



**FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION,
INDEPENDENT AUDITOR'S REPORT AND ANNUAL STATEMENT**

FOR THE FINANCIAL YEAR ENDING ON 31 DECEMBER 2013

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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 2013, 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 5–46.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



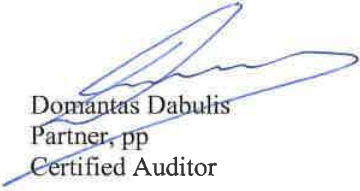
Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AB Klaipėdos Nafta as at 31 December 2013, 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 Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of AB Klaipėdos Nafta for the year ended 31 December 2013, set out on pages 48–91 of the financial statements and have not noted any material inconsistencies between the financial information included in the annual report and the financial statements of AB Klaipėdos Nafta for the year ended 31 December 2013.

On behalf of KPMG Baltics, UAB



Domantas Dabulis
Partner, pp
Certified Auditor

Klaipėda, the Republic of Lithuania
3 April 2014

Statement of financial position

	Notes	31-12-2013	31-12-2012
ASSETS			
Non-current assets			
Intangible assets	3	1.266	1.354
Property, plant and equipment	4	518.650	444.711
Long-term receivables	10	2.776	-
Investment into subsidiaries	0	-	1.000
Investment into associates	7	989	585
Total non-current assets		523.681	447.650
Current assets			
Inventories	8	1.155	1.134
Prepayments		558	438
Trade receivables	9	11.052	13.579
Refunds of income taxes		5.644	-
Other receivables	10	13.703	4.141
Other financial assets	11	30.146	13.234
Cash and cash equivalents	12	89.895	79.834
Total current assets		152.153	112.360
Total assets		675.834	560.010

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Explanatory notes, set out on pages 11-46, are an integral part of these financial statements.

Statement of financial position (cont'd)

	Notes	31-12-2013	31-12-2012
EQUITY AND LIABILITIES			
Equity			
Share capital	1,13	380.606	380.606
Share premium	13	13.512	13.512
Legal reserve	13	24.611	22.561
Reserve for own shares	13	55.000	55.000
Other reserves	13	62.273	23.727
Retained earnings		35.649	41.006
Total equity		571.651	536.412
Non-current liabilities			
Deferred income tax liability	24	6.935	7.194
Non-current employee benefits	14	837	816
Loan	15	51.212	-
Total non-current liabilities		58.984	8.010
Current liabilities			
Loan	15	134	-
Trade payables	16	25.189	7.157
Payroll related liabilities	17	4.782	3.869
Provisions	18	-	164
Income tax payable		-	2.524
Prepayments received		40	53
Dividends payable		39	39
Other payables and current liabilities	19	15.015	1.782
Total current liabilities		45.199	15.588
Total equity and liabilities		675.834	560.010

Explanatory notes, set out on pages 11-46, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2014
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2014
Interim Head of Accounting Department	Asta Sedlauskienė		21 March 2014

Statement of comprehensive income

	Notes	2013	2012
Sales	20	126.860	138.881
Cost of sales	21	(76.089)	(81.336)
Gross profit		50.771	57.545
Operating expenses	22	(12.606)	(10.734)
Other income		244	108
Profit from operating activities		38.409	46.919
Income from financial activities	23	695	1.847
Loss from financial activities	23	(106)	(116)
Share of the associate's net profit (loss)	7	(669)	108
Profit before income tax		38.329	48.758
Income tax expense	24	(2.680)	(7.321)
Net profit		35.649	41.437
Other comprehensive income (expenses)		-	-
Items that will not be subsequently reclassified to profit or loss		-	-
Items that may be subsequently reclassified to profit or loss		-	-
Total comprehensive income		35.649	41.437
Basic and diluted earnings (losses) per share, in LTL	25	0,09	0,11

Explanatory notes, set out on pages 11-46, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2014
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2014
Interim Head of Accounting Department	Asta Sedlauskienė		21 March 2014

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Reserve for own shares	Other reserves	Retained earnings	Total
Balance as at 31 December 2011		342.000	-	19.000	-	68.043	70.795	499.838
Net profit for the year		-	-	-	-	-	41.437	41.437
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	41.437	41.437
Dividends declared	26	-	-	-	-	-	(56.981)	(56.981)
Transfers between reserves		-	-	3.561	55.000	(44.316)	(14.245)	-
Increase in share capital		38.606	13.512	-	-	-	-	52.118
Balance as at 31 December 2012		380.606	13.512	22.561	55.000	23.727	41.006	536.412
Net profit for the year		-	-	-	-	-	35.649	35.649
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	35.649	35.649
Dividends declared	26	-	-	-	-	-	(410)	(410)
Transfers between reserves		-	-	2.050	-	38.546	(40.596)	-
Increase in share capital		-	-	-	-	-	-	-
Balance as at 31 December 2013		380.606	13.512	24.611	55.000	62.273	35.649	571.651

Explanatory notes, set out on pages 11-46, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2014
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2014
Interim Head of Accounting Department	Asta Sedlauskienė		21 March 2014

Cash flow statement

	Notes	2013	2012
Cash flows from operating activities			
Net profit	25	35.649	41.437
Adjustments for noncash items:			
Depreciation and amortization	21,22	24.880	22.990
Change in vacation reserve		205	438
Impairment and write-off of non-current tangible assets	4	421	1.029
Change in allowance for doubtful receivables	9	112	(4)
Change in non-current liabilities for employees	14	21	30
Impairment of inventory value	8	(360)	-
Accrued emission rights	18	(164)	(329)
Share of profit of equity-accounted investees	7	669	(108)
Accrued income		(1.439)	(926)
Other non-cash adjustments		(7)	-
Income tax expenses	24	2.680	7.321
Interest income		(372)	(1.817)
		62.295	70.062
Changes in working capital:			
(Increase) decrease in inventories		448	540
Decrease (increase) in prepayments		(4)	(215)
Decrease (increase) in trade and other accounts receivable		2.415	(9.244)
Decrease (increase) in other receivables		(12.777)	(1.834)
Increase (decrease) in trade and other payables		(2.909)	2.525
(Decrease) increase in prepayments received		(13)	4
Increase (decrease) in other current liabilities and payroll related liabilities		708	(125)
		50.163	61.713
Income tax (paid)		(9.229)	(5.235)
Interest received		372	931
Net cash flows from operating activities		41.306	57.409
Cash flows from investing activities			
(Acquisition) of property, plant, equipment and intangible assets		(65.069)	(39.948)
(Acquisition) of Investments held-to-maturity		(208.121)	(429.257)
Sales of investments held-to-maturity		191.209	533.051
Acquisition of other investments		(66)	(1.050)
Sales of Non-current assets		-	-
Net cash flows from investing activities		(82.047)	62.796

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Explanatory notes, set out on pages 11-46, are an integral part of these financial statements.

Cash flow statement (cont'd)

	Notes	2013	2012
Cash flows from financing activities			
Increase in share capital		-	6.627
Dividends (paid)	13	(410)	(56.981)
Received loan	15	51.212	-
Net cash flows from financing activities		50.802	(50.354)
Net increase (decrease) in cash flows		10.061	69.851
Cash and cash equivalents on 1 January	12	79.834	9.983
Cash and cash equivalents on 31 December	12	89.895	79.834

Explanatory notes, set out on pages 11-46, are an integral part of these financial statements.

General Manager	Rokas Masiulis		21 March 2014
Director of Finance and Administrative Department	Mantas Bartuška		21 March 2014
Interim Head of Accounting Department	Asta Sedlauskienė		21 March 2014

Explanatory notes to financial statements

1 General information

Stock Company Klaipėdos Nafta (hereinafter referred to as “the Company”) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Burių str. 19, 91003 Klaipėda, Lithuania.

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

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

As of 31 December 2013 all the shares were owned by 1,820 shareholders. The Company’s share capital – LTL 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) is fully paid. It is divided into 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) ordinary shares with a par value of one (1) LTL. 72.32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during the year 2013. The Company’s shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange.

As of 31 December 2013 and 31 December 2012 the shareholders of the Company were:

	31 December 2013		31 December 2012	
	Number of shares held (thousand)	Part of ownership (%)	Number of shares held (thousand)	Part of ownership (%)
Government of the Republic of Lithuania represented by the Ministry of Energy	275.241	72,32	275.241	72,32
UAB Concern Achema Group	38.975	10,24	38.975	10,24
Other (less than 5 per cent each)	66.390	17,44	66.390	17,44
Total	380.606	100,00	380.606	100,00

The average number of employees in 2013 was 364 (327 – in 2012).

Financial statements confirmation

The Company’s management confirmed these financial statements on 21 March 2014. The Company’s shareholders have a legal right to confirm these financial statements or do not confirm them and to require the management to prepare new financial statements.

2 Accounting principles

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

2.1. Basis for preparation of the financial statements

Statement of compliance

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

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 2013:

- Regarding the amendments to IAS 1, the Company adjusted the presentation of articles in the statement of comprehensive income in order to separate the articles which might in future be reclassified to the profit (loss) statement from those which will never be reclassified. The comparative information has been presented accordingly.

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

- Amendments to IAS 12 “Deferred tax. Recovery of underlying assets”. (Effective for annual accounting periods beginning on or after 1 January 2013. Applied retrospectively.). These amendments introduced a rebuttable presumption that the balance value of the investment property measured at fair value can be recovered only by selling that property. The management’s intention would not be important except for those cases, when the investment property is depreciated and is held according to a business model which aims to utilize all economic benefits related to the investment property during its useful life. This is the only case, when this presumption may be rebutted. The Company assumes that these amendments will not have an impact on the financial statements, as the Company does not have deferred tax assets and liabilities related to the investment property, measured at fair value in accordance with IAS 40.

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

- IAS 19 (2011) “Employee benefits” (Effective for annual accounting periods beginning on or after 1 January 2013. Applied retrospectively.). According to the amendment it is required that actuarial gains and losses be immediately recognized within other comprehensive income. The amendment repeals the “corridor” method previously applied to the recognition of actuarial gains and losses and eliminates the option to recognize all of the defined benefit obligations and changes of the plan’s assets within the income (loss) statement, what is currently allowed by the requirements of IAS 19. The amendment also requires that the expected return of the plan’s assets recognized within the profit (loss) statement be calculated on the basis of the discount rate applied to the defined benefit obligation. The Company does not think that IAS 19 has significant impact on the statements.

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

Several new and revised International Financial Reporting Standards and their interpretations have been issued, which will be mandatory for financial reporting periods starting from 1 January 2014 and subsequent years. The Company has decided not to adopt these new standards and interpretations early. Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Company’s Management, are stated below:

- IFRS 10 “Consolidated financial statements” and IAS 27 (2011) “Separate financial statements”. (Effective for annual accounting periods beginning on or after 1 January 2014. Earlier application is permitted, if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied earlier.).

- IFRS 10 provides a general model that is applicable to all economic entities in which investments are made, within the control analysis, including economic entities that are currently considered as companies of a special purpose according to the interpretation of SIC 12. IFRS 10 provides new requirements of control evaluation that differ from the requirements set in IAS 27 (2008). According to the new general control model, the investor controls over the economic entity in which investments are made, when: it either can or have the right to receive variable returns from its relationship with the economic entity, in which the investments are made; it may affect that the return on the exercise of its power to govern the economic entity, in which investments are made; and there is a relation of power to manage and the return. The new standard also includes the requirements of disclosure and the requirements related to the preparation of the consolidated financial statements. These requirements are transferred from IAS 27 (2008). The Company

2 Accounting principles (cont'd)

Adoption of new and/or amended IAS, IFRSs and IFRIC interpretations (cont'd)

assumes that the new standard will not have an impact on the financial statements as control assessment of the economic entities, in which investments are made, under the new standard should not change the previous conclusions on control of the Companies, in which investments are made.

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

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

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

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

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

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

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

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

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

2 Accounting principles (cont'd)

does not perform the offsetting financial assets and financial liabilities and has not concluded general offset agreements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" (Effective for annual accounting periods beginning on or after 1 January 2014). The amendments present the consolidation exception requirement under IFRS 10 and require that the business entities attributable to investment entities would not consolidate their investments in controlled business entities, investments in associates and joint ventures, and would measure them at fair value, adding the change in fair value to the statement of profit (loss). This consolidation exception is mandatory (i.e. not optional), excluding subsidiaries whose activities are considered to be the investment activity continuation of an investment entity, - such subsidiaries still have to be consolidated. A business entity is assigned to an investment entity if it meets all the essential elements of the definition of an investment entity. The Group / Company assume that the new standard will not affect the financial statements as the Group / Company does not meet the requirements for investment entities.

- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (Effective for annual accounting periods beginning on or after 1 January 2014). The amendments clarify that a business entity is required to disclose only the recoverable amount of the individual assets (including goodwill) or cash-generating units to which the impairment losses were recognized or reversed during the reporting period. The amendments also require additional disclosures related to fair value hierarchy levels where the impairment losses of individual assets (including goodwill) or cash-generating units were recognized or reversed during the reporting period, and where the recoverable amount is based on fair value less costs of disposal. The Group / Company do not expect the new standard to have a material effect on the financial statements.

- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (Effective for annual accounting periods beginning on or after 1 January 2014). When certain criteria are met, the amendments allow to continue to apply hedge accounting where, due to the laws and rules, a derivative financial instrument considered the hedging instrument is replaced in order for the central counterparty of a transaction to be able to perform clearing. The Group / Company assume that the new standard will not affect the financial statements as the Group / Company do not apply hedge accounting.

2.2. Foreign currency

Functional currency

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

Transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the conversion of monetary assets and liabilities denominated in foreign currencies using the exchange rate available at the reporting date are recognized in the statement of income (loss) as finance income or expenses.

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

2.3. Operating segments

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

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

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

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

2 Accounting principles (cont'd)

2.4. Investment into subsidiaries

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

31 December 2013 the Company did not have subsidiaries, therefore Company do not prepare consolidated accounts.

2.5. Investment into associates

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

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

The share of profit of an associate is shown on the face of the statement of income (loss). This is the profit attributable to equity holders of the associate and, therefore, is recorded below profit after tax.

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 recognize 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 recognizes the amount in the caption "Share of associates' net profit (loss)" in the statement of profit (loss).

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

2.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The Company did not have such assets (As of 31 December 2013 and 31 December 2012). Intangible assets with finite lives are amortized over the useful economic lives of 1 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

2.7. Property, plant and equipment

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

Non-current tangible assets of the Company are stated at cost less accumulated depreciation and impairment losses.

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

2 Accounting principles (cont'd)

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

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

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

The useful lives, residual values and depreciation method are reviewed periodically to ensure that the period of depreciation and other estimates are consistent with the expected pattern of economic benefits from items in non-current tangible assets.

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

When non-current tangible assets are retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the statement of comprehensive income. Gains and losses on disposal of property, plant and equipment are determined as a difference between proceeds and the carrying amount of the non-current tangible assets disposed and recorded in profit (loss).

2.8. Financial assets – initial recognition and assessment

Initial recognition and assessment

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

When financial assets are recognized initially, they are measured at fair value, plus (in the case of investments not at fair value through profit or loss directly attributable) transaction costs. Financial assets of the Company include cash and short-term deposits, trade debts and other receivables, loans and other receivables, held-to-maturity investments..

Subsequent measurement

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing 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.

2 Accounting principles (cont'd)

Financial assets and financial liabilities at fair value through profit or loss are measured in the statement of financial position at fair value. Related profit or loss on revaluation is charged directly through profit or loss. Interest income and expense and dividends on such investments are recognized as interest income and dividend income or interest expenses, respectively. The Company did not have any financial assets and financial liabilities at fair value through profit or loss as of 31 December 2013 and as of 31 December 2012.

Held-to-maturity investments

Financial assets (which are non-derivative financial instruments) with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are held-to-maturity are subsequently measured at amortized cost using the effective interest method. Initially, they are measured at purchase cost (fair value of the compensation provided), and then – at amortized cost by using the effective interest method. Gains and losses are recognized in the profit (loss) when the investments are derecognized or impaired, as well as through the amortization process.

The effective interest method is a method of a financial asset or liability in calculating the amortized cost and interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables (which are non-derivative financial instruments) are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the profit (loss) when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets (which are non-derivative financial instruments) that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized 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 profit (loss).

The Company did not have any available-for-sale financial assets as of 31 December 2013 and as of 31 December 2012.

2.9. Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has not transferred substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Financial liabilities

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

2 Accounting principles (cont'd)

2.10. Employee benefits

Social security contributions

The Company pays social security contributions to the State Social Security Fund (hereinafter the Fund) on behalf of its employees based on the legally defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits related to employee service in the current and prior period. The social security contributions are recognized 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 recognizes 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 recognized are recognized 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 recognized in other comprehensive income directly.

2.11. Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is estimated taking the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. The cost of inventories consists of purchase price, transport, and other costs directly attributable to the cost of inventories. Cost is determined by the first-in, first-out (FIFO) method. Unrealizable inventory is written-off.

2.12. Cash and cash equivalents

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

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

2.13. Borrowings

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

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the Statement of Comprehensive income over the period of borrowings.

The borrowing costs, which represent a part of the cost price of a qualifying asset, the company must begin to capitalize from the start of capitalization. Capitalization start is considered to be the day when the company meets the following conditions for the first time: incurs costs in respect of the asset, incurs borrowing costs, carries out activities required to prepare the asset for its intended use or sale.

The company has to discontinue the capitalization of borrowing costs when virtually all the activities necessary to prepare a qualifying asset for its intended use or sale have been completed. Commonly, an asset is prepared for its intended use or sale when its physical construction has been completed, even if the routine administrative work is still carried out. Although small changes are still possible, such as finishing of the asset in accordance with the instructions of a purchaser or user, it indicates that, essentially, all the activities have already been completed.

2.14. Financial and operating lease

The decision of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment 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)

Financial lease

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

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

The Company did not have any finance lease contract as of 31 December 2013 and as of 31 December 2012.

The Company as a lessee

Operating lease payments are recognized as expenses in the profit (loss) on a straight line basis over the lease term.

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 recognized as other income in the profit (loss) within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognized using straight-line method during the lease period by reducing the lease income.

2.15. Income tax

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

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 2013 was 15 % (15 % – in 2012).

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

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at reporting date.

A deferred tax asset is recognized in the Statement of Financial position to the extent the Management believes it will be realized 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 realized, this part of the deferred tax asset is not recognized in the financial statements.

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

2.16. Dividends

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

2.17. Basic and diluted earnings per share

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

2 Accounting principles (cont'd)

2.18. Provisions

General

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain. Expenditures related to the provisions reconciled with recoverable provisions are recognized through the profit (loss).

Greenhouse gas (GHG) emissions

On the initiative of the United Nations Organization, 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. There is an active market for trading in emission rights (so called climate exchanges).

Companies participating in the scheme are obliged to report their actual pollution for each calendar year. The first period started from 2005 and ended in 2007, the next period started from 2008 and ended in 2012, the current period started from 2013 and ended in 2020. Companies that participate in the project from 2005 are obliged to report about real extent of pollution of each calendar year. When available allowances are not sufficient to cover actual pollution, then a penalty should be paid for each ton of excess carbon dioxide.

The Company applies a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at a nominal (null) amount, as it is allowed by IAS 20 "Accounting of subsidy of the state and presentation of the state support in the statements". Liabilities for emissions are recognized 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 profit (loss).

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

2.19. Revenue recognition

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

Income from oil products handling

The Company recognizes revenues from oil transshipment taking into account the level of fulfillment of a service. 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 recognized only as a part of expenses incurred that can be compensated.

Sales of goods

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

2.20. Expenses recognition

Expenses are recognized 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 Accounting principles (cont'd)

2.21. Impairment of assets

Financial assets

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

For financial assets carried at amortized 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 recognized in the profit (loss). The reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the profit (loss). However, the increased carrying amount is only recognized to the extent it does not exceed the amortized cost that would have been had the impairment not been recognized.

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 derecognized when they are assessed as uncollectible.

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

Non-financial assets

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

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

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

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

Where the carrying amount of an asset exceeds its recoverable amount the impairment loss is recognized in the profit (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 recognized 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 amortization had no impairment loss been recognized for the asset in prior years. The reversal is accounted in the same caption of the profit (loss) as the impairment loss.

2.22. Use of estimates and judgments

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

2 Accounting principles (cont'd)

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:

Useful lives of intangible and immovable property, plant and equipment

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

Impairment losses of property, plant and equipment

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

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 minimizing differences between the calculated and actual amount of loss.

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 fulfillment 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 recognized 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 recognized using the Company's incremental borrowing rate.

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

2.23. Contingencies

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits is probable. Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

2 Accounting principles (cont'd)

2.24. Subsequent events

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

2.25. Offsetting

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

2.26. Fair value

Fair value is defined as the amount for which assets or services could be exchanged, or which could be used to settle the mutual liability between unrelated parties, which are going to buy (sell) assets or settle the mutual liability.

However, the objective of a fair value measurement in both cases is the same: to estimate the price at which an orderly transaction to sell the assets or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an ultimate price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In determining the fair value of non-financial assets, market participant's ability to derive economic benefit from the assets in using it in the highest and best use or selling the asset to another market participant, who would use it according to the highest and best use, is taken into account.

In determining the fair value, a business entity should determine all of the following:

- a) the specific assets or liability, the fair value of which is determined (together with the appropriate unit of account);
- b) when non-financial asset is valued, the valuation assumption, which is fit for the purpose of determining the fair value (along with the corresponding highest and best use of the non-financial asset);
- c) the principal (or most advantageous) market for the assets or liability;
- d) the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the assets or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the cost approach and the income approach.

Market approach. A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

Cost approach. A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Income approach. Valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Fair value hierarchy. To increase consistency and comparability in fair value measurements and related disclosures, the 13th IFRS establishes a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value.

Level 1 inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs. Level 3 inputs are unobservable inputs for the asset or liability.

3 Intangible assets

	Software
Acquisition cost:	
Balance as of 31 December 2011	1.614
Acquisitions	167
Transfers from construction in progress	1.300
Sold and written-off property	(13)
Balance as of 31 December 2012	3.068
Acquisitions	177
Transfers from non-current tangible assets	67
Sold and written-off property	(41)
Balance as of 31 December 2013	3.271
Accumulated depreciation and impairment:	
Balance as of 31 December 2011	1.149
Depreciation for the year	239
Depreciation transferred from non-current tangible assets	(339)
Sold and written-off property	(13)
Reclassification	-
Balance as of 31 December 2012	1.714
Depreciation for the year	332
Depreciation transferred from non-current tangible assets	-
Sold and written-off property	(41)
Balance as of 31 December 2013	2.005
Net book value as of 31 December 2011	465
Net book value as of 31 December 2012	1.354
Net book value as of 31 December 2013	1.266

The amortization charge of the Company's non-current intangible assets for the year 2013 amounts to LTL 332 thousand (LTL 239 thousand – in 2012). LTL 186 thousand of amortization charge has been included into cost of sales (LTL 173 thousand - in 2012) and the remaining amount has been included into operating expenses.

4 Property, plant and equipment

	Land	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Construction in progress	Total
Acquisition cost:						
Balance as of 31 December 2011	-	405.672	333.276	13.238	17.263	769.449
Acquisitions	-	38.884	5.769	883	40.517	86.053
Retirements and disposals	-	(2.280)	(2.400)	(432)	-	(5.112)
Reclassification	-	-	-	-	-	-
Transfers into intangible assets	-	-	(1.096)	(204)	-	(1.300)
Transfers from construction in progress	-	312	4.677	-	(4.989)	-
Balance as of 31 December 2012 (restated)	-	442.588	340.226	13.485	52.791	849.090
Acquisitions	130	-	184	576	74.652	75.542
Advance payments	-	-	-	-	23.234	23.234
Retirements and disposals	-	-	(2.250)	(383)	(75)	(2.708)
Transfers into intangible assets	-	-	-	-	(67)	(67)
Reclassification	-	-	-	-	-	-
Transfers into construction in progress	-	-	(1.084)	-	1.084	-
Transfers from construction in progress	-	1.663	14.114	3	(15.780)	-
Balance as of 31 December 2013	130	444.251	351.190	13.681	135.839	945.091
Accumulated depreciation and impairment:						
Balance as of 31 December 2011	-	167.274	206.820	11.697	259	386.050
Depreciation for the year	-	11.509	10.515	727	-	22.751
Retirements and disposals	-	(2.029)	(2.399)	(431)	-	(4.859)
Impairment for the year	-	131	191	20	434	776
Transferred accumulated depreciation of intangible assets	-	-	(202)	(137)	-	(339)
Balance as of 31 December 2012	-	176.885	214.925	11.876	693	404.379
Depreciation for the year	-	13.284	10.684	688	-	24.656
Retirements and disposals	-	-	(2.249)	(382)	-	(2.631)
Impairment for the year	-	-	37	-	-	37
Reclassifications	-	-	-	-	-	-
Balance as of 31 December 2013	-	190.169	223.397	12.182	693	426.441
Net book value as of 31 December 2011	-	238.398	126.456	1.541	17.512	383.399
Net book value as of 31 December 2012	-	265.703	125.301	1.609	52.097	444.711
Net book value as of 31 December 2013	130	254.082	127.793	1.499	135.146	518.650

In 2013 the Company revised its property, plant and equipment and accounted for the impairment of LTL 37 thousand for the assets that is no longer used due to the changed technological conditions and is not likely to contribute to economic gain. In 2012

In 2013, the Company accounted for the impairment of LTL 37 thousand for non-current assets, while in 2012, the Company accounted for the impairment of LTL 776 thousand for non-current assets.

4 Intangible assets (cont'd)

On 31 December 2013, the Company continued works with the following projects; the following investment was made into the Liquefied Natural Gas Terminal project:

- *Liquefied natural gas terminal project.* On 30 June 2011 SC Klaipėdos Nafta signed an Agreement with the Lead Adviser for preparation and implementation of liquefied natural gas (LNG) terminal's project – an international company FLUOR. The Extraordinary General Shareholders' Meeting of SC Klaipėdos Nafta held on 27 July 2011 approved the conclusion of the Agreement. The Agreement provides for the Lead Adviser during four years to prepare the technical development plan of the Project, assist in selection of technologies, perform actions in order to get obligatory permits, solve the matters related to the safety of the project, navigation as well as other issues associated with the technical implementation of the Project. Further, the Adviser will perform works related to the economic part – will produce business model of the Terminal, financial model and develop strategy of the Terminal's performance. The Adviser will also supervise technical realization of the Project during its entire execution period – until the end of 2014 when the Terminal will start its activities. As of 31 December 2013 the construction in progress of LNG Terminal's project amounted to LTL 98,162 thousand (34,598 thousand litas per year 2012) – the major part of which was payments of LTL 46,981 thousand paid according to the Agreement to the Lead Adviser for preparation and implementation of liquefied natural gas terminal's project as well as for legal and other research services, a compensation received from Klaipėda Seaport Authority. The cost of the pipeline construction amounted to LTL 33,798 thousand and the cost of embankment construction amounted to LTL 10,464 thousand

In 2013 the investment into oil terminal's modernization amounted to LTL 36,049 thousand. The most important and largest investments during 2013 were as follows:

- *Utilization of carbonyl vapors from railway trestles.* The hydrocarbon vapor recovery unit has been assembled and set into action. This is an environmental project by which it is aimed to collect hydrocarbon vapors, turn them into liquid and store safely preventing emission of the vapors into the environment. It allows significantly reduce air pollution and prevents the spread of unpleasant smells to surrounding regions. The overall cost of the works already carried out under the project amounts to LTL 6,523 thousand (of which the cost of the works carried out during 2013 amounts to LTL 1,460 thousand). In 2014 the stage II works of the unit are scheduled for completion – adjustment of the vapor recovery unit to HFO handling at railway trestles.
- *The reconstruction of HFO (i.e. heavy fuel oil products) storage tank park* involves demolishing of the 4 old storage tanks with the capacity 5,000 m³ and construction of 2 new universal storage tanks with the capacity 32,250 m³. The aim of this investment is to expand the Company's technological capacity by increasing the Company's overall volume of tanks (a total increase of 44,500 m³) and the technological flexibility by enabling the storage of both light and heavy oil and products in new tanks. This increases the flexibility of the terminal as greater amounts of different petroleum products can be handled, as well as its attractiveness to customers because of the possibility to build up larger batches of products for loading onto tankers. At the end of 2013 the total value of the implemented works amounted to LTL 33,200 thousand (LTL 24,753 thousand of which corresponds to the works carried out in 2013). In January 2014 the construction of the mentioned new tanks was actually completed and the tanks put into operation.
- *Adaptation of the HFO storage tanks for LFO (i.e. light oil products) loading.* In addition to the HFO park reconstruction project, in 2013 the Company made additional investments in order to adapt two tanks of 20,000 m³ in operation to LFO handling (up to then it was possible to load only HFO products). These investments are related to the improvement of technological versatility of the tank park as well. The total value of the works carried out in 2013 was LTL 5,592 thousand.
- *Updating of HFO unloading system of rail gantry track 1.* The modernization works of rail tank cars' top unloading system of rail gantry track 1 were completed in 2013. The substance of the investment – to create technical capabilities to effectively unload HFO products from rail tank cars with additional third valve. The Company purchased and installed additional unloading sleeves to implement this goal. The total value of the works performed per year 2013 amounted to LTL 768 thousand. In 2013, the works were completed and the system was commissioned.
- *Modernization works of fire protection system*– investments for the upgrade of mechanical and automatic sections of the fire protection system. In 2013 the trestle firefighting equipment was upgraded as well as the reconstruction of automatic section initiated. All work is scheduled to be completed in 2014. The overall cost of the works performed up to 31 December 2013 amounted to LTL 1,929 thousand (of which LTL 655 thousand correspond to the works performed during 2013).
- *Repairs of biological treatment plant's biosorbents.* In order to upgrade the machinery and work performance of the biological treatment plant, the repairs of biological treatment plant's biosorbents totaling to LTL 588 thousand were carried out in 2013.
- *Update of heat generation farm boilers' separation.* In 2013 LTL 524 thousand was invested in the update of heat generation farm boilers' separation, while the total investment amounts to LTL 930 thousand.
- *Other investment.* In 2013 LTL 1,709 thousand.

Part of the Company's property, plant and equipment with the acquisition cost of LTL 82,356 thousand as on 31 December 2013 was completely depreciated (LTL 78,142 thousand on 31 December 2012), however, it was still in operation.

