increase) in other receivables		(594)	( 734)
Increase (decrease) in trade and other payables		(460)	2.243
Decrease (increase) in prepayments received		(35)	25
Increase (decrease) in other current liabilities and payroll related liabilities		70	23
		<b>73.986</b>	<b>64.564</b>
Income tax (paid)		(7.008)	(6.686)
Interest received		530	1.498
<b>Net cash flows from operating activities</b>		<b>67.508</b>	<b>59.376</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant, equipment and intangible assets		(19.135)	(12.803)
Acquisition of Investments held-to-maturity		(112.619)	(46.557)
Sales of investments held-to-maturity		44.363	4.744
Acquisition of other investments		(260)	(47)
Sale of property, plant, equipment and intangible assets		625	-
<b>Net cash flows from investing activities</b>		<b>(87.026)</b>	<b>(54.663)</b>


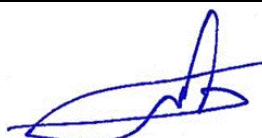
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The accompanying notes, set out on pages 11-42, are an integral part of these financial statements.

## Cash flow statement (cont'd)

	Notes	2011	2010
<b>Cash flows from financing activities</b>			
Dividends paid	23	-	(16.400)
<b>Net cash flows from financing activities</b>		-	<b>(16.400)</b>
<b>Net increase (decrease) in cash flows</b>		<b>(19.518)</b>	<b>(11.687)</b>
<b>Cash and cash equivalents on 1 January</b>		<b>29.501</b>	<b>41.188</b>
<b>Cash and cash equivalents on 31 December</b>		<b>9.983</b>	<b>29.501</b>

The accompanying notes, set out on pages 11-42, are an integral part of these financial statements.

General Manager	Rokas Masiulis		30 March 2012
Finance Director	Mantas Bartuška		30 March 2012

## 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 transshipment services and other related.

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

As of 31 December 2011 all the shares were owned by 1.679 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 2011. The Company's shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange.

As of 2011 and 31 December 2010 the shareholders of the Company were:

	31 December 2011		31 December 2010	
	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
UAB Concern Achema Group	34.204	10,00	32.766	9,58
Skandinaviska Enskilda Banken funds	11.312	3,31	14.254	4,17
Swedbank funds	10.091	2,95	10.817	3,16
Other (less than 5 per cent each)	44.849	13,11	42.619	12,46
Total	342.000	100,00	342.000	100,00

On 6 September 2011 concern ACHEMA GROUP UAB additionally acquired up to 10% of the shares of the Company authorized capital.

The Extraordinary General Shareholders' Meeting held on 27 July 2011 did not approve profit appropriation for the year 2010 and did not allot dividends to the Shareholders for 2010.

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 2011. As of 31 December 2011 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 39 thousand (as of 31 December 2010: LTL 48 thousand).

The average number of employees in the year 2011 was 308 (306 - in 2010).

### 2 Accounting principles

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

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

#### 2.1. Basis for preparation of the financial statements

##### Statement of compliance

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).

## 2 Accounting principles (cont'd)

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

The applied accounting principles set out below have been applied consistently to all periods presented in these financial statements except for the new / revised standards and interpretations the Company has implemented which are effective as for financial periods beginning on or after 1 January 2011:

- Amendment to IAS 24 Related Party Disclosure is effective for annual periods beginning on or after 1 July 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 Management of the Company made a decision to disclose all the Related Party Disclosures because they are considered to be essential information.

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

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

Several new and revised International Financial Reporting Standards and interpretations have been issued, will be mandatory for financial reporting periods starting from 1 January 2012 and subsequent years. The Company has decided not to early adopt these 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:

- Amendments to IFRS 7 Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011). The Amendments require disclosure of information that enables users of financial statements: to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments to IFRS 7 are not relevant to the Company's financial statements as the Company has not transferred financial assets.

## 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 at the exchange rate at the reporting date are recognised in the profit or loss as finance income or costs.

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

## **2 Accounting principles (cont'd)**

### **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. Segment results that are reported to CEO include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

### **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, but not control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another company.

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

The share of profit of an associate is shown on the face of the Statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is 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.

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

### **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**

Tangible 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 capitalised borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to profit or loss in the period the costs are incurred.

## 2 Accounting principles (cont'd)

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

Then parts of an item of property, plant and equipment have difference useful lives, they are accounted for as separate as separate items (major components) of property, plant and equipment.

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

Financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. The Company establishes classification of financial assets on initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus (in the case of investments not at fair value through profit and loss) directly attributable transaction costs.

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

#### Subsequent measurement

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

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

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

## AB KLAIPEDOS NAFTA FINANCIAL STATEMENTS FOR THE YEAR 2011

(all amounts are in LTL thousand unless otherwise stated)

## 2 Accounting principles (cont'd)

### 2.7.Financial assets (cont'd)

#### Subsequent measurement (cont'd)

#### Financial assets or financial liabilities at fair value through profit and loss (cont'd)

Financial assets and financial liabilities at fair value through profit and loss are measured in the statement of financial position at fair value. Related profit or loss on revaluation is charged directly to profit or loss. 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 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 Accounting principles (cont'd)**

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

#### *Termination benefits*

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

The present value of defined benefit obligation is determined by discounting estimated future cash flows based on the interest rate of the long-term Lithuanian Government's bonds, expressed in the same currency as the benefits with a repurchase period similar to that of the planned payment period. Actuarial gains or losses are at once recognised through the Statement of Comprehensive Income.

### **2.10. Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is estimated 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 with maturities of less than three months.

### **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. Finance 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.



## 2 Accounting principles (cont'd)

### 2.13. Finance and operating leases (cont'd)

#### The Company as a lessee

Finance leases, 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 the type of assets. Income from operating lease is recognised as other income in the statement of comprehensive income within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income. Initial direct expenses incurred in order to generate lease income are included in the carrying value of the leased asset.

### 2.14. 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, also adjustments in respect of prior years. 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.

An income tax expense comprises current and deferred 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 companies of the Republic of Lithuania in 2011 was 15 % (15 % - in 2010).

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

Deferred is recognized in respect 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 reporting date.

A deferred tax asset is recognised in the Statement of Financial position to the extent the Management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

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

## 2 Accounting principles (cont'd)

### 2.15. Dividends

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

The European Union has passed the European Parliament and Council directive 2003/87/EC which determines the trading system of emission rights for greenhouse gas emissions in the Community. According to the system, national governments of participating countries are responsible for allocation of a limited number of emission rights to local companies emitting greenhouse gases.

An emission certificate rights provides a right to emit certain relative amount of greenhouse gases (e.g. during 2005-2007 one emission rights provides a right to emit 1 ton of carbon dioxide (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 ton of carbon dioxide should be paid for the excess (applicable for the period 2008 - 2012).

The Company applies a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at a nominal amount. 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 Accounting principles (cont'd)**

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

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in profit or loss. 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 profit or loss. 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, an allowance for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the contract. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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

#### Non - financial assets

Non - financial assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the statement of comprehensive income as the impairment loss.

## 2 Accounting principles (cont'd)

### 2.20. Impairment of assets (cont'd)

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

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

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

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

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

### 2.21. Use of estimates and judgements

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

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

Information on critical estimates and assumptions are detailed below:

#### Impairment losses of property, plant and equipment

The Company assesses at each reporting date the carrying amounts of 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 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 evaluates impairment of receivables. The Company assesses whether there is any indication of decrease of future cash flows related to the receivables portfolio until impairment of the specific receivable in this portfolio will be estimated.

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

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

## **2 Accounting principles (cont'd)**

### **2.21. Use of estimates and judgements (cont'd)**

#### *Useful lives of property, plant and equipment and intangible assets*

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

#### *Determining whether an arrangement contains a lease*

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

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

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

#### *Recovery of deferred tax*

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

### **2.22. 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**

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

### **2.24. 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 Intangible assets

	<b>Software</b>
<b>Acquisition cost:</b>	
Balance as of 31 December 2009	1.125
Additions	457
Retirements and disposals	(174)
Balance as of 31 December 2010	1.408
Additions	58
Transfers from construction in progress	208
Retirements and disposals	(60)
Balance as of 31 December 2011	<u>1.614</u>
<b>Accumulated depreciation and impairment:</b>	
Balance as of 31 December 2009	1.022
Charge for the year	165
Retirements and disposals	(174)
Balance as of 31 December 2010	1.013
Charge for the year	196
Retirements and disposals	(60)
Balance as of 31 December 2011	<u>1.149</u>
<b>Net book value as of 31 December 2011</b>	<b><u>465</u></b>
<b>Net book value as of 31 December 2010</b>	<b><u>395</u></b>
<b>Net book value as of 31 December 2009</b>	<b><u>103</u></b>

The amortisation charge of the Company's intangible assets for the year 2011 amounts to LTL 196 thousand (LTL 165 thousand – in 2010). LTL 192 thousand of amortisation charge have been included into cost of sales (LTL 164 thousand - in 2010) and the remaining amount has been included into operating expenses.

#### 4 Property, plant and equipment

	Buildings and structures	Machinery and equipment, plant and equipment	Other non-current assets	Construction in progress	Total
<b>Acquisition cost:</b>					
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	-	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
Additions	57	678	146	18.977	19.858
Retirements and disposals	(1.964)	(3.388)	(297)	(22)	(5.671)
Reclassification to inventories	-	-	-	(60)	(60)
Transfers to intangible assets	-	-	-	(208)	(208)
Transfers from construction in progress	1.910	3.845	105	(6.068)	-
Balance as of 31 December 2011	405.672	333.276	13.238	17.771	769.957
<b>Accumulated depreciation and impairment:</b>					
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
Charge for the year	10.988	10.819	779	-	22.586
Retirements and disposals	(1.964)	(2.789)	(291)	-	(5.044)
Impairment for the year	-	60	-	-	60
Reclassification	-	(353)	353	-	-
Balance as of 31 December 2011	167.274	206.820	11.697	259	386.050
<b>Net book value as of 31 December 2011</b>	<b>238.398</b>	<b>126.456</b>	<b>1.541</b>	<b>17.512</b>	<b>383.907</b>
<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>

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

During 2011 the Company completed updating of: fuel oil unloading system of rail gantry track 2 (the total cost of the object – LTL 4.606 thousand); LFO storage tanks (the total cost of the object – LTL 1.369 thousand); automatic part of fire-fighting system (the total cost of the object – LTL 2.352 thousand); metering system (the total cost of the object – LTL 208 thousand) and started operation. The Company also finished repair works of its mechanical shop (the cost of the repair – LTL 719 thousand). The total value of the works performed amounted to LTL 9.254 thousand.

On 10 June 2010 the Company started its investment project “Procurement of vapour recovery unit” after implementation of which the environment pollution will be reduced. On 29 September 2011 the Contract was concluded with “John Zink International Luxembourg SARL” regarding procurement of the equipment. The equipment shall be delivered within nine months from the Contract date. At present engineering works are being performed simultaneously. The Company has already invested LTL 809 thousand into this project. The total amount of investments into the project “The Procurement of vapour recovery unit” will amount about LTL 7 million.

On 30 June 2011 SC Klaipėdos Nafta signed an Agreement with the Lead Adviser for preparation and implementation of liquefied natural gas (LNG) terminal's project – the international company FLUOR. The Extraordinary General Shareholders' Meeting of SC Klaipėdos Nafta held on 27 July 2011 approved the conclusion of the Agreement.

The Agreement provides for the Lead Adviser during four years to prepare the technical development plan of the Project, assist in selection of technologies, perform actions in order to get obligatory permits, solve the matters related to the safety of the project, navigation as well as other issues associated with the technical implementation of the Project. Further, the Adviser will perform works related to the economic part – will produce business model of the Terminal, financial model and develop strategy of the Terminal's performance. The Adviser will also supervise technical realization of the Project during its entire execution period - until the end of 2014 when the Terminal will start its activities.

As of 31 December 2011 the investments into implementation of LNG Terminal's project amounted to LTL 12.180 thousand – the major costs of which comprised advance payments of LTL 8.200 thousand according to the Agreement to be paid to the Lead Adviser for preparation and implementation of liquefied natural gas terminal's project as well as for legal and other research services.

About one fourth of the amount as defined in the Agreement for the four year term has already been transferred to the Consultant - the USA company FLUOR of LNG Terminal's project. Advance payments have been made for the tasks performed by the Adviser: selection of the parameters, business plan and strategy of LNG supply, financial and economic plan and project management, risk and safety study necessary for preparation of draft feasibility solutions and technical specification. Payments are being made subject to the performance of the tasks as provided for in the Agreement.

The depreciation charge of the Company's property, plant and equipment for the year 2011 amounts to LTL 22.586 thousand (LTL 22.453 thousand – in 2010). LTL 22.474 thousand of depreciation charge have been included into cost of sales (LTL 22.317 thousand – in 2010) and the remaining amount has been included into operating expenses.

Part of the property, plant and equipment with the acquisition cost of LTL 61.431 thousand as on 31 December 2011 was completely depreciated (LTL 52.118 thousand on 31 December 2010) however it was still in operation.

In 2011 the Company revised its property, plant and equipment and accounted for the impairment of LTL 60 thousand for the assets that is no longer used due to the changed technological conditions. In 2010 the Company accounted for the impairment of LTL 8.587 thousand for the assets.