5 Information about segments

The Management of the Company has the following business segments:

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

Main indicators of the business segments of the Company included into the statement of comprehensive income for the financial year as of 31 December 2013 and Statement of financial position as of 31 December 2013, are described below:

31 December 2013	SGDT	SKB	KN	Total
Revenues from external customers	-	6.609	120.251	126.860
Profit before income tax	(3.634)	1.726	40.237	38.329
Segment net profit (loss)	(3.634)	1.605	37.678	35.649
Interest revenue	-	-	320	320
Interest expense	-	-	-	-
Depreciation and amortization	(65)	(2.801)	(22.122)	(24.988)
Impairment of assets	-	-	(37)	(37)
Net profit (loss) part in the associates	-	-	(669)	(669)
Acquisitions of non-current assets	63.919	281	34.754	98.954
Segment total assets	115.515	49.160	511.159	675.834
Segment loan	51.212	-	-	51.212
Segment total liabilities	85.721	2.606	15.856	104.183
31 December 2012	SGDT	SKB	KN	Total
Revenues from external customers	-	2.620	136.261	138.881
Profit before income tax	(1.497)	521	49.734	48.758
Segment net profit (loss)	(1.497)	443	42.491	41.437
Interest revenue	-	-	1.817	1.817
Interest expense	-	-	-	-
Depreciation and amortization	(19)	(701)	(22.270)	(22.990)
Net profit (loss) in associated companies	-	-	108	108
Impairment of assets	-	(569)	(207)	(776)
Acquisitions of non-current assets	22.418	45.924	12.655	80.997
Segment total assets	34.689	45.687	479.634	560.010
Segment total liabilities	772	540	22.286	23.598

6 Investment into subsidiaries

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

On 8 October 2013 UAB LIETUVOS ENERGIJA, in accordance with the agreement on subscription of shares concluded on 1 October 2013 between UAB LITGAS, the Company's subsidiary, and UAB LIETUVOS ENERGIJA, fully paid up all newly issued ordinary registered shares (2 million units) of UAB LITGAS.

6 Investment into subsidiaries (cont'd)

The authorized capital of UAB LITGAS is regarded as increased upon registration of the amended Articles of Association of UAB LITGAS in the Register of Legal Entities following the procedure established by Lithuanian legal acts.

On 15 October 2013 the amended Articles of Association of UAB LITGAS, the Company's subsidiary, were registered in the Register of Legal Entities of the Republic of Lithuania. From this day on it is considered that the authorized capital of UAB LITGAS has been increased by the monetary contribution of UAB LIETUVOS ENERGIJA. Following the increase in the authorized capital, the Company is entitled to 1/3, and UAB LIETUVOS ENERGIJA – 2/3 of the shares and votes at the General Shareholders' Meeting of UAB LITGAS. Therefore, the Company has lost control in UAB LITGAS, but retains significant influence over the associate.

31 December 2013. The Company did not have any other subsidiaries.

7 Investment into associates

Sarmatia Sp. z o.o.

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

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

JSC "Baltpool"

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

The Company acquired additional shares on 2 December 2013. The Company purchased 52,800 units of the newly issued ordinary registered shares at LTL 1 par value each. The total price of the new share issue as evaluated by independent appraisers was equal to LTL 264,000 (two hundred sixty-four thousand), of which the Company has paid LTL 66 thousand litas and the remaining part has been paid by other investors. At present SC "Klaipedos nafta" owns 33 percent of BALTPPOOL UAB shares and their voting rights at the General Shareholders' Meeting of BALTPPOOL UAB.

JSC "LitGas"

The Company acquired 1 million ordinary registered shares of LITGAS UAB on 17 December 2012. As of 31 December 2013 the Company owns 1/3 (1 million units) of the shares while LIETUVOS ENERGIJA UAB – 2/3 of the shares (2 million units) and votes at the General Shareholders' Meeting of LITGAS UAB (see note No. 6).

Financial information regarding the Company's investments into Sarmatia, Baltpool and LITGAS is presented in the table below as of 31 December 2013:

	Sarmatia		Baltpool		LITGAS		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Share of the associate's financial position								
Non-current assets	-	-	61	87	53	-	114	87
Current assets	19	78	37.411	910	694	-	38.123	988
Non-current liabilities	(9)	-	(3)	(4)	-	-	(11)	(4)
Current liabilities	-	-	(37.210)	(486)	(27)	-	(37.237)	(486)
Capital	10	78	259	507	720	-	989	585

7 Investment into associates (cont'd)

	Sarmatia		Baltpool		LITGAS		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Share of the associate's comprehensive income:								
Income	2	3	193	390	-	-	195	393
(Losses)	(33)	(31)	(505)	(306)	(272)	-	(810)	(337)
Share of the associate's profit (loss)	(31)	(28)	(312)	84	(272)	-	(615)	56
Investments into associates, net value:								
	Sarmatia		Baltpool		LITGAS		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Book value in the beginning of the year	78	5	507	422	-	-	585	427
Acquisitions during the year	-	50	66	-	1000	-	1.066	50
Change in value	7	-	-	-	-	-	7	-
Value correction	(44)	50	(2)	15	-	-	(46)	65
Change in value	(31)	(27)	(312)	70	(280)	-	(623)	43
Book value in the end of the year	10	78	259	507	720	-	989	585

8 Inventories

	31-12-2013	31-12-2012
Oil products for sale	796	362
Spare parts, construction materials and other inventories	359	772
	1.155	1.134

As of 31 December 2013 the Company had accounted write-off of inventories in the amount of LTL 5,808 thousand (LTL 6,168 thousand on 31 December 2012), that have been written off down to the net realizable value. The Company makes write-off the inventories to the net realizable value if they are not used for more than 6 months.

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

Write-off of inventories to the net realizable value of LTL 360 thousand for the year ended of 31 December 2013 (31 December 2012 - LTL 188 thousand) are included under operating expenses in the profit (loss).

As of 31 December 2013 the Company stored 115.7 thousand tons of oil products delivered for transshipment in its storage tanks (148.2 thousand tons as on 31 December 2012). Such oil products are not recognized in the Company's financial statements, they are accounted for in the off-balance sheet accounts as the Company has no ownership rights into oil products.

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. On 31 December 2013 the Company stored 3,522 tons of heavy oil products collected in its Waste Water Treatment Facilities (31 December 2012 – 1,162 tons).

9 Trade receivables

	31-12-2013	31-12-2012
Receivables for trans-shipment of oil products and other related services	11.168	13.579
Less: impairment allowance	(116)	-
	11.052	13.579

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

On 31 December 2013 trade debts to the Company in the amount of LTL 8,575 thousand were denominated in EUR (LTL 3,012 thousand – on 31 December 2012).

The Company has calculated impairment allowance in the amount of LTL 116 thousand, however, it expects to recover this sum. Trade and other accounts receivable are written off when the management is certain that the amount will not be recovered.

The age analysis of trade receivables as of 31 December 2013 and 2012 is as follows:

9 Trade receivables (cont'd)

	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	
2013	11.012	12	27	1	-	-	11.052
2012	11.066	2.494	19	-	-	-	13.579
2011	4.223	73	-	-	39	-	4.335

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 recognized, creditworthy third parties.

10 Long-term and short-term other receivables

	31-12-2013	31-12-2012
Long-term accrued income	2.776	
Long-term receivables	2.776	
Short-term accrued income	978	2.315
VAT receivable	11.127	1.715
Accrued interest on term deposits	-	46
Other receivables	1.598	78
	13.703	4.154
Less: impairment allowance	-	(13)
Short-term receivables	13.703	4.141

Change in allowance for receivables for the years 2013 and 2012 has been included into operating expenses in the profit (loss).

Receivable value added tax has increased in comparison to 2012 due to concluded LNGT construction agreements.

11 Other financial assets

	31-12-2013	31-12-2012
Cession of rights in Vnesekonombank	100	100
Loan to UAB „Žavesys“	354	357
Less: impairment allowance for receivables	(454)	(457)
Total loans and receivables	-	-
Short-term deposits		
Investments into the state government bonds of the Republic of Lithuania	-	9.474
Investments into the government bonds of Lithuanian banks	30.146	3.760
Total investments held-to-maturity	30.146	13.234
Current part	30.146	13.234
Total other financial assets	30.146	13.234

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

Currency	31-12-2013	31-12-2012
EUR	17.955	10.648
LTL	12.191	2.586
	30.146	13.234

11 Other financial assets (cont'd)

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

The Company is implementing new policies of free funds investments of the Company aimed at investment transactions with reliable (long-term borrowing rating according to Fitch A-, except government securities of the Republic of Lithuania) banking instruments not only in Lithuania but also abroad. The investment policies give priority to investments in Lithuania and only if there is no other alternative - in foreign countries. Investment possibility into the securities of the Lithuanian Government has also been provided for. The Company has not acquired the securities of the Lithuanian Government during 2013 (did not acquire in 2012), which the payoff maturity term is longer than one financial year.

As of 31 December 2013 the Company hold bank bonds in the amount of LTL 30,146 thousand (LTL 3,760 thousand - in 2012) with the average redemption term of 120 days (456 days - in 2012) and average effective interest rate of 0.45 %.

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.

12 Cash and cash equivalents

	31-12-2013	31-12-2012
Cash at bank	89.895	67.221
Short-term deposits	-	12.613
	<u>89.895</u>	<u>79.834</u>

Cash in bank earns variable interest depending on the closing balance of every day. As of 31 December 2013 the Company did not have term deposits, and in 2012 had term deposits of LTL 12,613 thousand with an average interest rate of 0.95 %. As of 31 December 2013 the Company had no Government bonds of foreign countries (did not have in 2012).

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

Currency	31-12-2013	31-12-2012
EUR	81.620	22.523
LTL	8.275	57.311
	<u>89.895</u>	<u>79.834</u>

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

	31-12-2013	31-12-2012
AA -	63.682	3
A +	56.359	67.218
A	-	12.613
BBB +	-	6.029
BBB	-	7.205
	<u>120.041</u>	<u>93.068</u>

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

13 Issued capital

During 2013 the authorized capital of the Company was not increased. During 2012 the authorized capital of the Company was increased by LTL 38,606 thousand unit's ordinary shares with a par value of one (1) LTL, per share issue price of LTL 1.35. The Company's share capital was increased by monetary and non-monetary contributions of the shareholders.

	Share capital	Share premium
As of 31 December 2011	342.000	-
Non-monetary contributions	33.697	11.794
Monetary contributions	4.909	1.718
As of 31 December 2012	380.606	13.512
Monetary and non-monetary contributions	-	-
As of 31 December 2013	380.606	13.512

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.

Following the decision of the General Meeting of Shareholders of SC "Klaipėdos nafta" held on 30 April 2013, to appropriate Company's distributable profit amounted to LTL 41.006 thous. LTL (EUR 11.876) as follows:

	LTL	EUR
Retained profit in the beginning of the financial year (01-01-2012)	70.795	20.504
Dividends declared	(56.981)	(16.503)
Transfers to reserves	(14.245)	(4.126)
Annual financial operating income, net	41.437	12.001
Total distributable profit:	41.006	11.876
Profit distributed to legal reserves	2.050	594
Profit appropriated for payment of dividends	410	119
Profit distributed to other reserves	38.546	11.163
Retained profit in the end of the financial year (31-12-2013)	-	-

Reserve to purchase own shares

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

Other reserves

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

14 Employee benefit liabilities

On 31 December 2013 the liabilities related to the payment of termination benefits to the employees terminating the employment on the normal retirement date were LTL 837 thousand (LTL 816 thousand – in 2012) as follows:

	Pension benefit liability for	
	2013	2012
Start of period	816	785
Calculated per year	129	78
Paid per year	(108)	(47)
End of period	837	816

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

	31-12-2013	31-12-2012
Discount rate	3,69 %	4,00 %
Staff turnover rate	5%	4 %
Future salary increases	3 %	3 %

15 Loan

	31-12-2013	31-12-2012
European Investment Bank's loan	51.212	-
Payable loan interest	134	-
	51.346	-

A credit contract dated 9 July 2013 was concluded by the Company with EIB to grant a credit up to EUR 87,000 thousand to implement LNGT project. According to the contract, EIB finances up to 50% of necessary funds for project implementation. According to the contract, credit term is up to 20 years, interest rate is variable or fixed, whose norm will be submitted by the EIB in payment offers. The contract also provides that minimum payable credit part is EUR 15,000 thousand, and the whole credit sum must be paid to the Company over no more than 6 payments. The performance of 100% of the Company's contractual financial liabilities is ensured by the State Guarantee.

On 20 December 2013, the Company received the first payment in the amount of EUR 15,000 thousand. Repayment period from 20/12/2018 to 20/12/2033 is provided for the first payment in the amount of EUR 15,000 thousand, the loan must be repaid over 61 payments. The fixed variable interest rate provided by the EIB in payment offer: 3months EURIBOR + margin. The interest is paid quarterly. The effective interest rate has not significantly affected the Company's results, so it is not disclosed.

16 Trade and other payables

	31-12-2013	31-12-2012
Payable to contractors	20.140	1.985
Payable for rent of land	650	504
Payable for railway services	190	594
Other trade payables	4.207	4.074
	25.189	7.157

Trade payables are non-interest bearing and are normally settled on 30-day payment terms. On 31 December 2013 trade payables of LTL 14,785 thousand were denominated in EUR (LTL 87 thousand – in 2012).

17 Liabilities related to labor relations

As of 31 December 2013 the Company's liabilities, related to labor relations, were basically comprised of vacation reserve of LTL 1,954 thousand, social insurance payable for December of LTL 940 thousand and accrual of bonuses in the amount of LTL 1,862 thousand for the annual results (As of 31 December 2012 the Company's liabilities, related to labor relations, were mainly comprised of vacation reserve of LTL 1,750 thousand, social insurance payable for December of LTL 878 thousand and accrued bonuses in the amount of LTL 1,200 thousand for the annual results).

18 Provisions

In accordance with national allocation plan for emission allowances for the period of the year 2013, the Company was allocated 21,368 emission allowances for CO2 emission, which are not changed upon changed needs.

Emission rights are accounted for when evaluating the deficit between the emission allowances allocated under the national allocation plan for emission allowances and the actual pollution for the particular year. The quantity of used emission allowances is audited by external auditors each year.

	Emission commitment
As of 31 December 2011	493
Calculated per year	(544)
Offsetting of bought emission allowances	215
As of 31 December 2012	164
Calculated per year	-
Offsetting of bought emission allowances	164
As of 31 December 2013	-

Prospective emission allowances allocation and consumption (units) in 2013 and the following periods:

	2013	2014	2015	2016	2017	2018	2019	2020	Total
Allocated *	21.368	19.123	16.939	14.820	12.766	10.780	8.858	7.007	111.661
Planned to be used	(18.239)	(18.000)	(18.000)	(18.000)	(18.000)	(18.000)	(18.000)	(18.000)	(144.239)

Emission allowances allocation and consumption (units) in 2012 and the previous periods:

	2008	2009	2010	2011	2012	Total
Allocated *	19.691	19.692	19.692	19.691	19.691	98.457
Consumed	(29.241)	(25.619)	(28.325)	(27.793)	(23.851)	(134.829)
Purchased and consumed	-	-	10.000	-	5.753	15.753
Purchased	-	-	-	9.000	-	9.000

* Emission allowances planned to be allocated by the national allocation plan.

On 21 February we were allocated 21,368 pcs. emission allowances for the year 2013.

19 Other current liabilities

	31-12-2013	31-12-2012
Accrued expenses	13.661	1.131
Tax payable on real estate	321	309
Other liabilities	1.033	342
	15.015	1.782

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

On 31 December 2013, accrued expenses increased due to the construction of the liquefied natural gas terminal. The accrued liquefied natural gas terminal contractor's work expenses amounting to LTL 12,928 thousand have been calculated according to invoices submitted by contractors, which were issued in January, 2014, however, the works actually carried out in 2013.

20 Sales income

	2013	2012
Sales of oil transshipment services	123.971	131.543
Sales of heavy oil products collected in the Waste Water Treatment Facilities	-	3.233
Revenues for storage of oil products	2.787	2.785
Other sales related to transshipment	102	1.320
	<u>126.860</u>	<u>138.881</u>

The contract with Litasco S.A. which is valid up to the second half of 2014 secures to the Company transshipment of about 4 million tons of heavy oil products through Klaipeda Seaport throughout the duration of the contract. The contract is beneficial to the Company as it allows the Company to secure a stable income due to "load-or-pay" conditions" provided for in the contract despite the decline in heavy oil products' cargo flows caused by objective reasons.

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

21 Cost of sales

	2013	2012
Depreciation and amortization	24.422	22.609
Natural gas	14.555	19.640
Wages, salaries and social security	18.594	17.845
Railway services	4.568	6.034
Electricity	5.576	5.316
Rent of land and quays	2.100	2.046
Cost of sold inventories	-	1.470
Repair and maintenance of non-current assets	1.820	1.848
Tax on real estate	1.227	1.208
Insurance of assets	1.321	1.148
Services for tankers	524	596
Inventories for resale	-	547
Work safety costs	403	323
Emission rights expenses	73	(329)
Other	906	1.035
	<u>76.089</u>	<u>81.336</u>

22 Operating expenses

	2013	2012
Salary, social security	7.391	5.272
Consulting and legal costs	1.170	1.216
Impairment	37	776
Communication	463	506
Charity	785	596
Depreciation and amortization	458	289
Expenses for Business trips	274	253
Expenses for refresher courses	239	222
Expenses related to the management of securities	126	207
Repair and maintenance of non-current assets	163	174
Representation, advertising	181	152
Communication costs	165	109
Decrease of buyers' debts	116	-
Other	1.019	962
	<u>12.606</u>	<u>10.734</u>

Operating expenses were mostly increased by LNG terminal administration costs.

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

	2013	2012
Interest income	321	1.817
Fines collected	374	30
Financial income, total	695	1.847
(Losses) from currency exchange	(99)	(115)
Other financial activity (expenses)	(7)	(1)
Financial activity expenses, total	(106)	(116)
Financial result, total	589	1.731

24 Income tax

	2013	2012
Income tax of the year	2.940	7.836
Income tax adjustment of the previous year	-	-
Payable income tax expense	2.940	7.836
Deferred tax expense	(260)	(515)
Income tax expense recorded in the profit (loss)	2.680	7.321

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 2013 and 2012 is as follows:

	2013	2012
Accounting profit before tax	38.329	48.758
Applying 15 % profit tax rate of the Company	5.749	7.314
Deductible expenses of income tax (charity)	(118)	(89)
Investment projects' relief	(2.939)	-
Increasing expenses of income tax	(676)	-
Other non-deductible expenses	924	96
Applying 15% effective income tax	2.940	7.321
Effective rate	7,7%	15,01%

Deferred income tax consists of:

	Statement of Financial position		Statement of Comprehensive income	
	2013	2012	2013	2012
Impairment of non-current assets	1.220	1.215	(5)	(117)
Accelerated depreciation for tax purposes	937	973	36	43
Write-offs of inventories to realizable value	871	925	54	(28)
Accrued annual bonuses	279	173	(106)	7
Accrued emission rights	-	43	43	81
Long-term employee benefit liability	126	122	(4)	(5)
Vacation reserve	70	61	(9)	(16)
Other temporary differences	18	3	(15)	-
Associates' equity method	75	(25)	(100)	16
Oil products	-	-	-	(123)
Impairment of receivables	455	458	(68)	(69)
Accrued income	(416)	(105)	311	105
Investment incentive of non-current assets	(10.115)	(10.579)	(465)	(478)
Deferred income tax expenses/ (income) recognizes in profit (loss)			(260)	(515)
Deferred income tax assets/ (liabilities), net	(6.935)	(7.194)		

24 Income tax (cont'd)

As of 31 December 2013 the Company did not recognize LTL 68 thousand (LTL 69 thousand – in 2012) of the deferred income tax asset related to the decrease in receivables as the Management does not expect the income tax asset to be recognized 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 2013 and 2012 the Company has used the income tax rate of 15 %.

25 Earnings per share, basic and diluted

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

	2013	2012
Net profit attributable to shareholders	35.649	41.437
Weighted average number of ordinary shares (thousand)	380.606	361.198
Earnings and reduced earnings per share (in LTL)	0,09	0,11

26 Dividends

	2013	2012
Dividends declared	(410)	(56.981)
Weighted average number of shares (thousand)	380.606	361.198
Dividends declared per share (expressed in LTL per share)	0,001	0,16

The Extraordinary General Shareholders' Meeting held on 30 April 2013 approved profit appropriation for the year 2012 and allotted to the Shareholders dividends in the amount of LTL 410 thousand for 2012.

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 2013. As of 31 December 2013 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 172 thousand (as of 2012: LTL 39 thousand).

27 Financial assets and liabilities and risk management

Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company – AB "Orlen Lietuva" – on 31 December 2013 accounted for approximately 17 % (about 36% as of 31 December 2012), "LITASCA S.A." – 77 % as of 31 December 2013 (about 37 % as of 31 December 2012) of the total Company's receivables from all its customers. The average payment term for AB "ORLEN LIETUVA" is 10 calendar days, for "LITASCA" S.A. – 7 calendar days, State Enterprise "LIETUVOS NAFTOS PRODUKTŲ AGENTŪRA" – 20 calendar days, UAB "LUKOIL BALTIJA", UAB "NESTE LIETUVA" – up to the 15th of the following month, whereas the usual payment terms for all other customers is 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 recognized at the date of Statement of Financial position.

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

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

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

Company's revenue and cash flow are influenced by fluctuations of interest rate. Interest rate risk's increase is mainly affected by long-term loans. The currently granted EIB loan has floating interest rate, which is linked to EURIBOR. Interest rate related to EIB loan is minor, whereas the performance of 100% of the Company's contractual financial liabilities is ensured by the State Guarantee.

The Company's assets held to maturity bear fixed interest rates. The Company holds money and time deposits on the accounts of major Lithuanian banks with A or higher external rating according to the Fitch Ratings.

Risk related to the funds in the bank is limited, because the Company carried out transactions with the banks that have high ratings provided by the foreign rating agents.

Exchange rate risk. The Company is exposed to foreign currency fluctuations primarily related to the euro and the U.S. dollar. Foreign exchange risk arises from future commercial transactions as well as recognized assets and liabilities. So far, the Company has not used any financial instruments to manage its foreign currency exposure risk, as revenues and expenses in foreign currencies are insignificant compared with the revenues and expenses denominated Lithuanian litas.

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 2013 were 3.43 and 3.40, respectively (7.21 and 7.13 as at 31 December 2012).

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 2013 and 2012 the Company's liquidity is high because the Company assumed financial commitments only in the end of 2013 (had no financial commitments in 2012), and accumulates cash funds for the performance of its strategic objectives.

The table below summarizes the maturity profile of the Company's financial liabilities as of 31 December 2013, 2012 assessed on contractual undiscounted payments.

	Residual value	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	7.157	-	6.831	326	-	-	7.157
Balance as of 31 December 2012	7.157	-	6.831	326	-	-	7.157
Trade and other payables	25.189	-	25.012	177			25.189
Loan	51.926	-	134	402	2.680	55.544	58.760
Balance as of 31 December 2013	77.115	-	25.146	579	2.680	55.544	83.949

LTL 1,635 thousand of the LTL 25,012 thousand amount is the retention amounts under contracts, which are paid for when all work under a contract has been completed. There is no possibility to forecast these payment terms.

LTL 51,792 thousand of LTL 76,981 thousand is repayable EIB loan.

Fair value of financial assets and liabilities

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

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.

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

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		
	2013	2012	2011	2013	2012	2011
Financial assets						
Cash	89.895	79.834	8.180	89.895	79.834	8.180
Trade receivables	11.052	13.579	4.335	11.052	13.579	4.335
Other financial assets	30.146	13.234	117.582	30.146	13.234	117.582
Financial liabilities						
Loan	51.792	-	-	51.212	-	-
Trade payables	25.189	7.157	4.671	25.189	7.157	4.671

Other financial assets are substantially comprised of cash in bank account and investments held-to-maturity (Note 12).

A market price of the investment in international pipeline company SARMATIA, the Lithuanian energy resources market BALTPOL and UAB LITGAS cannot be reliably estimated, therefore the investment is accounted for at carrying value (Note 7). 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.

Financial liabilities have been measured by amortized cost.

The following methods and assumptions are used to estimate the fair value of all financial instruments:

Cash

It is cash, the value of which is the fair value.

Receivables

Trade receivables and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less a provision for impairment. Shorter than the six-month period, trade and other receivables, which are not the interest rate, the fair value is taken as approximately equal to their nominal value at initial recognition, and subsequently - the carrying amount, as the impact of discounting is not significant. The fair value is determined for the purposes of disclosure.

Financial liabilities

The fair value is determined for the purposes of disclosure, calculated on the basis of future principal and interest rate cash flows, discounted at the market interest rate at the reporting date, the present value. Financial leasing market interest rate determined under similar lease agreements. Shorter-term financial liabilities, which are not the interest rate, the fair value is taken as approximately equal to their nominal value at initial recognition, and subsequently - the carrying amount, as the impact of discounting is not significant.

Fair value hierarchy. To increase consistency and comparability in fair value measurements and related disclosures, the 13th IFRS establishes a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value.

Level 1 inputs - are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs - are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs - are unobservable inputs for the asset or liability.

The Company did not have any financial asset or financial liabilities estimated at fair value as of 31 December 2013.

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

Financial instruments not at fair value

The Company's financial instruments not at fair value of trade and other receivables and trade and other payables, long-term and short-term borrowings. The Company's management believes that these financial instruments, the carrying values approximate their fair values because of the borrowing costs associated with interbank lending rate Euribor and other financial assets and liabilities are short-term, and the fair value of the variation is not significant.

Capital management

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

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

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

The Company's activities are financed using its equity and loan capital.

28 Commitments and contingencies

Loan contracts

- On 9 July 2013 the Company signed with Nordea Bank Finland PLC an overdraft agreement for LTL 120 million that it has not used yet.
- On 9 July 2013 the Company concluded a credit agreement with the EIB for a credit of up to EUR 87,000 thousand for LNGT project implementation. Under the agreement, EIB will finance up to 50% of the funds needed for the implementation of the project. The credit period under the agreement is up to 20 years, interest – variable or fixed, the rate of which will be set in EIB repayment proposals. The agreement also determines that the minimum credit payment portion is EUR 15,000 thousand, and the whole amount of the credit has to be paid to the Company in no more than 6 payments. 100% of the Company's financial obligations under the agreement will be secured by the guarantee of the State Guarantee.

Operating lease commitments

- The Company has concluded a land rent contract with Klaipeda State Port Authorities until 2055. The terms and condition of the contract do not provide any restrictions on the Company's activities, associated with dividends, additional borrowings or additional long-term rent. In 2013 the Company's land rent expenses amounted to LTL 2,100 thousand (Note 21) (LTL 2,046 thousand – in 2012).

Total amount of future minimum payments of land rent:

	31-12-2013	31-12-2012
Within one year	2.100	2.050
From one to five years	8.400	8.223
After five years	75.835	76.062
	<u>86.335</u>	<u>86.335</u>

Financial lease

- On 2 March, 2012, the Company concluded Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) with the right of its redemption providing that the delivery term of FSRU into the Seaport of Klaipeda should be 1 September, 2014 – 1 December, 2014. This contract meets the criteria of financial lease. On 31 December, 2013, the total amount of future payments totaled to LTL 911,464 thousand.

28 Commitments and contingencies (cont'd)

Long-term construction agreements

- The Extraordinary General Meeting of Shareholders was held on 5 April 2013. The Meeting approved the award of the Contract, which was drawn following the Company's Board decision, on the engineering and construction works of port infrastructure and suprastructure carried out under negotiated procedure – "Procurement of Engineering and Construction Works of Port Infrastructure (Jetty) with Suprastructure (Equipment) of Liquefied Natural Gas Terminal" to akciju sabiedriba BMGS.

The main terms and conditions of the Contract *inter alia* are as follows:

- ✓ The total fixed price for all the works under the Contract cannot exceed EUR 27,190 thousand without VAT. This fixed price can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract.
- ✓ All the works under the Contract shall be finished till 1 October 2014. The performance terms may only be extended in the exclusive cases set forth in the Contract.
- ✓ The Management of the Company shall have an additional obligation: in case there is an increase in total Contract price exceeding 10 percent, or Contract completion deadline (1 October 2014) is extended for more than 30 days, the Company's Board approval must be obtained allowing such an increase in the Contract price and (or) extension of the Contract performance term respectively, in order to ensure a proper control of the changes in the Contract.

Additionally, on 5 April 2013 the Extraordinary General Meeting of Shareholders approved the main terms and conditions of the confidentiality agreement of the Company's Supervisory Board.

- On 6 May 2013 the Company concluded a contract on engineering, procurement and construction works for natural gas pipeline system (EPC) with German concern PPS Pipeline Systems GmbH, the winner of the "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)". The engineering, procurement and construction works for natural gas pipeline system needed for installation of the connection between the LNGT jetty in Klaipėda State Sea Port water area (at the northern part of Kiaules nugara island) and the Lithuanian natural gas transmission system (Jurbarkas – Klaipėda gas transmission pipeline (Taurage – Klaipėda part) near Klaipėda DSS-2, located at Kiskenu village, Dovilai township, Klaipėda district municipality) will be carried out on the basis of the Contract.

The main terms and conditions of the Contract *inter alia* are as follows:

- ✓ the total fixed price for all the works under the Contract shall be LTL 94,840 thousand excluding VAT and LTL 114,756 thousand including VAT. On the Contract conclusion day VAT amounts to 21 percent. The fixed contract price can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract;
- ✓ all the works under the Contract shall be finished till 1 August 2014. The work performance terms may only be extended in the exclusive cases set forth in the Contract.
- ✓ The Contract shall enter into force when it is approved by the General Meeting of Shareholders of the Company as set out in Article 16.10 of the Company's Articles of Association. The Company's Board approved the Contract conclusion possibility on 22 April 2013.

Legal disputes

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

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

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.

On 20 May 2013 Vilnius Regional Court passed a ruling regarding the action of the claimant UAB "Naftos grupė" against the Company. The Court, *inter alia*, decided to acknowledge that the Agreement was terminated due to the fault of the Company; to adjudge from the Company to the benefit of UAB "Naftos Grupė" losses amounting to LTL 9 744 590.67, annual interest in the amount of 6 percent on the awarded amount for the period from the court proceedings (18 04 2011) until the judgment is fully complied with, stamp-duty in the amount of LTL 17 235 and the costs of legal aid in the amount of LTL 25 000; to reject the Company's counter-claim to UAB "Naftos Grupė" on recognition of the Agreement as void, compensation for the losses, and unjust enrichment. The Company's management believes that the ruling of Vilnius Regional Court to reject the counterclaim and to meet a part of the requirements under the claim is unlawful and unfounded as, *inter alia*, the findings of the state institutions (the National Audit Office and the Competition Council) on the individual provisions of the Agreement

28 Commitments and contingencies (cont'd)

and possible violation of applicable law were not taken into consideration, as well as the fact that UAB "Naftos Grupė" did not substantiate the amount of the income which allegedly was not received due the termination. The Company terminated the obviously economically disadvantageous agreement in order to protect the interests of the shareholders of the Company.

On 19 June 2013 the Company appealed against the Decision of Vilnius Regional Court dated 20 May 2013 in a case under the claim from the claimant UAB Naftos Grupe against the Company for the compensation of allegedly incurred losses in the amount of LTL 17 000 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.

In its appeal submitted to the Court of Appeal of Lithuania, the Company, *inter alia*, requested the following:

- ✓ to revoke the sections of the Decision of Vilnius Regional Court dated 20 May 2013 for recognition that the Agreement was terminated by the Company's fault; for losses amounting to LTL 9,745 thousand, the annual interest in the amount of 6 percent on the awarded amount for the period from the court proceedings until the judgment is fully complied with and the award of litigation costs from the Company to the benefit of UAB Naftos Grupe; for the rejection of Company's counterclaim to UAB Naftos Grupe, and to pass a new judgment regarding these sections: to reject the requirements of the claim for recognition that the Agreement was terminated by the Company's fault; for losses amounting to LTL 9,745 thousand, the annual interest in the amount of 6 percent on the awarded amount for the period from the court proceedings until the judgment is fully complied with and the award of litigation costs from the Company to the benefit of UAB Naftos Grupe, and to meet the Company's counterclaim fully;
- ✓ To uphold the other sections of the Decision of Vilnius Regional Court dated 20 May 2013.

It should be noted that upon the appeal, the Decision of Vilnius Regional Court dated 20 May 2013 shall not take effect: it would take effect and could cause the real after-effects for the Company only if it was not withdrawn after examination of the case following appeals procedure. A sitting of the Court of Appeal of Lithuania is arranged for 7 April 2014.

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 2013.

In opinion of the Management of the Company, as well in view of external legal assessment, there is a greater possibility that the Company's appeal should be granted and the ruling of Vilnius Regional Court of 20 May 2013 changed. No provisions regarding this ongoing case have been formed during compilation of the Financial Statements of 31 December 2013.

- On 21 December 2012, the consortium of AB "Kauno dujotiekio statyba" and UAB "Šiaulių dujotiekio statyba" was recognized as the winner of the international public procurement "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" carried out by AB "Klaipėdos nafta".
On 22 January 2013 the Company received the letter of the Public Procurement Office regarding the submission for evaluation of the documentation of the international public procurement "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure, by which, *inter alia*, the Company was obliged to suspend the public contract award procedure up to moment when the Public Procurement Office would present the assessment of the decisions taken and the documentation submitted by the Company (Contracting Authority).
On 28 January 2013 the Company received documents from the Klaipėda Regional Court regarding a claim filed by German concern PPS Pipeline Systems GmbH to invalidate the decisions of the commission of international procurement "Procurement of engineering, procurement and construction works construction works for natural gas pipeline system (EPC)" performed under the negotiated procedure (hereinafter, the "Procurement").
The claimant in its claim *inter alia* asked the court:
 - ✓ to acknowledge, that while participating in the Procurement the consortium of AB "Kauno dujotiekio statyba" and UAB "Šiaulių dujotiekio statyba" had a non-allowed competition advantage, because of which its offer had to be rejected;
 - ✓ to annul the decision of the Company's public procurement commission according to which the queue of offers was approved, and the offer of consortium was acknowledged as the winner;
 - ✓ to oblige the Company to approve the new queue of the offers.
On 8 February 2013 the Company received the letter from Public Procurement Office regarding international assessment of "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" carried out under negotiated procedure. With By the means of this letter, the Public Procurement Office, *inter alia*, required the Company to cancel the following decisions adopted by procurement commission:
 - ✓ Decisions of 3 and 5 December 2012 on amendment of the final Procurement Offers evaluation criteria and procedures;
 - ✓ Decision of 20 December 2012 on opening of the envelopes with final Procurement Offers;
 - ✓ Decision of 20 December 2012 on evaluation of final offers of the participants, making queue of the offers, recognition of the winner and signing the Procurement Contract and the related notifications to Procurement participants.
On 8 March 2013 the Company received documents from Klaipėda Regional Court regarding the claim entered by AB „Kauno dujotiekio statyba“ and UAB „Šiaulių dujotiekio statyba“ regarding international procurement of "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)" carried out under negotiated procedure.

28 Commitments and contingencies (cont'd)

The claimants in their claim inter alia ask the Court:

- ✓ to cancel the decision of the Company of 8 February 2013 in the Procurement, which cancels the proposal evaluation criteria, opening the final supplier offers, making the queue of the offers, recognition of winner and signing the Procurement contract;
- ✓ to cancel amendment in the procurement conditions adopted by the Company's announcement of 13 February 2013, which established the most economically advantageous tender evaluation criterion as evaluation criterion;
- ✓ to return the Parties to the original position, i.e. to the phase which existed prior to the alleged violation: to oblige the Company to continue Procurement according to the results published on 20 December 2012.

Klaipėda Regional Court by its ruling of 8 March 2013 satisfied the claimants AB „Kauno dujotiekio statyba“ and UAB „Šiaulių dujotiekio statyba“ request for applying interim measures and stopped Procurement procedures until the court decision comes into effect.

On 16 April 2013 the Lithuanian Court of Appeal abolished the interim measures applied towards the Company, which had suspended the international procurement procedures of “Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)” carried out under negotiated procedure.

In the procurement carried out by the Company 2 final offers were received. After the final evaluation of the offers by the most economically advantageous offer evaluation criterion, German Concern PPS Pipeline Systems GmbH was acknowledged as winner on 18 April 2013. The consortium AB „Kauno dujotiekio statyba“ and UAB „Šiaulių dujotiekio statyba“ remained in the second place of the queue.

On 1 July 2013 the Company received the ruling from Lithuanian Court of Appeal which rejected the appeals of AB „Kauno dujotiekio statyba“ and UAB „Šiaulių dujotiekio statyba“ as well as PPS Pipeline Systems GmbH regarding the decision of Klaipėda Regional Court of 16 April 2013. By adopting the ruling, the Lithuanian Court of Appeal acknowledged that the Company, which acknowledged German Concern PPS Pipeline Systems GmbH as winner of the international procurement “Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)” did not violate the statutory requirements. The cited ruling of the Lithuanian Court of Appeal became effective on the date of adoption (28 June 2013), but the process participants have the right, within one month from the effective date, to submit the cassation complaint to the Supreme Court of Lithuania.

On 5 August 2013 the Company received the ruling of the Lithuanian Supreme Court, by which an appeal in cassation submitted by AB „Kauno dujotiekio statyba“ regarding the ruling of the Court of Appeal of Lithuania dated June 28 2013 was rejected. The above mentioned ruling of the Lithuanian Supreme Court is final and not subject to appeal. This ruling brings to an end the dispute relating to the Company's international tender “Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)” performed under the negotiated procedure. Thus, the Company did not violate the statutory requirements by awarding the contract to the German concern PPS Pipeline Systems GmbH.

- The Company received a notification of 29 January 2013 from the Vilnius Regional Administrative Court (hereinafter, the Court) regarding filing of a response to the complaint of AB Achema (hereinafter, Achema) concerning the resolutions of the National Control Commission for Prices and Energy (hereinafter, the NCCPE). The Company is involved in the case as a third person concerned.

In its complaint Achema asked to annul the following:

- ✓ Paragraphs 3.1 and 4 of Resolution No. 03-317 of the NCCPE “Regarding the establishment of the funds for 2013 intended for compensation, in full or in part, for expenses of the construction and operation of the liquefied natural gas terminal, its infrastructure and the connection”, dated 19 October 2012. By the said paragraphs the NCCPE determined the funds for 2013, intended for compensation of the expenses (in full or in part) of the construction of the liquefied natural gas terminal (hereinafter, the LNGT), its infrastructure and the connection (LTL 113,798 thousand) and for covering of the LNGT funds administration expenses (LTL 302 thousand) and established that the NCCPE has the right to adjust such amounts of expenses in case of changes in essential circumstances, which have a significant effect on the funding and implementation of the SGDT project.
- ✓ Paragraph 2 of Resolution No. 03-330 of the NCCPE “Regarding the adjustment of the upper limits of the natural gas transmission and distribution prices of AB Lietuvos Dujos and establishment of an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium) for 2013.” dated 26 October 2012. By the said paragraph, the NCCPE established an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium), which is intended for compensation of the expenses of construction of the LNGT, its infrastructure and the connection in 2013 (LTL 37.53 for 1,000 m3 (value added tax exclusive).

Guarantees

- The Company as the owner the warehouse for storage of goods in order to secure due fulfillment of tax obligations subject to Guarantee Issuance Agreement No.B41B00017724 dated 17 December 2013, signed with SC SEB bank for the amount of LTL 5,000 thousand has submitted a letter of payment guarantee to the Klaipėda Territorial Customs. The last effective day of the Letter of Guarantee is 31 December 2014.

28 Commitments and contingencies (cont'd)

- The Company as the owner of excise warehouse in order to secure due fulfillment of tax obligations subject to Guarantee Issuance Agreement dated 6 November 2013, signed with Nordea Bank Finland Plc for the amount of LTL 2,500 thousand has submitted a letter of payment guarantee to the State Tax Inspectorate. The last effective day of the Letter of Guarantee is 7 November 2014.
- In accordance with requirements of the Order No. 469 of the Minister of the Environment of the Republic of Lithuania on "Procedure of preparation, adjustment and implementation of waste management activity termination plan", the Company has a guarantee from SC SEB bank to present to Klaipėda region environmental department under the Ministry of Environment of the Republic of Lithuania. This guarantee was issued only for ensuring of implementation of measures provided in the Company's waste management activity termination plan; the amount of this guarantee is 1,720 thousand LTL, valid up to 12 January 2015.
- On 22 November 2013 the Company announced Nordea Bank Finland Plc, Lithuania Branch, as the winner of the simplified public procurement „Purchase of Financial Services (bank guarantee)” carried out under negotiated procedure. The bank guarantee is intended for securing of the performance of contractual obligations under the LNG Floating Storage and Regasification Unit Lease Contract concluded between the Company and Höegh LNG Ltd. on 2 March 2012.
The main terms and conditions for issuance of the bank guarantee *inter alia* are as follows:
 - ✓ amount of the guarantee – up to USD 50,000 thousand;
 - ✓ validity term of the guarantee – from 15-01-2014 up to 31-12-2014;
 - ✓ price of the services – 0.255% of the of the guarantee amount (USD 128 thousand).No additional obligations or operating limitations will be set to the Company under the bank guarantee agreement as compared with the credit agreement signed between the Company and the European Investment Bank on 9 July 2013.
- On 13 December 2013 the Ministry of Finance of the Republic of Lithuania signed with EIB a State Guarantee Agreement regarding the credit in the amount of EUR 81 million (LTL 280 million) granted by EIB to the Company. The State Guarantee Agreement is to secure the Company's contractual obligations to EIB under the credit contract for up to 20 years on partial funding of the LNGT project dated 9 July 2013. The Company will be able to borrow a total of EUR 87 million (LTL 300 million) under the contract upon the State guarantee for the remaining part of the credit. Thus, up to 50% of the investments related to LNGT project implementation will be financed by EIB under the contract.

The State Guarantee was granted upon fulfillment of all terms and conditions specified in Resolution No. XII-479 on the State Guarantee to the European Investment Bank adopted by the Seimas of the Republic of Lithuania on 2 July 2013, i.e., upon mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project; payment of margin of EUR 81 thousand, and receipt of the approval of the European Commission stating that the State guarantee is a state aid compatible with the internal market.

On 5 December 2013 the Company and the Ministry of Finance of the Republic of Lithuania concluded an Agreement on the Margin Payment and Mortgage of Property as well as a Maximum Conditional and Ordinary Mortgage Agreement. On the basis of the Agreements, the Company has undertaken to make to the Ministry of Finance a margin payment in the amount of EUR 81 thousand and to mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project (in the amount of maximum mortgage of EUR 81million).

- State Tax Inspectorate did not make full taxing inspection of the Company for the period from 01/01/2009 to 31/12/2013. In accordance with applicable laws, the State Tax Inspectorate may at any time inspect registers of the Company's accounting and records for 5 years before the accounting period and may calculate additional fees and sanctions. The Management of the Company is not aware of any circumstances, because of which significant additional tax liabilities should be calculated for the Company.

Insurance contracts

- On 2 September 2013 the Company signed an insurance contract with UAB DK PZU LIETUVA to insure the Company's risks associated with the LNGT infrastructure construction works (natural gas pipeline and jetty).
The main terms and conditions of the contract are as follows:
 - Insured property – infrastructure and equipment of the jetty specified in the “LNGT infrastructure engineering, procurement and construction works (EPC)” contract concluded between the Company and AS BMGS on 18 March 2013 (hereinafter – the Jetty EPC Contract), and the “Engineering, procurement and construction works for natural gas pipeline system (EPC)” contract concluded between the Company and PPS Pipeline Systems GmbH on 6 May 2013 (hereinafter – the Pipeline EPC Contract).
 - Insured works – construction, installation and testing works carried out under the Jetty EPC Contract and Pipeline EPC Contract intended for creation of the insured property;
 - Insured activities – activities related to natural gas and (or) the LNG.

30 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 2013, 2012 and 2011 were as follows:

Transactions with Lithuanian State controlled enterprises and institutions

		Purchases from related parties	Sales to related parties	Receivables from related parties	Payables to related parties
State Tax Inspectorate at the Finance Ministry of the Republic of Lithuania	2013	85.382	-	14.332	1.710
	2012	11.823	-	16	2.851
	2011	8.832	-	-	1.704
State Social Insurance Fund Board under the Ministry of Social Security and Labor	2013	8.340	-	-	940
	2012	7.350	-	-	878
	2011	4.762	-	-	11
State Enterprise Klaipėda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	2013	2.100	-	-	650
	2012	2.046	-	-	504
	2011	2.056	-	-	514
AB Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation	2013	5.827	-	-	190
	2012	6.061	-	-	594
	2011	8.396	-	-	336
AB „Lesto“, owned by the State of Lithuania represented by the Ministry of Energy	2013	3.085	-	-	516
	2012	2.448	-	-	350
	2011	2.419	-	-	296
Other related parties	2013	-	34	-	-
	2012	-	17	3	-
	2011	-	28	3	-
Transactions with related parties, in total:	2013	104.734	34	14.332	4.006
	2012	125.305	17	19	5.178
	2011	120.637	28	3	6.023

Remuneration to the Management and other payments

The flowing positions are considered as the Company's managing staff: General Manager, Deputy General Manager, Directors of Departments and their Deputies, Managers of Departments.

	2013	2012
Labor related extra charges	4,176	3,511
Number of managing staff	32	27

During 2013 and 2012 the Management of the Company did not receive any loans, guarantees, and no other paid or accrued amounts or property was transferred.

31 Subsequent events

- On 25 February 2014, Vilnius Regional Administrative Court by the adopted decision rejected the complaint of the part of owners of the land plots (hereinafter referred to as the Applicants) through which it is intended to lay liquefied natural gas terminal (hereinafter referred to as the LNGT) connection transmission pipeline route.

The Applicants asked Vilnius Regional Administrative Court to revoke the order No. 1-130 (hereinafter referred to as the Order) of the Minister of Energy of the Republic of Lithuania of 13 June 2013 approving the special plan of LNG terminal, related to its infrastructure and pipeline construction (hereinafter referred to as the Special Plan) *inter alia* providing an opportunity to lay the mentioned pipeline route through the land plots owned by the Applicants (The Company informed about the complaint submitted by the Applicants on 8 August 2013 by the notice of material event). The Company has been involved into the case as the third interested person.

Vilnius Regional Administrative Court Vilnius stated in the decision that the Order approving the Special Plan was adopted in accordance with the requirements of legal acts, therefore it is legal.

- On initiative and by the decision of the Company's Board on 28 March 2014 at 9.00 a.m., extraordinary general meeting of shareholders of the Company was convened for approval of the decision of the board of AB "Klaipėdos nafta" to accept conclusion of the novation contract, under which a part of Höegh LNG Ltd. rights and obligations under the Liquefied Natural Gas Floating Storage and Regasification Unit (hereinafter - FSRU) Rental, Operation and Service (Repair) Contract with the Right of Redemption is transferred to Höegh LNG Klaipėda UAB. Adopted decision: to approve conclusion of the novation contract.

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

Confirmation of responsible persons

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Rokas Masiulis, General Manager of SC Klaipėdos Nafta, Mantas Bartuška, Finance Director of SC Klaipėdos Nafta and Asta Sedlauskienė, Interim Head of Accounting Department, hereby confirm that to the best of our knowledge the above-presented unaudited Interim condensed Financial Statements of SC Klaipėdos Nafta for the year 2013, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of SC Klaipėdos Nafta.

General Manager



Rokas Masiulis

Director of Finance and Administrative Department



Mantas Bartuška

Interim Head of Accounting Department



Asta Sedlauskienė

ANNUAL REPORT FOR THE YEAR 2013

Klaipeda
21 March 2014

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Abbreviations:

Klaipėdos nafta, Company –Klaipėdos nafta AB;
 LNGT – Liquefied Natural Gas Terminal;
 LNG – Liquefied Natural Gas;
 SFS - Subačius fuel storage;
 KSSA – State Enterprise Klaipėda State Seaport Authority;
 NCECP – National Commission for Energy Control and Prices;
 EIB – European Investment Bank



FOREWORD OF THE HEAD OF SC KLAIPEDOS NAFTA

The year 2013 – was the year of challenges for Klaipėdos nafta AB. The Company had not only to overcome the challenges of the market of its major business – transshipment of petroleum products, but also to ensure the smooth development of the Liquefied Natural Gas (LNG) terminal project in a complex environment.

The year 2013 entrenched the apprehensions that the oil market is undergoing a fundamental change both globally as well as in Eastern Europe. This is reflected in our terminal operations as well. In the first quarter of 2013 we enjoyed a 10 per cent increase in transshipment rates and 9 percent increase in revenue, while in the second half of the year we had to depend on the circumstances which we could not possibly influence. The Company's major customers are SC Orlen Lietuva and Belarus Mozyr Refineries and, as the crude oil supply to Mozyr Oil Refinery from Russia decreased, it, in turn, significantly reduced the volume of production, which resulted in decreased fuel oil transshipment through the terminal of SC Klaipėdos nafta. The transshipment volumes of Orlen Lietuva also declined as, following the closure of the Lisicansk refinery in Ukraine, Mazeikių concern was increasing its exports to Ukraine, Belarus, and at the same time reducing its exports by sea through the Company's terminal. Moreover, the global oil products refinery margins faced a significant decline. Likewise, Orlen Lietuva reduced its oil refining capacity in 2013, as well as the export through SC Klaipėdos nafta. For these reasons, there was a 15 percent decline in the transshipment of oil products (transshipment amount decreased from 6.90 million tons to 5.86 million tons), while net profit dropped to LTL 35.8 million which amounts to nearly 14 percent (In 2012 net profit reached LTL 41,5 million).

The Company is entrusted with the implementation of the project of national significance – to build an alternative terminal intended for gas supply, which will become a tool enabling the energy independence of the State. During the implementation of the LNG terminal project we need to be focused and not engage in politicking. Although a lot of time had to be devoted to dealing with inquiries of various commissions and institutions as the LNG project was under certain constraint in 2013, however, we can now confirm that the implementation of the project is going smoothly following Lithuanian legislation and its procedures. It must be noted that in November 2013 the Directorate-General for Competition of the European Commission made an assessment and determined that the Klaipėda LNG terminal project's financing mode, the terminal business model and expected state aid complied with the underlying principles of the EU Treaty. The Commission's investigation has shown that investments in the LNG terminal will help to ensure the security of gas supply, and that the aid is necessary and proportionate for these investments. The European Commission has not just issued a mandate to pursue the chosen strategy, but also acknowledged that the LNG terminal project is transparent, economically justified and promising. At the same time this assessment created an opportunity to get financing from the European Investment Bank (EIB) and the first part of the credit was transferred at the end of 2013.

It is noteworthy that the construction of the LNG vessel-storage already has reached the home-stretch – the vessel's christening ceremony was held at the beginning of 2014. The ceremony was attended by RL President Dalia Grybauskaitė. The LNG vessel-storage was given a name "Independence" symbolising the energy independence and security of the State.

In addition to the successful development of the LNG terminal project, the investment program for oil products' terminal is continued, which includes the adaptation of the Company's technological processes and equipment to a changing market for petroleum products, as well as the development of environmental projects: (1) the construction of two new universal storage tanks with a capacity of 32,25 thousand m³ has been basically completed, which creates new opportunities to handle additional flows of light petroleum products; (2) the important investment in an environmental project – a vapour recovery unit, which will prevent emission of petroleum products' vapour to environment; (3) the modernisation of one of the railway trestle roads has been completed, as well as the update of the water treatment plant and fire safety system.

In 2014, a number of challenges await the Company as well.

In the changed oil products market the Company will strive to maintain the operating profit ratio on a level with that of 2013, in order to implement one of the key objectives of the Company's activities – to ensure shareholders' return on invested capital. The LNG terminal construction work is planned to be completed on 3 December 2014. This project has been carried out employing enormous efforts of various institutions and employees of the Company. I believe that our united effort will enable us to achieve the set goals – we will prepare for the launch of the LNG terminal into operation properly and on time, creating an opportunity to get free from the energy monopoly, as well as we will remain a sustainable petroleum products transshipment terminal.



(Photo Hoegh LNG)

SC Klaipėdos nafta

GENERAL MANAGER

ROKAS MASIULIS

REPORTING PERIOD

The Annual Report is prepared for the period from 1 January 2013 until 31 December 2013. In this Annual Report, AB Klaipėdos Nafta is referred to as the Company.

DETAILS ABOUT THE COMPANY

Name of the Company:	AB Klaipėdos Nafta
Legal status:	Stock Company
Authorized share capital:	380.606.184 litas
Date and place of registration:	27 September 1994, State Enterprise Centre of Registers
Company code:	110648893
Address:	Burių g. 19, 91003 Klaipėda
Register of the Company:	State Enterprise Centre of Registers
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail address:	info@oil.lt
Internet site:	www.oil.lt , www.sgd.lt

Activity of AB Klaipėdos Nafta is constituted of three main directions:

- 1) Activity of the Oil and oil products terminal (KN);
- 2) Activity and implementation of the project of the Liquefied natural gas terminal (LNGT);
- 3) Activity of the Subačius fuel storage facility (SFSF).

In 2013, economic activity was performed at the Oil and oil products terminal and the Subačius fuel storage facility. Beginning of the LNGT operation is foreseen after the terminal start-up – in the 4th quarter of 2014.

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

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

The strategic objectives of AB Klaipėdos Nafta:

- To maintain status of the object of national significance and to diversify activity of the Company,
- To improve effectiveness of the Company,
- To improve operativeness and flexibility of the terminal,
- To improve attractiveness of the Oil products terminal for oil refineries,
- To improve internal processes,
- To assure requirements of environmental protection.

The Company is strategic company of the Lithuanian energy sector:

- In February 2012, the Government of the Republic of Lithuania assigned the Company to implement a strategic project of construction of the LNGT until the end of 2014 which is significant for the energy sector of Lithuania;
- The Company ensures a possibility to import oil products to Lithuania, if necessary;
- The Company was granted storage of the obligatory reserve of oil products of the Republic of Lithuania;
- By reference to the adopted law of 10 October 2002 regarding companies and equipments and other important companies of strategic value for national security of Lithuanian Republic, the Company was defined as a company of strategic value for national security.

Information about associated companies

The Company has invested into the following companies as of 31 December 2013:

Name of the company	Address	Part of owned shares, %	Activity
LITGAS UAB	Gedimino pr. 33-2, LT-01104 Vilnius	33,33	Supply of LNG through the LNG terminal being under construction and trade of natural gas (confirmed as an assigned LNG supplier on 10 February 2014)
Baltpool UAB	A. Juozapavičiaus g. 9, LT-09311, Vilnius	33,33	Development of activity of energy resources (bio-fuel, gas) exchange, administration of PSO funds)
Sarmatia Sp. z o.o.	ul. Nowogrodzka 68, Prima court, 02-014 Warszawa, Lenkija	1	Analysis and engineering of possibilities to construct oil pipeline between Asian states and the Baltic sea.

The Oil and oil products terminal

The Company is one of the largest terminals on the Baltic States market of oil and oil products transit. The terminal's core activity is to transship oil products delivered by rail tank-cars from Lithuania, Russia, Belarus and other countries into tankers. Most commonly transshipped oil products are as follows: fuel oil, vacuum gas oil (HFO), gasoline, diesel fuel, jet fuel (LFO). The terminal capacity amounts up to 9 million tons of oil products per year. Shipment batches are stored in onshore storage tanks, overall volume of which amounts 405 thousand m³ (from the end of January 2014 – almost 450 thousand m³). Loading into tankers is performed at two jetties, each 270 m length.



The Klaipėda oil terminal is traditionally known as one of the best transshipment terminal of heavy oil products (fuel oil and VGO), effectively operating at low air temperatures. Klaipėdos Nafta is well technologically prepared to transship heavy oil products in cold season. The Company possesses its own boiler station with three boilers with their overall capacity of 100 MW.

Also the Company is capable to provide Lithuania with imported oil products that are delivered into the Klaipėda sea port by tankers. In the terminal there is a road tanker loading station intended to transport imported oil products by roads.

At the present time Klaipėdos Nafta provides the following services at the Oil and oil products terminal:

- Transshipment of crude oil and oil products from rail tank-cars into tankers
- Transshipment of crude oil and oil products from tankers into rail tank-cars and road tankers
- Accumulation of crude oil and oil products
- Collection of waste water from sea vessels which is contaminated with oil products
- Mooring of sea vessels
- Assessment of quality parameters of oil products
- Adding of chemical additives into oil products
- Supply of fuel and water to sea vessels

The Subačius Fuel Storage Facility

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

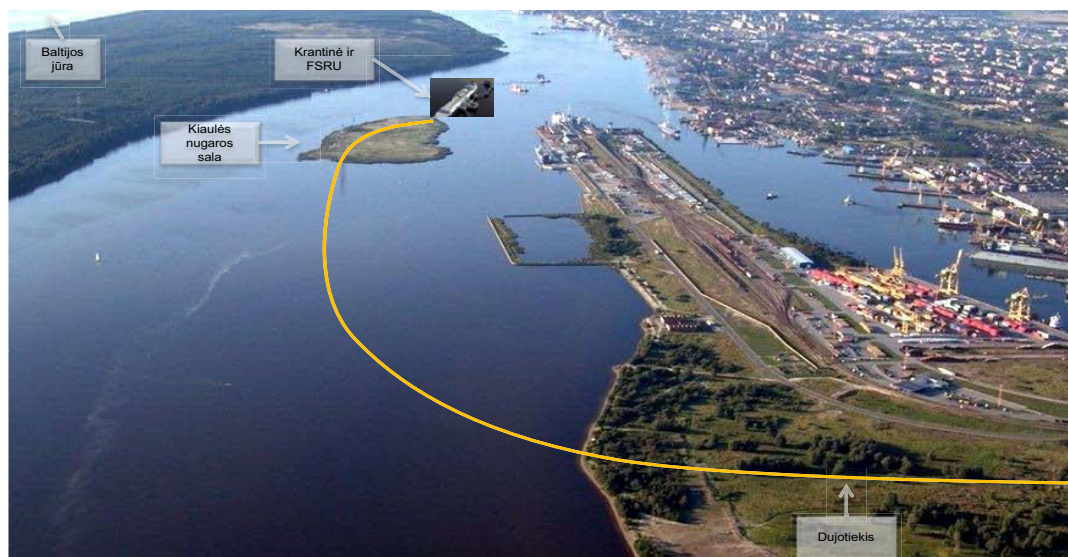
Main operations of the Subačius fuel storage facility are the following: long-term storage of oil products (currently the majority of storage tanks are filled with the obligatory reserve of oil products of Lithuania), and the loading of tank trucks which service the entities in the Aukštaitija region.



After taking over the Subačius fuel storage facility the Company has expanded its services, adding the service of long-term oil products storage. The results of activity of the Subačius fuel storage facility for 2012-2013 are presented in the Explanatory note "Information on segments" of the Company's financial statements for 2013.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

- **17 January 2013.** Nordea Bank Finland Plc. was acknowledged as the winner of the Public Procurement "Procurement of Overdraft Services" by way of negotiated procedures with publication of a tender notice. During the Public Procurement executed by the Company there were three final offers presented, one of which was declined as inconsistent with requirements of procurement. After evaluation of the final offers according to the criterion of the most economically beneficial offer, Nordea Bank Finland Plc was acknowledged as the winner. The Company concluded the Overdraft Facility Agreement with this Bank on 6 February 2013.
- **25 January 2013.** An Extraordinary General Meeting of Shareholders of the Company has approved the decision of 21 December 2012 of the Board of the Company to sign the contract with the winner of the Public Procurement "for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works", which proposed the lowest price for proposed scope of work – the consortium of Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba AB for the total price of LTL 137,999,391 excl. VAT. The fixed price may be increased only in the extraordinary cases provided under the contract. Klaipėdos Nafta AB shall be paying the indicated fixed sum for the completed works according to the progress performed under the contract. All the works under the Contract shall be finished until 1 October 2014. The contract deadline may only be extended in the extraordinary cases defined in the contract.



- **28 January 2013.** Klaipėdos Nafta AB received documents from the Klaipėda Regional Court regarding the claim filed by German company PPS Pipeline Systems GmbH to invalidate the decisions of the commission of international procurement of "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under the procedure of open negotiations.
- **8 February 2013.** The Company received a notice from the Public Procurement Office regarding evaluation of international procurement of "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under the negotiated procedure.