#### **5 Investments in associates**

On 19 December 2007 the Company acquired one (1) per cent of 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 board member to the management of SARMATIA, thus it can have significant influence. Therefore this investment was recorded using the equity method. SARMATIA is a private company not listed on the market.

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



## 5 Investments into associates (cont'd)

Financial information regarding the Company's investments into SARMATIA and BALTPOOL is presented in the table below as of 31 December 2011:

	<b>Sarmatia</b>		<b>UAB Baltpool</b>		<b>Total</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>
Share of the associate's financial position:					
Non-current assets	-	-	99	-	99
Current assets	5	41	6.027	-	6.032
Non-current liabilities	-	-	3	-	3
Current liabilities	-	-	5.701	-	5.701
<b>Capital</b>	<b>5</b>	<b>41</b>	<b>422</b>	<b>-</b>	<b>427</b>
Share of the associate's comprehensive income:					
Income	2	2	609	-	611
(Losses)	(21)	(9)	(518)	-	(539)
<b>Balance value of investment</b>	<b>(18)</b>	<b>(7)</b>	<b>91</b>	<b>-</b>	<b>72</b>

Reconciliation of investments in associates, net value:

	<b>Investments value</b>
<b>As of 31 December 2010</b>	<b>41</b>
Acquired during the year	260
Increase of Baltpool investment	91
Goodwill of Baltpool investment	71
Decrease of Sarmatia investment	(36)
<b>As of 31 December 2011</b>	<b>427</b>

## 6 Inventories

	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Spare parts, construction materials and other inventories	171	316
Oil products for sale	1.503	3.782
	<b>1.674</b>	<b>4.098</b>

As of 31 December 2011 the Company had inventories of LTL 5.979 thousand (LTL 5.972 thousand in 2010), that have been written off down to the net realizable value. The Company writes allowance for the inventories down 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).

Write-downs of the inventories totalling LTL 7 thousand for the year ended of 31 December 2011 (2010 – LTL 367 thousand) are included under operating costs in the Statement of comprehensive income.

As of 31 December 2011 the Company stored 143,8 thousand tons of oil products delivered for transshipment in its storage tanks (79,1 thousand tons as on 31 December 2010). Such oil products are not recognised in the Company's financial statements, they are accounted for in the off-balance sheet accounts as the Company has no ownership rights into oil products.

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. During 2011 the Company sold 3.817 tons of heavy oil products collected in its Waste Water Treatment Facilities. On 31 December 2011 the Company stored 1.945 tons of heavy oil products collected in its Waste Water Treatment Facilities (31 December 2010 – 4.300 tons).

## 7 Trade receivables

	As of 31 December 2011	As of 31 December 2010
Receivables for reloading of oil products and other related services	4.335	4.711
	<b>4.335</b>	<b>4.711</b>

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

On 31 December 2011 trade debts to the Company in the amount of LTL 1.926 thousand were denominated into EURO (LTL 9 thousand in 2010).

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 2011 and 2010 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>2011</b>	4.223	73	-	-	39	-	4.335
<b>2010</b>	4.710	-	1	-	-	-	4.711
<b>2009</b>	4.920	-	-	6	29	-	4.955

### 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.

## 8 Other receivables

	As of 31 December 2011	As of 31 December 2010
Accrued income	1.388	633
VAT receivable	715	76
Accrued interest on term deposits	409	19
Other taxes receivable	-	54
Other receivables	66	52
	2.578	834
Less: impairment allowance for receivables	(13)	(13)
	<b>2.565</b>	<b>821</b>

Change in allowance for receivables for the years 2011 and 2010 has been included into operating expenses in the Statement of Comprehensive income.

## 9 Other financial assets

	As of 31 December 2011	As of 31 December 2010
<b>Loans and receivables</b>		
Cession of rights in Vnesekonombank	100	100
Loan to UAB „Žavesys“	361	365
Less: impairment allowance for receivables	(461)	(465)
<b>Total loans and receivables</b>	<b>-</b>	<b>-</b>
<b>Investments held-to-maturity</b>		
Short-term deposits	44.174	21.872
Investments into the state government bonds of Lithuania	61.717	17.391
Investments into the government bonds of foreign countries	-	1.870
Investments into the government bonds of Lithuanian banks	4.476	5.424
Investments into the government bonds of foreign banks	5.412	-
<b>Total investments held-to-maturity</b>	<b>115.779</b>	<b>46.557</b>
<b>Total other financial assets</b>	<b>115.779</b>	<b>46.557</b>
<b>Current part</b>	<b>110.427</b>	<b>38.433</b>
<b>Non-current part</b>	<b>5.352</b>	<b>8.124</b>

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

Currency	As of 31 December 2011	As of 31 December 2010
EUR	38.531	6.628
LTL	77.248	39.929
	<b>115.779</b>	<b>46.557</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 Vnesekonombank and the right to the loan provided to UAB „Žavesys“. Cost of sales of the right in the liquidated Vnesekonombank 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.

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 5.352 thousand (LTL 4.476 thousand – in 2010), the securities of Lithuanian, 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 2011 the Company had term deposits of LTL 44.174 thousand (LTL 21.872 thousand – in 2010) with the average maturity of 256 days (198 days – in 2010) and an annual average effective interest rate of 2,04 % (1,8 % - in 2010). On 31 December 2011 the Company had securities of the state of Lithuanian and foreign countries in the amount of LTL 63.520 thousand with the average maturity of 381 days and an average effective interest rate of 2,67 %. The Company hold bank bonds in the amount of LTL 9.171 thousand with the average redemption term of 216 days and average effective interest rate of 3,46 %.

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

## 10 Cash and cash equivalents

	As of 31 December 2011	As of 31 December 2010
Cash at bank	5.136	4.067
Short-term deposits	3.044	14.453
Government bonds of foreign countries	1.803	7.277
Government bonds of Lithuanian banks	-	2.149
Investment units of money market	-	1.555
	<b>9.983</b>	<b>29.501</b>

Cash in bank earns variable interest depending on the closing balance of every day. As of 31 December 2011 the Company had term deposits of LTL 3.044 thousand (LTL 14.453 thousand – in 2010) with the average maturity of 38 days (90 days – in 2010) and an average interest rate of 1,00 % (1,35 % - in 2010). The Company had investments into the securities of the foreign countries of LTL 1.803 thousand (LTL 7.277 thousand – in 2010), with the average maturity of 72 days (54 days – in 2010), and an average interest rate of 3,81 proc. (3,9 % - in 2010).

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

Currency	As of 31 December 2011	As of 31 December 2010
EUR	5.990	1.774
LTL	3.993	27.727
	<b>9.983</b>	<b>29.501</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 2011	As of 31 December 2010
AA -	17.462	13.872
A +	40.305	14.424
A	-	21.210
A -	1.803	9.147
BBB +	54.511	-
BBB	11.681	17.391
BB	-	3
B	-	11
	<b>125.762</b>	<b>76.058</b>

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

## 11 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. Whereas, taking into account that the Extraordinary General Shareholders' Meeting held on 27 July 2011 did not approve profit appropriation for the year 2010 the transfer to legal reserves was not made.

### 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.

## 12 Employee benefit liabilities

On 31 December 2011 the liabilities related to the payment of termination benefits to the employees terminating the employment on the normal retirement date were LTL 785 thousand (LTL 926 thousand – in 2010) as follows:

	<u>Benefit liability</u>
<b>As of 31 December 2010</b>	<b>926</b>
Calculated per year	162
Paid per year	(303)
<b>As of 31 December 2011</b>	<b>785</b>

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

	<u>As of 31 December 2011</u>	<u>As of 31 December 2010</u>
Discount rate	5,75 %	5,15 %
Staff turnover rate	5 %	5 %
Future salary increases	3 %	3 %

## 13 Trade and other payables

	<u>As of 31 December 2011</u>	<u>As of 31 December 2010</u>
Payable for railway services	336	1.425
Payable to contractors	1.204	423
Payable for rent of land	514	587
Other trade payables	2.617	2.134
	<b>4.671</b>	<b>4.569</b>

Trade payables are non-interest bearing and are normally settled on 30-day terms. On 31 December 2011 trade payables of LTL 610 thousand were denominated into euro (LTL 5 thousand - in 2010).

As of 31 December 2011 there was a significant fall in trade payables to the provider of railway services due to decreased expenses of railway services at the end of year influenced by favourable ambient conditions for transshipment.

As on 31 December 2011 the Company's indebtedness to its contractors significantly increased due to the equipment delivery for the investment project "Procurement of vapour recovery unit" under execution.

## 14 Liabilities related to labour relations

As of 31 December 2011 the Company's liabilities, related to labour relations, were mainly comprised of vacation reserve of LTL 1.317 thousand and accrued bonuses in the amount of LTL 1.200 thousand for the annual results (As of 31 December 2010 the Company's liabilities, related to labour relations, were mainly comprised of vacation reserve of LTL 1.311 thousand and accrued bonuses in the amount of LTL 1.200 thousand for the annual results).

## 15 Provisions

	Emission rights provision	Restructuring provision	In total
<b>As of 1 January 2010</b>	-	-	-
Calculated per year	1.205	547	1.752
Offsetting emission rights purchased	(473)	-	(473)
<b>As of 31 December 2010</b>	<b>732</b>	<b>547</b>	<b>1.279</b>
Calculated per year	96	-	96
Used restructuring provision	-	(547)	(547)
Offsetting emission rights purchased	(335)	-	(335)
<b>As of 31 December 2011</b>	<b>493</b>	<b>(547)</b>	<b>493</b>
<b>Long-term part</b>	-	-	-
<b>Short-term part</b>	<b>493</b>	-	<b>493</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
<b>Allocated *</b>	19.691	19.692	19.692	19.691	19.691	98.457
Planned to be used	(29.241)	(25.619)	(28.325)	(27.793)	(28.000)	(138.978)
Planned to be acquired	-	-	-	-	21.521	21.521
Purchased and used	-	-	10.000	-	-	10.000
Purchased	-	-	-	9.000	-	9.000

\* Emission allowances allocated by the national allocation plan.

### Restructuring provision

On 31 December 2010 the Company made a restructuring provision in the amount of LTL 547 thousand. The Company had completed the revision of its personnel structure during the year 2011, therefore the restructuring provision had been used.

## 16 Other current liabilities

	As of 31 December 2011	As of 31 December 2010
Tax on real estate payable	485	649
Accrued expenses	437	181
Other	24	32
	<b>946</b>	<b>862</b>

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

**17 Sales income**

	<b>2011</b>	<b>2010</b>
Sales of oil transshipment services	126.266	118.975
Sales of heavy oil productsproducts collected in the Waste Water Treatment Facilities	5.699	-
Revenues for storage of oil products	5.957	-
Other sales related to transshipment	3.354	2.745
	<b>141.276</b>	<b>121.720</b>

The Company's income increased due to the greater transshipment tariffs being applied since September 2010 when the services of Intermediaries were refused, LTL 5.957 thousand received for storage of oil products and LTL 5.699 thousand for the sale of heavy oil productsproducts collected in the Waste Water Treatment Facilities of the Company after bilge water cleaning.

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

**18 Cost of sales**

	<b>2011</b>	<b>2010</b>
Depreciation and amortisation	22.474	22.176
Natural gas	18.027	14.587
Wages, salaries and social security	17.365	16.554
Railway services	7.465	7.495
Electricity	5.478	5.122
Cost of sold inventories	3.025	43
Rent of land and quays	2.056	2.350
Tax on real estate	1.948	2.564
Repair and maintenance of property, plant and equipment	1.758	1.410
Insurance of assets	942	779
Emission rights expenses	96	1.205
Other	2.256	2.168
	<b>82.890</b>	<b>76.453</b>

The cost of sales was raised by constant increase throughout the year in price of energy resources – gas, electricity – as well as the increased expenses related to the salaries and reported costs of the sold oil products collected in the Waste Water Treatment Facilities of the Company.

The expenses related to the salaries increased due to the payment of termination benefits, provided for in the Collective Agreement valid in the Company of LTL 655 thousand to the employees terminating the employment on the normal retirement date.

**19 Operating expenses**

	2011	2010
Salaries, bonuses and social security	3.966	4.111
Consulting and legal costs	1.193	728
Charity	360	319
Repair and maintenance of property, plant and equipment	219	21
Depreciation and amortisation	182	137
Expenses related to the management of securities	164	90
Communication costs	138	123
Advertising services	102	130
Impairment of assets	60	8.587
Provisions	(69)	1.880
Other	955	876
	<b>7.270</b>	<b>17.002</b>

The decrease of operating expenses during the year 2011 was influenced by the decrease of provisions (in 2010 the Company accounted for the impairment of LTL 8.585 thousand for the assets due to the unjustified and worthless investments of previous years).