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

- The decisions of 3 and 5 December 2012 regarding the amendment of the evaluation criteria of tender offers and respective procedural rules;
 - The decision of 20 December 2012 regarding the opening of the envelopes with the final tender offers of the participants of the Tender;
 - The decision of 20 December 2012 regarding evaluation of final tender offers of the participants of the Tender, conclusion of the queue of tender offers, acknowledgement of the winner of the Tender and conclusion of the contract and respective announcements to the participants of the Tender in connection therewith.
- **11 February 2013.** An Extraordinary General Meeting of Shareholders of the Company approved the decision of the Board of the Company to enter into the Agreement for Assignment of the Rights of Claim with the winner of the Public Procurement "Procurement of Overdraft Services" by way of negotiated procedures with publication of a tender notice – Nordea Bank Finland Plc, acting in Lithuania through the Lithuanian Branch of Nordea Bank Finland Plc.
- Shareholders of the Company approved the decision of the Board of the Company to enter into an agreement with the Bank for assignment of the rights of claim to the receivable funds to the Bank which were intended for covering all or part of the expenses of installation of the LNGT, its facilities and the connection to gas transmission system. This agreement for assignment of the rights of claim being intended to secure the Overdraft Agreement between the Company and the Bank, pursuant to which:
- Amount of the overdraft is LTL 120.000 thousand;

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

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

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

- **11 February 2013.** At the Extraordinary General Meeting of Shareholders of the Company:
 - ✓ The shareholders of the Company also decided to revoke the Supervisory Council of the Company *in corpore* and decided to elect three new candidates having received the most votes into the Supervisory Council of the Company for the term of 4 years. Based on voting results the following three candidates were elected: Eimantas Kiudulas, Romas Švedas, Agnė Amelija Kairyte.
 - ✓ Also in order to ensure adequate implementation of requirements of resolution no. 665 adopted by the Government of the Republic of Lithuania on 6 June 2012 "on the description of procedures for assurance of state rights and interests in the state-owned enterprises" in the Company, new version of the Articles of Association were approved by the shareholders, which included amendments to the competences of the Board, reflecting the 2012 recommendations of the Board to the administration of the Company.
 - **18 February 2013.** The Company executing the obligations indicated in the letter dated 8 February 2013 of the Public Procurement Office regarding evaluation of procurement of "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under the negotiated procedure, renewed the Procurement procedure and sent the invitations to the participants of the procurement to present final offers. The tenders shall be evaluated according to the criterion of the most economically beneficial offer.
 - **1 March 2013.** The Company announced AS BMGS as the winner of the international procurement "Engineering and Construction Works of Port Infrastructure (Jetty) with Superstructure (Equipment) of Liquefied Natural Gas Terminal". AS BMGS undertook to carry out all works for the total amount of EUR 27.190 thousand (LTL 93.880 thousand) excluding VAT.
- 
- In accordance with the bilateral agreement between the Company and KSSA on the improvement and creation of Port Infrastructure/Superstructure, part of the costs of the contract shall be reimbursed by KSSA (all costs for the Klaipeda State Seaport Infrastructure and part of the costs of General Works). KSSA shall reimburse to the Company the amount of EUR 14.196 thousand (LTL 49.015 thousand) excluding VAT. The Company shall incur the costs for remaining part of works amounting to EUR 12.994 thousand (LTL 44.866 thousand) excluding VAT.
- **8 March 2013.** The Company and Lietuvos Dujos AB concluded the Service Agreement on LNGT's Connection to the Operating Natural Gas Transmission System providing the Company shall have a right to connect the LNGT to the natural gas transmission system and shall have a right to use the natural gas transmission system as of 3 December 2014.
 - **8 March 2013.** The Company received documents from the Klaipeda Regional Court regarding lawsuit filed by Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB (Claimants) regarding the international procurement "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under the negotiated procedure with a publication of notice.
 - Claimants of the lawsuit, *inter alia*, asked the Court:
 - ✓ To cancel the decision of the Company of 8 February 2013 on the Procurement, by which the decisions regarding tender offers evaluation criteria have been cancelled, regarding the opening of the envelopes with final tender offers of suppliers, the final tender offers evaluation, conclusion of the queue of tender offer, acknowledgment of the winner and conclusion of the Procurement contract;
 - ✓ To cancel the Amendment of the Company's Procurement provisions of 13 February 2013, by which the evaluation criterion of the most economically beneficial tender offer has been identified as the criterion of tender offers;
 - ✓ To return parties into their initial position, i.e., to the former stage before the supposed breach - to obligate the Company to continue the Procurement according to the Procurement results announced on 20 December 2012.

- **12 March 2013.** The Company filed a separate appeal against the ruling of the Klaipėda Regional Court of 8 March 2013 according to which the request of claimants Kauno Dujotiekio Statyba AB and Šiaulių Dujotiekio Statyba UAB on imposition of interim measures was satisfied and the international procurement “for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works” performed under the negotiated procedure with a publication of notice was suspended until the day when a decision of the court in this case is passed and comes into force.

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

- **15 March 2013.** The Company received a notification on 13 March 2013 from the Vilnius Regional Administrative Court regarding filing of a response to the complaint of Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB, whereby the applicants ask the court to annul the decision No. 4S-619 of 8 February 2013 of the Public Procurement Office by which the Company was obliged to annul the results of procurement No. 124121 and the decisions regarding acknowledgement the proposal as on top of the group of economic subjects comprised of the applicants. The Company is brought into the proceedings as the party concerned.
- **18 March 2013.** The Company concluded the contract on Engineering and Construction Works of Port Infrastructure and Superstructure with BMGS AB - the winner of the international procurement tender of “Engineering and Construction Works of Port Infrastructure (Jetty) with Superstructure (Equipment) of LNGT”. The main conditions of the Contract, *inter alia*, include the following:

- ✓ The total fixed price for the works under the contract shall not exceed EUR 27,190 thousand excluding VAT (LTL 93,882 thousand excluding VAT). The fixed contract price can be increased only in the extraordinary cases provided under the contract. The Company shall pay the fixed contract price only for the actual Works performed according to the progress.
- ✓ All works under the contract shall be completed until 1 October 2014. The deadline for completion may only be extended in the extraordinary cases defined in the contract.

- **18 March 2013.** The first meeting of the new Supervisory Council of the Company was held. During this meeting the Deputy of the Law Division and Acting Chancellor of the Ministry of Energy and the representative of the Ministry of Energy of the Republic of Lithuania, which implements the rights of the shareholder of the Company – the Republic of Lithuania, that owns 72.32 percent of all shares of the Company, Agnė Amelija Kairytė, was elected as the Chairman of the Supervisory Council of the Company.

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

- **20 March 2013.** The Chairman of the Board of the Company, Mr. Arvydas Darulis, informed the Supervisory Council, other Board members and the Company that he resigns from office and submitted his resignation papers to the Company. According to the Article 33.10 of the Law on Companies of the Republic of Lithuania, the mandate of the Chairman of the Board will expire on 4 April 2013.

- **5 April 2013.** The Extraordinary General Meeting of Shareholders was held. The Meeting approved the award of the Contract, which was drawn following the Company's Board decision, on the engineering and construction works of port infrastructure and suprastructure performed under negotiated procedure – “Procurement of Engineering and Construction Works of Port Infrastructure (Jetty) with Suprastructure (Equipment) of Liquefied Natural Gas Terminal” to akciju sabiedriba BMGS.

The main terms and conditions of the Contract *inter alia* are as follows:

- ✓ The total fixed price for all the works under the Contract cannot exceed EUR 27,190 thousand without VAT. This fixed price can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract.
- ✓ All the works under the Contract shall be finished till 1 October 2014. The performance terms may only be extended in the exclusive cases set forth in the Contract.
- ✓ The Management of the Company shall have an additional obligation: in case there is an increase in total Contract price exceeding 10 percent, or Contract completion deadline (1 October 2014) is extended for more than 30 days, the Company's Board approval must be obtained allowing such an increase in the Contract price and (or) extension of the Contract performance term respectively, in order to ensure a proper control of the changes in the Contract.

Additionally, on 5 April 2013 the Extraordinary General Meeting of Shareholders approved the main terms and conditions of the confidentiality agreement of the Company's Supervisory Board.

- **16 April 2013.** Klaipėda Regional Court investigated the case No. 2-925-265/2013 that included the requirements submitted by German company PPS Pipeline Systems GmbH, Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB, i.e. the submitted lawsuits. It was announced about them in a proper manner by notifications of material events of 29 January 2013 and 08 March 2013. After investigation, Klaipėda Regional Court adopted a decision to reject the lawsuits submitted by PPS Pipeline Systems GmbH, Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB. Preliminary injunction applied by the ruling of Klaipėda Regional Court of 08 March 2013 was upheld by the court until the effective day of court decision.
- **16 April 2013.** Court of Appeal of Lithuania investigated the separate complaints of the Company and the PPS Pipeline Systems GmbH concerning the ruling of Klaipėda Regional Court of 08 March 2013 by which the court satisfied the motion

of the plaintiffs Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB to apply preliminary injunction and suspended the international procurement procedures of the "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under the negotiated procedure with a publication of notice until the court decision comes into effect. The Court of Appeal of Lithuania decided to revoke the ruling of Klaipėda Regional Court of 08 March 2013 and to not satisfy the motion of the plaintiffs Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB to apply preliminary injunction.

- **18 April 2013.** The German company PPS Pipeline Systems GmbH that was pronounced as a winner of the international procurement "for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" carried out by the Company offered the following price for work performance: LTL 94,840 excluding VAT. The price offered for the rest consortium of Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB in the second row of offers was LTL 113,481 excluding VAT. The Company invited PPS Pipeline Systems GmbH to conclude Agreement on Public Procurement.
- **22 April 2013.** The Company's Board decided to change the decisions of the Company's Board of 21 December 2012 concerning the conclusion of the agreement with Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB, the winner of the Public Procurement "for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works".

The Board decisions of 21 December 2012 were changed, because after the adoption of the Board decisions mentioned above, the part of the Procurement procedures was repeated, the new offers were submitted, the procurement results were changed, i.e. the German company PPS Pipeline Systems GmbH was acknowledged as a winner, and the Board decisions previously adopted could not be implemented.

On 22 April 2013 the Board of the Company *inter alia* made the following decisions:

- ✓ To amend the decisions made at the Board meeting held on 21 December 2012 regarding the contract on engineering, procurement and construction works for natural gas pipeline system (EPC) needed for installation of the connection between the LNGT jetty in Klaipėda State Sea Port water area (at the northern part of Kiaulės nugara island) and the Lithuanian natural gas transmission system (Jurbarkas – Klaipėda gas transmission pipeline (Tauragė – Klaipėda part) near Klaipėda DSS-2, located next to Kiškėnai village, Dovilai eldership, Klaipėda district Municipality), by adjusting them as follows:

1.1. To award the contract to PPS Pipeline Systems GmbH, who submitted the economically most advantageous tender (hereinafter – the Contractor), as the winner of the Public Procurement "for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under negotiated procedure.

1.2. The total fixed price for all the works under the Contract amounts to LTL 94,840 thousand excluding VAT and LTL 114,756 thousand including VAT. This fixed price can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract.

1.3. All the works shall be finished till 1 August 2014. The performance terms may only be extended in the exclusive cases set forth in the Contract.

- **24 April 2013.** The Government of the Republic of Lithuania, in order to ensure the opportunity to Klaipėdos Nafta AB to finance the LNGT project from its own and borrowed funds, on 23 April 2013, adopted a resolution to instruct the Ministry of Energy of the Republic of Lithuania, the Manager of Company's equity, to ensure that its authorized representative would offer to allocate 1 percent of the Company's distributable profit of 2012 for dividends at the General Meeting of Shareholders and vote for it.

The proposed dividend amount per share was LTL 0,00107737777 (or EUR 0,00031203017). Accordingly, the overall dividend amount intended to be allocated to the shareholders of the Company would amount to LTL 410,056.65 (or EUR 118,760.61).

- **30 April 2013.** The General Meeting of Shareholders of the Company was held during which:
 - ✓ the set of the audited financial statements of 2012 was approved;
 - ✓ The Company's distributable profit was distributed, part of which was allocated for dividends – LTL 410 thousand or 0,00107737779 per share;
 - ✓ Audit firm KPMG Baltics was appointed to audit financial statements of the year 2013, assess the annual statement and perform the audit report.
- **2 May 2013.** The Company received notifications of Klaipėda District Court regarding
 - ✓ the appeal lodged on the Court decision in a civil case No. 2-925-265/2013 (hereinafter – the Decision) dated 16 April 2013 submitted by the claimants Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB, as well as
 - ✓ the appeal lodged on the above Decision submitted by PPS Pipeline Systems GmbH. The Company, who is the defendant in this case, is obliged to submit its response regarding the appeals within 14 days.
- **6 May 2013.** The Company concluded a contract on engineering, procurement and construction works for natural gas pipeline system (EPC) with German company PPS Pipeline Systems GmbH, the winner of the procurement "for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works". The engineering, procurement and construction works for natural gas pipeline system needed for installation of the connection between the LNGT jetty in Klaipėda State Sea Port water area (at the northern part of Kiaulės nugara island) and the Lithuanian natural gas transmission system (Jurbarkas – Klaipėda gas transmission pipeline (Tauragė – Klaipėda part) near Klaipėda DSS-2, located at Kiškėnai village, Dovilai eldership, Klaipėda district Municipality) will be carried out on the basis of the Contract.

The main terms and conditions of the Contract *inter alia* are as follows:

- ✓ the total fixed price for all the works under the Contract shall be LTL 94,840 thousand excluding VAT and LTL 114,756 thousand including VAT. On the Contract conclusion day VAT amounted to 21 percent. The fixed contract price can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract;
 - ✓ all the works under the Contract shall be finished till 1 August 2014. The work performance terms may only be extended in the exclusive cases set forth in the Contract.
 - ✓ the Contract shall enter into force when it is approved by the General Meeting of Shareholders of the Company as set out in Article 16.10 of the Company's Articles of Association. The Company's Board approved the Contract conclusion possibility on 22 April 2013.
- **20 May 2013.** Vilnius Regional Court adopted a decision in a case under the claim from the claimant Naftos Grupė UAB against the Company for the compensation of allegedly incurred losses in the amount of LTL 17 000 thousand, for return of the product surplus, allegedly owned by Naftos Grupė UAB and stored by the Company, to Naftos Grupė UAB 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 (the Company announced the receipt of the claim and submission of counterclaim on 20 April 2011 and 5 July 2011 respectively in the Company's report on a material event).

The court *inter alia* decided:

- ✓ To acknowledge that the Company is not at fault for termination of the Agreement;
- ✓ To adjudge the losses amounting to LTL 9,745 thousand, the annual interest in the amount of 6 percent on the awarded amount for the period from the court proceedings (18 April 2011) until the judgement is fully complied with, stamp-duty amounting to LTL 17 thousand and LTL 25 thousand for legal aid services from the Company to the benefit of Naftos Grupė UAB;
- ✓ To reject the Company's counter-claim to Naftos Grupė UAB on recognition of the Agreement as void, compensation for the losses, and unjust enrichment.

The Company's management believes that the ruling of Vilnius Regional Court to reject the counterclaim and to meet a part of the requirements under the claim is unlawful and unfounded as, *inter alia*, the findings of the state institutions (the National Audit Office and the Competition Council) on the individual provisions of the contract and possible violation of applicable law were not taken into consideration, as well as the fact that Naftos grupė UAB did not substantiate the amount of the income which allegedly was not received due the termination. The Company terminated the obviously economically disadvantageous contract in order to protect the interests of the shareholders of the Company.

The above ruling of Vilnius Regional Court could be appealed to the Lithuanian Court of Appeal within 30 days after its publication, and the Company appealed within the set time limit.

- **24 May 2013.** The Extraordinary General Meeting of Shareholders approved the decision of the Board of the Company:

To amend the decisions made at the Board meeting held on 21 December 2012 regarding the contract on engineering, procurement and construction works (hereinafter – the works) for natural gas pipeline system (EPC) needed for installation of the connection between the LNGT jetty in Klaipėda State Sea Port water area (at the northern part of Kiaulės nugara island) and the Lithuanian natural gas transmission system (Jurbarkas – Klaipėda gas transmission pipeline (Tauragė – Klaipėda part) near Klaipėda DSS-2, located next to Kiškėnai village, Dovilai eldership, Klaipėda district Municipality), by adjusting them as follows:

- ✓ To award the contract to PPS Pipeline Systems GmbH, who submitted the economically most advantageous tender (hereinafter – the Contractor), as the winner of the Public Procurement “for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works” performed under negotiated procedure;
 - ✓ The total fixed price for all the works under the Contract amounts to LTL 94,840 thousand (ninety-four million eight hundred forty thousand litas) excluding VAT and LTL 114,756 thousand (one hundred fourteen million seven hundred fifty-six thousand litas) including VAT which amounts to 21 percent on the Contract conclusion day. The fixed price of the Contract can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract;
 - ✓ All the works shall be finished till 1 August 2014. The performance terms may only be extended in the exclusive cases set forth in the Contract.
- **24 May 2013.** The Supervisory Board of the Company recalled Inga Černiuk, who was a Board Member since 24 October 2011, from the Company's Board Members, and elected Valdas Lastauskas a new Board Member. Valdas Lastauskas, the newly appointed member of the Board, has been taking a position of the Chancellor of the Ministry of Energy of the Republic of Lithuania since 3 April 2013.
- **27 May 2013.** Vilnius Regional Administrative Court, after examining the administrative case No.I-2655-365/2013 under the claim of Kauno dujotiekio statyba AB and Šiaulių dujotiekio statyba UAB (hereinafter referred to as the Claimants) where the Claimants sought the annulment of the Decision No.4S-619 dated 8 February 2013 adopted by the Public Procurement Office following which the Company was obliged to cancel the results of Procurement No.124121 and decisions on recognition of the tender of a group of business entities comprised of Kauno dujotiekio statyba AB and Šiaulių



dujotiekio statyba UAB as a successful tender, published in the notification on the material event on 15 March 2013 respectively, ruled to discontinue the administrative case under the Claimants' claim.

The ruling could be appealed within 7 (seven) days from the date of publication by filing a separate claim to be submitted to the Supreme Administrative Court of Lithuania through Vilnius Regional Administrative Court.

- **31 May 2013.** The Board of the Company made a decision to conclude a credit agreement with EIB in accordance with the common practise applicable by EIB, following which:
 - ✓ maximum amount of the credit cannot exceed EUR 87,000 thousand (LTL 300,000);
 - ✓ credit period cannot exceed 20 (twenty) years;
 - ✓ interest – variable or fixed, at the rate to be set in EIB repayment proposal;
 - ✓ the precondition on which EIB is to grant the credit to the Company – an obligation to submit a State Guarantee securing Company's financial liabilities under the credit agreement.
- **4 June 2013.** The EIB Board of Governors decided to grant the Company a credit of up to EUR 87,000 thousand (up to LTL 300,000 thousand) for the implementation of the LNGT project. Credit term is up to 20 years. The financing of the project provided by EIB would make up to 50% of the expected project investment. The default precondition for the EIB to grant the credit to the Company is the duty to provide the State Guarantee to secure the Company's financial obligations under the credit agreement.
- **13 June 2013.** The Special Plan of the LNGT, related infrastructure and gas pipeline construction was approved by Order No.1-130 of the Minister of Energy of the Republic of Lithuania. The approval of the Special Plan enabled the Company to launch the design and construction work of LNGT structures (including the jetty, equipment, gas pipeline and gas metering station).
- **14 June 2013.** The State Loan Commission decided to approve the issuance of the State Guarantee to the EIB in order to secure the Company's financial obligations under the credit agreement (up to EUR 87,000 thousand (up to LTL 300,000 thousand)) for the implementation of the LNGT project. The proposed amount of the State Guarantee was LTL 280,000 thousand (EUR 81,094 thousand). The Commission also decided to propose the introduction of a duty to the Company to mortgage the future real estate and items inextricably related to it (i.e. the LNGT connections and their technological appurtenances), the value of which would be not less than 100 percent of the amount of credit under the credit agreement with the EIB. This mortgage is to ensure the interests of the State under the State Guarantee issued to the EIB. Issuance of the State Guarantee is one of the preconditions for the EIB to pay the first part of the credit to the Company under the credit agreement.
- **19 June 2013.** The Company appealed against the Decision of Vilnius Regional Court dated 20 May 2013 in a case under the claim from the claimant Naftos Grupė UAB against the Company for the compensation of allegedly incurred losses in the amount of LTL 17 000 thousand, for return of the product surplus, allegedly owned by Naftos Grupė UAB and stored by the Company, to Naftos Grupė UAB 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.

In its appeal submitted to the Court of Appeal of Lithuania, the Company *inter alia* requested the following:

- ✓ to revoke the sections of the Decision of Vilnius Regional Court dated 20 May 2013 for recognition that the Agreement was terminated by the Company's fault; for losses amounting to LTL 9,745 thousand, the annual interest in the amount of 6 percent on the awarded amount for the period from the court proceedings until the judgement is fully complied with and the award of litigation costs from the Company to the benefit of Naftos Grupė UAB; for the rejection of Company's counterclaim to Naftos Grupė UAB, and to pass a new judgement regarding these sections: to reject the requirements of the claim for recognition that the Agreement was terminated by the Company's fault; for losses amounting to LTL 9,745 thousand, the annual interest in the amount of 6 percent on the awarded amount for the period from the court proceedings until the judgement is fully complied with and the award of litigation costs from the Company to the benefit of Naftos Grupė UAB, and to meet the Company's counterclaim fully;
- ✓ To uphold the other sections of the Decision of Vilnius Regional Court dated 20 May 2013.

It should be noted that upon the appeal, the Decision of Vilnius Regional Court dated 20 May 2013 shall not take effect: it would take effect and could cause the real after-effects for the Company only if it was not withdrawn after examination of the case following appeals procedure.

- **20 June 2013.** The Government of the Republic of Lithuania decided to accept the draft resolution "Regarding granting of the State Guarantee to the European Investment Bank" of Seimas of the Republic of Lithuania and submit it to Seimas of the Republic of Lithuania. According to the draft resolution, a State Guarantee was to be issued for EUR 81,094 thousand (LTL 280,000 thousand) to secure the credit to be granted to the Company by EIB, as the Company was seeking to borrow the mentioned amount from EIB in 2013. On 4 June 2013 EIB confirmed that it would grant a credit of up to EUR 87,000 thousand (LTL 300,000 thousand) to the Company.



- **27 June 2013.** Seimas of the Republic of Lithuania accepted the Amendment Act of Articles 5, 10 and 11 of the Liquefied Natural Gas Terminal of the Republic of Lithuania.

Regulation for trade of natural gas imported through LNGT has been changed by the law *inter alia*:

- ✓ the requirement for the natural gas companies that import natural gas in the Republic of Lithuania by connection and other natural gas pipelines of transmission system to purchase through LNGT not less than 25 percent of general natural gas quantity which that company gives to the natural gas system per year has been revoked;
- ✓ it has been determined that natural gas imported through LNGT on a priority basis should be supplied for the state regulated electricity and (or) thermal energy production. Its quantity relevant to the natural gas quantity approved by the Government to ensure LNGT necessary activity has been annually distributed according to the needs for the producers carrying out the state regulated production activity according to the agreements with the appointed supplier for 5 years or, if parties agree, for a longer period.
- ✓ Government has competence to determine application period for the mentioned obligation. The period cannot be longer than 10 years from the beginning of LNGT exploitation, and can be suspended or terminated, when natural gas diversified supply and use, energy security supply and reliability, as well as users' interests protection have been ensured.

The law also specifies LNG terminal project funding provisions that come into effect since 01 January 2014. The provisions determine that the additional component of the natural gas transmission price for the safety of the natural gas supply includes all expenditure for permanent exploitation of LNG terminal, its infrastructure and connection necessary to ensure LNG terminal operations, as well as only that expenditures for installation of LNG terminal, its infrastructure and connection that cannot be funded from other Company's available resources.

- **01 July 2013.** The Company received from the Court of Appeal of Lithuania ruling by which the appeals of Kauno dujotiekio statyba AB, Šiaulių dujotiekio statyba UAB and PPS Pipeline Systems GmbH concerning the decision of Klaipėda Regional Court of 16 April 2013 were revoked. Adopting the ruling, the Court of Appeal of Lithuania acknowledged that the Company did not violated requirements of the legal acts by acknowledging German company PPS Pipeline Systems GmbH as a winner of the published international procurement "for Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under negotiated procedure.

- **2 July 2013.** Seimas of the Republic of Lithuania decided:

To provide a State Guarantee to the European Investment Bank (hereinafter – EIB) regarding the credit of EUR 81,094 thousand for the period of up to 20 years with an interest rate set by EIB granted to the Company to finance the investment project "Liquefied Natural Gas Terminal", where the State undertakes guarantee obligation for the credit of EUR 81,094 thousand and payment of interest.

- **2 July 2013.** The decision to conclude a credit agreement with EIB in accordance with the common practise applicable by EIB was approved at the Extraordinary General Meeting of Shareholders. The common practise provides for the following:

- ✓ maximum amount of the credit is up to EUR 87,000 thousand (LTL 300,000 thousand);
- ✓ credit period cannot exceed 20 (twenty) years;
- ✓ interest – variable or fixed, at the rate to be set in EIB repayment proposal;
- ✓ certain credit payment preconditions are allowed for (more information can be found in Company's report on a material event dated 2 July 2013).

- **2 July 2013.** The Extraordinary General Meeting of Shareholders also:

- ✓ Authorised the General Manager of the Company to decide on the credit conditions which will be provided for in EIB repayment proposals, including but not limited to:
- ✓ to decide whether the interest should be variable or fixed;
- ✓ to decide on the amount of the credit part to be paid.
- ✓ Authorised the General Manager of the Company to sign the Credit Agreement with EIB on the essential terms and conditions of the Credit Agreement approved by the Board, which were also approved by the General Meeting of Shareholders following the provisions of item 16.10 of the Company's Articles of Association.

- **On 9 July 2013** the Company concluded a credit agreement with the EIB for a credit of up to EUR 87,000 thousand for LNGT project implementation. Under the agreement, EIB will finance up to 50% of the funds needed for the implementation of the project. The credit period under the agreement is up to 20 years, interest – variable or fixed, the rate of which will be set in EIB repayment proposals. The agreement also determines that the minimum credit payment portion is EUR 15,000 thousand, and the whole amount of the credit has to be paid to the Company in no more than 6 payments. 100% of the Company's financial obligations under the agreement will be secured by the guarantee of the State. Other material terms and conditions of the agreement as well as the obligations undertaken by the Company under the agreement are published in Company's notification about the material event.

- **5 August 2013.** The Company received the ruling of the Lithuanian Supreme Court, by which an appeal in cassation submitted by Kauno dujotiekio statyba AB regarding the ruling of the Court of Appeal of Lithuania dated 28 June 2013 was rejected. The above mentioned ruling of the Lithuanian Supreme Court is final and not subject to appeal. This ruling brings to an end the dispute relating to the Company's international tender "Natural Gas Pipeline System Engineering, Procurement and Construction (EPC) Works" performed under the negotiated procedure. Thus, the Company did not violate the statutory requirements by awarding the contract to the German company PPS Pipeline Systems GmbH.

- **8 August 2013.** The part of owners of the land plots (hereinafter referred to as the Applicants) through which it is intended to lay LNGT connection transmission pipeline route according to the currently prepared construction and technical designs submitted a complaint. By this complaint the Applicants ask to revoke the order No. 1-130 (hereinafter referred to as the Order) of the Minister of Energy of the Republic of Lithuania of 13 June 2013 approving the special plan of LNG terminal, related to its infrastructure and pipeline construction *inter alia* providing an opportunity to lay the mentioned pipeline route through the land plots owned by the Applicants. The Company has been involved into the case as the third interested person.
- **29 August 2013.** The Company and Amber Grid AB (hereinafter referred to as the Amber Grid) signed the agreement on LNGT funds payment.

Amber Grid carrying out the operator activities of the natural gas transmission system of the Republic of Lithuania acts according to the procedure and conditions prescribed by the legal acts as an administrator of funds to compensate (hereinafter referred to as the LNGT funds) installation of LNGT, its infrastructure and connection expenditure or its part. Meanwhile, the Company currently carrying out the functions of the company of LNGT project implementation acts according to the procedure and conditions prescribed by the legal acts as funds receiver with the right to receive LNGT funds collected and administered by the administrator of LNGT funds and use it according to the procedure prescribed by the legal acts. The Company and Amber Grid by the agreement mentioned above determined and worked out in detail the procedure and conditions of LNGT funds collected by Amber Grid payment to the Company. According to the agreement, Amber Grid shall pay the Company 1/12 of LNGT funds approved by the National Commission for Energy Control and Prices for the reporting year every month in order to compensate exploitation of LNGT, its infrastructure and connection expenditure or its part.

Following the ruling No. 03-317 of the National Commission for Energy Control and Prices of 19 October 2012, for 2013 the amount of LTL 113,798 was determined to compensate installation of LNGT, its infrastructure and connection expenditure or its part.

Following Article 1 of the Amendment Act of Articles 5, 10 and 11 of the Liquefied Natural Gas Terminal of the Republic of Lithuania, since 01 January 2014 LNGT funds is going to be used to compensate installation of LNGT, its infrastructure and connection expenditure that cannot be funded from other Company's available resources for LNGT project implementation, as well as permanent exploitation expenditure for LNG terminal, its infrastructure and connection necessary to ensure LNG terminal operations.

- **2 September 2013.** The Company entered into Insurance Agreement with PZU LIETUVA UAB DK for insurance of the Company's risk related to construction works of the LNGT infrastructure (natural gas pipeline and jetty).

The main terms and conditions of the Agreement are as follows:

- Insured Items – jetty infrastructure and facilities detailed in the Contract for Engineering, Procurement and Construction (EPC) Works concluded by the Company and BMGS AS on 18 March 2013 (hereinafter referred to as the Jetty EPC Contract), and the engineering, procurement and the pipeline and gas metering station detailed in the Contract for Engineering, Procurement and Construction of the Pipeline and Gas Metering Station (EPC) Works concluded by the Company and PPS Pipeline Systems GmbH on 6 May 2013 (hereinafter referred the Pipeline EPC Contract);
- Insured Works – construction, erection, testing works designated to create the Insured Items, performed in accordance with the Jetty and Pipeline EPC Contracts;
- Insured Business – natural gas and/or LNG related business;
- **10 September 2013.** The Company and LITGAS UAB signed the LNG purchase transmission and reception agreement. By this agreement the Company transferred all Company's functions, rights and obligations related to LNG trade and natural gas supply activity to LITGAS from the date of signing the agreement. On the basis of the agreement, LITGAS (established by the Company with the purpose to conclude LNG purchase and natural gas supply activities) will continue the activity of LNG purchase and its goal is to sign the LNG supply contract. 16 companies expressed their wish to participate in LNG procurement that was announced by the Company in October 2012.
- **12 September 2013.** National Commission for Energy Control and Prices approved the State regulated pricing method (hereinafter referred to as the Method) in the natural gas sector.

Implementing the requirements of Article 5 (edition becoming effective since 01 January 2014) and Article 11 of the Law on LNGT of the Republic of Lithuania, the Method *inter alia* establishes natural gas liquefaction business unit service pricing that determines upper limit calculation of the additional component of the natural gas transmission price for the safety of the natural gas supply (Safety component) and upper limit calculation of natural gas liquefaction price.

Need for funds for LNGT installation is determined taking into account necessary financial resources for LNGT project implementation investment and assessing the submitted documents proving that the Company implementing LNGT project is unable to use other possible project funding sources or other means that can ensure project funding. The Safety component is calculated after assessment of funds necessary to compensate installation of LNGT, its infrastructure and connection expenditure or its part and permanent exploitation expenditure for LNG terminal, its infrastructure and connection necessary to ensure LNG terminal operations.



The Method establishes calculation procedure of the upper limit of the natural gas liquefaction service price (hereinafter referred to as the Liquefaction price) assessing all variable liquefaction activity expenditure.

The Method provides the opportunity to correct the Safety component and Liquefaction price annually according to corresponding estimated coefficient

- **19 September 2013.** The Company registered the notification in the Register of Legal Entities of the Republic of Lithuania that confirms the Company's decision to increase the authorized capital of the LITGAS UAB subsidiary.

LITGAS UAB authorized capital has been increased by the decision of the Company as the only shareholder of LITGAS UAB by 2 million litas, from 1 million litas to 3 million litas issuing 2 million ordinary registered shares of LITGAS UAB and giving Lietuvos energija UAB (private limited liability company, code 301844044, registered address Žvejų g. 14, Vilnius) the right to purchase all shares. After increase of the authorized capital, the Company owns 1/3, and Lietuvos energija UAB owns 2/3 of the shares and votes in the General Meeting of Shareholders of LITGAS UAB.

Control of LITGAS has been transferred to Lietuvos energija UAB in order to fulfil the requirements of the European Union Third Energy Package concerning the Law on the Natural Gas and Electricity Markets of the European Union and the Law on Electricity of the Republic of Lithuania to separate energy supply and production activities from transmission activity following the ruling No. 730 of the Government of the Republic of Lithuania of 21 August 2013.

- **08 October 2013.** Lietuvos energija UAB following the Subscription Agreement concluded between the Company's subsidiary LITGAS UAB and Lietuvos energija UAB fully paid for all new issued ordinary registered shares of LITGAS UAB (2 million units).

After increase of the authorized capital, the Company owns 1/3, and Lietuvos energija UAB owns 2/3 of the shares and votes in the General Meeting of Shareholders of LITGAS UAB. The amended Articles of Association of LITGAS UAB was registered in the Register of Legal Entities on 15 October 2013.

- **11 October 2013.** In the meeting, National Commission for Energy Control and Prices (hereinafter referred to as the NCECP) determined the additional component of the natural gas transmission price for the safety of the natural gas supply (Safety component) in the amount of 39.36 litas/thousand m³. The Safety component determined by the NCECP is going to come into effect from 03 December 2014 and be valid to 31 December 2014 and it is going to be applied subject to LNGT is going to be started to exploit since 03 December 2014, and the Company is going to have a LNGT operator licence issued until that date.

The Safety component has been calculated following the provisions of Article 1 of the Amendment Act of Articles 5, 10 and 11 of the LNGT of the Republic of Lithuania and assessing the funds that are necessary according to the data submitted by the Company to compensate installation of LNGT, its infrastructure and connection expenditure or its part and permanent exploitation expenditure for LNG terminal, its infrastructure and connection necessary to ensure LNG terminal operations.

AB Amber Grid, the natural gas transmission system operator, chooses, administers and pays to the Company or LNGT operator the Safety component according to the procedure determined by the NCECP. The determined Safety component includes administrative costs in the amount of LTL 326.7 thousand approved by the Commission for 2014.

- **30 October 2013.** The Company and Orlen Lietuva AB signed a letter of intent on product pipeline laying from the oil refinery in Mažeikiai district to the oil product terminal in Klaipėda owned by the Company.

Memorandum empowered both companies to start official mutual negotiation concerning the product pipeline project implementation abilities, terms, cargo volume, and technological, logistic and economic conditions.

- **11 November 2013.** The Board of the Company, implementing the preconditions following which the Ministry of Finance of the Republic of Lithuania has to sign with EIB a State Guarantee Agreement (for an amount of EUR 81,094 thousand) in order to secure the Company's obligations under the credit agreement on partial funding of the LNGT project (Credit Agreement) signed with EIB on 9 July 2013, adopted inter alia the following decisions:

- ✓ To conclude an agreement on the margin payment and mortgage of the property with the Ministry of Finance of the Republic of Lithuania, and to make margin payment of EUR 81 thousand.
- ✓ To mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project, as well as to conclude a Maximum Conditional and Ordinary Mortgage Agreement with the Ministry of Finance.
- ✓ To establish that the Company may conclude the documents specified in the above mentioned decisions and perform other required actions and pay the margin only after receiving the European Commission's approval that the guarantee provided by the State to the EIB shall be not considered a state aid as provided for in the agreement on European Union action, or shall be regarded a state aid compatible with the internal market under the agreement.



- ✓ To establish that the above decisions of the Board shall enter into force only after approval of the General Meeting of Shareholders of the Company, as provided for in item 16.10 of the Articles of Association of the Company.
- **13 November 2013.** The Government of the Republic of Lithuania adopted resolution "On supplementing Resolution No. 199 of the Government of the Republic of Lithuania "On implementation of the Law on the Liquefied Natural Gas Terminal of the Republic of Lithuania", dated 15 February 2012" (hereinafter referred to as the Resolution), by which it approved that the Company would perform certain functions, performance of which is legally related to the legal status of the operator of the LNGT until the natural gas liquefying license is issued to company under the procedure set by legal acts.
After the effective date of the Resolution the Company will acquire the right to perform distribution of the LNGT capacities, to address the National Control Commission for Prices and Energy for setting upper limits of prices of services listed in the Law on Natural Gas of the Republic of Lithuania, as well as to prepare, coordinate and announce the rules for use of the LNGT and to prepare and coordinate agreements for use of the LNGT. Such agreements shall come into force and be implemented by the LNGT operator once the natural gas liquefying license is issued under the procedure set by legal acts.
- **20 November 2013.** The European Commission announced its finding that the State aid for the LNGT project implemented by the Company is a state aid compatible with the internal market. The current value of the State aid measures for the LNGT project (including State Guarantee and the LNGT supplement) amounts to approximately EUR 448 million (approximately LTL 1.5 billion).
The European Commission has concluded that the investment into the LNGT contributes to the security of gas supply and that the aid is necessary and proportionate to realise the investment. Moreover, the LNGT will be open to third parties on non-discriminatory terms, ensuring that there are no undue distortions of competition.
The European Commission has also found that compensation for LNGT maintenance costs is in line with the EU Framework on services of general economic interest.
This approval of the European Commission is one of the main conditions provided for in Resolution No.XII-479 of the Seimas of the Republic of Lithuania "Regarding giving State Guarantee to the European Investment Bank", dated 2 July 2013, in order that the EIB and the Ministry of Finance of the Republic of Lithuania (acting in the name of the State) could sign a State Guarantee Agreement in the amount of EUR 81,094 thousand (LTL 280,000 thousand) regarding the loan of up to EUR 87 million (up to LTL 300,000 thousand) to be granted by the EIB to the Company, which will be used to finance up to 50 percent of the implementation of the LNGT project.
- **22 November 2013.** The Company announced Nordea Bank Finland Plc, Lithuania Branch, as the winner of the simplified Public Procurement „Purchase of Financial Services (bank guarantee)" performed under negotiated procedure. The bank guarantee is intended for securing of the performance of contractual obligations under the LNG Floating Storage and Regasification Unit Lease Contract concluded between the Company and Höegh LNG Ltd. on 2 March 2012.
The main terms and conditions for issuance of the bank guarantee *inter alia* are as follows:
 - ✓ amount of the guarantee – up to USD 50,000 thousand;
 - ✓ validity term of the guarantee – from 15-01-2014 up to 31-12-2014;
 - ✓ price of the services – 0.255% of the of the guarantee amount (USD 128 thousand).
 No additional obligations or operating limitations will be set to the Company under the bank guarantee agreement as compared with the credit agreement signed between the Company and the European Investment Bank on 9 July 2013.
- **4 December 2013.** Extraordinary General Meeting of Shareholders of the Company accepted the decision of the Company's Board:
 1. To conclude an agreement with the Ministry of Finance of the Republic of Lithuania on the margin payment and mortgage of property including its all amendments, addendums and other modifications (hereinafter referred to as the Agreement on Margin Payment). This agreement is related to the future State Guarantee Agreement (hereinafter referred to as the State Guarantee Agreement) in the amount of EUR 81,094 thousand that will be concluded between the Ministry of Finance of the Republic of Lithuania and EIB which will serve as guarantee for the obligations of the Company to EIB under the Credit Facility Agreement FI No. LTL 82.631 Serapis No. 2012-0490 on the co-financing of the LNGT project concluded with EIB on 9 July 2013, to sign the Agreement on Margin Payment and undertake and fulfil all obligations according to this agreement. Also to conclude, sign, undertake obligations and fulfil all other agreements and documents that will be necessary or preferred in order to receive the State Guarantee mentioned above and (or) to ensure its validation, and to perform all actions related to this including to pay margin in the amount of EUR 81,094 thousand as it has been provided by the Agreement on Margin Payment.
 2. Ensuring the proper and timely execution of the future obligation of the Company to pay the Ministry of Finance of the Republic of Lithuania the sums provided in the future debt agreement that will be equal to the sums paid by the Ministry of Finance of the Republic of Lithuania according to the State Guarantee Agreement to EIB, to mortgage the following property in behalf of the Ministry of Finance of the Republic of Lithuania (state):
 - ✓ 3.2670 ha land plot in Klaipėda district Municipality, Dovilai eldership, Kiškėnai village, land plot unique No. 4400-2382-2820, register No. 44/1524424;
 - ✓ all future property defined below that will be developed during LNGT project and purchased by Klaipėdos nafta AB developing and completing LNGT project, i.e.:
 - ✓ - real estate (control room / dispatch room on the berth of the high pressure gas platform; pumping stations and electrical board room on the berth of services platform; engineering networks, i.e. transmission grid connection; GMS operator's shack (control and locker room)building; GMS building with shed for gas filters; access road, parking; fence)
 - and

- ✓ - as property complex all on the berth, in GMS (hereinafter referred to as the GMS) and/or future mounted/installed movable property (tools/equipment) near them, as well as other movable property (tools/equipment) that will be related to the terminal (including connection) or its activity and will be mounted/installed on the terminal (including connection) or near it that are necessary to ensure proper terminal functioning, any objects that are excluded from registration as separate objects in the Real Property Register due to their movable nature, including but not limited to the objects forming mooring system (including quick release mooring hooks, load control system, environmental monitoring system, auxiliary mooring system); 2 high pressure natural gas off-loading arms with necessary pipeline, collectors and hydraulic power units necessary for compressed natural gas transportation; access stair system; 2 marine jib cranes and telfer in pumping station building; firefighting system (including aerial platforms and hydrants); electrical system (consisted from *inter alia* diesel generator, control box and switchyard); control system (including control console); ship to shore communication link; monitoring system; GMS fire fighting system; GMS security system; constituent parts of GMS gas cleaning unit (including the constituent parts of GMS equipment automatic control system), gas metering system (including chromatographs, automatic gas flow analyser, constituent parts of automatic flow control system and SCADA, other constituent parts of gas metering system), computer hardware.

The Company can conclude Mortgage contract mentioned in the item 2 and sign all documents related to it, as well as to perform other necessary actions, to pay margin payment mentioned in the item 1 only upon European Commission confirmation that the State Guarantee provided to the European Investment Bank is not considered as a state aid provided in the Treaty of the Functioning of the European Union or is considered as a state aid agreed with the internal market according to this Treaty. This Board decision will be sufficient to undertake the obligations mentioned in the items 1 and 2, to sign documents and perform actions upon the receipt of such European Commission approval, and the separate Board decision will not be required for the issues named in this decision.

- **5 December 2013.** The Company and the Ministry of Finance of the Republic of Lithuania concluded an Agreement on the Margin Payment and Mortgage of Property as well as a Maximum Conditional and Ordinary Mortgage Agreement

On the basis of the Agreements, the Company has undertaken to make to the Ministry of Finance a margin payment in the amount of EUR 81 thousand and to mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project (in the amount of maximum mortgage of EUR 81million).

- **11 December 2013.** The Government of the Republic of Lithuania adopted resolution "On amending Resolution No. 1354 of the Government of the Republic of Lithuania "On approval of the Description of the Natural Gas Supply Diversification Procedure", dated 7 November 2012" and an annex to the Resolution – the Description of the Natural Gas Supply Diversification Procedure (hereinafter referred to as the Description), which was laid in new version. These legal acts have been prepared implementing provisions of Article 11 of the Law of the Republic of Lithuania on the LNGT amended by the Law on Amending Articles 5, 10 and 11 of the Law of the Republic of Lithuania on the LNGT, related to trade in natural gas.

The Resolution determines the minimal annual volume of regasified natural gas, necessary for maintaining the stable process of regasification technology in the LNGT at the minimal uninterrupted regime – 540 million cubic metres of gas per year for the regulated period of 5 years after the beginning of the first period of using the distributed LNGT capacities published by the LNGT operator

The Description determines the procedure and requirements for implementation of diversification requirements, procedure and conditions of appointment of the designated supplier, rights and obligations related to the natural gas supply diversification requirements for the energy companies using gas as well as the procedure of informing about the failure to fulfil diversification requirements.

- **On 13 December 2013** the Ministry of Finance of the Republic of Lithuania signed with EIB a State Guarantee Agreement regarding the credit in the amount of EUR 81 million (LTL 280 million) granted by EIB to the Company. The State Guarantee Agreement is to secure the Company's contractual obligations to EIB under the credit contract for up to 20 years on partial funding of the LNGT project dated 9 July 2013. The Company will be able to borrow a total of EUR 87 million (LTL 300 million) under the contract upon the State Guarantee for the remaining part of the credit. Thus, up to 50% of the investments related to LNGT project implementation will be financed by EIB under the contract.

The State Guarantee was granted upon fulfilment of all terms and conditions specified in Resolution No. XII-479 on the State Guarantee to the European Investment Bank adopted by the Seimas of the Republic of Lithuania on 2 July 2013, i.e., upon mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project; payment of margin of EUR 81 thousand, and receipt of the approval of the European Commission stating that the State Guarantee is a state aid compatible with the internal market.

SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

- **25 February 2014.** Vilnius Regional Administrative Court by the adopted decision declined the appeal from the owners of a part of plots of land, via which it has been planned to construct the gas pipeline route of liquefied natural gas terminal. The owners asked Vilnius Regional Administrative Court to cancel the Decree Nr. 1-130 of the Minister of Energy of Lithuanian Republic dated 13 June 2013 that confirmed the LNG terminal Special plan of connected infrastructure and pipeline construction, *inter alia*, providing a possibility to construct the indicated gas pipeline route via the plots of land of the abovementioned owners.

Vilnius Regional Administrative Court stated in the decision that the Decree, which acknowledges the Special plan, has been confirmed according to requirements of legislative acts, therefore it is legitimate.

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

During the year 2013 the Company made 109 official announcements about the significant events and other required information at the NASDAQ OMX Vilnius stock exchange.

RISK FACTORS

Risk factors of the Oil products terminal

Competitive environment risk factors

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

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

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

Commercial risk factors

The main client of the Company is ORLEN Lietuva AB. Its share represents more than 60% of the Company's terminal annual transshipment volume. The Company has signed a long-term transshipment agreement with ORLEN Lietuva AB which is valid until 2024 and guarantees stable flows of oil products from ORLEN Lietuva AB.

Annual transshipment volume of oil products from Belarusian oil refineries amounts to 40% of the total transshipment volume of the Company. Since Belarus has no direct access to the sea, Belarus must use transit services of neighbouring countries and their ports in order to export oil products to the Western countries. Therefore, the cooperation with Belarusian companies and institutions is highly important in order to divert their transit of oil products through the Klaipėda port.

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

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

The allowed draught of 13 meters at jetties No. 1 and No. 2 of the Klaipėda State Seaport are operated by the Company. At the terminals of Ventspils and Tallinn the allowed depth exceeds 14 meters which enables a full load of Aframax type tankers (up to 100,000 tons). Klaipėdos Nafta, because of the restrictions of allowed draught of up to 13,0 meters can load such type of tankers only up to 82-87 thousand tons. Therefore, Klaipėdos Nafta loses its competitive edge against the neighbouring ports as this translates into higher marine logistics costs for oil products shipped by Aframax type tankers.

The main risk reduction measures connected to commercial risks factors are as follows: (1) the intention of the Company to conclude long-term transshipment contracts under "take-or-pay" conditions, in order to preserve revenues of the Company regardless of global factors in the oil products market; and (2) intention and stimulation of the Company to invest into the Klaipėda Sea port attractiveness and development.

Technological factors

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

The Company's investment plans regarding expansion of the oil product storage-tank park by 10 percent will make possible to tranship light and heavy oil products, in future it will allow to service sea vessels of greater tonnage and expand the assortment of oil products available for transshipping. The facilities of the oil terminal, which are located in 35.7 ha area, allow handling of up to 9 million tons of exported and imported oil products and crude oil per year. Total capacity of all storage tanks amounts to 450 thousand m³. Each batch of oil products delivered from different oil refineries is stored separately, i.e., is not mixed with others. This allows preserving the initial quantity and quality of the delivered oil products. Modern laboratory of the oil terminal controls the quality parameters.

The Company's oil terminal equipment was manufactured by the following Western and the USA companies: "KANON", "BORNEMANN", "INGERSOLL DRESSER", "ROTORK", "ENRAF", "ROSSMARK", "AEG" and etc.

The Company seeks to eliminate technological risk factors by constant investments, renovations and proper maintenance of its technological equipment. Also there are installed automatic „AJAX-HEKATRON" fire detection and extinguishing systems, HONEYWELL shutdown system and BAILEY computerized control system of the transshipment process.

The LNGT project risk factors

Legal/ regulatory risk

The Law of the Liquefied Natural Gas terminal approved on 27 June 2013 by the Parliament of Lithuanian Republic establishes development of the LNGT at the territory of Lithuanian Republic, main principles and requirements for its operation and exploitation, also composes legal, financial and organizational facilities for the LNGT project implementation. Until the start of LNGT exploitation date it is obligatory to create the legal base regulating the LNGT operator activity, to receive all necessary permissions and licenses, to specify all procedures of the activity. The change of the mentioned law and other already adopted laws regulating the construction, activity and exploitation of the LNGT, could result in significant losses concerning the financial and/or legal liabilities that already has been made.

In order to manage arising risks and create fully functioning the LNGT operator organization till the identified term, the Company closely cooperates and coordinates the documentation in advance with all the parties involved, the NCCPE, institutes regulating liquefying activity, the owner of the ship-storage, give publicity to the LNGT project.

One of the main documents regarding regulatory environment is the LNGT use Regulations. When writing those Regulations the Company tightly cooperates with the other companies engaged in LNG activities, other related, interested entities. Also external consultants are hired; the best practice examples are used.

The Company do its best answering the queries and concerns of various institutions and other persons. The goal is to make project implementation as transparent as possible and all the related institutions and society would realise the benefit and importance of the LNGT.

In 2013 the European Commission has confirmed that the LNGT project, its regulative environment, business model, technological choice are proper and comply with the basic principles of the European Union.

Project finish on time risk and exploitation start risk

The commissioning of the LNGT is foreseen on 3 December 2014, so by that date all construction works has to be finished: construction and delivery of the ship-storage (unit), construction of jetty (and suprastructure) and construction of gas pipeline (and gas metering station). These separate constructions are implemented by the separate companies; therefore coordination, management and supervision of all these three main stages are of prime importance for the successful accomplishment of the project. Delay of even one of the stages can have negative consequences for the whole project implementation. In order to manage this risk, works of construction of jetty and gas pipeline were purchased by concluding Engineering, Procurement and Construction (EPC) type contracts. Schedule and cost of the works are indicated during the conclusion of the contract with the contractors. All the risks associated with these activities not completed on time and the increase in the price of work is transferred to the contractor.

There are not many examples in the world practice when the LNG terminal is constructed in the similar climate state as Lithuania. Due to lack of the world practice in launching, coordination and testing any analogical LNG terminals, one of the main construction risks of LNGT is the LNG terminal successful completion. The Company, by managing such risk, relies on outside consultants and co-operates with the Constructor of the ship-storage (unit), and also draws up in advance the separate procedure of launching, coordination and testing, performs the testing programme of the LNG ship-storage.

Third parties risk

The successful completion of the Project depends not only on the Company and its contractors' works, but also on the third parties (for example, Klaipeda State Seaport Authority, Amber Grid AB, the Ministry of Finance of the Republic of Lithuania, state supervisory and controlling authorities, etc.). In order to manage such risk, the Company seeks to formalize its relations with the third parties by concluding agreements that provide completion of the works and responsibility of the parties (i.e. Agreement on the LNGT connection to the natural gas transmitting system), strictly monitors the schedule of the project implementation and informs the LNGT supervisory committee under the direction of Prime Minister of the Republic of Lithuania, participates actively in operation of the working groups.

ENVIRONMENT PROTECTION

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

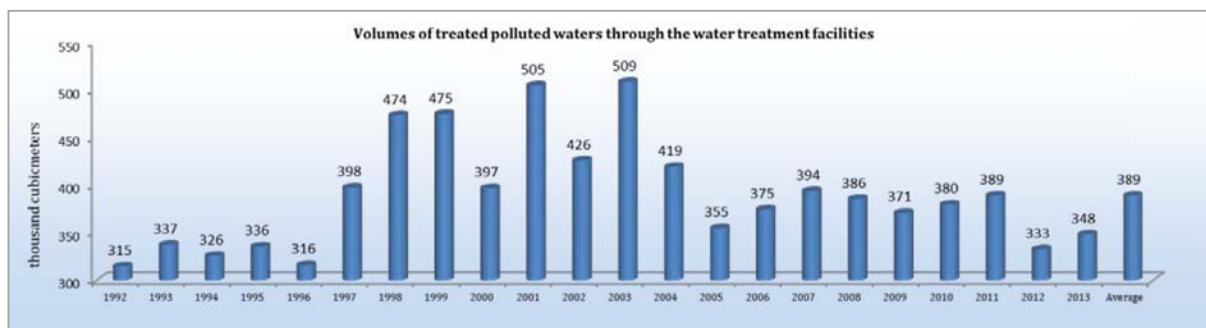
In order to reduce the environmental risks, the Company implemented the systems of automatic fire detection and extinguishing, computer-assisted loading process control, and technologies for air, soil and water protection from pollution in accordance with the EU standards. The management of systems for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

The Company, as the object of the II danger level, is checked annually by the Commission under the direction of officers of the Fire and Rescue Department under the Ministry of Interior of the Republic of Lithuania.

In 2013 seeking to implement measures of air pollution prevention, the Company has installed and launched the vapour recuperation unit, implementing reconstruction of the HOP storage tanks park replacing four old demolished storage tanks of 5.000 m³ each with newly built storage tanks of 32.25 thousand m³ each with internal floating tank pontoons, which decrease the storied products vapours emission to the ambient air. Besides that, the new storage tanks are much friendlier to environment, since they are properly isolated and modern security technologies are applied.

During 2013, the Company did not experience any accidents or malfunctions which could affect environment. The Company performs constant environmental monitoring of:

- underground and surface water (it has been measured that underground pollution with oil products, which accumulated over the period of activities of the old terminal, is reducing);
- discharged waste water (biological treatment facilities of the Company guarantee less pollution of open water basins than allowed in the Integrated Permit of Pollution Prevention and Control);



- impact on ambient air (limits of volatile organic compounds and nitrogen oxides defined by the EU and national limit values were not exceeded outside the boundaries of the sanitary zone of the Company. 185 tons of volatile organic compounds (VOC) were collected and burned during the reporting year (2012 – 237 tons);
- stationary sources of air pollution (the amount of pollutants allowed in the Environment Protection Permit was not exceeded).

During 2013 the Company utilized 10,850 tons (2012 – 5,557 tons) of bilge waters and biologically treated mud, handed over to other companies 292 tons (2012 – 191 tons) of sorted wastes and collected 88 tons (2012 – 2,013 tons) of secondary raw materials (metal scrap, oil products, paper).

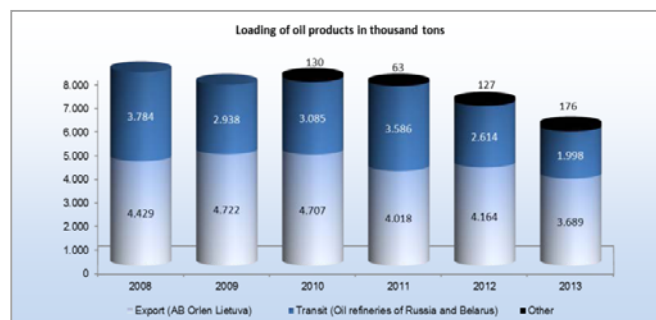
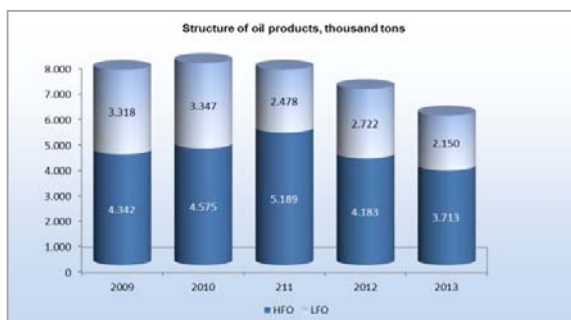
In order to decrease volume of consumed paper and costs of documents management, the Electronic documents management system (DocLogix) was installed in the Company in the end of 2013, which allows managing and archiving all documents in electronic way.

In 2013 the expenses for environment protection amounts of LTL 3,127 thousand (2012 – LTL 3,053 thousand). Additionally LTL 85 thousand (2012 – LTL 120 thousand) were allocated for different environmental studies (investigation of pollutants and etc.) and LTL 24 thousand (2012 – LTL 19 thousand) of pollution tax was paid.

FINANCIAL RESULTS OF ACTIVITY

The year of 2013 was a challenging period. The Company had to overcome the challenges not only related with its main activity – oil products transshipment, but also ensuring smooth development of the LNGT project.

During 2013 the Company transhipped 5,864 thousand tons of oil products that is 15% or 1,041 thousand tons less comparing to 2012 (6,905 thousand tons). 63% (61% in 2012) of total transshipment volume consist of heavy oil products (hereinafter – HFO). The fluidity of HOP depends on the product temperature and atmosphere temperature; therefore it is necessary to raise the product temperature till its fluidity temperature. The following products are attributed to HFO: various types of fuel (heating) oil and its substitutes, vacuum gasoil, orimulsion, crude oil and etc. Light oil products (hereinafter – LFO) – are oil products, the fluidity of which does not depend on the product temperature and ambient temperatures. The following oil products are attributed to LOP: types of gasoline, diesel fuel, jet fuel, etc.

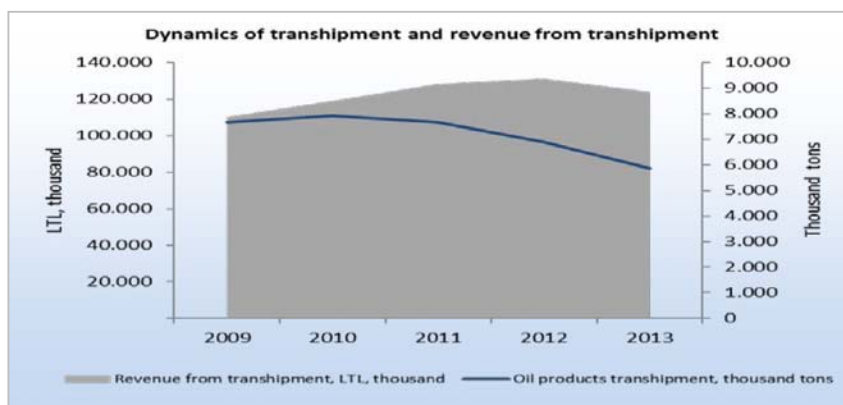


The largest clients of the Company are Orlen Lietuva AB and Belarusian Mozyr oil refinery.

Orlen Lietuva AB comparing to 2012 transhipped 10% or 430 thousand tons less in 2013 through the KN terminal. Orlen Lietuva AB reduced export through the Company's oil terminal due to: i) the changed logistic channel, when after closing the Lisicansko oil refinery in Ukraine, the export of gasoline and dieseline were directed to Ukraine (and other East Europe countries) and, 2) due to dropped global oil refinery margins, Orlen Lietuva AB reduced its production volumes.

Oil products transit from Belorussia and Russia oil refineries decreased by 24% comparing to 2012 year (comparing 1,998 tons in 2013 to 2,614 tons in 2012). Russian oil products transshipment decreased in all sea ports of the Baltic States, since Russia is interested to tranship oil products through its own sea ports as much as possible, operating especially effectively through the Ust-Luga terminal (Russia), which projective annual capability is extended up to 25-30 m tons per year. After Russia started to deliver less oil products to the Mozyr oil products refinery, which in its turn reduced production volumes, and therefore transshipment of fuel oil through the Company's terminal also significantly decreased.

Nevertheless decreasing of transshipment the Company succeeded in ensuring stable revenue by signing a contract with the Swiss company Litasco SA (the contract was signed in 2012 and renewed in September 2013) (OAO Lukoil concern company). This enterprise obliged to deliver for transshipment more than 2 million tons of oil products to the Company per year and to compensate losses of the Company in case of non-delivery of the necessary volume of cargo. In case of unstable oil products market, the Company applying "take-or-pay" conditions ensures its stable revenue from the main activity, even if transshipment is not performed or storage tanks are not loaded with oil products. By applying this principle the Company seeks to negotiate the maximum quantity to be delivered at the terminal and also addressing the guarantees that, if products are not delivered as agreed, the certain fee has to be paid by the client.