**20 Income (expenses) from financial and investment activities, net**

	2011	2010
Interest income	1.886	1.498
Fines received	95	64
<b>Financial income, total</b>	<b>1.981</b>	<b>1.562</b>
Losses from currency exchange	(18)	(12)
Other financial expenses	(15)	(22)
<b>Financial expenses, total</b>	<b>(33)</b>	<b>(34)</b>
	<b>1.948</b>	<b>1.528</b>

**21 Income tax**

	2011	2010
<b>Components of the income tax expense (income)</b>		
Income tax of the year	8.732	6.388
Income tax adjustment of the previous year	(105)	(296)
Current year income tax expense	8.627	6.092
Deferred tax (benefit) expense	(636)	(2.438)
Income tax expense charged to the Statement of Comprehensive income	<b>7.991</b>	<b>3.654</b>

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:

	2011	2010
Accounting profit before tax	53.244	29.751
Applying 15 % profit tax rate of the Company	7.987	4.283
Income tax adjustment of the previous year	(105)	(296)
Non-deductible expenses of income tax		
Support	(54)	(48)
Other non-deductible expenses	163	33
Deferred income tax assets of previous year	-	(318)
Applying 13% effective income tax	<b>7.991</b>	<b>3.654</b>

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(all amounts are in LTL thousand unless otherwise stated)



## 21 Income tax (cont'd)

Deferred income tax consists of:

	Statement of Financial position		Statement of Comprehensive income	
	2011	2010	2011	2010
Accelerated depreciation for tax purposes	1.098	1.086	(9)	(796)
Impairment of property, plant and equipment	1.017	1.090	72	(18)
Write-downs of inventories to realizable value	897	896	(1)	(45)
Accrued annual bonuses	180	-	(180)	-
Accrued emission rights	124	181	56	(181)
Long-term employee benefit liability	118	139	21	(139)
Vacation reserve	47	47	-	133
Temporary differences in receivables for tax purposes	-	232	231	(232)
Restructuring reserve	-	82	82	(82)
Other temporary differences	-	3	2	(3)
Associates' equity method	(9)	12	21	(12)
Oil products	(123)	(566)	(442)	198
Investment incentive property, plant and equipment	(11.058)	(11.547)	(489)	(943)
<b>Deferred income tax expenses/ (income)</b>			<b>(636)</b>	<b>(2.120)</b>
<b>Deferred income tax assets/ (liabilities), net</b>	<b>(7.709)</b>	<b>(8.345)</b>		

Charged to the Statement of financial position as follows:

Deferred income tax assets	3.481	3.768
Deferred income tax liability	(11.190)	(12.113)
<b>Deferred income tax liability, net</b>	<b>(7.709)</b>	<b>(8.345)</b>

As of 31 December 2011 the Company did not recognise LTL 70 thousand (LTL 70 thousand – in 2010) of the deferred income tax asset related to the decrease in receivables as the Management does not expect the income tax asset to be recognised as deductible expenses in the future. In the Statement of Financial position deferred income tax asset and deferred income tax liability are set-off as they both are related to the same tax authority.

While assessing deferred income tax asset and liability components as of 31 December 2011 and 2010 the Company has used the income tax rate of 15 %.

## 22 Earnings per share, basic and diluted

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

Basic and diluted earnings per share are as follows:

	2011	2010
Net profit attributable to shareholders	45.253	26.097
Weighted average number of ordinary shares (thousand)	342.000	342.000
Earnings per share (in LTL)	0,13	0,08

## 23 Dividends

	2011	2010
Dividends declared	-	(16.400)
Weighted average number of shares (thousand)	342.000	342.000
Dividends declared per share (expressed in LTL per share)	-	0,048

The Extraordinary General Shareholders' Meeting held on 27 July 2011 did not approve profit appropriation for the year 2010 and did not allot dividends to the Shareholders for 2010.

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 2011. As of 31 December 2011 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 39 thousand (as of 31 December 2010: LTL 48 thousand).

## 24 Financial assets and liabilities 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 2011 accounted for approximately 32 % (about 97% as of 31 December 2010) of the total Company's receivables from all its customers. The average payment terms for this customer are 10 days whereas the usual payment terms for all other customers are 5 days. A possible credit risk for the Company's customers is managed by a continuous monitoring of outstanding balances.

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

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

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

### Interest rate risk

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

### Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.

The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2011 were 12,32 and 12,17, respectively (8,08 and 7,66 as at 31 December 2010).

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 2011 and 2010 the Company's liquidity is high because the Company has no financial commitments and accumulates cash funds for the performance of its strategic objectives.

## 24 Financial assets and liabilities risk management (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2011, 2010 and 2009 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	-	4.671	-	-	-	4.671
Balance as of 31 December 2011	-	4.671	-	-	-	4.671
Trade and other payables	-	4.569	-	-	-	4.569
Balance as of 31 December 2010	-	4.569	-	-	-	4.569
Trade and other payables	-	6.140	-	-	-	6.140
Balance as of 31 December 2009	-	6.140	-	-	-	6.140

### 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.

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		
	2011	2010	2009	2011	2010	2009
<b>Financial assets</b>						
Cash	8.180	29.501	41.188	8.180	29.501	41.188
Trade and other receivables	4.335	4.711	4.955	4.335	4.711	4.955
Other financial assets	117.582	46.557	4.744	117.582	46.557	4.744
<b>Financial liabilities</b>						
Trade and other payables	4.671	4.569	6.140	4.671	4.569	6.140

Other financial assets are substantially comprised of investments held-to-maturity (Note 9).

A market price of the investment in international pipeline company SARMATIA and the Lithuanian energy resources market BALTPOL cannot be reliably estimated, therefore the investment is accounted for at carrying value (Note 5). It was also impossible to measure the fair value for the period using comparable transactions. The Company did not measure the investment by discounting the expected cash flows because the cash flows could not be reliably determined.

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

- The carrying amount of current trade accounts receivable, current trade accounts payable approximates fair value.
- The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile.

### Capital management

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

## 24 Financial assets and liabilities risk management (cont'd)

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

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

The Company's activities are financed using only its equity. The Company had no loans in 2011 and 2010.

### Operational risk

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.

## 25 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 2011 the Company's land rent expenses amounted to LTL 2.056 thousand (Note 18) (LTL 2.350 thousand – in 2010).

Total amount of future minimum payments of land rent:

	31 December 2011	31 December 2010
Within one year	2.056	2.106
From one to five years	10.279	8.424
After five years	78.118	82.485
	<b>90.453</b>	<b>93.015</b>

## 25 Commitments and contingencies (cont'd)

### Legal claims

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

After the evaluation of the service contract with non-market conditions concluded on 22 12 2004 between the Company and „Naftos grupė“ UAB and its influence on the result of the Company activity over the period from January 2005 to June 2010, it has been determined, that because of this contract the Company could incur losses of LTL 40 million.

On July 5, 2011 the Company seeking to recover the part of the incurred losses, submitted a counter application to „Naftos grupė“ UAB. Total sum of the claim is LTL 42,6 million.

At present the case is at the preparation stage for hearing. The court sitting has not yet been fixed. Management's opinion is that The Company is unlikely to suffer any additional expenses related to the claim, therefore it is unnecessary to account for the provisions as on 31 December 2011.

The Parties to the old Terminal's Agreement - AB ORLEN LIETUVA and the Company - on 29 December 2011 signed the final settlement minutes regarding a dispute of the year 2010 related to the fulfilment of contractual obligations and agreed not to enter any claims neither at present nor in future in respect of the fulfilment of this Agreement and had waived all the claims presented to each other in respect thereof.

### Guarantees

The Company as the owner of excise warehouse in order to secure due fulfilment of tax obligations subject to Guarantee Issuance Agreement No. 41000507-01, dated 8 November 2010, signed with Lithuanian Branch of AS UniCredit Bank for the amount of LTL 5.000 thousand has submitted a letter of payment guarantee to the State Tax Inspectorate of Klaipėda district. The validity term of the Letter of Guarantee was extended until 11 November 2012.

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 2013.

### Other

The Tax Inspectorate has not performed full tax revision for the period from 1 January 2006 until 31 December 2011. 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

## 26 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 2011, 2010 and 2009 were as follows:

## 26 Related party transactions (cont'd)

### 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	2011	9.759	-	-	1.775
	2010	8.908	-	130	1.080
	2009	9.072	-	842	2.259
State Social Insurance Fund Board under the Ministry of Social Security and Labour	2011	4.762	-	-	11
	2010	5.334	-	-	-
	2009	4.937	-	-	-
State Enterprise Klaipeda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	2011	2.056	-	-	514
	2010	2.350	-	-	587
	2009	2.350	-	-	-
AB Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation	2011	8.396	-	-	336
	2010	7.845	-	-	1.425
	2009	5.382	-	-	539
AB „Lesto“, owned by the State of Lithuania represented by the Ministry of Energy	2011	2.419	-	-	296
	2010	5.159	-	-	343
	2009	3.773	-	-	-
Other related parties	2011	-	28	3	-
	2010	147	5	35	-
	2009	106	10	47	-
<b>Transactions with related parties, in total:</b>	<b>2011</b>	<b>27.392</b>	<b>28</b>	<b>3</b>	<b>2.932</b>
	<b>2010</b>	<b>29.743</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>

### Remuneration to the Management and other payments

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

	<b>As of 31 December 2011</b>	<b>As of 31 December 2010</b>
Labour related disbursements	1.704	1.928
Number of managers	6	7

During twelve months of 2011 and 2010 the Management of the Company did not receive any loans, guarantees, or any other payments or property transfers were made or accrued.

## 27 Subsequent events

On January 23, 2012, during implementation of international tender of AB Klaipėdos Nafta (hereinafter – the Company) „Procurement Of Liquefied Natural Gas Floating Storage And Regasification Unit (FSRU)“ three Tenderers submitted their tender offers. With reference to the public procurement procedures the tender offers were evaluated and the row of tender offers was formed. The proposal of Norwegian company's „Høegh LNG“ was selected as the most economically advantageous.

On January 23, 2012, the Company submitted an invitation to conclude public procurement contract with company „Høegh LNG“. The contract between the Company and „Høegh LNG“ regarding procurement of liquefied natural gas floating storage and regasification unit shall enter into force in full scope only if general meeting of shareholders of the Company approves it.

On February 7, 2012, the Government of the Republic of Lithuania passed a resolution “Regarding Approval of the 2008-2012 Implementation Plan of the National Energy Strategy” (hereinafter – Plan) whereby the project of liquefied natural gas terminal was included in the 2008-2012 Implementation Plan of the National Energy Strategy.

In the Implementation Plan of the National Energy Strategy it is provided that the Company shall develop LNG import terminal by end of 2014. LNG terminal shall comprise of floating storage and regasification technology, onshore equipment of terminal and connection with transmission system of natural gas and/or technological equipment. Also in the Plan preliminary budget of the Company for the implementation of the project of LNG terminal is LTL 532 million (precise budget shall be prepared following conclusion of contracts with main contractors). It is not intended to use funds of the national budget. It is foreseen that in accordance with articles of association of the Company approval of the general meeting of the shareholders shall be needed for the conclusion of contracts with the main contractors of LNG terminal project.

In the Implementation Plan of the National Energy Strategy it is provided that State Company “Klaipėdos valstybinio jūrų uosto direkcija“, which is controlled by the Ministry of Transport shall develop existing and new infrastructure of Port of Klaipėda and perform other development works of the port, which are needed for the implementation of LNG import terminal project developed by the Company. Preliminary budget of State Company “Klaipėdos valstybinio jūrų uosto direkcija“ is LTL 150 million. It is not intended to use funds of the national budget.

On 15 February 2012, the Government of the Republic of Lithuania approved a draft resolution to invest the property valued at LTL 45.49 million into the Company by increasing the authorised capital of the company.

The Government of the Republic of Lithuania – as the owner of 70.63 % of the ordinary registered shares of the Company intends to invest into the said Company the property in trust of PE Lithuanian Oil Product Agency – Subacius Oil Products Terminal – by increasing the authorised capital of the Company by an additional contribution, provided that the Company will assume an obligation to lease a part of the property to PE Lithuanian Oil Product Agency as necessary for accumulation and management of oil products and state oil reserves in accordance with the requirements of legislative acts for the term of at least 10 years.

The authorized capital would be increased by additional contributions by issuing new ordinary registered shares with the par value of LTL 1 (one litas) each.

The Company will suggest the shareholders of the Company adopting decisions ensuring that all Company's shareholders would have an opportunity to take part in the increase of the authorized capital of the Company and to maintain the share held in the authorized capital of the Company.

On 15 February 2012 the Government of the Republic of Lithuania passed a resolution “Regarding establishment of the liquefied natural gas (LNG) terminal” whereby it is approved that the Company would continue the implementation of the LNG terminal project and the following:

- The Ministry of Energy of the Republic of Lithuania is assigned to initiate the general meeting of shareholders of the Company regarding the amendment of the Articles of the Association of the Company, proposing to stipulate in the Articles of the Association of the company that one of the purposes of the Company activities would be the establishment of the LNG terminal and its preparation for operation, ensuring economical and rational operation of the LNG terminal and/or its later transfer to the natural gas transmission system operator controlled by the Republic of Lithuania.

## 27 Subsequent events (con't)

- State Enterprise Klaipėda State Seaport Authority is obliged to develop the current and to establish a new infrastructure of the Klaipėda State Seaport and in this way to create a background for the establishment and commencement of operation of the LNG terminal by 3 December 2014 and to transfer such infrastructure or to grant the right to use it to the Company.

On 29 February 2012 the Government of the Republic of Lithuania passed a resolution "Regarding ensuring the mandatory operations of the liquefied natural gas terminal" whereby it resolved as follows:

- that the liquefied natural gas (LNG) terminal must be installed and operated following such technological parameters, which would permit to ensure the mandatory operations of the LNG terminal without any interruptions, i.e. the technological capacity of the LNG terminal, which is necessary for constant and efficient satisfaction the general need for natural gas in the Republic of Lithuania according to the formula of the infrastructure standard N-1, which describes the ability of the technical capacity of the gas infrastructure to satisfy total gas demand in the calculated area in the event of disruption of the single largest gas infrastructure during a day of exceptionally high gas demand; that in taking of decisions regarding ensuring the mandatory operations of the liquefied natural gas terminal, the measures, which guarantee the technological and economic feasibility of the activities of the terminal, must be provided for;

- to assign to the Ministry of Energy of the Republic of Lithuania to prepare and present to the Government of the Republic of Lithuania the draft Law of the Republic of Lithuania on the Liquefied Natural Gas Terminal, which would establish the general principles of, requirements for and special legal regulation of the installation and operations of the LNG terminal in the territory of the Republic of Lithuania, the Ministry of Energy is instructed to prepare the draft Law by 20 March 2012;

- to assign to the Ministry of Energy of the Republic of Lithuania to establish in the draft Law of the Republic of Lithuania on the Liquefied Natural Gas Terminal that the volume of natural gas imported through the LNG terminal and natural gas pipelines (through each of such means individually) would make not less than 25 % of all the natural gas volume consumed in the Republic of Lithuania annually.

On 1 March 2012, the Board of the Company decided to continue the implementation of the LNG terminal project and to conclude a contract on lease, operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit (hereinafter, the FSRU) for 10 years with the right to redeem the FSRU with Höegh LNG Ltd., the winner of the public procurement tender of the Company "Acquisition of a Floating Liquefied Natural Gas Storage and Regasification Unit", providing that the term of delivery of the FSRU to Klaipėda Port shall be from 1 September 2014 to 1 December 2014.

On 2 March 2012, the Company has signed a contract on lease, operation and maintenance (repair) of the floating liquefied natural gas storage and regasification unit (hereinafter, the FSRU) for 10 years with the right to redeem the FSRU with Höegh LNG Ltd., the winner of the public procurement tender of the Company "Acquisition of a Floating Liquefied Natural Gas Storage and Regasification Unit", providing that the term of delivery of the FSRU to Klaipėda Port shall be from 1 September 2014 to 1 December 2014, setting a fixed price for lease of the FSRU, whereas the FSRU operation, maintenance (repair) costs shall be reimbursed on occurrence, however such costs will not exceed the agreed amount for the first two years, therefore, the total FSRU lease and operation costs for the first year, including remuneration for the crew and other payments, which will be indexed annually according to the consumer price index, will not exceed USD 156.2 thousand (VAT excluded) per day, and also providing that the Company will have to submit to the FSRU supplier a warranty for payment of the amount not exceeding USD 50.000 thousand, for the issue of which the Company will have to pledge its property (funds in bank accounts, receivables) for the benefit of the person that issues the warranty.

On 26 March 2012 the Company's Extraordinary General Shareholders' Meeting approved the decision of the Board of the Company to continue the implementation of the LNG terminal's project and to conclude a contract with the winner of the public procurement tender "Acquisition of Floating Liquefied Natural Gas Storage and Regasification Unit" and to amend the following paragraphs of the Articles of Association of the Company to be read as follows:

- The main objectives of the Company shall be to ensure efficient and effective operation of the Oil Terminal, oil and petroleum product pipelines as well as other facilities that are operated by the Company, to rationally use assets of the Company, to render services to the Company's customers as well as to carry out any other activities with the aim of enhancing the interests of the Company and its shareholders. Furthermore, the objective of the Company shall be to install and equip a liquefied natural gas terminal and to prepare it for operation, to ensure cost-effective and rational operation of the liquefied natural gas terminal and/or its subsequent transfer to the operator of the natural gas transmission system controlled by the Republic of Lithuania.



## **27 Subsequent events (con't)**

On 29 March 2012, the preliminary hearing in the Vilnius Regional Court in the case according to claim of claimant Naftos grupė UAB to the Company for the compensation of allegedly incurred losses of LTL 17 mill., for reimbursement of surplus of oil products to claimant allegedly belonging to Naftos grupė UAB and held by the Company and for recognition the cancellation of Service contract No. 12-12-2005, dated 22-12-2004 due to Company's supposed fault was held (the Company announced on the acceptance of the claim and on provision of counterclaim in the case on 20 April 2011 and 5 July 2011 respectively, by notifying the notifications on material event).

During the preliminary hearing the court incorporated to the case additional documents, provided by the parties, also obliged them to provide additional proofs to the court until 30 April 2012.

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

## Confirmation of responsible persons

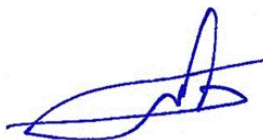
Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Rokas Masiulis, General Manager of SC Klaipėdos Nafta, and Mantas Bartuska, Finance Director of SC Klaipėdos Nafta, hereby confirm that to the best of our knowledge the above-presented unaudited Interim condensed Financial Statements of SC Klaipėdos Nafta for the year 2011, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of SC Klaipėdos Nafta.

General Manager



Rokas Masiulis

Finance Director



Mantas Bartuška

# **ANNUAL REPORT FOR THE YEAR 2011**

Klaipėda  
April 2012

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## FOREWORD BY GENERAL MANAGER OF SC KLAIPEDOS NAFTA



The year 2011 is a record year in the Company's history.

During the year 2011 the Company earned more than LTL 45,3 million of net profit and exceeded the profit of the previous year by 73% (LTL 26,1 million). This is the best result achieved in the Company's history.

In 2011 the changes in the Company's business management, that had already been initiated in 2010, brought record results and showed the true potential of the Company. The largest ever earned profit in the Company's history was achieved due to commercially useful stevedoring contracts without intermediaries, one-time sale of heavy oil products collected in Waste Water Treatment plant, as well as due to income received from handling of oil product balances.

The results of 2011 demonstrated that the state-controlled companies can operate efficiently and successfully subject to the highest standards of transparency and independence. We will strive that the achieved high profitability ratios will be maintained also in 2012.

In addition to the direct record results of the performance, in 2011 the Company made its first steps in implementation of the Project of the Liquefied Natural Gas Terminal: a plan for implementation of the LNG Terminal has been prepared, SEA (strategic environmental assessment) has been carried out, a tender on acquisition of the LNG vessel was organised and successfully completed on 2 March 2012. A lease agreement was signed with the Norwegian company Hoegh LNG Ltd for a period of 10 years with

a possibility to purchase the vessel. This was the one of the most significant achievements in the implementation of the Project. In my opinion, execution of this project will offer new business opportunities for the Company, as well as a significant responsibility for successful implementation of the project.

The year 2012 will be the year of challenges. The Company is continuing a major investment program, which will help to adapt to the changing market conditions, will provide greater opportunities for serving the growing flow of light oil products and to compete more effectively with other terminals. Considerable investment will be dedicated for nature protection and recovery of petroleum odours. The Company will continue being a socially responsible company, contributing to solution of the issues that are important to the city of Klaipėda.

I strongly believe that the Company will successfully overcome all the challenges of 2012 by increasing the performance efficiency, by strengthening competitive positions and by contributing to achievement of the strategic objectives of the Lithuanian energy.



**Rokas Masiulis**

**General Manager of SC Klaipėdos Nafta**



## REPORTING PERIOD

The Annual Report is prepared for the period from 1 January 2011 until 31 December 2011. In this Annual Report SC Klaipėdos Nafta is referred to as the Company.

## DETAILS ABOUT THE COMPANY

Name of the Company:	SC Klaipėdos Nafta
Legal status:	Stock company
Authorised capital:	LTL 342.000.000
Date and place of registration:	27 September 1994, State Enterprise Register Centre
Company code:	1106 48893
Address:	Burių g. 19, 91003 Klaipėda
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 tranship 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 KLAIPĖDOS NAFTA renders the following services:

- Transhipment of crude oil and oil products from rail tank-cars into tankers
- Transhipment 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 terminal of petroleum products for Lithuania, to enable the region's oil refineries to export on a continuous basis their production by tankers through the Company's terminal to the Western European and further markets.

The vision of the Company is to be a financially sustainable oil loading terminal and in time to invest in initiatives that will increase economic returns for investors, to successfully implement the strategic project of LNG Terminal, which is significant for the Lithuanian energy.

## SIGNIFICANT EVENTS OF THE REPORTING PERIOD

The most important notifications of regulated information in 2011, excluding annual and intermediate statements about the results:

- **28 January.** The CEO of the Company signed agreements on activities within the Audit Committee with Eimantas Kiudulas, the Director of the Management Company of the Free Economic Zone of Klaipėda, Simonas Rimaškauskas, the Project manager of UAB Deloitte Lietuva, and Mindaugas Jusius, the Chairman and a member of the board of „Swedbank Life Insurance“. The members of the Audit Committee were elected by the Supervisory Council.
- **31 January.** The Company received 12 applications for participation in proficiency test and prequalification announced in the tender „Purchase of services of a leading consultant for preparation and implementation of the liquefied natural gas terminal“.
- **4 March.** The board decided to address the Lithuanian transmission systems operator AB Litgrid, holding 100 % shares of the Lithuanian energy market, with a request to acquire 33% shareholding of the operator UAB Baltpool, which is planning to develop the secondary gas Exchange in 2011. According to the decision of the Company's board, it would be reasonable for the Company, which implements the Project of liquefied gas terminal, to participate in the establishment processes of the gas Exchange in Lithuania. On 24 May 2011 the Company paid



260.001 LTL for 156.627 ordinary shares (1 LTL nominal value) of UAB Baltpool. An evaluation of the new emission price carried out by external valuers was taken into account.

- **18 April.** The Company received a notification from the Klaipėda regional court that the former mediator UAB Naftos Grupė had brought an action against the Company for compensation of the alleged losses amounting to LTL17.091 thousand, return of surplus oil products stored by the Company and supposedly owned by UAB Naftos Grupė as well as for acknowledgement of the service agreement No.12-12-2005, dated 22 December 2004, as terminated due to alleged fault of the Company.
- **28 April.** The general shareholders meeting returned to the board the annual financial statements for 2010 for adjustment due to newly discovered facts related to the claim of UAB Naftos Grupė (refer to above), which might affect the financial position of the Company. Due to this reason, the decision in relation to appropriation of profit for 2010 was postponed.
- **11 May.** The Company signed a letter of intent with an American energy company „Cheniere“ regarding the future supply of liquefied natural gas to the Company. The letter of intent was signed in the Embassy of the Republic of Lithuania in the United States of America.
- **26 June.** The Company signed a letter of intent with the Spanish gas company Gas Natural Fenosa regarding the future supply of liquefied natural gas to the Company.
- **30 June.** The Company signed an agreement with the leading consultant - Fluor S.A. - for preparation and implementation of the liquefied gas terminal Project. On 27 July 2011 the general shareholders meeting supported the conclusion of this agreement. The agreement prescribes that the consultant within four years will prepare the technical plan of the Project, will assist in choosing the technologies, will perform all necessary arrangements for acquisition of required permits, will address the Project safety, navigation and other issues related to the technical realisation of the Project. Furthermore, he will perform the works related to the economical part of the Project – preparation of the terminal's business plan, financial model and strategy of the terminal. The consultant shall also supervise the whole Project implementation process until the end of the terminal's construction in 2014.
- **5 July.** The Company submitted a counterclaim to UAB Naftos Grupė at an amount of LTL 42,6 million. Upon evaluation of the service agreement, signed between the Company and UAB Naftos Grupė, which was concluded on 22 December 2004 under non-market conditions, and the effect it had on the Company's performance results for the period January 2005 to May 2010, it has been estimated that because of this agreement the Company might suffer losses of more than LTL 40 million. UAB Naftos Grupė was granted exclusive rights to vacuum gas oil transshipment in the Company.
- **27 July.** An extraordinary shareholders meeting supported the conclusion of an agreement with the consultant – an international company Fluor S.A. - for preparation and implementation of the liquefied gas terminal Project; did not approve the appropriation of profit for 2010 and did not allocate any dividends for 2010.
- **12 September.** The Company signed a service agreement with the secondary company of the Belorussian oil company UAB Transchema regarding transshipment of fuel oil produced by the oil factories of Belarus for the period 2011-2012. The agreement is awarded for one year and prescribes transshipment of approximately 2.5 million tons of fuel oil.
- **13 September.** Romas Švedas resigned from the positions of the chairman and a member of the board.
- **16 September.** The board supported the decision to initiate a public procurement procedure for Acquisition of a floating storage regasification unit. The Company has started the public procurement procedure.
- **22 September.** The Company announced that UAB Koncernas Achemos Grupė has acquired more than 10 % of the Company's shares.
- **24 October.** Arvydas Darulis, a Vice-minister of the Ministry of Energy of the Republic of Lithuania, was elected as the chairman of the Company's board.
- **24 October.** The Supervisory Council recalled Virgilijus Poderis and Kęstutis Žilėnas from the board and elected the new members: Mindaugas Jusys, Rytis Ambrazevičius and Inga Černiuk, head of the legal department of the Ministry of Energy. It should be noted that AB Klaipėdos Nafta, the main shareholder of which is the State, became one of the first companies involving independent members in the composition of the board: Mindaugas Jusys, the chairman and a member of AB „Swedbank Life Insurance“ SE, and Rytis Ambrazevičius, vice-president of UAB Omnitel.
- **9 November.** The Company signed a long-term agreement with Somitekno Ltd on transshipment of oil products. Based on the agreement the parties agreed on the volume of transshipment via the Company's terminal, which make around 15% of the terminal's total capacities. With this agreement, the formation of the Company's transshipment portfolio for the year 2012 was completed.
- **1 December.** The Board approved a long-term agreement on transshipment of oil products signed between the Company and AB Orlen Lietuva. The agreement will mature at the end of 2024. The agreement provides that the Company will render transshipment of fuel oil, gasoline and diesel fuel of the same volumes as they are now. The agreement was drawn up following the principle of equality, taking into account the needs of both parties.
- **19 December.** The Company and AB Lietuvos Energija, signed a preliminary agreement, which was the first step in agreeing on the terms and conditions of gas purchase from the future LNG terminal. The parties shall share information and adjust the basic data required to sign the master agreement throughout the implementation period of the Project. The agreement also prescribes that the capacity of the LNG terminal shall ensure all the quantity of

gas needed by AB Lietuvos Energija. The quantity of gas, terms and conditions of supply, principles for price determination, segregation of duties will be stated in the master agreement, which is planned to be signed by the parties by 31 December 2012. The LNG terminal should start operating in the port of Klaipėda by the end of 2014.