In 2013 the Company's revenue amounted to LTL 126,860 thousand, compared to 2012 (LTL 138,881 thousand) decreased by LTL 12,021 thousand (or 8.65%):

- ✓ LTL 7,282 thousand or 6% less oil products transshipment revenue (as the Company transhipped 15% or 1,041 thousand of oil products less comparing to 2012). Oil products transshipment services comprise more than 90% of the overall sale revenue.

- ✓ Other revenue related to transshipment decreased by LTL 4,739 thousand. Such decrease is a result of not executed sale of HFO collected in water treatment facilities (in 2013 – no sales, in 2012 – LTL 3,233 thousand; as of 31 December 2013 there is approx. 3,500 tons of collected HFO). Remaining revenue related to transshipment consists of mooring services, trade of fresh water, transportation of ship crew, sold stores, etc.



Net profit for 2013 amounts to LTL 35,649 thousand, a decrease of 14% or LTL 5,788 thousand compared to 2012 (LTL 41,437 thousand).

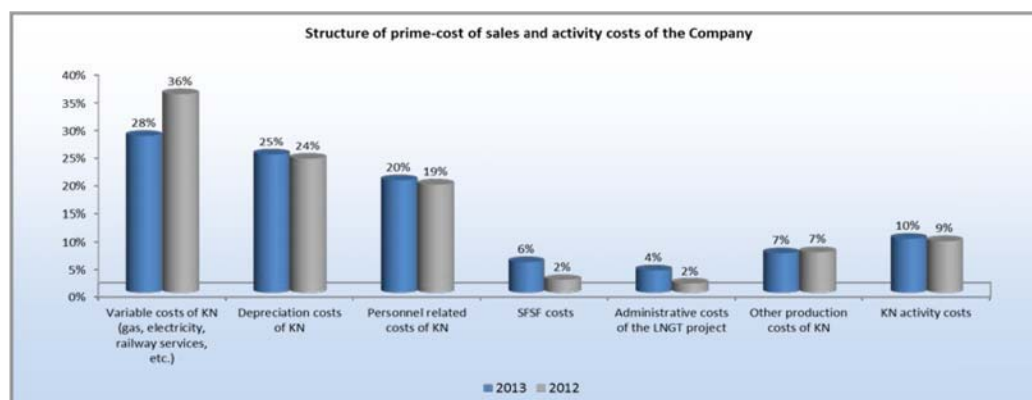
Decreasing of net profit in 2013 was influenced by the main factors:

- LTL 11,484 thousand less in oil transshipment and storage revenue (excl. SFS revenue impact);
- LTL 4,527 thousand less in other revenue related to transshipment compared to 2012;
- LTL 1,919 thousand less in financial activity profit compared to 2012;
- LTL 1,872 thousand more administrative costs compared to 2012;
- Other factors – LTL 148 thousand.

Increasing of net profit in 2013 was influenced by the following factors:

- LTL 8,497 thousand less in oil products cost of sales due to decreased volumes of transshipment and due to effective management of resources;
- Net profit of the Subačius FSF operation increased for LTL 1,024 thousand;
- Profit tax for 2013 decreased for LTL 4,641 thousand compared to 2012;

In 2013 cost of sales (LTL 76,089 thousand) decreased by 6% or LTL 5,247 thousand compared to 2012 (LTL 81,336 thousand). Of their variable costs (gas, electricity, railway services and other) decreased LTL 6,289 thousand that constitutes decreasing by 20%, when transshipment volume decreased is 15%. These figures demonstrate that the Company operated more effectively and used energy and other resources in optimal way.



Profit of 2013 before taxes, interest margin, depreciation and amortization (EBITDA) seeks LTL 63,289 thousand and decreased 9% or 6,529 LTL thousand compared to 2012 (LTL 69,818 thousand).

Key financial and operating figures

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

Operating figures	2013 12 31	2012 12 31	2011 12 31
Transshipment of oil products (net, thousand tons)	5,864	6,905	7,667
Investments (PP&E acquisitions)	98,954	86,220	19,443
<i>Oil terminal</i>	<i>34,754</i>	<i>18,106</i>	<i>7,797</i>
<i>Liquefied natural gas terminal</i>	<i>63,919</i>	<i>22,623</i>	<i>11,646</i>
<i>Subačius fuel storage facility</i>	<i>281</i>	<i>45,491</i>	<i>-</i>
Financial figures			
Sales revenue	126,860	138,881	141,276
Gross profit	50,771	57,545	58,363
EBITDA	63,289	69,818	73,327
EBIT	38,409	46,919	50,673
Financial and investment activities result	-80	1,839	1,277
Profit before taxation	38,329	48,758	52,771
Net profit	35,649	41,437	44,852
Non-current assets	523,681	447,650	389,643
Current assets	152,153	112,360	129,207
Total assets	675,834	560,010	518,850
Shareholders' equity	571,651	536,412	499,838
Profitability			
Return on assets (ROA)	5.8%	7.7%	9.0%
Return on equity (ROE)	6.4%	8.0%	9.4%
Gross profit margin	40%	41%	41%
EBITDA margin	50%	50%	52%
EBIT margin	30%	34%	36%
Net profit margin	28%	30%	32%
Turnover			
Accounts receivable, days	32	36	11
Accounts payable, days	78	18	19
Financial structure			
Debt ratio	0.18	0.04	0.04
Capital to assets ratio	0.85	0.96	0.96
Gross liquidity ratio (current ratio)	3.37	7.21	12.28
Market value ratios			
Share price to earnings per share ratio (P/E), times	10.8	10.5	10.3
Net profit per share (EPS), LTL	0.09	0.11	0.13

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

EBIT = earnings before interest and taxation.

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

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

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

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



INVESTMENTS

The Company is seeking to be competitive on the market of oil products; therefore, it is implementing technically and economically reasoned investment policy. The Company also ensures compliance with environmental requirements by emitting low amounts of hydrocarbon vapours into the environment. For this purpose, modernization of the oil products storage tank park and the system of utilization of hydrocarbon vapour from railway piers, other projects are being carried out.

The biggest investments challenge for the Company is the implementation of LNGT Project.

The main areas of investments:

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

Investments of the oil and oil products terminal:

The Company invested LTL 34,754 thousand into modernization of the oil terminal in 2013. The essential and the largest investments in 2013 were as follows:

- Vapour recuperation unit was installed and launched. That is an environmental project to gather carbohydrate vapours and transfer them into liquid, securely store them not letting into the environment. That will allow significantly decrease air pollution and offensive odours emission to environmental regions. Value of already completed works totals to LTL 6,523 thousand (whereby completed works in 2013 amounted to LTL 1,459 thousand). In 2014 it is foreseen to complete works of the II stage of the unit – to apply the vapour recuperation unit in HFO transhipment at railway piers.



- Reconstruction of the storage tank park of HFO tanks park: demolition of the four old storage tanks each 5 000 m³ and construction of the two new universal storage tanks each 32,250 m³. The objective of that investment – to expand technological capacities of the Company by increasing the storage tank park of the Company by 44,500 m³ and to enlarge technological flexibility by enabling to store both light and heavy oil products. It increases competitive advantages and attractiveness, since using new storage tanks will allow to tranship more oil products of different types and to accumulate larger batches of oil products for transhipment into oil tankers.



In the end of 2013, total value of completed works amounted to LTL 33,163 thousand (works in 2013 constituted LTL 29,295 thousand). In January 2014 construction works of the abovementioned new storage tanks were completed and their exploitation was started.

- In 2013, besides the project of the HFO tanks park reconstruction, the Company additionally invested into the adaptation of 2 exploiting storage tanks each 20,000 m³ for LFO transshipment (up to date it was possible to tranship only HFO products in those tanks). These investments are also related to increasing of technologic flexibility of the storage tanks park. Total value of completed works of 2013 – LTL 1,042 thousand;
- In 2013, modernization works of the higher unloading system for the rail tank cars of the piers have been completed. The core of this investment - to create technological possibilities enabling to effectively unload HFO from rail tank car, having a third additional valve. The Company purchased and installed additional loading arms in order to implement this goal. Total value of completed works is LTL 5,296 thousand (works made in 2013 amounts LTL 768 thousand);
- Modernization works of the fire safety system – investments for renovation of mechanical and automatic parts of the fire safety system. In 2013 fire equipment on rail pier was renovated and reconstruction of the automatic part began. All works are planned to be completed in 2014. As of 31 December 2013 the amount of completed works totalled LTL 1,929 thousand (whereby LTL 655 thousand spent during 2013).
- Seeking to renovate treatment equipments work and effectiveness, in 2013 repair actions of biosorbents of biological treatment facilities were performed, totally amounted to LTL 588 thousand.
- In 2013, LTL 524 thousand were invested in renovation of separation of steam boilers of heat production with the total investments amount of LTL 930 thousand.

The LNGT project development and investments – 2013

As of 31 December 2013 the uncompleted construction of the LNGT project constitutes LTL 98,162 thousand. The LNGT project is being successfully developed according to the implementation plan and objectives, all works are carried out in accordance with the set deadlines.

- The LNGT terminal is based by the Floating Storage and Regasification Unit (FSRU) technology. The FSRU is delivered by Höegh LNG.
- The FSRU was floated out from the dry dock, the most important production unit was certified and installed – regasification unit. Also installations of the LNG volumes, energy units were made, the most important production units were tested and the marine exposure tests were successfully executed.

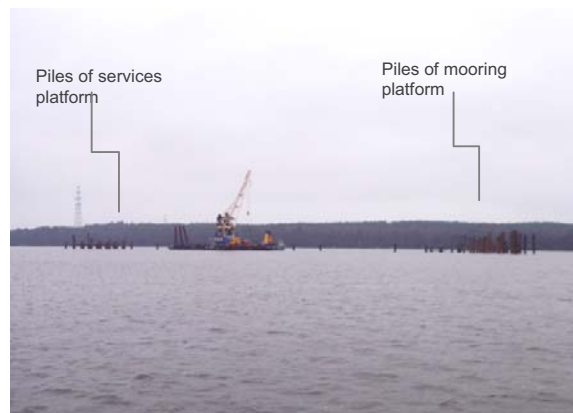
The LNG ship storage unit: at the shipyard of Hyundai Heavy Industries in the South Korea (on the left) and during marine exposure test (on the right)



- Jetty: on 18 March 2013 The Contract on Engineering and Construction Works of Port Infrastructure (Jetty) with Superstructure (Equipment) of the LNGT was concluded. During 2013 all preparatory works for construction were completed, equipment of the Jetty was ordered (production time from 7 to 9 months).

- The Jetty of 450 meters length, to which the LNG ship-storage will be constantly moored, is under construction in the Curonian Lagoon in the southern part of Klaipeda port. Coordinates: 55° 43' N; 21° 07' E.
- The Jetty piles were driven, plans on how to speed the jetty construction were composed (for example, based on the Company proposal, widely used reinforced concrete structures were pre-assembled with no further casting at the Jetty). Seeking to ensure the works completion on schedule, additional equipment was delivered (for example, additional cranes).

The Jetty: views from the site



- The Gas pipeline: on 6 May 2013 the contract with general contractor PPS Pipeline Systems GmbH on construction works of the LNG terminal gas pipeline and gas metering station engineering. During 2013 all planned preparation works were executed for the gas pipeline construction in the route under the Curonian Lagoon, construction site for the gas metering station was started to be operated.
- The LNG terminal will be connected to the Amber Grid AB operator of gas transmission system grid of 18 km length of connecting gas pipeline, the part of which will be under the Curonian Lagoon.
- According to the construction plan coordinated with the Contractor, strings to be constructed under the Curonian Lagoon were welded, their hydro-fuge insulation was tested, and equipment needed for HDD (horizontal directional drilling) works was delivered. Technical equipment tests were started. The HDD works is technologically-difficult procedure, when after drilling the HDD string is dragged through under the bottom of the Curonian Lagoon, i.e. a part of the connecting gas pipe line.
- Pipes of surface-mounted part of the connecting pipe line are delivered, their welding has started, marking of the route (18 km), cleaning and excavation works were also launched.

The Gas pipe line: views for the site



The main works related to the implementation of the LNGT Project in 2013:

Date	Works implemented
7 February 2013	The Company concluded the Overdraft Facility Agreement for LTL 120 million with Nordea Bank Finland Plc.
18 February 2013	Final tender offers were received and Latvian company AS BMSG was announced as the winner of the Procurement of engineering and construction works of port infrastructure (jetty) with superstructure (equipment) with LNGT.
6 March 2013	Final tender offers were received in the Procurement of Engineering, Procurement and Construction works for LNG pipeline system (EPC).
8 March 2013	The Company and Lietuvos dujos AB concluded the Service Agreement on LNGT's connection to the operating natural gas transmission system.
14 March 2013	The Company addressed the Ministry of Finance regarding the State Guarantee of LTL 200 million granting.
20 March 2013	The Company and Lietuvos dujos AB concluded the Agreement on the gas main point assembling.
3 May 2013	The LNG ship-storage unit floated out from the dry dock.
4 June 2013	The Board of the Company called the extraordinary General Meeting of Shareholders that on 2 July 2013 confirmed credit conditions of the EIB.
13 June 2013	The Special plan of the LNGT, related infrastructure and gas pipeline construction were confirmed.
14 June 2013	The State Credit commission confirmed the State Guarantee of LTL 280 million to secure the EIB credit (the guarantee was confirmed by the LR Government on 20 June 2013), by the LR Parliament - on 2 July 2013.
18 June 2013	Trial of regasification unit successfully completed.
27 June 2013	The Special plan of the LNGT gas metering station confirmed.
June 2013	The FSRU gasification units were produced, tested and are to be installed.
1 July 2013	The KSSA territory and water area needed for the construction works were passed to PPS Pipeline Systems GmbH.
9 July 2013	The Company concluded the Financing Agreement for LTL 300 million loan with the European Investment Bank.
10 July 2013	Pipes of gas pipeline were ordered.
July 2013	DG Competition notification of the State assistance initiated in May. The Ministry of Finance sent pre-notification information that has been in advance coordinated with the Company.
July 2013	Technical supervisor of construction was specified, architecture and connection requirements (technical provisions) for the jetty engineering were issued. The analysis of mooring started.
9 August 2013	The most important equipment of the jetty was ordered – cargo hooks and high pressure loading arms.
21 August 2013	AS BMGS started preparatory works for construction at the site – necessary equipment for the construction was mobilized, production of piles was started.
11 September 2013	Trial piles are delivered from the piles factory in Holland (10 pcs.)
11 September 2013	Construction of temporary approach road was completed, HDD construction site was equipped.
11-21 September 2013	Checks were executed in the factory in Holland, where jetty piles have been produced and claimed requirements were coordinated.
16 September 2013	The external audit of the activity effectiveness and feasibility of the Company was executed. Positive conclusions received evaluating the Company activity from 1 January 2010 till 31 December 2012 under aspect of accepted obligations feasibility, legal risks and executed procedures of procurement compliance with legal acts of the Republic of Lithuania.
18 September 2013	The completed technical project (for the second section) was presented in order to receive permission for construction.
27 September 2013	AS BMGS started to drive trial piles to confirm geological interpretation (construction researches).
30 September 2013	Works of the territory cleaning and approach road equipment for the construction of the Gas metering station (GMS) were started.

Date	Works implemented
7 October 2013	The technical project of the jetty was altered according to the received data of geotechnical piles checks.
15 and 29 October 2013	Construction permissions were received for the 3 and 4 sections of the gas pipeline.
24 October 2013	According to the schedule all 24 piles of the services platform were driven.
1 November 2013	The site of the Gas metering station was under soil spreading (about 5 m of sub soil were delivered).
12 November 2013	Isolation of HDD string connections was started.
18 November 2013	The whole route (for the length of 18 km) of connecting gas pipeline was marked; cleaning works of the route were started.
17 November 2013	Reinforcement platform piles were started to drive.
19 November 2013	First pipes of the connecting gas pipeline were delivered.
16 November 2013	Reinforcement platform piles were started to drive.
20 November 2013	Conclusions of the European Commissions were received: - Legal regulation of the LNG terminal complies with the requirements of internal market of the European Union. - Financing of the LNGT project from the European Investment Bank was ensured.
27 November 2013	The optimized plan of works in winter time was prepared.
28 November 2013	Marine exposure tests of the LNG floating storage unit were executed.
29 November 2013	The HDD drilling works were started.
2 December 2013	Public market consultation regarding the LNGT capacities distribution demand was started.
4 December 2013	Pledge agreement necessary to receive the State Guarantee was concluded with the Ministry of Finance of the Republic of Lithuania.
9 December 2013	The Agreement of USD 50 million bank guarantee, in order to assure payments for the rent of LNG floating storage Hoegh LNG, was concluded with Nordea Bank Finland Plc.
20 December 2013	First credit funds (EUR 15 million) of the European investment bank were received.

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

Date	Legal act	Effect on the LNGT project
10 April 2013	Resolution No. 318 by the Government of the Republic of Lithuania "On Activity priorities of the Government of the Republic of Lithuania for 2013" (State Gazette, 2013, No 40-1949).	The Government approved continuation of the implementation of strategic energy projects as one of the priority field including the LNGT project implementation.
30 April 2013	Resolution No. 378 by the Government "On determination of profit payment of state enterprise Klaipeda State Seaport Authority" (State Gazette, 2013, No 46-2257).	Stated that in 2013 payment of distributable profit of the company being paid by KSSPD to the state budget (by dividing the 2012 profit) is 1 percent. One of the reasons of decision – the LNGT project implementation.
23 April 2013	Resolution No 350 by the Government "On dividends of the stock company Klaipeda Nafta".	The Ministry of Energy, as manager of the Company's shares owned by the State on property right, was assigned to entitle its representative at the General Meeting of Shareholders to propose a decreasing of a part of the 2012 Company's distributable profit dividends to 1 percent and to vote for the necessity to finance the LNGT project.
13 June 2013	Decree No 1-130 by the Minister of Energy "On confirmation of the Special plan of the Liquefied natural gas terminal, its related infrastructure and construction of gas pipeline".	The Special plan of the LNGT project was confirmed.

Date	Legal act	Effect on the LNGT project
20 June 2013	Resolution by the Government of the Republic of Lithuania on granting the LTL 280 million State Guarantee to the European Investment Bank (State Gazette, 2013, No. 68-3427).	The Government granted the State Guarantee to the European Investment Bank, intended to ensure financing of the LNGT project.
27 June 2013	Law No XII-426 on alteration of the articles No 5, 10 and 11 of the Law on Liquefied Natural Gas Terminal (State Gazette, 2013, No 73-3842).	Adopted alterations of the Law, confirming the LNGT project financing scheme, that provide conditions to use the LNGT terminal gasification capacities.
2 July 2013	Resolution No XII-479 by the Seimas "On granting the State Guarantee to the European Investment Bank" (State Gazette, 2013, No 73-3658).	The Seimas of the Republic of Lithuania confirmed the State Guarantee of LTL 280 million.
17 July 2013	Resolution No 640 by the Government "On confirmation of the description of principles of prices determination in the Natural gas sector regulated by the State and Resolution No 1276 by the Government "On confirmation of principles of value of usable assets of natural gas transmission, distribution, liquefying and storage in companies licensable activities determination" and confirmation of the resolution being under alteration as invalid.	Principles of prices, regulated by the State in the gas sector, establishment were confirmed.
23 July 2013	Decree No 1-196 by the Director of Fire and Rescue Department "On Direct application of normative construction technical document of foreign state" (State Gazette, 2013, No 82-4141).	The Company was permitted while engineering the LNGT jetty at Klaipeda Seaport to apply directly certain standards applicable by the National Fire Protection Association (NFPA) of the USA.
22 August 2013	Resolution No 730 by the Government "On acquisition of shares of the company under indirect control of the State".	The Company was permitted to increase the authorized capital of LITGAS UAB, belonging to the Company, in such way that it would be possible to grant not less than 2/3 of shares to Visagino atominė elektrinė UAB or its controlled company.
4 October 2013	Decree No 1-194 by the Minister of Energy "On confirmation of quality requirements for natural gas" (State Gazette, 2013, No 106-5249).	The highest and the lowest quality limits of the gas, imported through the LNGT, were confirmed.
23 October 2013	Resolution No 677 by the Government "On Confirmation of administration rules for the State credits re-financing and the State Guarantee granting, granted refinanced credits returning and the State Guarantee" (State Gazette, 2013, No 113-5657).	Special provisions were established as essential for the LNGT terminal due to the future evaluation of the real-estate and its insurance after registration in the register of real estate assets as ownership of the security provider.
13 November 2013	Resolution No 1049 by the Government "On Resolution No 199 by the Government dated 15 February 2012 "On implementation of the Law of the Republic of Lithuania on Liquefied natural gas terminal" amendments" project.	It was identified that the Company as the LNGT project implementation company would execute distribution of the LNG terminal capacities.
5 December 2013	AB Klaipėdos Nafta concluded agreements with the Ministry of Finance of the Republic of Lithuania regarding the guaranteed pay and mortgage, maximum conditional and ordinary pledge.	The Company obliged to pay to the Ministry of Finance the guarantee pay of EUR 81million and to mortgage for the benefit of the State all its future property, which would be created during the period of the LNGT project.
11 December 2013	Resolution by the Government of the Republic of Lithuania "On the Resolution No 1354 by the Government dated 7 November 2012 "On Approval of the Diversification rules of Natural Gas Supply" alteration.	The minimum amount of the imported and gasified natural gases through the LNGT was determined.
12 December 2013	The Seimas of the Republic of Lithuania adopted Law No XII-659 on approval of financial indicators of the State budget and municipality budgets for 2014.	The highest limit of the State Guarantee, granted for investment projects, including the LNGT, was established.
23 December 2013	Agreement of shareholders between the Company and Lietuvos energija UAB.	With regard to the EU III Energy package requirements, the Company refused rights

Date	Legal act	Effect on the LNGT project
		of voting at LITGAS UAB meeting of shareholders.
27 December 2013	Decree No 1-245 by the Ministry of Energy "On approval of natural gas metering procedure description".	Metering units - m3 and kWh used in gas transferring system were determined.
31 December 2013	Decree No 3-663 by the Minister of Transport and Communication "On Decree 3-246 by the Minister of Transport and Communication dated 30 June 2008 "On Rules of taxes application of Klaipeda State Seaport" alteration (State Gazette, 2013, No 2013-00347).	Updated Rules of taxes application of Klaipeda State Seaport, with regard to the LNGT, were confirmed.

Changes in regulatory environment:

Date	Legal act	Effect on the LNGT project
27 June 2013	The NCCPE Resolution No 03-259 "On the highest limit of transfer price of natural gas of Stock company Amber Grid, additional and inseparable component to the highest limit of transfer price of natural gas (the LNGT Amendment) and application of specific transfer services prices in 2013".	The LNGT Amendment – LTL 37.53 for thousand m3, whereby the collected funds could finance the LNGT infrastructure, was established.
18 July 2013	The NCCPE Resolution No 03-316 "On approval of description of accounting separation of natural gas companies, allocation of costs and requirements related to accounting separation confirmation" (State Gazette, 2013, No 81-4080).	The description of accounting separation of natural gas companies, allocation of costs and requirements related to accounting separation, was confirmed, whereby, <i>inter alia</i> , depreciation standards that should be applied also to the LNGT infrastructure were approved.
13 September 2013	The NCCPE Resolution No 03-367 "On approval of methodology of the State regulated prices in the natural gas sector" (State Gazette, 2013, No 98-4892).	Formulas of the Security component and the Liquefying service prices were determined; income regulation of the LNGT operator was set forth.
11 October 2013	The NCCPE Resolution No 03-445 "On the additional Security component of the natural gas supply to the natural gas transfer price for the year of 2014" (State Gazette, 2013, No 108-5362).	<i>Inter alia</i> , the Security component that would be valid from 3 December 2014 till 31 December 2014 – 39,36 LTL / thousand m3. was established.
23 December 2013	The NCCPE Resolution No 03-750 "On the Resolution No 03-294 by the State commission of prices and energy control dated 9 October 2012 "On approval of the description of administration procedure of the liquefied natural gas terminal, its infrastructure and connection equipment and exploiting costs or their part to be compensated" alteration.	Provision, saying that the LNGT funds, intended to compensate exploiting expenses or their part of the LNGT, its infrastructure and connection, are payable only to company possessing gas liquefying license, was refused.
27 December 2013	The NCCPE Resolution No 03-758 "On Rules coordination of stock company Amber Grid natural gas transmitting system balancing" (State Gazette, 2013, No 141-7142).	The possibility to supply gas from the liquefied natural gas terminal into the natural gas transmitting system, evaluating that amount of gas would be identified in cubic meters and energy value of transmitted gas amount would be calculated was set forth.

ACTIVITY PLANS AND FORECASTS

The Company's operational goals for 2014 are associated with the implementation of the Company's strategy. The following is planned:

- The most important goal for 2014 is to complete the construction of the LNG terminal and start the LNG terminal operation. Projected construction completion date is 3 December 2014.
- It is planned for 2014 to maintain the high level of oil transshipment and profitability;
- Since the Company built 2 new universal oil storage tanks it will be looking for the opportunities for realisation of the increased capacity, especially in the market of light oil products;
- It will continue to work safely and confidently ensuring the compliance with the maximum environmental and safety requirements set for the terminal;
- It is planned to establish official fire forces as well as to upgrade fire safety equipment and tools at Subačius fuel storage facility;
- Also in the coming year we will be investing in the Company's flexibility, efficiency (acquisition of new heat exchangers, expansion of transshipment capacity of railroad piers, increase of productivity of rail tank loading platform, acquisition of wagons scales for rail tank wagons, etc.) and terminal security (to complete the fire protection systems modernization works, to complete the final installation of the hydrocarbon vapour recovery unit, installation of VOC monitoring system, etc.).

The situation in the international oil market in the beginning of 2014 is not favourable to the Company; however, in any case, it is planned in 2014 to keep the transshipment of oil products on the same level as in 2013. The main income from oil product transshipment will be ensured through the long-term contract with Orlen Lietuva AB (until 2024) as well as due to the mutually beneficial transshipment agreement with the Swiss company Litasco SA.

In 2014 the list of customers that are supplying fuel to Lithuanian market is expanding. Since 2014 fuel import services will not only be used by Lukoil Baltija UAB, but also by Neste Lietuva UAB that represents the Finnish corporation Neste Oil.

In 2014 the Company expects to allocate approx. LTL 261.7 million for investments, of which LTL 242.9 million to be invested in the LNG terminal project as well as LTL 16.3 million to be invested in the oil terminal and LTL 2.5 million to be invested in the fire safety equipment and tools at Subačius Fuel as well as reconstruction of water treatment facilities.

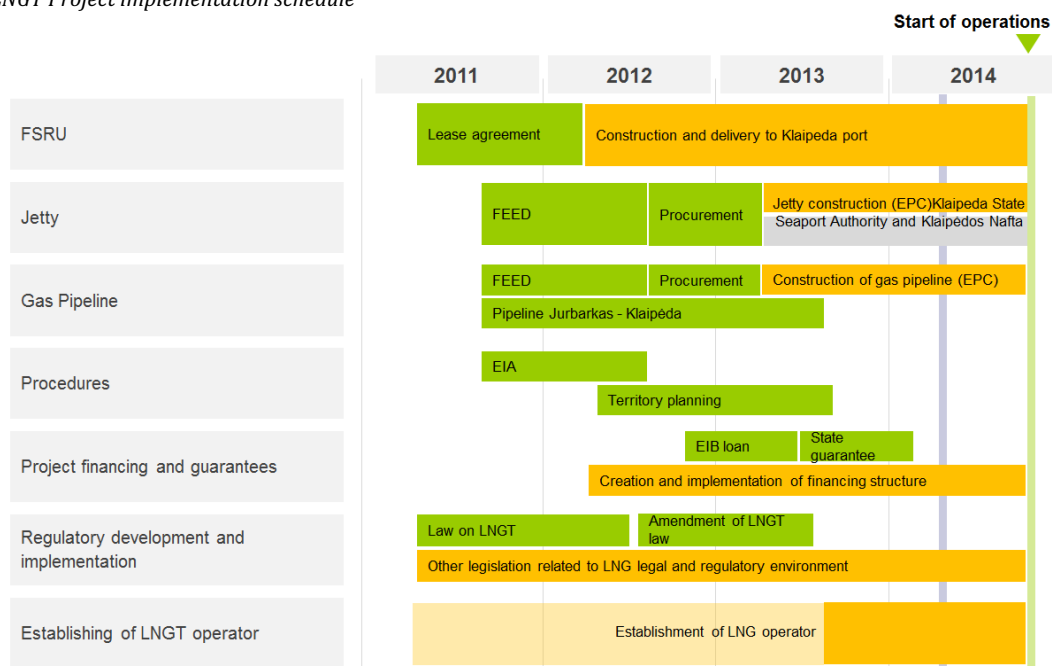
Works planned for the implementation of the LNGT project in 2014

Overall LNGT project schedule is presented below. The main directions of works in order to start the operation of LNGT by 3 December 2014 are the following:

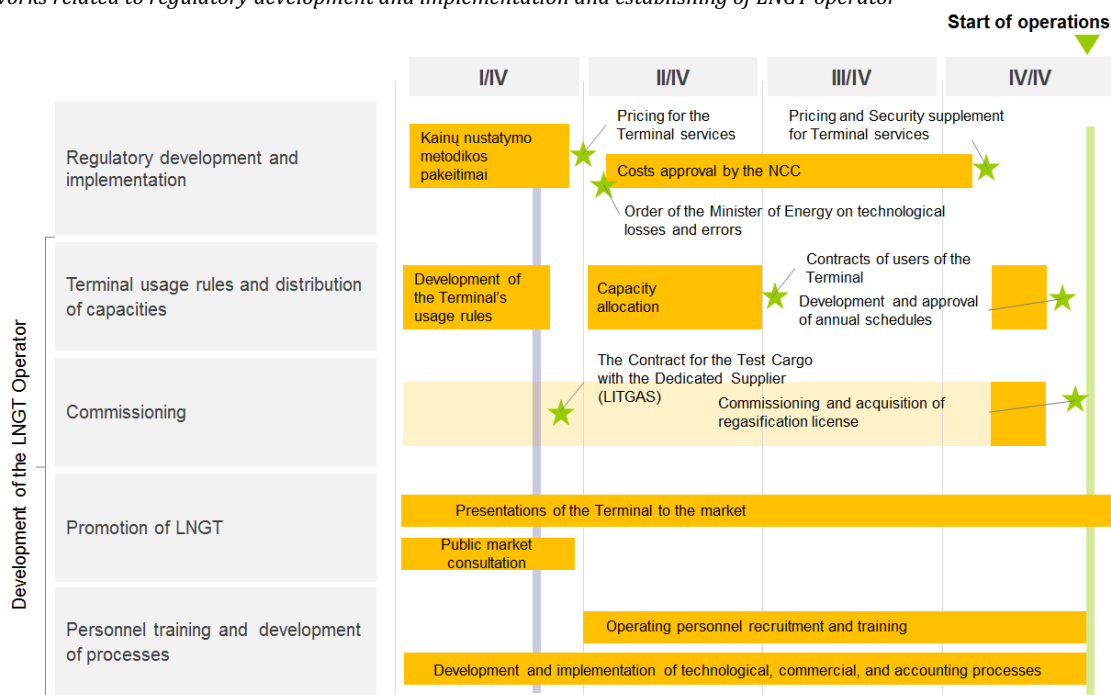
- The construction of LNG FSRU :
 - Naming of LNG FSRU, completion of the testing program, final acceptance;
 - Delivery of FSRU to Klaipeda port and mooring to the LNG infrastructure;
- Gas pipeline:
 - Completion of HDD drilling, welding of strings, floating to Pig's Back island and laying through the Curonian Lagoon;
 - Excavation of the connection trench for the pipeline, welding of pipes, inspection of joints and admission of the pipeline to the connection trench and the its joining to the HDD strings;
 - Construction of the gas metering station and installation of a pipeline connecting the gas connection to the transmission system and connective pipeline testing.
- Jetty:
 - Welding, hammering of poles and filling them with concrete for preparation for the mounting of ferroconcrete platforms
 - Casting and mounting of ferroconcrete service, moorings and high pressure platforms onto the installed poles and preparation for the mounting of jetty superstructure (equipment).
 - Delivery of the jetty superstructure (equipment), including high-pressure arms and release hooks to the construction site, installation with the connection pipeline and its testing.
- Regulatory development and implementation:
 - LNG transshipment regulations are developed in such a way that reduces the impact of operating costs of the LNG terminal on the Lithuanian gas customers;
 - The regulation for liquefaction service price is improved by making it more similar to the regulations of other LNG terminals in the European Union;
 - Terminal usage rules are developed and coordinated publicly before the beginning of allocation of the terminal capacity to third parties;
 - Detailed cost justification and coordination of the investment project with the National Control Commission for Prices and Energy seeking to establish the LNG terminal's regulated prices of services and security component.
- Establishing of LNG operator:
 - LNGT usage rules are publicly coordinated and approved by the National Control Commission for Prices and Energy, the procedure for LNG capacity allocation is started and contracts with LNG users are signed, LNGT usage plan for the first year i.e. 2015 is created;

- Development and implementation of the LNGT operator's internal processes, including operational, commercial, accounting, and other administrative processes; recruitment of appropriately qualified personnel and their training; announcement about LNGT services
- Completion of construction, commissioning, coordination and testing works; acquisition of relevant certificates and licenses.