Significant events occurred after the end of the financial year:

- **On 23 January 2012** the most beneficial proposal presented in the international tender for public procurement „Acquisition of a floating storage regasification unit“ was the proposal of the Norwegian company Høegh LNG Ltd. In total three proposals were received from the suppliers. An agreement between the Company and Høegh LNG Ltd. shall be enforced to the fullest extent only upon approval of the Company's general shareholders meeting.

- **On 7 February 2012** the Lithuanian Government aHOPTed a resolution No.175 „Regarding supplement of the Government resolution No. 1442, dated 27 December 2007, „Approval of the plan for 2008-2012 for realisation of the national energy strategy““, based on which the Project of the liquefied natural gas terminal (LNG) was included in the plan for 2008-2012 for realisation of the national energy strategy.

The plan for realisation of the national energy strategy anticipates that by the end of 2014 AB Klaipėdos Nafta will establish the LNG import terminal which will comprise the floating storage of liquefied natural gas with regasification unit, the terrestrial terminal equipment and the connection to the natural gas transmission system and/or their technological appurtenances. Besides, the plan points out that a preliminary amount needed for realisation of the LNG terminal Project carried out by AB Klaipėdos Nafta is LTL 532 million (an exact amount will be known after signing agreements with contractors). There is no intention to use any funds from the state budget. It is expected that the agreements with the main contractors of the project shall be approved by the general shareholders meeting as required by the Company's Articles of Association.

Furthermore, the plan for realisation of the national energy strategy anticipates that the state company Klaipėda Seaport Authority, controlled by the Ministry of Communication, will develop the existing and implement a new infrastructure of the Klaipėda State seaport, and perform other development works in the port for the purpose of realisation of the LNG terminal Project. According to preliminary estimation, the funds needed by the Klaipėda State Seaport Authority amount to LTL 150 million, without engagement of the state budget.

- **On 15 February 2012** the Lithuanian Government aHOPTed a resolution No.199 „Regarding implementation of the liquefied natural gas terminal“, by which approved that the Company would continue with the realisation of the Project. Based on the resolution, the Government authorised the Ministry of Energy to initiate a general shareholders meeting of AB Klaipėdos Nafta for amendment of the Company's Articles of Association by including the implementation of the LNG terminal, its preparation for usage, enforcement of an economical and efficient operation and (or) its subsequent transfer to an operator of the natural gas transmission system controlled by the State as one of the goals of AB Klaipėdos Nafta.

The Klaipėda State Seaport Authority is obligated to develop the existing and implement a new infrastructure of the Klaipėda State seaport, and thus to create the conditions for implementation of the LNG terminal and its preparation for usage by 03-12-2014, as well as to transfer the infrastructure to or grant the usage rights to AB Klaipėdos Nafta.

- **On 15 February 2012** the Lithuanian Government aHOPTed a resolution No.204 „Investment of the state property and increase of the authorised capital of AB Klaipėdos Nafta“ by which it approved that the property of LTL 45,49 million is invested in AB Klaipėdos Nafta for the purpose of increasing the authorised capital of the Company.

The Republic of Lithuania, holding 70,63 % ordinary shares of AB Klaipėdos Nafta, intends to invest in the property of AB Klaipėdos Nafta managed by the Lithuanian Oil Agency on the trust rights basis - Subačiaus fuel base, and thus to increase the authorised capital of the Company by an additional contribution, provided the Company undertakes to rent out to the Lithuanian Oil Agency part of the assets necessary for accumulation of oil products and the state oil reserves and their maintenance as to legislation for a period not shorter than 10 years. It is planned that the authorised capital will be increased by additional contributions by issuing new ordinary shares at a nominal value of 1 LTL each.

- **On 1 March 2012** the Company's Board decided to continue the implementation of the LNG Terminal project and to draw up an agreement with Høegh LNG Ltd., the winner of the public procurement tender „Acquisition of a floating storage regasification unit“, regarding lease, operation and repair of the floating unit with gasification for storage of liquefied natural gas (FSRU) for a 10 years period, with the right of redemption, and prescribing the term of delivery of FSRU to the port of Klaipėda - 1 September -1 December 2014, a fixed FSRU leasing price, compensation of factual operational, maintenance (repair) costs that should not exceed the contractual amount during the first two years. Therefore, the total FSRU leasing and operational costs for the first year, including salaries to the crew and related taxes that will be annually indexed as to the index of consumer prices, shall not exceed USD 156,2 thousand (excl.VAT) per day. Also, the agreement should prescribe that the Company will be liable to provide the FSRU supplier with a payment guarantee amounting to not more than USD 50 million, which shall be secured by pledging the Company's assets (account balances, receivable amounts). The mentioned decision of the Board will come into force upon approval by the general shareholders meeting.
- **On 2 March 2012** the Company signed an agreement with Høegh LNG Ltd., the winner of the public procurement tender „Acquisition of a floating storage regasification unit“, regarding lease, operation and repair of the floating unit with gasification for storage of liquefied natural gas (FSRU) for a 10 years period, with the right of redemption. The agreement will come into force upon approval by the general shareholders meeting.



- On 26 March 2012, the extraordinary shareholders meeting aHOPTed the following decisions:

1. To approve the decision of the Board to continue the implementation of the LNG Terminal project and to draw up an agreement with Høegh LNG Ltd., the winner of the public procurement tender „Acquisition of a floating storage regasification unit“, regarding lease, operation and repair of the floating unit with gasification for storage of liquefied natural gas (FSRU) for a 10 years period, with the right of redemption, and prescribing the term of delivery of FSRU to the port of Klaipėda - 1 September -1 December 2014, a fixed FSRU leasing price, compensation of factual operational, maintenance (repair) costs that should not exceed the contractual amount during the first two years. Therefore, the total FSRU leasing and operational costs for the first year, including salaries to the crew and related taxes that will be annually indexed as to the index of consumer prices, shall not exceed USD 156,2 thousand (excl.VAT) per day. Also, the agreement should prescribe that the Company will be liable to provide the FSRU supplier with a payment guarantee amounting to not more than USD 50 million, which shall be secured by pledging the Company's assets (account balances, receivable amounts).

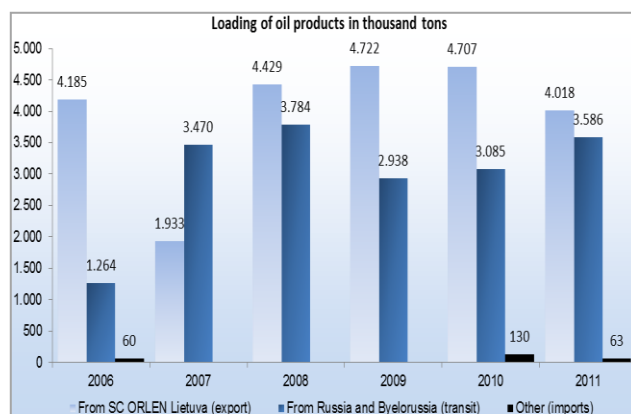
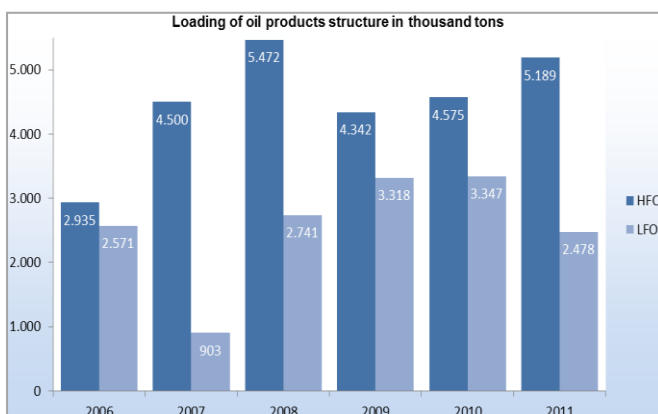
2. To approve the following wording of the below stated articles of the Company's Articles of Association:

“2.1. The main performance goals of the Company are to ensure an efficient and effective functioning of oil and oil products transportation pipelines and other equipment of the Company's oil terminal, reasonable usage of the Company's property, rendering of services to clients, as well as engagement in other activities ensuring satisfaction of the Company's and its shareholders' needs. Also, the Company's objective is an installation of the liquefied natural gas terminal and its preparation for usage, assurance of its economic and rational operation and (or) its subsequent transfer to the operator of the natural gas transmission system controlled by the Lithuanian State.”

According to Lithuanian legislation, all material events related to the Company's activities and the information about time and place of the general shareholders meeting are published in the Company's website [www.oil.lt](http://www.oil.lt), to AB NASDAQ OMX Vilnius Stock Exchange.

In 2011 the Company issued 52 notices on material events and other regulated information in AB NASDAQ OMX Vilnius Stock Exchange ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)).

## BUSINESS ENVIRONMENT



During the year 2011 the Company transhipped 7.667 thousand tonnes of oil products. 68% of the total turnover relate to transhipment of heavy oil products (HOP), the flowability of which depends on the product temperature and ambient temperatures. The following are attributed to HOP: types of fuel oil and its substitutes, vacuum gas oil, orimulsion, oil ant etc. Light oil products (LOP) – are the products, the flowability of which does not depend on the product temperature and ambient temperatures. The following are attributed to LOP: types of gasoline, diesel fuel, jet fuel and etc.

In 2011 the Company transhipped by 3% or 255 thousand tonnes less oil products than in 2010 (7.922 thousand tonnes). The reduction was caused by decreased flows of oil products exported by the Company's major client AB Orlen Lietuva. During 2011 AB Orlen Lietuva transhipped 15 % or 689 thousand tonnes less oil products, compared to 2010 (2011 - 4.018 thousand tonnes, 2010 - 4.707 thousand tonnes). As the annual volume of transhipment of AB Orlen Lietuva exceeds 50 % of the total turnover of the terminal, the long-term agreement on transhipment of oil products signed on 17 November 2011 plays an essential role in further activities of the Company and secures the main flows of fuel oil, gasoline and diesel fuel. The agreement shall be valid until the end of 2024. The agreement provides that the volume of transhipment will remain unchanged from the current volume.

## RISK FACTORS

### Competitive environment factors

The main competitors of the Company are the following terminals of Klaipėda and the other Baltic Sea ports, reloading heavy and light oil products exported from Russia, Byelorussia, Lithuania: Krovinių terminalas (Lithuania), Ventspils Nafta

(Latvia), Ventbunkers (Latvia), BLB (Latvia), Alexela (Estonia), Vopak EOS (Estonia), Vesta (Estonia), Peterburg Oil Terminal (Russia) and the new terminal Ust-Luga (Russia). The most significant factors influencing the competitiveness of the Company on the market are as follows: loading and storing (accumulating) capacity of the terminal, calculated technical parameters of the logistics chain starting with railway lines and ending with depth and number of quays as well as transportation to terminal costs, 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 transshipment of these flows and it affects transshipment 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 governments of Russia and Belarus have always strictly regulated 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 the risks.

In the event the Latvian Government decides to significantly decrease the railway tariffs, a threat to lose the most strategically important production flows from the refineries in Belarus would arise. Due to a shorter distance from the refinery to the marine terminal, compared to the terminals in Estonia and Latvia, the total costs from the logistic chain of the refinery in Mazeikiai and Mozyris are currently lower when loading oil products through the Company than through the neighbouring terminals of the Baltic Sea.

### **Commercial factors**

The future perspectives of the Company greatly depend on the production output of AB ORLEN Lietuva, the annual transshipment turnover of which through the Company represents more than 50% of the total production turnover. On 17 November 2011 the Company signed an agreement with AB Orlen Lietuva, which being valid till the year 2024, guarantees the main flows of fuel oil, gasoline and diesel fuel.

From the geographical point of view, the ports of Klaipeda and Latvia are at the nearest distance to the Byelorussian plants (transshipment of which amounted to 2,3 million tonnes in 2011 and 1,2 million tonnes in 2010 made respectively 30% and 15% of the Company's total turnover of oil products).

The plants in Belarus experience the lowest costs when their production is transported in the mentioned directions. Therefore, it is essential to co-operation with the companies and institutions in this country in order to direct the transshipment via the port of Klaipeda.

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 transshipment 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, Somiteknolo Ltd.).

### **Tariffs**

As of September 2010 the Company changed the scheme of co-operation with the clients. The Company refused intermediation contracts (repurchase of Terminal's services through forwarders). The Company negotiates long-term contracts directly with owners and traders of oil products and thus aims 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 transshipment tariffs of some of the oil products up to 50 per cent.