Overall LNGT Project implementation schedule



Key works related to regulatory development and implementation and establishing of LNGT operator



AUTHORIZED CAPITAL OF THE COMPANY

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 NASDAQ OMX AB Vilnius.

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

All shares of the Company are of one class ordinary registered shares granting its owners (shareholders) equal rights. One ordinary registered share of the Company grants one vote in the General Meeting of Shareholders.

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

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

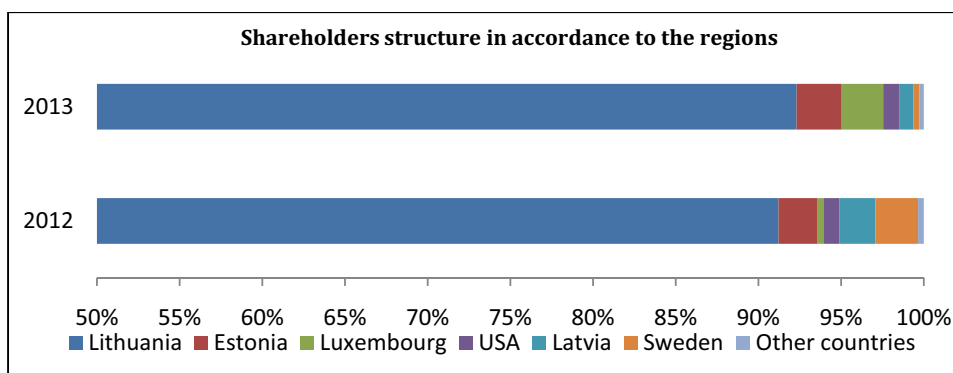
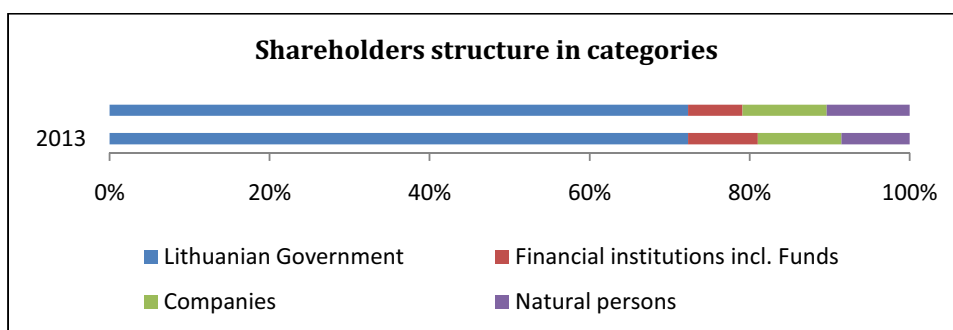
An ordinary registered share of the Company shall grant the following non-economic rights to its owner (shareholder):

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

As at 31 December 2013 all the shares of the Company were owned by 1,820 shareholders (31 December 2012 – 1,858).

The shareholders who have more than 5% of the authorized capital of the Company as at 31 December 2012 and 2013:

Shareholder's name (company's name, address, company code of registration)	31 December 2013		31 December 2012	
	Number of owned shares (unit)	Part of authorized capital (%)	Number of owned shares (unit)	Part of authorized capital (%)
The Republic of Lithuania, represented by the Ministry of Energy of the Republic of Lithuania (Gedimino pr. 38/2, Vilnius, 302308327)	275.241.290	72,32	275.241.290	72,32
Concern Achemos grupė UAB (Jonlaukis village, Jonava district, 156673480)	38.975.150	10,24	38.975.150	10,24
Other (each owning less than 5%)	66.389.744	17,44	66.389.744	17,44
Total	380.606.184	100,00	380.606.184	100,00



Dynamics of the share price at NASDAQ OMX Vilnius during 2011 – 2013

	2013 m.	2012 m.	2011 m.
Highest share price in LTL	1,30	1,47	1,85
Lowest share price in LTL	1,00	1,24	1,24
Share price at the end of period in LTL	1,01	1,27	1,35
Average share price in LTL	1,19	1,33	1,55
Turnover, unit	3.644.550	4.061.889	5.022.637
Turnover, LTL thousand	4.314	5.482	7.740
Capitalization, LTL thousand	383.727	484.924	460.534



Authorized capital of the Company

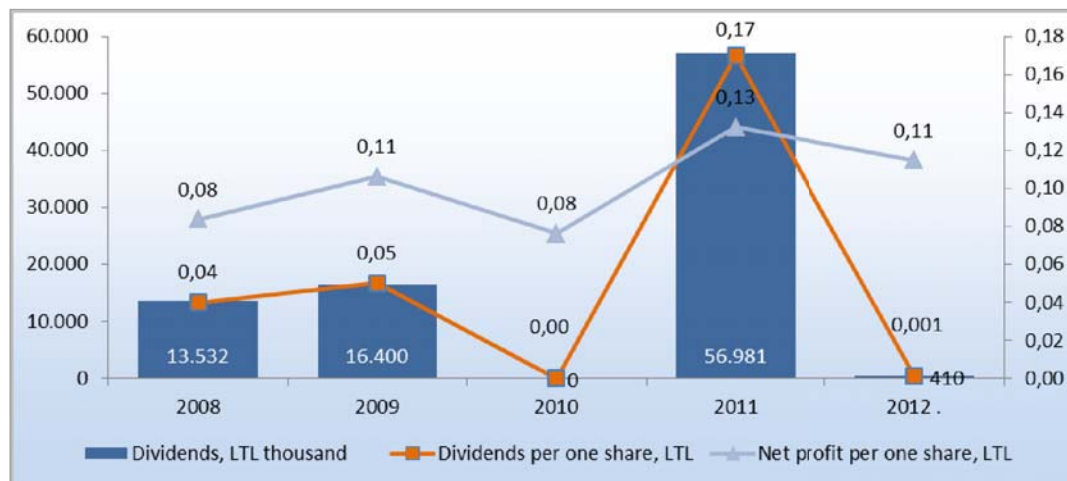
The Company's authorized capital amounted to LTL 380.606 thousand as of 31 December 2013. All the shares of the Company are fully paid and no restrictions on the transfer of securities are applied to them. The authorized capital is divided into 380,606,184 (three hundred eighty million six hundred six thousand hundred and eighty-four) ordinary shares with a par value of 1 LTL. The Authorized capital has not altered during the reporting period.

Information on the Company's own shares

The Company did not acquire own shares in 2013.

Dividends

On 30 April 2013, the ordinary General Meeting of Shareholders was held which approved the financial reports and profit distribution project of 2012. In order to ensure the Company's possibility to finance the LNGT project from its own and borrowed funds it was determined to allocate to the Shareholders smaller than usual amount – LTL 410 thousand or LTL 0,001 for one share from the 2012 profit.



Agreements with intermediaries of public securities trading

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

AB SEB bank Financial Markets Department:	
Company code	112021238
Address	Gedimino 12, 01103 Vilnius
Telephone	+370 5 2681190
E-mail	info@seb.lt
Website	www.seb.lt

MANAGEMENT OF THE COMPANY

Information on adherence to the Governance Code

The Company, in general, follows the Governance Code of NASDAQ OMX AB Vilnius for the companies listed on the regulated market. Refer to the Appendix to the Annual Report for the compliance report.

Management structure

In its activities the Company follows the Law on Stock Companies, the Law on Securities, Articles of Association of the Company and other legal acts of the Republic of Lithuania.

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

- the General Meeting of Shareholders,
- the Supervisory Board,
- the Board,
- the CEO – General Manager.

The General Meeting of Shareholders is a body solving the essential issues of the Company's activity. Competences of the General Meeting of Shareholders of the Company, Shareholders' rights, their implementation are identified in the Law on Stock Companies and in the Article of Association of the Company.

The head of the Company who is also a member of the Board (Mr. R. Masiulis) always participates in the Shareholders Meetings while the member of the Supervisory board and the financier participate depending on the questions addressed.

The Supervisory Board is a supervisory body formed of 3 (three) members, elected for the period of four years in the General Meeting of Shareholders according to the procedure established by the Law on Stock Companies. The number of the terms of office a member may serve on the Supervisory Board is not limited. The General Manager of the Company, a member of the Board of the Company and a person, who under the legal acts is not entitled to serve in this office, shall not serve on the Supervisory Board. The Supervisory Board is a collegial body supervising the activities of the Company, its status, competence and functions have been defined by the Law on Stock Companies and the Articles of Association of the Company. Functions, rights and duties of the Supervisory Board are detailed in the Working Regulations of the Supervisory Board.

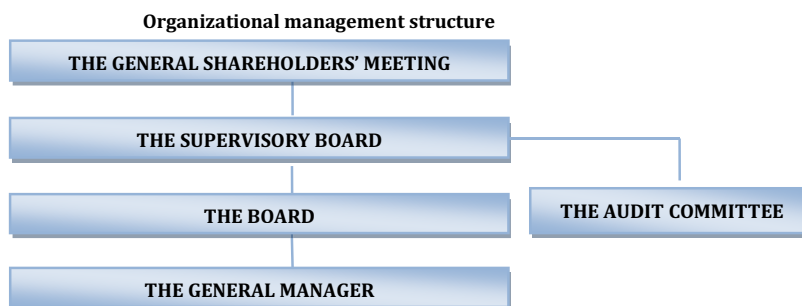
There were 4 Supervisory Board meeting during the year 2013. All the members participated in all meetings, except one meeting when one member was absent but authorized other person to vote instead of him.

The Supervisory Board by its decision has established an **Audit Committee** as an advisory body. The Audit Committee is comprised of 3 (three) members elected for the office term of the Supervisory Board. "The rules of formation and conduct of the Audit Committee of Klaipėdos Nafta AB, approved by the Company's Supervisory Board, regulate functions, rights and duties of the Audit Committee. The key functions of this committee are: observe preparation process of the Company's Financial Statements, observe the process of audit performance, analyse efficiency of the systems of internal audit and risk management.

The Board is a management body of the Company consisting of 5 (five) members, who are elected by the Supervisory Board for the period of 4 (four) years. *(Note: During the period of time from 20 March 2013 till 31 December 2013 including, in the Company 4 out of 5 Board members were elected and managed).* The Board members elect the Chairman of the Board. *(Note: During the period of time from 20 March 2013 till 31 December 2013 including, in the Company constant Chairman of the Board has not been elected, therefore, every time by ad hoc principle the Chairman of the Board was elected from the Board members).*

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

The Company is managed by the **General Manager** which is a single-person managing body of the Company. The General Manager is the main person managing and representing the Company. The duties and competence of the General Manager have been determined by the Law on Stock Companies and the Articles of Association of the Company.



Members of the Supervisory Board as at 31 December 2013, their participation in the other companies**Agnė Amelija Petravičienė**

(born in 1982) – Chairman of the Supervisory Board of the Company. Was elected as a member of Supervisory Board at the extraordinary general meeting of shareholders held on 11 February 2013 for the term of 4 years. Education: Lithuania University of Law, law and management studies program, bachelor in law (2004), Mykolas Romeris University, law and management studies program, master (2009). Employment – Head of Legal department of Ministry of Energy of the Republic of Lithuania. Participation in the activity of companies and organizations – member of the Board of Kauno energetikos remontas, UAB till 3 December 2013, member of the Board of state enterprise Ignalinos atominė elektrinė. Agnė Amelija Petravičienė has no direct interest in the share capital of the Company.

**Romas Švedas**

(born in 1970) - Member of the Supervisory Board of the Company. Was elected as a member of Supervisory Board at the extraordinary general meeting of shareholders held on 11 February 2013 for the term of 4 years. Education: Vilnius University faculty of law, qualification - lawyer (1993). Employment: Vilnius University Institute of international relations and political science - lecturer, independent consultant, since 20 September 2013 head of MB Romas Švedas ir partneriai, European Union Agency for the Cooperation of Energy Regulators – member of the Administrative Board. Romas Švedas has no direct interest in the share capital of the Company.

**Eimantas Kiudulas**

(born in 1970) - Member of the Supervisory Board of the Company, member of Audit Committee. Was elected as a member of Supervisory Board at the extraordinary general meeting of shareholders held on 11 February 2013 for the term of 4 years. Education: Vilnius University, faculty of economics (1994), ISM University of Management and Economics, module – management accounting: value analysis (2010). Employment: - Klaipėda Free Economic Zone Management Company, CEO. Participation in the activity of other companies - Klaipėda Free Economic Zone Management Company, member of the Board, „LEZ projektų valdymas“, UAB Board member, „PO7“, UAB director, „Quantum capital“ UAB Board member. Eimantas Kiudulas has no direct interest in the share capital of the Company.

During the year of 2013 no remuneration has been calculated for the member of the Supervisory Board. They did not receive any loans, guarantees or assets.

Members of the Audit Committee as at 31 December 2013 and their participation in the other companies**Eimantas Kiudulas**

(born 1970) – Member of the Supervisory Board of the Company, member of Audit Committee, re-elected by Supervisory Board on 18 March 2013 for the new term of four years. See above for more details.

**Simonas Rimašauskas**

(born 1979) - Member of Audit Committee, elected by the Supervisory Board on 18 March 2013 for a term of four years. Education: Vilnius University, faculty of economics, Master in economics (2003), Baltic Institute of Corporate Governance: executive program of corporate governance (2013). Employment: BAIP, UAB, CFO; 100% shareholder of ERPRO, UAB. Simonas Rimašauskas has no direct interest in the share capital of the Company.

**Linas Sasnauskas**

(born 1971) - Member of Audit Committee, elected by the Supervisory Board on 18 March 2013 for a term of four years. Education: Vilnius University, Bachelor in economics (1994), „Baltic Management Institute“, business management master (2000). Employment: „Ad venum“ chairman of the Board, „Lietuvos paštas“, AB Board member. Simonas Rimašauskas has no direct interest in the share capital of the Company.

For 2013 the calculated remuneration the Audit Committee members S.Rimašauskas and L.Sasnauskas for work in the Audit Committee amounts to LTL 25 thousand. Members of the Audit Committee did not receive any loans, guarantees or assets. The members of the Audit Committee are remunerated according to the Remuneration payment order for the activity of independent audit committee members of Klaipėdos nafta AB, determined by the Supervisory Board.

Members of the Board as of 31 December 2013, their participation in the other companies and organizations**Rytis Ambrazevičius**

(born 1967) - Member of the Board of the Company. Elected as the Board member by the Supervisory Board on 24 October 2011. Education: Kaunas University of Technology, faculty of mechanics - engineer diploma (1989), International Business School at Vilnius University - MBA in international trade (2003), Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2012). Participation in the activity of other companies: by the 22 November 2013 - Board member of LITGAS UAB, from November 2013, Baltik vairas, UAB - Board member. Rytis Ambrazevičius has no direct interest in the share capital of the Company.

**Mindaugas Jusius**

(born 1979) - Member of the Board of the Company. Elected as the Board member by the Supervisory Board on 24 October 2011. Education: Vilnius University, Master in Banking (2003), ISM University of Management and Economics, EMBA (2008). London Business School, leadership program (2008); Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2010). Employment: Swedbank Life Insurance SE Lithuanian branch, chairman of the Board and CEO; by the 22 November 2013 - Board member of LITGAS UAB. Mindaugas Jusius has no direct interest in the share capital of the Company.

**Valdas Lastauskas**

(born 1967) - Member of the Board of the Company. Elected as the Board member by the Supervisory Board on 24 May 2013. Education: Vilnius University faculty of law, qualification - lawyer (1992). Employment - Chancellor of Ministry of Energy of the Republic of Lithuania. Participation in the activity of other companies: Member of the Board of Lietuvos dujos AB from 25 April 2013. Valdas Lastauskas has no direct interest in the share capital of the Company.

**Rokas Masiulis**

(born 1969) - Member of the Board of the Company, General Manager. Elected as the Board member by the Supervisory Board on 17 September 2010. Education: Vilnius University faculty of economics and industry management, economist diploma (1994), Vilnius University Institute of international relations and political science, bachelor in international relations and politics (1994). Participation in the activity of other companies: vice-president and Council member of Lithuania seaways shipping companies association; by the 22 November 2013 - Board member of LITGAS UAB, by the 9 September 2013 - General Manager of LITGAL UAB. 100% owner of Is partneriai, UAB. Rokas Masiulis has no direct interest in the share capital of the Company.

Member of the management bodies of the Company are remunerated according to the determined Regulations or Agreements provisions of the same management bodies or those management bodies that elect them. According to the provisions of the Articles of Association of the Company, by decision of the meeting of shareholders agreements regarding the activity in the Supervisory Board with the Supervisory Board Members can be concluded providing an encouragement policy for the Members of the Supervisory Board with respect to activity results and perspectives of the Company.

Independent member of the Board are paid based on the agreement concluded with the Company that is approved by the Supervisory Board. During 2013 the calculated remuneration for independent members of the Board M. Jusius and R. Ambrazevičius for work in the Company's Board amounted to LTL 75.5 thousand. Member of the Board R. Masiulis received remuneration associated only with labour relationship; additionally for work in the Board he has not been paid. Members of the Board did not receive any loans, guarantees or assets.

The Directors of the Company



Rokas Masiulis

(born 1969) – Member of the Board, General Manager, works in a Company as General Manager from 18 May 2010. See above in a graph of Board members.



Osvaldas Sabaliauskas

(born 1968) – from 27 January 2014 is a deputy General Manager of the Company. (by the 2 January 2014 this position was run by Vytautas Kazimieras Aranauskas). Education: Aleksandras Stulginskis University (former Kaunas Agriculture Academy), diploma of electricity engineer (1993). No participation in other companies management. Osvaldas Sabaliauskas has no direct interest in the share capital of the Company.



Mantas Bartuška

(born 1984) - Director of Finance and Administration Department. Works at the Company since 18 May 2010. Education: Vilnius University, faculty of economics, diploma of management and business administration (2007). Participation in the activity of other companies: Chairman of the Board of BALTPool UAB. Mantas Bartuška has no direct interest in the share capital of the Company.



Gediminas Vitkauskas

(born 1957) – Director of Department of Oil products terminal. Works at the Company since 16 October 1995. Education: Kaunas university of Technology, diploma of mechanical engineering (1980), Vilnius University, diploma of philologist, English lecturer (1987). No participation in other companies management. Gediminas Vitkauskas has 3.600 shares of the Company, that comprise 0,00001 per cent of share capital and voting rights.



Sigitas Zakalskis

(born 1977) - Director of Commerce department; works at the Company since 25 August 2010. Education: Kaunas University of Technology, diploma of business management (1999); studies at ISM University of Management and Economics, EMBA. No participation in other companies management. Sigitas Zakalskis has no direct interest in the share capital of the Company.



Rolandas Zukas

(born 1974) - Director of the LNGT terminal. Works at the Company since 23 December 2010. Education: Vilnius Gediminas Technical University, economics and management of transport engineering (1996), ISM University of Management and Economics, EMBA (2005). No participation in other companies management. Rolandas Zukas has no direct interest in the share capital of the Company.

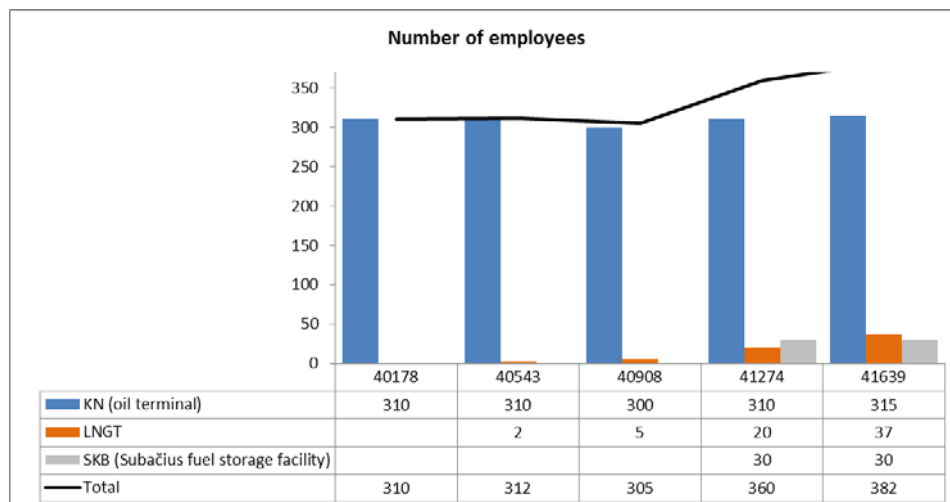
No members of the Company's management have been convicted of crimes against property, business or finances.

INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY

Personnel

The Company's main asset is its employees who are the most important link to the Company's achievement of goals. Company's personnel policy is focused on the development of teamwork, the optimal use of work resources, training of competent staff, and development of the Company culture that creates increased added value.

In 2013 the average number of employees was 368 and it has an increase by 13 percent or 41 employee compared to 2012 (327). Increase in the number of employees resulted from the recruitment of 30 employees in September 2012 at Subačius fuel storage facility as well as due to the formation of LNGT personnel.



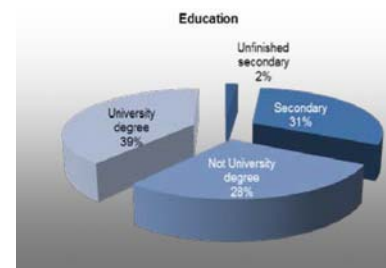
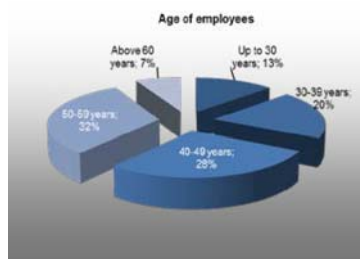
In 2013 workers accounted for 62 percent (in 2012 - 64 percent.), specialists for 29 percent (in 2012 - 28 percent.), managers for 9 percent (in 2012 - 8 percent.) of all employees.

Employees of the Company according to categories

Employee category	Average number of employees		Change, in percent
	2013	2012	
Managers ¹⁾	32	27	19,0
Specialists	108	90	20,0
Workers	228	210	8,6
Total	368	327	12,5

¹⁾ The Company's managers include: General Manager, Deputy Manager, Heads of Divisions and their deputies, Heads of Divisions.

On 31 December 2013 the Company employed 71 percent of males and 29 percent of females. This is due to the Company's activities: traditionally engineering-technical works and hard work outdoors is preferred by males. The average age of employees is 45. Detailed staff age, work experience, and education information is presented in the graphs below.



Payroll system

The Company's objective is to create an efficient and fair compensation system which aims to attract, retain and motivate employees whose skills and work results will help the Company to successfully develop its mission and achieve business objectives at the lowest cost.

Average monthly salary according to employee groups

Employee group	Average monthly salary (gross), LTL	
	2013	2012
Managers ¹⁾	10.842	10.959
Specialists	5.082	4.969
Workers	3.465	3.547
Total	3.986	3.973

Notes:

¹⁾ The Company's managers include: General Manager, Deputy Manager, Heads of Divisions and their deputies, Heads of Divisions. During 2013 managers accrued LTL 4,176 thousand or an average of LTL 131 thousand for each managerial employee per year.

²⁾ The average monthly salary includes accumulated annual bonuses for the specified period.

Employee's remuneration consists of: the compensation for the work done - monthly salary, variable part of remuneration, a bonus, and other forms of cash benefits; benefits unrelated to the direct work - paid according to the Collective Agreement, received benefits in non-monetary form such as the Company's car, trainings, vouchers to sanatoriums, holidays and events organized by the Company, dining discounts, access to the gym and so on.

The Company has implemented the procedures for employee performance evaluation and bonus allocation. Employee performance management is one of the most important management and effective leadership techniques that help achieve the organizational goals and create positive relationships between managers and their subordinates that allow planning employees' career and increasing their motivation. An annual interview at the Company is a tool for employee performance management that ensures that employees' personal goals are set in accordance with the Company's goals. The annual interview helps to assess the employee's goal achievement as well as set new goals and form the feedback culture between a supervisor and a subordinate. During the interview opportunities for competence development, learning, and career are discussed.

In September 2013 the Company's requested Alliance Recruitment UAB to conduct the staff survey to determine the level of employee satisfaction with the work environment and the Company and the level of engagement as well as to improve relevant areas and working conditions of employees. Employee opinion survey revealed that 70.48 percent of employees are satisfied with their work environment and the Company itself. The overall average employee satisfaction index in Lithuanian manufacturing companies is about 50-55 percent. The study results showed that people highly value the quality of relationships with co-workers and supervisors; they have no hesitations that they do the work that can perform the best, feel emotional attachment, interest from co-workers and managers, have role models at work and, and feel secure about the future.

The Company's management payroll system

All Companies employment agreements with the employees, including management, of the Company are concluded following the requirements of the Labour Code of the Republic of Lithuania. Employees are employed and laid off following requirements of the Labour Code.

The Board approves the provisions for payroll and bonuses for the General Manager, his Deputy, and Heads of Divisions. The Board of Company also approve the monthly fixed part and a variable part for the Company's management. According to the current arrangements, the variable part of the salary is paid based on the quarterly results only if set goals are achieved. The Company does not provide for the change periodicity of set fixed and variable management remuneration components.

The annual bonuses to the Company's General Manager, his Deputy, and Heads of Divisions are calculated in accordance with the board approved procedures for bonuses for managerial employees. Following this procedure, the size of the annual bonus for these employees depends on both the Company's financial and personal achieved results. There are no compensation agreements for the management of the Company that could be paid in case they leave the Company.

The Collective Agreement

The Company has a Collective Agreement. In the Collective Agreement it is specified that the Company's employee's remuneration consists of two parts: (1) the fixed part – a wage and a monthly salary (monthly salary is a basic remuneration which compensates for work agreed upon in the job contract and efforts made to carry out that work) and (2) variable part – a bonus to a monthly salary and a wage which comes in two types: bonuses for quarterly and monthly performance.

Also the Collective Agreement provides for the following additional social guarantees:

- ✓ An annual one-time allowance equal to 2.5 MM is paid before the school year on 1 September to an employee raising three or more children under the age of 18;
- ✓ A funeral allowance equal to 1.5MM is paid to the employees of the Company after the death of a family member (spouse, parent, child, adopted child);
- ✓ A one-time funeral allowance is paid to the family of a deceased employee;
- ✓ A one-time allowance equal to 2 MM is paid to an employee for the birth of a child on a day of his/her birth;
- ✓ Anniversary allowances equal to 1 MM are paid to the employees of the Company on anniversary occasions (50th, 60th, 70th anniversaries);

- ✓ Other allowances are paid based the decisions of Administration in the following cases: employee's difficult material situation, the employee suffered losses due to natural disasters, fire, flood, etc.

During 2013 60 employees were awarded these social benefits.

Development of Competencies

The Company organizes two types of trainings for employees:

- ✓ The Company continually instructs and teaches safe working methods to all employees. Introductory safety and health, fire safety and civil protection instructions are conducted by the employees of the Safety and Health Department of the Company. During 2013 256 employees took part in such trainings. In addition, trainings and practices that help practice for emergency response are periodically conducted. Personnel from other companies that perform contractual works on the property of the Company are instructed about set requirements for health and safety, fire safety in the oil terminal (in 2013 a total of 1,043 introductory instructions were conducted to the employees of contractor organizations).
- ✓ The general trainings for the development of competencies of employees are performed by sending staff to the seminars and conferences organized by external parties.