### **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 transshipment both light and heavy oil products through them will allow to service vessels of greater tonnage and expand an assortment 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 tonnes of exported/imported oil products and crude oil per year. Total capacity of crude oil and oil products storage tanks amounts to 405 thousand m<sup>3</sup>. Each cargo batch delivered from different oil refinery is stored separately, i.e. is not mixed with others. This allows preserving the initial quantity and quality of the delivered products. Modern laboratory of the Terminal controls the

quality parameters. Tankers of up to 100 thousand tons 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 where four tankers can be loaded at the same time. A unique biological waste water treatment technology guarantees that the treated clear water, discharged into open water basins, complies with the European Union regulations. Total capacity of Waste Water Treatment plant - 160 m<sup>3</sup>/hour. Up to 400 thousand 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“ and etc. AJAX-HEKATRON automatic fire detection and extinguishing system, HONEYWELL shutdown system, BAILEY computerized control system of the transhipment process have been introduced.

### **Ecological factors**

The Company, through its activities, must follow the environmental protection legislation providing for consumption, notation and storing of various materials, and ensure that the equipment used meet the requirements for their usage. Objects that bear risk in terms of an increased damage to the environment due to an amount of released pollutants or waste are operated in accordance with Permits of Pollution Prevention and Control (IPCP) issued by regional environmental departments, and in accordance with the best techniques. All these regulations obligate to introduce procedures and technologies, which allow to properly handle any harmful materials, and prescribe the Company's responsibility for managing and eliminating any pollution and maintaining a proper condition of the equipment.

For reduction of the ecological risk, 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 Fire fighting, 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 2011 the Company started construction project of hydrocarbon vapour recovery unit for utilisation vapours of light oil products and crude oil and plans to finish this project in 2012. After construction this unit will substantially decrease environment pollution with hydrocarbon vapours.

### **ENVIRONMENT PROTECTION**

During 2011 the Company did not experience any accidents or malfunctioning that could affect environment. The Company performs constant environmental monitoring of:

- underground and surface water (it has been measured that underground pollution with oil products, which accumulated over the period of activities of the old terminal, is reducing);
- discharged waste water (biological treatment facilities of the Company guarantee less pollution of open water basins than 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 447 tonnes of hydrocarbon vapours during the year (2010 – 894 tonnes);
- stationary sources of air pollution (the amount of pollutants defined in the Environment Protection Permit was not exceeded).

During 2011 the Company utilized 9.026 tonnes (2010 – 10.750 tonnes) of bilge waters and biologically treated mud, handed over to other companies 101 tonnes (2010 – 227 tonnes) of sorted wastes, collected 1.525 tonnes (2010 – 1.120 tonnes) of secondary raw materials (metal scrap, oil products, paper).

During 2011 the running intramural expenditures for environment protection totalled to LTL 2.801 thousand (2010 – LTL 2.574 thousand). Additionally LTL 51 thousand were allotted for different environmental analyses (investigation of pollutants and etc.) (2010 – LTL 60 thousand), LTL 23 thousand of pollution tax was paid (2010 – LTL 33 thousand).

The Company understands the nature of its performance, therefore pays particular attention to environment protection. One of such projects, currently being implemented, is the project of utilisation of hydrocarbon vapour from the elevated railway, in other words, the heat utilisation unit. Elevated railways are major hydrocarbon emission spots in oil terminals, therefore the Company decided for expensive but necessary investments to protect surrounding residents from odours.

### **RESULTS OF FINANCIAL ACTIVITIES**

#### **Operating results**

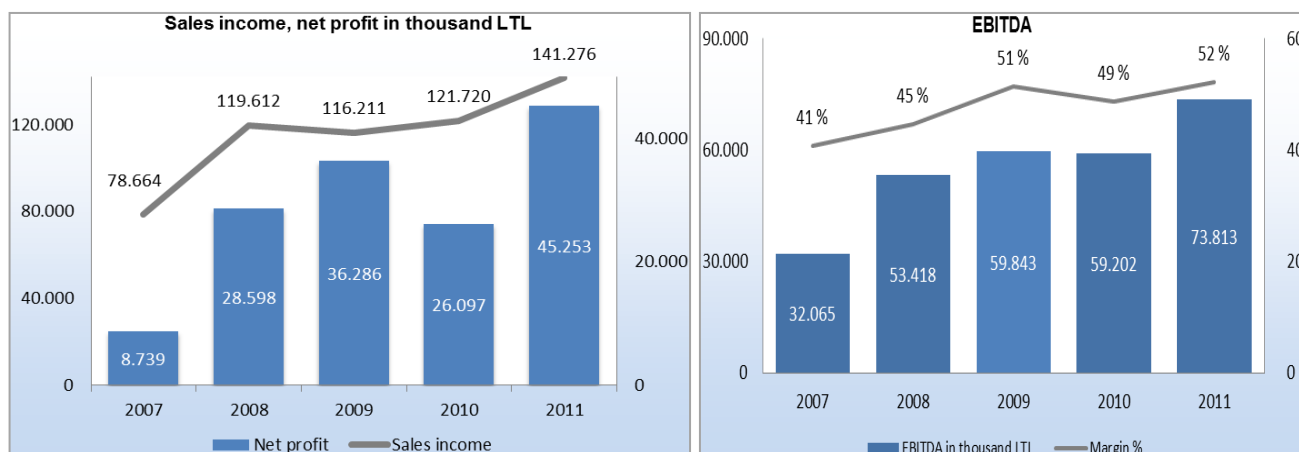
The year 2011 was a record year for the Company. Net profit for 2011 amounts to LTL 45.253 thousand, compared to 2010 (LTL 26.097 thousand), which is an increase by 73 % or LTL 19.156 thousand.

The growth of profit for 2011 resulted from:

- the one-time sale of heavy oil products collected in the Company's treatment plants at an amount of LTL 2,7 million;

- the strengthened commercial activity – refusal of intermediary services, direct co-operation with cargo owners and income for handling oil product balances;
- In 2010 the net profit was negatively influenced by the write down of LTL 8,6 million of unused assets due to changed technological conditions.

Profit for 2011 before taxes, interest, depreciation and amortisation (EBITDA), amounting to LTL 73.813 thousand, increased by 25 %, compared to the year 2010 (LTL 59.202 thousand),



## Revenue

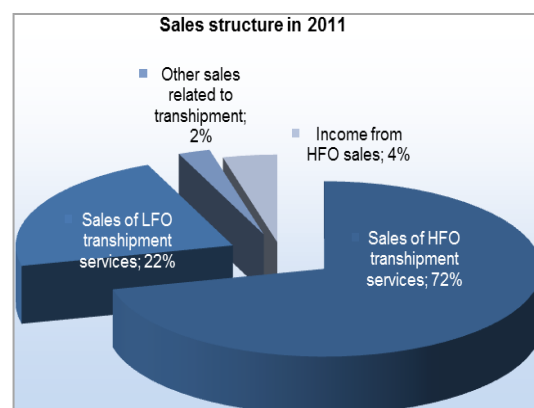
In 2011 the Company's revenue amounted to LTL 141.276 thousand, compared to the year 2010 (LTL 121.720 thousand), which is an increase by 16 % or LTL 19.556 thousand.

The factors determining a substantial growth of revenue were as follows: operation without mediation, where after termination of co-operation with UAB Naftos Grupė the Company earned additional income from higher loading tariffs, implementation of structural commercial re-arrangements which also generated additional income from handling of oil product balances, as well as successful sales of oil products received from treated bilge waters.

Income from transshipment services make over 90 % of the Company's total revenue (2011 – 94 %, 2010 – 98 %).

## Structure of revenue of AB Klaipėdos Nafta

Sales income	2010		2011	
	In thousand LTL	%	In thousand LTL	%
Income from transshipment services	118.975	98%	132.223	94%
Income from HFO sales	-	-	5.699	4%
Other sales income related to transshipment	2.745	2%	3.354	2%
<b>Total</b>	<b>121.720</b>	<b>100%</b>	<b>141.276</b>	<b>100%</b>



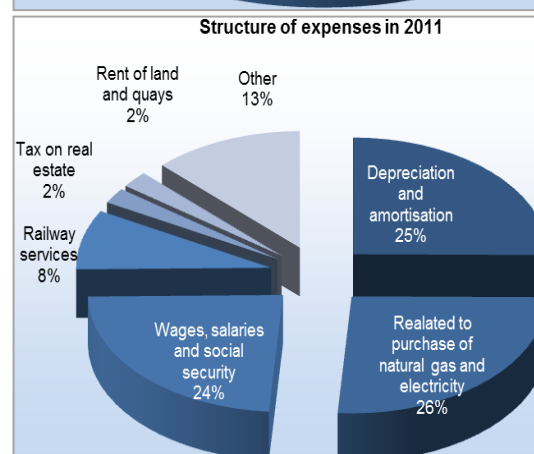
Other sales income related to transshipment include mooring services, sale of fresh water, transportation of crew and etc.

## Costs

In 2011 the cost of sale (LTL 82.890 thousand) increased by 8% or LTL 6.437 thousand, compared to the year 2010 (LTL 76.453 thousand); whereas operating costs double-decreased from LTL 17.002 thousand to LTL 7.270 thousand. The growth of cost was influenced by gas prices, which were increasing throughout the year (LTL 3,4 million), and the recognised cost (LTL 3 million) of sold oil products collected from the Company's treatment plants.

In 2011 the major part of the cost of sales included: depreciation and amortisation of LTL 22.474 thousand or 27 %, energy costs (gas and electricity) of LTL 23.505 thousand or 29 %, railway services of LTL 7.465 thousand or 9 %.

A decrease in operating costs for 2011, compared to the year 2010,



was caused the decrease in provisions. In 2011 the Company recognised an impairment of LTL 8.585 thousand on non-current assets which became economically useless due to changed technological conditions.

### Key financial figures

In 2011 the Company's sales income increased by 16% or by LTL 19.556 thousand and amounted to LTL 141.276 thousand, compared to the year 2010 (LTL 121.720 thousand).

Net profit for 2011 increased by 73% and amounts to LTL 45.253 thousand, compared to net profit for 2010 (LTL 26.097 thousand).

In 2011 return on equity (ROE) (average return on equity) increased from 5,8 % (2010) to 9,5%.

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

Operating figures	2009	2010	2011
Transshipment of oil products (net thousand tons)	7.660	7.922	7.667
Investments (acquisitions)	12.679	12.803	19.135
Financial figures			
Sales income	116.211	121.720	141.276
Gross profit	45.361	45.267	58.385
Operational profit	39.595	28.304	51.158
EBITDA	59.843	59.202	73.813
EBIT	39.595	28.304	51.158
Profit before taxation	41.291	29.751	53.244
Net profit	36.286	26.097	45.253
Non-current assets	410.291	396.150	390.151
Current assets	56.947	77.756	129.207
Total assets	467.238	473.906	519.358
Equity capital	445.319	455.016	500.269
Profitability			
Return on equity (ROE)	8,4%	5,8%	9,5%
Return on assets (ROA)	7,9%	5,5%	9,1%
Gross profit margin	39%	37%	41%
Operational profit margin	34%	23%	36%
EBITDA margin	51%	49%	52%
EBIT margin	34%	23%	36%
Net profit margin	31%	21%	32%
Turnover			
Amounts receivable, days	22	17	18
Amounts payable, days	22	13	15
Financial structure			
Debt to equity ratio	0,05	0,04	0,04
Capital to assets ratio	0,95	0,96	0,96
Gross liquidity ratio (current ratio)	5,11	8,08	12,20
Market value ratios			
Share price and earnings per share ratio (P/E), times	9	24	10
Net profit per share, LTL	0,11	0,08	0,13

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

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

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

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



## Investments

The Company, aiming to be an active participant of the oil market, follows the technically and economically grounded investment policy. Furthermore, the Company's task is to ensure compliance with the environmental requirements by releasing a small amount of carbohydrate vapour to the most possible extent. For this purpose, a utilisation system of the carbohydrate vapour from the HOP railway piers is being prepared.

Preparation and realisation of the Project concerning the liquefied natural gas terminal is a large challenge for the Company.

### Main directions for investment:

- The purpose of the Company's investments in the terminal is to increase its flexibility when accepting various light oil product, to comply with the environmental and fire prevention requirements.
- Preparation of the LNG terminal Project.

### Investments of the Oil Terminal in 2011

In 2011 investments in modernisation of the oil terminal amounted to LTL 6.955 thousand. The Company implemented the following investments for modernisation of the oil terminal: completed modernisation of the fuel oil spilling system on the second road of the first railway gantry (the total value of the object is LTL 4.606 thousand), reconstruction of the LOP storage tanks (the total value of the object is LTL 1.369 thousand reconstruction of the automated part of the fire protection system (the total value of the object is LTL 2.352 thousand), completed modernisation of the accounting system (the total value of the object is LTL 208 thousand) and repaired mechanical workshops (the total value of the object is LTL 719 thousand).

Beside the mentioned finished investments, in 2011 the Company continued development of the universal storage tanks park – the construction of two universal storage tanks of 32,25 thousand m<sup>3</sup> each (a technical project prepared and a permit for construction received) and the environmental project – installation of the system for utilisation of hydrocarbon vapours from the rail gantry. On 29 September 2011 an agreement was signed with John Zink International Luxembourg SARL for acquisition of the equipment for hydrocarbon vapours utilization as to the investment Project started in 2010 „Utilization of hydrocarbon vapours from rail piers. The mentioned equipment shall be delivered within nine months from signing the agreement.

### Preparation of the LNG Terminal Project in 2011

As at 31 December 2011, investments in the LNG terminal Project amount to LTL 12.180 thousand, the major part of which – LTL 8.200 thousand – are prepayments as to agreement to the leading consultant of preparation and implementation of the LNG Terminal Project as well as payments for legal and other research services.

Almost a quarter of the contractual amount allocated for the LNG terminal Project has already been transferred to the project's consultant – an American company „Flour“. Prepayments have been made for the following services: selection of parameters, the business plan and the LNG supply strategy, financial and economic plan and Project management, a study on risk and security in preparing pre-design decisions and technical tasks. Payments are executed against the services rendered.

In 2011, based on the research studies of the consultant the project was structurized, a conception prepared and the key parameters substantiated: a floating tank with a gas releasing device, an annual capacity of 2-3 billion m<sup>3</sup>, the best place – Klaipeda port area. A strategy on supply of LNG and sale of DG prepared.

In 2011 the LNG terminal's development plan was approved, which also provided a strategic environmental assessment. The development plan confirmed that the LNG Project complies with the National Energy Strategy. The performed strategic environmental assessment revealed a possible impact on environment and identified the priority place for the LNG terminal is located in the port of Klaipeda, near the island of Kiaulės Nugara.

The study on navigation and mooring of the vessel storage and gas carries, performed in 2011, showed that the LNG carriers with the capacity up to 150 thousand m<sup>3</sup> can enter the port of Klaipeda after certain infrastructural changes of the port are made.

New works were started in 2011, the implementation of which will be continued in 2012:

- The tender for acquisition of the floating storage regasification unit (FSRU) has been started (on 2 March 2012 an agreement was signed with the winner of the tender - Høegh LNG Ltd.).
- Commencement of strategic environmental assessment (SEA).
- Commencement of planning and preliminary works in the port of Klaipeda, which will allow completing in time the deepening of the port and construction of the mooring berth for the LNG vessel-storage.
- Initiation of preparation of the specific plan for construction of the LNG Terminal, the related infrastructure and the pipeline, which shall be registered with the LR Territorial Planning Register.

## ACTIVITY PLANS AND FORECASTS

The Company's operational objectives for 2012 are associated with implementation of the Company's strategy for 2012-2016. The plan prescribes:

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

In 2012 the Company is planning to tranship 7,2 million tons of oil products, which is by 6% lower than in 2011 (actual transshipment amounted to 7,7 million tons). The mentioned reduction is planned due to a 45 days extraordinary repair at AB Orlen Lietuva and due to planned construction works in the gantries and storage tanks.

The planned investments for 2012 amount to LTL 66,6 million, out of which LTL 38,0 million will be invested in the preparation of the LNG Terminal Project, and LTL 28,6 million in modernisation of the oil terminal.

#### **Preparation of the liquefied natural gas terminal Project**

The goal is to realise the possibility ensuring the energetic security of the country – implementation of the LNG Terminal.

On 15 February 2012 the Lithuanian Government adopted a resolution No.199 „Regarding implementation of the liquefied natural gas terminal“, by which approved that the Company would continue with the realisation of the Project. Based on the resolution, the Government authorised the Ministry of Energy to initiate a general shareholders meeting of AB Klaipėdos Nafta for amendment of the Company's Articles of Association by including the implementation of the LNG terminal, its preparation for usage, enforcement of an economical and efficient operation and (or) its subsequent transfer to an operator of the natural gas transmission system controlled by the State as one of the goals of AB Klaipėdos Nafta.

The Klaipėda State Seaport Authority is obligated to develop the existing and implement a new infrastructure of the Klaipėda State seaport, and thus to create the conditions for implementation of the LNG terminal and its preparation for usage by 03-12-2014, as well as to transfer the infrastructure to or grant the usage rights to AB Klaipėdos Nafta

As to the Implementation Plan of the National Energy Strategy for 2008-2012, the preliminary amount needed by AB Klaipėdos Nafta for the LNG project, including guarantees, amounts to LTL 532 million (an exact amount will be known after signing agreements with the main contractors). There is no intention to use the funds from the state budget. The Company's articles of Association provide that the agreements with the main contractors of the LNG projects shall be approved by the general shareholders meeting.

#### **Investments of the oil terminal**

Investments of the oil terminal are directed towards an increase of the terminal's flexibility by accepting more different types of oil products in order to maintain a high level of from the Company's primary activity – transshipment of oil products.

##### Development of the storage tanks park.

Currently, the Company accumulates cargo lots in the shore storage tanks with an overall volume of 405 thousand m<sup>3</sup>.

In 2012 the Company will continue construction of the two universal storage tanks (2 x 32,25 thousand m<sup>3</sup>). The goal is to replace the depreciated 4 x 5 thousand m<sup>3</sup> storage tanks which no longer comply with environmental requirements due to their full retirement. Upon realisation of this investment, the storage tank park will increase by 45 thousand tons, VOC (volatile organic compounds) emissions from the newly installed storage tanks will be 10 times lower. The investment will increase the Company's flexibility in transshipment of oil products and will enable to tranship additional LOP flows as well as will increase the terminal's attractiveness – clients will be able to accumulate larger batch (up to 90 thousand tons). The value of the investment amounts to LTL 16 million. The Company is planning to finish the construction by the end of 2013.

In 2012 the Company is planning to start design works for construction of new universal storage tanks - 2 x 12 thousand m<sup>3</sup>. The goal is to replace the depreciated 2 x 5 thousand m<sup>3</sup> storage tanks by universal ones, which will increase the Company's flexibility in accepting different types of oil products. The storage tank park of LOP would increase by 14 thousand tons. The investment amounts to LTL 12 million. The Company is planning to finish the construction by the end of 2013.

Besides construction of the new universal storage tanks, the Company is planning to carry out modernisation of the existing storage tanks' pipelines.

##### Environmental projects

In 2012 the Company is planning to complete the installation of the system for utilisation of hydrocarbon vapour from the rail piers. The purpose of this investment is to modernise the facilities used for collection and utilisation of vapours during transshipment of oil products from/to railway tanks. On 29 September 2011 a purchase agreement was signed with „John Zink International Luxembourg SARL“ for acquisition of the mentioned equipment. The new facility shall be delivered within 9 months from the signing date of the agreement. The mentioned investment amounts to LTL 7 million.

Other projects to support the technological processes of the Company are as follows:

Reconstruction of the automated part of the fire protection system, installation of the top spilling device in the railway tanks, adjustment of the Company's detailed plan of reconstruction.

## INCREASE OF THE COMPANY'S AUTHORISED CAPITAL

On 15 February 2012 the Lithuanian Government adopted a resolution No.204 „Investment of the state property and increase of the authorised capital of AB Klaipėdos Nafta”.

The Republic of Lithuania, holding 70,63 % ordinary shares of AB Klaipėdos Nafta, intends to invest in the property of AB Klaipėdos Nafta managed by the Lithuanian Oil Agency on the trust rights basis - Subačiaus fuel base, and thus to increase the authorised capital of the Company by an additional contribution, provided the Company undertakes to rent out to the Lithuanian Oil Agency part of the assets necessary for accumulation of oil products and the state oil reserves and their maintenance as to legislation for a period not shorter than 10 years. It is planned that the authorised capital will be increased by additional contributions by issuing new ordinary shares at a nominal value of 1 LTL each.

The merger of the Subačiaus fuel base to the Company and the long-term (10 years) agreement on storing of oil products should bring the following benefit for the Company:

**Risks of diversified activities.** The Company's activity depends on several participants of the oil market: AB Orlen Lietuva and the Mozyr and Novopolock oil processing plants in Belarus. By starting the new activity – storing of fuel resources – the Company reserves the extra income.

## MANAGEMENT OF THE COMPANY

### Information on adherence to the Governance Code

The Company, in general, follows 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 for 2011).

### 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

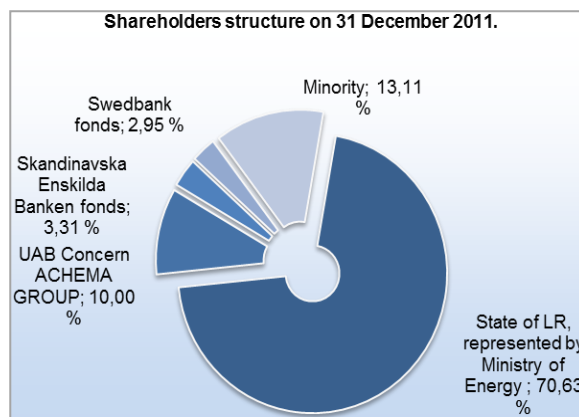
As at 31 December 2011 the shares of the Company were owned by 1.679 shareholders (2010 – 1.569). All the shares issued by the Company are ordinary registered shares granting its owners (shareholders) equal rights.

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 more than 5 % of the authorised capital of the Company as at 31 December 2011:

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, 156673480)	34.203.552	10,00

The remaining 66.252.022 shares of the Company (19,37 % of the authorised capital) belong to 1.677 minority shareholders.

#### Development of the share price at NASDAQ OMX Vilnius during 2009 – 2011

	2009	2010	2011
Highest price per 1 share in LTL	1,09	1,95	1,85
Lowest price per 1 share in LTL	0,78	0,94	1,24
Price per 1 share at the end of period in LTL	0,94	1,84	1,35
Average price per 1 share in LTL	0,95	1,40	1,55

As at 31 December 2011 the Company's market capitalisation was LTL 462 million, compared to LTL 629 million as at 31 December 2010, which is a decrease by 27 %.

#### Authorised capital of the Company

The Company's authorised capital amounted to LTL 342 million as at 31 December 2011. All the shares of the Company are fully paid and no restrictions on the transfer of securities are applied to them. The authorised capital is divided into 342.000.000 ordinary shares with a par value of 1 LTL each.

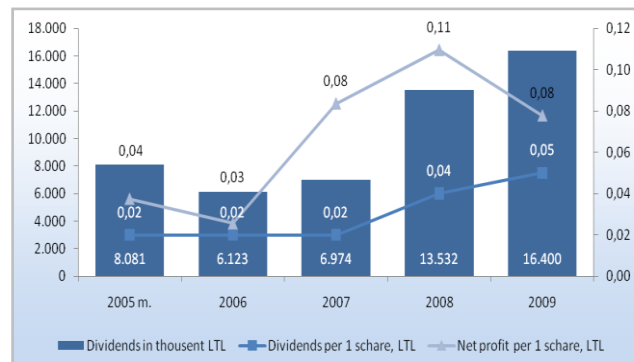
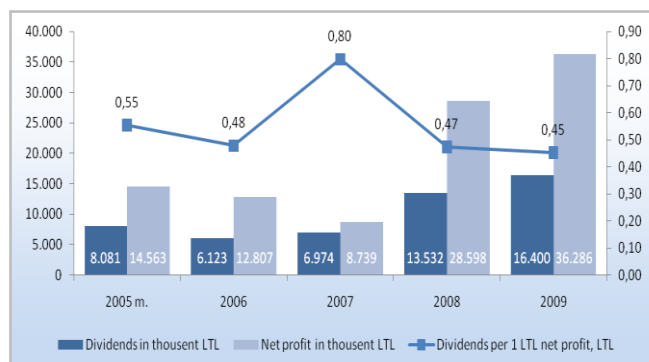
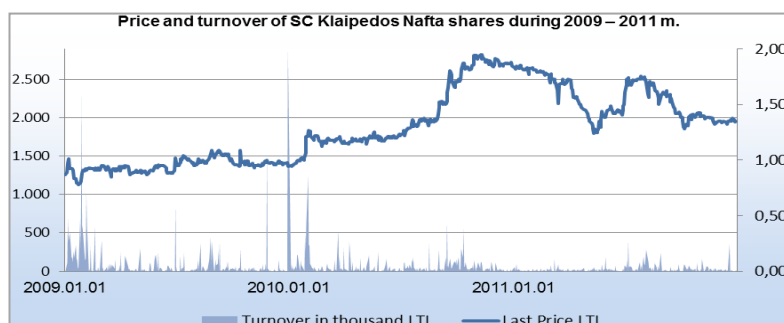
#### Information on the Company's own shares

The Company has not acquired any own shares.

#### Dividends

The shareholders did not allocate any dividends from profit for 2010.

Historical data on dividends for the period 2005-2009 is provided below.



#### Agreements with securities intermediaries of public trading

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

**AB SEB bank Financial Markets Department:**

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

**Management structure**

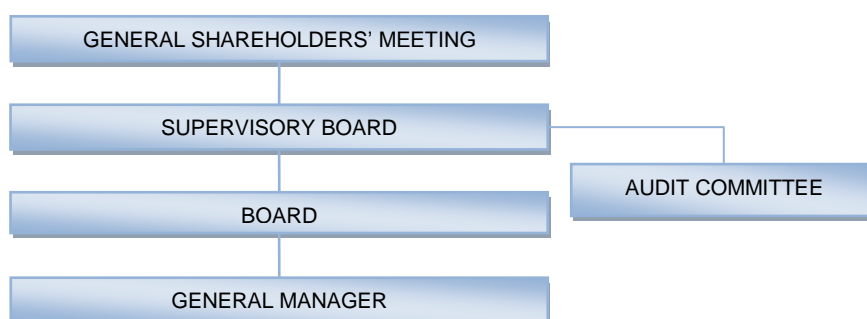
In its activities the Company follows the Companies Law, the Law on Securities, Articles of Association of the Company and other legal acts of LR. The competence of the General Shareholders' meeting, rights of shareholders and their realization are defined in the Companies Law and the Articles of Association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

The Company's Articles of Association, registered on 26 May 2011 with the Companies Register indicate the following management bodies:

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

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

**The Board** is a management body of the Company 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 General Manager have been determined by the Law on Companies and the Articles of Association of the Company.