Health of employees

The Company is one of the few companies in Lithuania that has a licensed infirmary. It provides the immediate first aid and initial preventive practical and theoretical health support. A range of physiotherapy treatments are provided based on the doctor's referral. Physical medicine and rehabilitation room with modern and approved practice-proven equipment is set in the infirmary. Employees are provided with free vaccines against tick-borne encephalitis, typhoid, flu and other illnesses. In 2013 69 employees were vaccinated. In its rehabilitation centre the Company from its own funds organizes preventive - rehabilitation treatment to the employees that work in the increased pollution conditions. During 2013 these services were used by 68 employees.

In 2013 4 (four) minor work accidents occurred (108 calendar days were spent on sick leave due to the accidents).

SOCIAL RESPONSIBILITY OF THE COMPANY

In its business, the Company follows the principles of business ethics and social responsibility. The Company strives to become a reliable social partner and contribute to solving of important social problems. The funds allocated for support first of all are diverted to support environmental, infrastructural, health and social security projects associated with the region, where the oil terminal functions. In 2013 the Company allocated LTL 785 thousand for the support purposes (2012 – LTL 596 thousand).

The Company sponsors significant cultural centres of the Lithuania region – libraries, Drama and Musical theatres. It has always been the primary sponsor of the main events of the city of Klaipėda, such as the Sea Festival, Klaipėda jazz festival. Special attention is paid to the organizations that are located near the Company's territory: kindergarten "Giliukas", baby care home for kids with special needs, Klaipėda children's activity centre, Klaipėda Children Hospital. The Company also supports the local sportsmen; encourages and stimulates members and managers of the World and European sport dance club "Žuvėdra", supports the activities of disabled sportsmen, the organization of championships, has supported in Klaipėda district – Gargždai town - the organized event "Galiūnų šventė".

Implementing the LNGT project a close cooperation with Klaipėda city Municipality has developed. In 2013 Vytautas Grubliauskas, Klaipėda city Mayor, presented Rokas Masiulis, General Manager of the Company, with a Christmas star as a reward for being the most socially responsible company in Klaipėda district of 2013.

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

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

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

From the year 2011 the employees of the Company guides the Code of Ethics, which describes the core principles of behaviour and activities, in order to create the pleasant environment, cooperation and responsibility to the society.

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.

This annual report and financial statements are prepared in accordance to the requirements set in the Resolution of the Government of the Republic of Lithuania dated 14 June 2010, No. 1052 "Regarding the approval of the transparency guidelines and appointing of the coordinating institution of the entities managed by the Government" (State gazette, 2010, No. 88-4637; 2012, No. 30-1399) and Resolution of the Government of the Republic of Lithuania dated 6 June 2012, No. 665 "Regarding procedure approval of the implementation of the State property and non-property rights in the State managed entities" (State gazette, 2012, No. 67-3394).

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 Meeting of Shareholders.

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 2013.

Information about the audit

KPMG Baltics, UAB performed the annual audit of the Company's statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows and related accounting notes for the years ended 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2009.

At the General Shareholders Meeting held on 30 April 2013 KPMG Baltics, UAB was elected to perform the audit of the financial statements, notes to the financial statements and to make an assessment of the annual report and write the audit report for the

year ended 31 December 2013. Shareholders authorized General Manager to sign the audit contract addressing the total amount for the services of LTL 57 thousand excluding VAT.

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 Klaipėdos Nafta AB, Mantas Bartuska, Director of Finance and Administrative Department of Klaipėdos Nafta AB, and Asta Sedlauskienė, Interim Head of Accounting Department of Klaipėdos Nafta AB, hereby confirm that to the best of our knowledge the above-presented Annual Report of Klaipėdos Nafta AB for 2013 gives a true and fair view of the business development and performance, description of the Company.

General Manager



Rokas Masiulis

Director of Finance and Administrative Department



Mantas Bartuška

Interim Head of Accounting Department



Asta Sedlauskienė

Stock company Klaipėdos nafta
Burių g. 19, a./b. 81
91003 Klaipėda-C
Tel. +370 46 391772,
Fax. +370 46 311399
E-mail: info@oil.lt

Annex to the annual report

AB KLAIPĖDOS NAFTA DISCLOSURE CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON REGULATED MARKET IN 2013

AB Klaipėdos Nafta following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of the NASDAQ OMX AB Vilnius (approved during the NASDAQ OMX AB Vilnius Board meeting on 25 May 2012< Minutes No. 12-51) discloses its compliance with the Governance Code (hereinafter referred to as the Governance Code), approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. The company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The development strategy and objectives of KLAIPĖDOS NAFTA AB have been set up in its internal documents (Annual Report placed publicly on the website of NASDAQ OMX AB 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, declaring how it plans to act in the interests of the shareholders and increase shareholders' equity. In accordance with requirements of the resolution by the Government No. 655 of 06 06 2012, the company's articles were supplement, providing which the Company's objectives are long-term (strategic) and short-term (tactical), and establishing that one of the main objectives of the Company is the adequate return of the invested capital of the shareholders. The Articles of Association of the Company are publically announced on AV NASDAQ OMX Vilnius Stock Exchange's website, according to the procedures defined for the companies listed on the regulated market.
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 General Meeting of Shareholders and the Board of the Company adopt 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). During the year under review, the General Meeting of Shareholders of the Company and the Board adopted a number of decisions ensuring the adequate implementation of the primary implemented objective of the Company with strategic meaning for national security – the construction and preparation for operation of the liquefied natural gas (LNG) terminal. This project is also focused on the creation of additional value for shareholders' property. During the year under review, the Company also adopted decisions to additionally invest into increase of the authorized capital of BALTPOOL UAB. The Company's Supervisory Board and its advisory body, Audit Committee have ensured active monitoring and supervision of the Company's activity implementing LNG terminal project.
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 Company's Supervisory Board, its advisory body - Audit Committee, the Company's Board and the Company's Chief Executive Officers implement this recommendation. The documents regulating the activities of the management and supervisory bodies were approved providing the principles and procedures for the cooperation between the Company's management and supervisory bodies, and regular

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
		supervision and control carried out by the supervisory bodies additionally ensure the proper functioning of the governing bodies in order to maximize the benefit for the company and its shareholders. If necessary, general meetings are organized, where the members of the Company's Board, Supervisory Board, and Audit Committee are invited.
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 budget approved by the Board of the Company and the LNG terminal project investment financing plan provided within it; 3. suppliers – the Company's Boards adopts the decisions on the conclusion of the contracts with the suppliers, also on approval and change of the main conditions of these contracts in the cases defined in the Articles of Association; 4. clients –the Company's Boards adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil products in the cases defined in the Articles of Association; 5. Other persons (local company) – by the resolution of the meeting of shareholders part of the Company's profit is annually dedicated to support (social, art, cultural, sports activities, etc.). The Company's Board adopts the decisions on the support exceeding LTL 50 thousand according to the principle of the prioritized support for Klaipeda region and focusing on the support to be annually dedicated for both local company and institutions and organizations located near the Company.
Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a General Meeting of Shareholders 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. According to the decision of the Supervisory Board, the advisory body of the Supervisory Board, i.e. the Audit Committee, was also created within the Company.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Supervisory Board of the Company is responsible for the effective supervision of the activities of the Company's management bodies (it elects and recalls members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
		the Chief Executive Officer; submits proposals and comments to the General Meeting of Shareholders 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; approves the annual budget, annual policy plan and operational objectives, funds investment procedure, adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, significant transactions, realization of rights of the Legal Entity's member within the companies under control, different commitments, etc.). The Company's Audit Committee performs the assigned by the Supervisory Board separate supervisory functions (monitors and supervises the preparation of Company's financial reports and the processes of the audit, carries the analysis of the systems for the internal control and risk management, ensures the existing system for internal control and risk management).
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 Meeting of Shareholders 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 (expenses)-reduction and other principles are realized. The Company has an Audit Committee created according to the decision of the Supervisory Board, with the assigned separate supervisory functions – refer to the comment in item 2.2 above. The Company does not have specialized designation and remuneration committees.
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 elected by the Supervisory Board¹. The Supervisory Board is comprised of three members elected by the General Meeting of Shareholders of the Company. The Audit Committee of the Company is comprised of three members elected by the Supervisory Board. None of the Company's management or supervisory bodies are comprised of that number of members that a separate person or group of persons could dominate them adopting the decisions.
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	Yes	The opportunity to recall both separate members of collegial bodies and the whole collegial body <i>in corpore</i> , before the end of the term of office is provided in the documents regulating activity of the management and

¹ Note: During the period from 20/03/2013 to 31/12/2013 and including, 4 and 5 Board members were elected and acting in the Company.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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.		supervisory bodies and the Company's Articles of Association. The Board members (one or all) have the right to recall the Supervisory Board, and the General Meeting of Shareholders has the right to recall the Supervisory Board members (one or all). The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for re-election of the members; however, the restrictions on the candidates to the Supervisory Board are applied according to the applicable legal acts ensuring an appropriate rotation of the members of these bodies, necessary development of their professional experience and rather often additional approval of their status. Audit Committee corresponds to the term of office of the Supervisory Board by which it was elected and which can also recall it before the end of the term of office. Thus, the procedure of recall of the members of the Company's supervisory bodies is not easier than the procedure of dismissal of the Company's Executive Director (General Manager) or the Board member.
2.7. Chairperson of the collegial body elected by the General Meeting of Shareholders 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 chairperson 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 chairperson of the collegial body elected by the General Meeting of Shareholders. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chief Executive Officer of the Company is a member of its Board. The chairperson of the Company's Board and the Chief Executive Officer of the Company is not the same person². The Chief Executive Officer of the Company has not been a chairperson of the Company's General Meeting of Shareholders elected by the collegial body. The chairperson of the Company's Supervisory Board and its members have not been a Board member or the Chief Executive Officer of the Company. The chairperson of the Company's Audit Committee is also the member of the Company's Supervisory Board.
Principle III The order of the formation of a collegial body to be elected by a General Meeting of Shareholders The order of the formation a collegial body to be elected by a General Meeting of Shareholders 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.		
3.1. The mechanism of the formation of a collegial body to be elected by a General Meeting of Shareholders (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. Additional candidates for the members of the collegial body elected by the General Meeting of Shareholders, according to the procedures defined, can be delegated by all shareholders holding the amount of shares giving them not less than 1/20 of the total votes.
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 Meeting of	Yes	Information about the candidates to become members of a collegial body is presented in advance publishing this information on the website of NASDAQ OMX AB Vilnius before the General Meeting of Shareholders or publishing it during the meeting for the shareholders participating in the General Meeting of Shareholders if

² During the period from 20/03/2013 to 31/12/2013 and including, a permanent chairperson of the Board was not elected in the Company, therefore, every time one of the Board members is elected as the chairperson of the Board under the principle *ad hoc*, the Company's Chief Executive Officer was four times elected as the chairperson of the meeting *ad hoc*.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
Shareholders 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.		the shareholders holding the amount of shares giving them not less than 1/20 of the total votes delegate the additional candidate for the members of Company's Bodies during the meeting. All members of the collegial bodies must immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest, and for this purpose they submit declarations about the absence of conflict of interest and are obliged to immediately inform the body by which they were elected of any new circumstances that may lead to the conflict of interest. The Company informs the public of the positions by the collegial body in its annual and six month interim report in order that the Company's shareholders and interested persons be informed of the important changes of the members of the Company's bodies.
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.	Yes	All applicants for the Company's collegial body members shall in advance submit their CVs and declarations of interests to the Company's body that elects them. The objective is that the skills of a particular candidate were related directly to the work in the correspondent collegial body. The information about the composition of the Company's collegial bodies and the specific directly related competences of their members was publicly disclosed to the shareholders on 24 05 2012 on NASDAQ OMX AB Vilnius Stock Exchange website by distributing the circular about the additional shares of Klaipėdos Nafta AB providing the information indicated above and in the Company's report of 2012. The company anticipates the improvements of the means of information distribution to the investors additionally.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	The collegial body ensures that its members are competent however periodic evaluation is not performed. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit were appointed focusing on that as a whole, the Audit Committee should have recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Not applicable	The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation. Up to now there has been neither need nor practice in the Company to offer a special tailored program focused on introducing all new members of the Board and the Supervisory Board with their duties, corporate organization and activities and to organize annual examinations. However, the Company's chief executive officers personally inform and introduce the Company's organization and activity to the new members of the collegial bodies.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the General Meeting of Shareholders taking into account interests of the controlling shareholder. The Company's Articles of Association provide that, whenever possible, during the elections of the Supervisory Board, at least 1/3 of the Supervisory Board members shall be independent, as well as that at least one member of the Audit Committee shall be independent. During the year under review, the Company's Board had 2 independent members (out of 4), Audit Committee had 2 independent members (out of 3), and the Supervisory Board had 1 independent member (out of 3).
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the General Meeting of Shareholders 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 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); 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); 5) He/she does not have and did not have	Yes	The criteria of independence of the collegial bodies have not been determined in the documents of the operation of the Company's collegial bodies, however, the appointment of the independent members for collegial bodies is governed by the applicable requirements of legal act, including the requirements of the Governance Code of the companies listed on the regulated market by NASDAQ OMX Vilnius. In determining whether an audit committee member may be independent, the main criteria are applied that were established by the Independency Criteria defined by the Requirements for Audit Committees (with later amendments and supplements) that were approved by the Resolution No. 1K-18 of the Lithuanian Securities Commission on 21 August 2008. The independent members of the collegial bodies are, too, appointed (elected) in compliance with the provisions of the paragraph 64 of the Procedure description of the Implementation of the State Proprietary and Non-proprietary Rights in State-owned Companies (approved by the Government decision No. 665 of 06 06 2012). In order to assure the independence of the candidates for the company's collegial bodies, all candidates shall submit their declarations of interest to the appointing (electing) body and shall immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest. The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence, such evaluation of independence basing on the relation and circumstance content not the form.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 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; 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 Meeting of Shareholders 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; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 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 Meeting of Shareholders 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.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes	Refer to the comment regarding the item 3.7 above. In addition, the concept of the independence of the member of the Company's collegial body is defined in the documents governing the activities of the Company's collegial bodies and in the Company's Articles of Association.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	Refer to the comment submitted regarding the item 3.6 above. The Company has not yet applied in practice disclosure of the criteria of independence of the members of collegial bodies set out in the Code.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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.	Yes	There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information. The Company regularly specify in its published periodical reports the relation of the Company's collegial bodies to the Company, as well as information about possession (absence) of the Company's shares The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the body which elected them and the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The General Meeting of Shareholders should approve the amount of such remuneration.	Yes	Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings. A fixed monthly remuneration is paid, which depends on the actual time spent, but is limited to a maximum payable amount. The size and procedures of the reward for the independent members of the Board and Audit Committee is regulated by the corresponding decisions of the Supervisory Board. The General Meeting of Shareholders has a right to reward (pay tantiemes) the work of independent members of the Supervisory board members for their work participation in the meetings of the Supervisory but only using the net profit and in compliance with applicable legal acts and the Company's Articles of Association.
Principle IV: The duties and liabilities of a collegial body elected by the General Meeting of Shareholders The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the General Meeting of Shareholders, 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		
4.1. The collegial body elected by the General Meeting of Shareholders (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	The Company's Board approves the business strategy of Company's activities, annual budget and business plan, annual report, the order of investments of the Company's funds and order and the amendments to the documents listed. The Company's Board, too, analyzes and evaluates the implementation of the Company's strategy, organization of activities, the company's financial condition, results of business activities, and other significant information. In addition, the Board analyses and evaluates the company's financial statements and the profit (loss) of the draft report and, after the Board approval, takes decisions on these projects and the submission of the Company's annual report to the Supervisory Board and the General Meeting of Shareholders. The Board regularly analyses and assesses financial status of the Company, as well as periodic financial results, submits recommendations on the appropriate management of the Company to the Company's managing bodies.
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	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, as well as taking into account employees' interests and public welfare. Independent members maintain their analyses, as well as independence in decision-making, and acting.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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).		
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 and attention to perform their duties as members of the collegial body. The members of the collegial bodies actively participate in the ongoing meetings both directly and voting in advance in written or by telecommunication means. During the year under review, neither of the Company's collegial bodies missed so many meetings that hence it would have participated less than in the half of the meetings of the respective 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 Company's Articles of Association obliges the Company's collegial bodies, and each of their members to operate beneficially for the Company's shareholders. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. According to the Company's Articles of Association, in certain cases the most important decisions of the company shall be taken only after they are approved by the General Meeting of Shareholders. All significant Company's events are publicly available according to the procedure prescribed by law for the Company's shareholders on the website of NASDAQ OMX AB Vilnius Stock Exchange. Additional informing of the shareholders except that provided in the legal acts is not carried.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The contracts on the activities in the Supervisory Board are concluded with the members of the Supervisory Board in compliance with the decision of the General Meeting of Shareholders; the member of the Supervisory Board can conclude other transactions with the company mandatory informing about them the Supervisory Board and other bodies of the company. The conditions of the contracts on the activities in the Board concluded with members and the chairperson of the Board are determined by the Supervisory Board. The contracts on the activities in the Audit Committee are concluded with the members of the Audit Committee according to the decision of the Supervisory Board. The Board defines the conditions of the employment contract concluded with the Company's manager. According to the general practice of the Company, the majority of the independent members of the collegial bodies vote for the conclusion of corresponding contracts.
4.6. The collegial body should be independent in passing decisions that are significant for the	Yes	The Company's collegial bodies are independent from the Company's managing bodies and, according to the

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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.		Company's data, remain independent while adopting the decisions affecting the Company's activity and strategies The Company's collegial bodies are provided with all the necessary resources including the right to approach and receive consultations by third parties on the issues that fall under the collegial body's or (and) its committees' competence.
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.	Not applicable	The advisory body, i.e. Audit Committee, formed by the Supervisory Body acts within the Company. The Supervisory Body determined its functions, rights, obligations and remuneration procedure. The Company's Audit Committee has been assigned with advisory functions related to the audit control and assessment and covering supervision of financial reports preparation and audit execution process, examination of its effectiveness and implementation of recommendations, analysis of need of internal audit functions and so on, 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. Other specialized committees are not established within the Company, however collegial management body, i.e. the Company's Board, is responsible for the issues related to the appointment of the Company's directors and determination of the remuneration for the Company's directors. The Board appoints and dismisses the Company's Chief Executive Officer, regularly evaluates skills, knowledge and experience of other Company's directors; discusses general application policy of remuneration (including stimulation) systems; determines remuneration of all Company's management personnel as it is defined in the Description of the Company's Management Structure (or in the list of staff positions) approved by the Board and its bonus procedure. According to the practice established within the Company, the majority of independent Board members vote for the adoption of the decisions on the relative issues.
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	Not applicable	Refer to the comment submitted regarding the item 4.7 above.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
competence.		
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.	Not applicable	Refer to the comment submitted regarding the item 4.7 above. The advisory body, the Audit Committee, formed by the Supervisory Board, comprises of three members. Two of this body's members are independent and the chairperson of the Audit Committee is also a member of the Company's Supervisory Board.
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.	Yes	Refer to the comment submitted regarding the item 4.7 above. The documents of the operation of the Company determine that the Audit Committee has to regularly (at least two times per year) inform the Supervisory Board about its operation, and to provide the Supervisory Board with its operation report one time per year. The main information about the Company's Audit Committee and its composition is published in the Company's annual report.
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. Chairperson 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.	Yes	Refer to the comment submitted regarding the item 4.7 above. The documents of the operation of the Company provide the right for the members of the Audit Committee according to the need to invite at its discretion to its meetings the Company's responsible persons and receive from them necessary explanations. The system of anonymous postings about the violations done in the Company is also provided and introduced in the Company.
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	No	Refer to the comment submitted regarding the item 4.7 above.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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 Meeting of Shareholders 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.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to	No	Refer to the comment submitted regarding the item 4.7 above.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the meeting of the shareholders; 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. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairperson 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.		
4.14. Audit Committee 4.14.1. Key functions of the audit committee should be the following: 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); 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; 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; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the General Meeting of Shareholders) 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; 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	Yes	Refer to the comment submitted regarding the item 4.7 above.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia 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; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 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 centres and/or activities carried out through special purpose vehicles (organisations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairperson 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. 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. 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. 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		

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
(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. 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.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organisation and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organisation and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The internal documents of the Company do not provide for a separate assessment of the collegial body's activities because it was not required by the legal acts of the Republic of Lithuania. During the year under review, the Company also did not practice the indicated information about the internal organization of the collegial bodies and publicity of the activity procedures. Decisions on the Company's activities are made by the Board of the Company which reports to the Supervisory Board and the Company's General Meeting of Shareholders.
Principle V: The working procedure of the company's collegial bodies 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.		
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 chairperson of the collegial body of supervision - the Supervisory Board and a chairperson of the collegial body of management - the Board implement this provision in the Company. ³
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 documents of the operation of the Company provides that the meetings of the Company's Supervisory Board are convened at least once in a quarter according to need, and the ordinary meetings of the Company's Board are carried out according to the schedule approved by the Board, which during the reporting period provided frequency of the Board meetings, i.e. once in a calendar month or more often, thereby ensuring continuous solution of the essential Company's management issues.

³ During the period from 20/03/2013 to 31/12/2013 and including, a permanent chairperson of the Board was not elected in the Company, therefore, every time one of the Board members is elected as the chairperson of the Board under the principle *ad hoc*, the Board meeting was convened at the discretion of the Board members according to the procedure established by the Company's Articles of Association.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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. The members of the collegial body together with the convocation to the meeting receive a notice on the agenda of the meeting convened. According to the procedure and the terms provided in the documents of the operation of the Company, the Company's collegial bodies receive according to the set form written information about the matter under consideration in that cases when the decision is adopted, and when information is submitted only to collegial body's knowledge – on demand. In the Company's practice, the meeting agenda during the meeting is changed and supplemented only in cases when all members of the collegial body participate in the meeting and it is necessary to immediately solve important Company's issues and all members of the collegial body agreed with this agenda change and supplement.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company observes provisions stated in this recommendation. If necessary, in the Company's determined practice, the general Company's management and supervision bodies' meetings are also convened.
Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's capital consists of ordinary registered shares that grant the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company observes provisions stated in this recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the General Meeting of Shareholders. 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 all important transactions, and in set cases the key conditions of these transactions are approved by the Board, and also in cases prescribed by the Law on Companies an approval of the General Meeting of Shareholders is additionally received for such Board's decisions.
6.4. Procedures of convening and conducting a General Meeting of Shareholders 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 meeting of shareholders should not hinder wide attendance of the shareholders. Prior to the meeting of the shareholders, the company's supervisory and management bodies should enable the shareholders to lodge questions on	Yes	All the shareholders of the Company are informed about the venue, date and time of the General Meeting of Shareholders publicly in advance according to the procedure prescribed within the terms established by the legal acts publishing about the convened General Meeting of Shareholders, its agenda in the information disclosure system of NASDAQ OMX AB Vilnius Stock Exchange and on the Company's website (www.oil.lt). Prior to the General Meeting of Shareholders all the shareholders of the Company are furnished with opportunity to receive information on the issues on the

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
issues on the agenda of the General Meeting of Shareholders and receive answers to them.		agenda of the General Meeting of Shareholders, to ask questions related to the agenda of the General Meeting of Shareholders, to receive answers to them.
6.5. It is recommended that documents on the course of the General Meeting of Shareholders, 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 Meeting of Shareholders after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarise with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Within the terms set by the legal acts, the Company in advance publicly disclose the documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, through the information disclosure system of NASDAQ OMX AB Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (www.oil.lt). The adopted decisions of the General Meeting of Shareholders are also disclosed through the information disclosure systems of NASDAQ OMX AB Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (www.oil.lt). Information indicated and the documents are published in the information disclosure system of NASDAQ OMX AB Vilnius Stock Exchange in Lithuanian and English languages.
6.6. Shareholders should be furnished with the opportunity to vote in the General Meeting of Shareholders 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 meeting of the shareholders both in person and through a representative should he be duly authorised according to the procedure established by the legal acts. The Company also furnishes its shareholders with the opportunity to vote in advance in written by completing and submitting to the Company the general voting ballot.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at meetings of the shareholders, 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 meetings of the shareholders by means of modern technologies.	Not applicable	Taking into account the structure of the shareholders (controlling interest is owned by the Government of the Republic of Lithuania) and the valid regulations for organisation of the meeting of shareholders ensuring full advance publication of the material of the General Meeting of Shareholders and publicity of the decisions adopted by the shareholders (publishing all this information on the website of NASDAQ OMX AB Vilnius Stock Exchange) and the opportunity to vote in advance, there is no necessity to additionally install costly system of IT, which would give the opportunity for the shareholders to vote during the meeting of the shareholders using telecommunication terminal equipment.
Principle VII: The avoidance of conflicts of interest and their disclosure 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		
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 oblige to act in such a manner so as to avoid conflict of interests with the Company. This is determined in the Articles of Association of the Company and in other documents of operation of the Company. For this purpose, the member of the Company's supervisory and management bodies submit to the Company's body that elected them and the Company the declarations about the absence of the conflict of interests and oblige to immediately inform about any change of the circumstances revealed in these declarations. During the reporting period, there was not any cases of conflict of interests between the Company and the member of its supervisory and management.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the General Meeting of Shareholders or any other corporate body authorised by the meeting.	Yes	Refer to the comment submitted regarding the item 7.1 above.
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.	Yes	During the reporting period, the members of the Company's supervisory and management bodies concluded with the Company only the following transactions: non-disclosure agreement (obligations) and the independent members of the collegial bodies - also concerning remunerations for the work in the Company's collegial body according to the conditions established by the body that elected them. The General Manager of the Company has also concluded the Employment Contract with the Company under the conditions approved by the Company's Board. During the year under review, no other transactions between the Company and the members of its collegial bodies were concluded.
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 oblige to observe these recommendations. According to the practice established in the Company, the members of the Company's management and supervisory bodies withdraw both when the decisions adopted and in the cases when the transactions and (or) issues related to the member of the collegial body by personal or business interest are considered (as for information) in the collegial body.
Principle VIII: Company's remuneration policy Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition to secure the publicity and transparency of the remuneration policy of the company and managers		
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	During the year under review, the Company did not apply the practice to make public statement of its remuneration policy, however, information about the key principles of the Company's General Manager's remuneration payment is revealed in the annual report of the year under review. The information about the Company's accrued average monthly remuneration (including according to the different categories of the employee) during the year under review is published on the website www.oil.lt .
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Refer to the comment in item 8.1 above. The Company's directors' remuneration policy for the subsequent years has not been provided in the annual report. The annual report contains information about the amount of money accrued for the members of the Company's bodies.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;	No	Refer to the comment in items 8.1 and 8.2 above.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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, <i>inter alia</i> , information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Refer to the comment in items 8.1 and 8.2 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 annual General Meeting of Shareholders.	No	Refer to the comment in items 8.1 and 8.2 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 annual General Meeting of Shareholders. Remuneration statement should be put for voting in annual General Meeting of Shareholders. The vote may be either mandatory or advisory.	No	Refer to the comment in items 8.1 and 8.2 above.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. 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 Meeting of Shareholders; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit	No	Refer to the comment in items 8.1 and 8.2 above.

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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; 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; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the 1-5 points. 8.7.2. 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: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) 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. 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.		

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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 annual General Meeting of Shareholders by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in annual General Meeting of Shareholders. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	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 neither by the existing Management personnel remuneration procedure nor employment contracts with directors and other employees of the Company.
8.9. The following issues should be subject to approval by the annual General Meeting of Shareholders: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
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.		
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 annual General Meeting of Shareholders.		

PRINCIPLES / RECOMMENDATIONS	Yes and NO Not applicable	COMMENTARY
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.		
Principle IX: The role of stakeholders in corporate governance The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.		
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 and controlling the Company’s activities. 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. Publicity of the essential information about the Company’s activity creates the conditions for the holders of interests to participate in the management of the Company according to the procedure established by the law and the Article of Association, as well as for the Company’s employees also according to the Collective Agreement of the Company.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.		
9.3. 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: The financial and operating results of the company; Company objectives; Persons holding by the right of ownership or in control of a block of shares in the company; Members of the company’s supervisory and management bodies, chief executive officer of the company and their remuneration; Material foreseeable risk factors; Transactions between the company and	Yes	Performance and corporate governance is regularly disclosed by distributing press posts about material events on NASDAQ OMX AB Vilnius Stock Exchange website, as well as in the Company’s annual reports and financial statements, press releases published in the exchange and in other public presentations of the Company activity. The Company is not limited only by disclosure of minimum necessary public information and also publishes other important information about the Company’s activity. The documents that contain certain information are

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connected persons, as well as transactions concluded outside the course of the company's regular operations; Material issues regarding employees and other stakeholders; 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 be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		published in Lithuanian and English on the publicly accessible website of the NASDAQ OMX AB Vilnius Stock Exchange.
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 NASDAQ OMX AB Vilnius Stock Exchange so that the submitted identical information in both languages could simultaneously be announced thus guaranteeing its simultaneous dissemination to all Company's shareholders so that all Company's shareholders and investors have the same opportunities to familiarize with information and adopt certain investment decisions. In its practice the Company focuses on publication of notifications about essential events before or after Vilnius Stock Exchange trading session.
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	Refer to the comment in item 10.5 above. Similarly to published information in the system of NASDAQ OMX AB Vilnius Stock Exchange, information is also published on the Company's website. Access to information in the system of NASDAQ OMX AB Vilnius Stock Exchange and on the Company's website is free for the shareholders.

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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.
Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
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, annually, an independent firm of auditors conducts an audit of the Company's annual financial statements and report according to the International Accounting Standards and submits an independent auditor's report concerning financial statements and annual 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 Meeting of Shareholders.	No	The Company's Board proposes a candidate firm of auditors to the General Meeting of Shareholders taking into account the results of Public Procurement of acquiring audit services. According to the practice established in the Company, the Company's Supervisory Board is informed about the offered choice of the firm of auditors before the General Meeting of Shareholders adopts a decision concerning election of the firm of auditors for execution of the audit of the annual financial reports and determination of conditions of payment for the audit services.
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 Meeting of Shareholders.	Not applicable	The firm of auditors is not paid by the Company for consultations on tax and business issues.