**Management structure**

**Supervisory Board as at 31 December 2011**

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

The members of the Supervisory Board were elected on 27 April 2010 by the General Shareholders' Meeting. During the year 2011 the members of the Company's Supervisory Board did not receive any remuneration, loans, guarantees; no property transfers to them were made.

#### Audit Committee as at 31 December 2011

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

In 2011 the following amounts were calculated to the members of the audit committee: S.Rimašauskas - 21 thousand LTL, Mindaugas Jusys – 20 thousand LTL, Linas Sasnauskas – 2 thousand LTL. The members of the audit committee were not granted any loans, guarantees or assets.

#### Board as 31 December 2011

Name, surname	Position	Term of office
Arvydas Darulis	Chairman	February 2010– April 2014
<i>Vice-minister of the Ministry of Energy. Chairman of the board of AB Litgrid, Chairman of the board of UAB Visagino atominė elektrinė, Chairman of the board of PC Ignalinos atominė elektrinė. No Company shares owned.</i>		
Inga Černiuk	member	October 2011– April 2014
<i>Head of the legal department of the Ministry of Energy of the Republic of Lithuania. Chairman of the board of UAB NT Valdys, liquidator of AB LEO LT. No Company shares owned.</i>		
Rytis Ambrazevičius	member	October 2011– April 2014
<i>Vice-president of UAB Omnitel. No Company shares owned.</i>		
Mindaugas Jusys	member	October 2011– April 2014
<i>Member of the board of Swedbank Life Insurance SE. No Company shares owned.</i>		
Rokas Masiulis	member	September 2010– April 2014
<i>General Manager of AB Klaipėdos Nafta. Chairman of the board of UAB Baltpool. No Company shares owned.</i>		

In 2011 the calculated remuneration for Rokas Masiulis, member of the board and the general manager of the Company, amounts to LTL 269 thousand. No remuneration has been calculated for other members of the board. Members of the board did not receive any loans, guarantees or assets.

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

#### The Company's management as at 31 December 2011

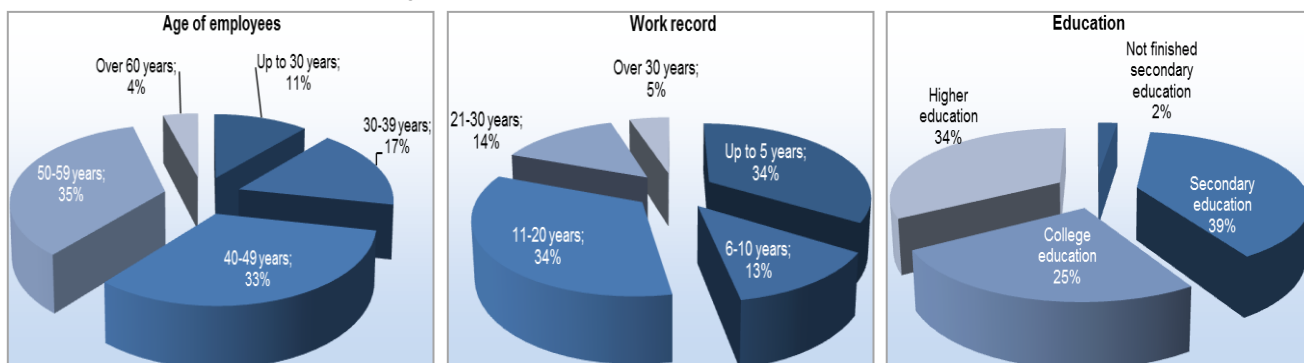
Name, surname	Position	Works from
Rokas Masiulis	General Director	May 2010
<i>Member of the Company's board, Chairman of the board of UAB Baltpool. No Company shares owned.</i>		
Vytautas Kazimieras Aranauskas	Deputy general director	May 2010
<i>Acting General Director of SC Naftos Produktų Agentūra. No Company shares owned.</i>		
Mantas Bartuška	Finance Director	May 2010
<i>No Company shares owned. Not participates in the management of other companies.</i>		
Gediminas Vitkauskas	Production Director	October 1995
<i>Holds 0,00001 % of authorised capital. Not participates in the management of other companies.</i>		
Sigitas Zakalskis	Commerce Director	August 2010
<i>No Company shares owned. Not participates in the management of other companies.</i>		
Rolandas Zukas	Director of the LNG terminal	December 2010
<i>No Company shares owned. Not participates in the management of other companies.</i>		

## PERSONNEL

The average number of personnel in 2011 – 315 employees (2010 – 306).

In 2011 blue-collar workers made 68 % of the Company's total employees (2010 – 69 proc.). The personnel consisted of 73 % of men and 27 % of women. The average age of employees - 45 years (2010 – 47 years).

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



The Company continuously instructs and trains its employees on the methods of safe labour. Employees who perform hazardous works and work with potentially hazardous equipment undergo training at specialist licensed 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 set at the Oil Terminal (543 persons from other companies underwent instructions in 2011).

In 2011 there was one trivial accident related to work and one at work (the employee was unable to work 112 days) and 1 incident at work where the employee did not lose his ability to work.

On 31 December 2010 the Company's Management consisted of General Director, Deputy General Director, Production Director, Finance Director, Commerce Director and Director of the LNG terminal. The management remuneration procedure is approved by the board which determines the fixed part (coefficient) and variable parts of monthly remuneration.

None of the Company's management members have been convicted of crimes against property, business or finances.

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

- 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.
- An allowance in the amount of 2,5 MAW (minimum annual wage) is paid once per year to employees who have three or more children up to 18 years of age.
- An allowance in the amount of 1,5 MAW is paid to employees in case of death of a family member (a spouse, parents, a child, a foster child).
- In case of death of an employee his family is granted a pecuniary funeral compensation.
- On birth of a baby an employee is given an allowance in the amount of 2 MAW, valid on the date of birth of the baby.
- Christmas celebrations are organised together with the Trade Union for the employees and the retired employees.
- On personal jubilee (50<sup>th</sup>, 60<sup>th</sup>, 70<sup>th</sup> anniversaries) employees are granted allowances in the amount of 1MMA.
- Based on the Management's decision, employees are granted other benefits in case of a difficult material situation of an employee, heavy losses suffered because of natural disasters, fire, flood, etc.

### Average 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	
	2011	2010	2011	2010 *
Managers	6	6	17.865	18.579
Specialists	96	88	5.187	5.261
Workers	213	212	3.396	3.657
<b>Total</b>	<b>315</b>	<b>306</b>	<b>3.952</b>	<b>4.128</b>

\* Has been allotted annual bonus for the operating results for 2010.

## SOCIAL RESPONSIBILITY OF THE COMPANY

In its business the Company follows the principles of business ethics and social responsibility. The Company strives to become a reliable social partner and contribute to solving of important social problems. The funds allocated for support

first of all are diverted to support environmental, infrastructural, health and social security projects associated with the region, where the Terminal functions. In 2011 the Company allocated LTL 301 thousand for the support purposes (2010 – LTL 236 thousand).

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 main events of the city of Klaipeda, such as the Sea Festival, Klaipeda jazz festival.

Using its earned means the Company sponsors the institutions of Klaipeda, which take care of orphans and children with specific needs. The support is assigned to the societies of the disabled of Klaipeda, to the churches of main confessions, to development of basketball, sport dance and athletics.

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

## **REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT FINANCIAL STATEMENTS**

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

## **OTHER INFORMATION**

### **Procedure of changing Articles of Association**

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

### **Transactions with related parties**

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is presented in the Notes to the Financial Statements for the year 2011.

## **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 2011 gives a true and fair view of the business development and performance, description of the Company.

General Manager

Rokas Masiulis

Finance Director

Mantas Bartuska

Stock Company Klaipėdos Nafta

Burių g. 19, a./d. 81

91003 Klaipėda-C

Tel. +370 46 391772, Fax. +370 46 311399

El. p. info@oil.lt



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

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

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

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
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; aHOPs 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.	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 regulations regarding formation of committees as prescribed in III and IV principles.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Board of the Company is comprised of five members. The Supervisory Board is elected of three members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for re-election of the members.

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chief Executive Officer of the Company is not a member of its Board. The Chairman of the Supervisory Board and the members has neither been the members of the Board of the Company nor the Chief Executive Officer.
<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b> <b>The order of the formation of 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>		
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.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	No	We will seek to realize it in future.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock	No	The collegial body ensures that its members are competent however periodic evaluation is not performed.



PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
exchange listed companies.		
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation. Up to now there has been neither need nor practice in the Company to offer a tailored program focused on introducing all new members of the Supervisory Board with their duties, corporate organization and activities.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	Up to now the independence of the elective members of the collegial body has not been evaluated and the content of the notion sufficiency of independent members has not been discussed. Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the general shareholders' meeting taking into account interests of the controlling shareholder in one or another way.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than	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>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. 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.
<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>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making.

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified	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 aHOPted only provided the majority of the independent members of the collegial body voted for such a decision.	No	The Company's Articles of Association as well as the Rules and Regulations of the Company's Board do not provide for the approval of such transactions by the Supervisory Board. Following the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company major transactions shall be approved by the Company's Board.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	The Company's collegial bodies are provided with all the necessary financial conditions for their work and are independent of the Company's Management.

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 for audit committee, however the Board performs their separate functions: it regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
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 for audit committee, however the Board performs their separate functions: it regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
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.	No	The committees are not established, except for audit committee, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
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 for audit committee, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
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 for audit committee, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	The committees are not established, except for audit committee, however the Board performs their separate functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee	No	The committees are not established, except for audit committee, however the Board performs their separate



PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
<p>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 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>functions: regularly evaluates skills, knowledge and experience of separate directors; discusses general application policy of remuneration (including stimulation) systems; observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.</p>

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
<p>4.14.1. 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 management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organisations) and justification of such operations.</p>	Yes	<p>The committee will be formed in the general shareholders meeting upon election of the new Supervisory board.</p>



PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
<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 organisation and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organisation and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</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>
<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>		

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	A collegial body of supervision - the Supervisory Board and a collegial body of management - the Board implement this provision in the Company.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The meetings of the Company's Supervisory Board are convened at least once in a quarter and the meetings of the Company's Board are carried out according to the schedule approved by the Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company observes provisions stated in this recommendation.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company observes provisions stated in this recommendation.
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b> <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.</b>		
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.

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

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
<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 authorised by the meeting.	Yes	The members of the Company's supervisory and management bodies have been acting in such a manner so as to avoid conflict of interests. Therefore such conflicts have never occurred in practice.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Not applicable	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Company's Board have been familiarised with these provisions and they must observe these recommendations.
<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 determined by analysing situation on Lithuanian labour market.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Refer to the comment in item 8.1 above.
8.3. Remuneration statement should leastwise include the following information:	No	Refer to the comment in item 8.1 above.

## COMMENTARY

- 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.

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.

Refer to the comment in item 8.1 above.

8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.

No

Refer to the comment in item 8.1 above

8.6. Without prejudice to the role and organisation of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.

No

Refer to the comment in item 8.1 above.

8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.

No

Refer to the comment in item 8.1 above

8.7.1. The following remuneration and/or emoluments-related information should be disclosed:

1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting:

2) The remuneration and advantages received from any undertaking belonging to the same group;

3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted:

4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director:

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
<p>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the 1-5 points.</p> <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> </ul> <p>The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ul> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ul> <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 aHOPTION. 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 aHOPTION; 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>



PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <p>1) Grant of share-based schemes, including share options, to directors;</p> <p>2) Determination of maximum number of shares and main conditions of share granting;</p> <p>3) The term within which options can be exercised;</p> <p>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</p> <p>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.</p>	Not applicable	Refer to the comment in item 8.8 above.
<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		
<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>		
<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarise with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>		
<p><b>Principle IX: The role of stakeholders in corporate governance</b></p> <p>The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		

PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The execution of this recommendation is ensured by the accurate supervision and control of the state institutions and organisations regulating the Company's activities. The publicity of the Company's activities creates conditions for the stakeholders to participate in corporate governance in the manner prescribed by law, by the Articles of Association and the Collective Agreement. The management bodies consult with the employees on corporate governance and other important issues, employee participation in the Company's share capital is not limited.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in aHOOption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
<b>Principle X: Information disclosure and transparency</b> <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.</b>		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should	Yes	Performance and corporate governance is regularly disclosed by distributing press releases and notifying about material events, in presentations. The documents are published in Lithuanian and English on the publicly accessible website of the Vilnius Stock Exchange. The Company prepares financial statements according to the International Financial Accounting standards.



PRINCIPLES / RECOMMENDATIONS	Yes / No Not applicable	COMMENTARY
be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of the Vilnius Stock Exchange so that the submitted information could simultaneously be announced thus guaranteeing its simultaneous dissemination to everybody.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of the Vilnius Stock Exchange so that the submitted information could simultaneously be announced thus guaranteeing its simultaneous dissemination to everybody and it is planned to constantly place the information on the Company's website.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	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.